



**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

**FILED**

04-20-12  
04:59 PM

Application of PACIFIC GAS AND  
ELECTRIC COMPANY for Authority to  
Establish Its Authorized Cost of Capital for  
Utility Operations for Test Year 2013, and to  
Continue the Annual Cost of Capital  
Adjustment Mechanism

Application No. 12-04-\_\_

**A1204018**

U 39 M

**APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY  
FOR TEST YEAR 2013 COST OF CAPITAL AND TO CONTINUE  
THE ANNUAL COST OF CAPITAL ADJUSTMENT MECHANISM**

PETER VAN MIEGHEM  
SHIRLEY A. WOO

Pacific Gas and Electric Company  
P.O. Box 7442  
San Francisco, CA 94105  
Telephone: (415) 973-2902  
Facsimile: (415) 973-5520  
E-mail: [ppv1@pge.com](mailto:ppv1@pge.com)

Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

April 20, 2012

## TABLE OF CONTENTS

	Page
I. PG&E’S OPERATIONS SUBJECT TO THE COMMISSION’S COST OF CAPITAL JURISDICTION.....	2
II. PG&E’S COST OF CAPITAL REQUEST .....	2
A. Rate of Return and Capital Structure Request .....	2
B. ACCAM.....	2
C. Debt Equivalence .....	3
III. RATE IMPLEMENTATION .....	3
A. Proposed Cost of Capital Rate Adjustment .....	3
B. PG&E’s Present Rates .....	3
C. PG&E’s Rate Proposal.....	3
IV. PACIFIC GAS AND ELECTRIC COMPANY .....	4
A. Articles of Incorporation (Rule 2.2).....	5
B. Balance Sheet and Income Statement (Rule 3.2(a)(1)).....	5
C. Statement of Presently Effective Rates (Rule 3.2(a)(2)) .....	5
D. Statement of Proposed Changes and Results of Operations at Proposed Rates (Rule 3.2(a)(3)) .....	5
E. General Description of Property and Equipment (Rule 3.2(a)(4)) .....	5
F. Summary of Earnings (Rule 3.2(a)(5)) .....	5
G. Most Recent Proxy Statement (Rule 3.2(a)(8)) .....	6
V. PROPOSED CATEGORY FOR THIS PROCEEDING .....	6
VI. ISSUES PRESENTED.....	6
VII. REQUEST FOR HEARING AND PROPOSED SCHEDULE FOR PROCESSING THIS APPLICATION .....	6
VIII. STATUTORY AUTHORITY .....	7
IX. SERVICE OF NOTICE OF APPLICATION (RULE 3.2(B-D)) .....	7
X. RELIEF REQUESTED.....	8

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of PACIFIC GAS AND  
ELECTRIC COMPANY for Authority to  
Establish Its Authorized Cost of Capital for  
Utility Operations for Test Year 2013, and to  
Continue the Annual Cost of Capital  
Adjustment Mechanism

Application No. 12-04-\_\_

U 39 M

**APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY  
FOR TEST YEAR 2013 COST OF CAPITAL AND TO CONTINUE  
THE ANNUAL COST OF CAPITAL ADJUSTMENT MECHANISM**

Pacific Gas and Electric Company (PG&E or the Company) submits this test year 2013 cost of capital Application requesting that the California Public Utilities Commission (Commission or CPUC) establish and adopt rates of return for PG&E's CPUC-jurisdictional electric and gas operations. PG&E requests a rate of return on equity (ROE) for test year 2013 of 11.00 percent, a cost of long-term debt for test year 2013 of 5.69 percent, and a cost of preferred stock for test year 2013 of 5.60 percent. With PG&E's requested common equity ratio of 52 percent, the overall rate of return requested for 2013 is 8.45 percent. The request would reduce revenue requirements by approximately \$53 million for PG&E's electric distribution utility operations, \$22 million for electric generation operations, \$13 million for gas distribution operations, and \$10 million for gas transmission and storage operations, with the currently authorized rate base.

PG&E also requests that the Commission approve the extension of the existing annual cost of capital adjustment mechanism (ACCAM) through 2015.

PG&E files this Application in accordance with Appendix C of the Commission's Rate Case Plan (D.89-01-040; 30 CPUC2d 576, 606) and Decision (D.) 09-10-016, Ordering Paragraph 1, which established April 20, 2012 as the filing date for PG&E's test year 2013 cost of capital case.

## **I. PG&E'S OPERATIONS SUBJECT TO THE COMMISSION'S COST OF CAPITAL JURISDICTION**

This Application presents PG&E's request for rates of return for its CPUC-jurisdictional electric and gas operations, which include its electric distribution, electric generation, gas distribution, gas transmission and gas storage operations. PG&E has not included its electric network transmission operations in this Application because electric transmission rates are regulated by the Federal Energy Regulatory Commission.

## **II. PG&E'S COST OF CAPITAL REQUEST**

### **A. Rate of Return and Capital Structure Request**

PG&E has evaluated the ROE which will be required in 2013 to compensate investors for the risks associated with PG&E's electric and gas utility operations. The analysis is sponsored by Dr. William E. Avera and relies on a group of generally comparable United States utilities to establish a range for PG&E's ROE, as well as corroborative data for a group of comparable United States low-risk non-utility companies.

Based on the quantitative and qualitative analysis of Dr. Avera, PG&E believes an ROE of 11.00 percent is appropriate for PG&E's utility operations. The recommended ROE, along with PG&E's forecast cost of debt and preferred stock and capital structure, result in an overall return on rate base of 8.45 percent for 2013.

As set forth in the testimony of PG&E witness Nicholas Bijur, PG&E proposes that the Commission adopt a capital structure for 2013 consisting of 52 percent common equity, 47 percent debt and 1 percent preferred stock. The requested capital structure equity percentage of 52 percent is PG&E's current equity target and is needed to support PG&E's credit ratings.

### **B. ACCAM**

PG&E proposes that the ACCAM be extended through 2015. For the years 2014 and 2015, the ACCAM would replace the annual cost of capital proceeding, streamlining the regulatory process with a less burdensome approach. The ACCAM proposal would make PG&E's next regular cost of capital Application due in 2015 for test year 2016.

### **C. Debt Equivalence**

In D.04-12-047, page 13, the Commission identified information that the utilities should provide in their cost of capital applications to enable the Commission to better assess debt equivalence risks. The testimony accompanying this Application provides information on credit ratios, debt equivalence and capital structure through 2015 on a forecast basis. Based on this information and analysis, PG&E's proposal adequately considers the higher risks due to the debt equivalence of power purchase agreements (PPAs), and PG&E's proposed capital structure contains adequate equity to support the current and projected level of debt equivalence through 2015.

## **III. RATE IMPLEMENTATION**

### **A. Proposed Cost of Capital Rate Adjustment**

On a 2013 test year basis, PG&E's proposed cost of capital will produce a revenue decrease of approximately \$75 million and \$13 million from present rates for PG&E's electric utility and gas utility distribution operations, respectively, with the currently authorized rate base. The revenues for the gas transmission and storage operations will decrease by approximately \$10 million. If the Commission subsequently adopts different rate base numbers from the ones used in this Application, the revenue requirement change resulting from PG&E's requested 2013 ROE may vary from the showing in this Application.

### **B. PG&E's Present Rates**

PG&E's rates and charges for electric utility generation and distribution, and gas distribution, transmission and storage service are contained in PG&E's electric and gas tariffs, schedules, and special contracts on file with the Commission. These tariffs, schedules, and contracts were filed with and made effective by the Commission in its decisions, orders, resolutions, and acceptances of advice letter filings. Exhibit A includes PG&E's present gas and electric rates and charges.

### **C. PG&E's Rate Proposal**

PG&E proposes that any changes to its electric and gas revenue requirements resulting

from adjustments to its authorized 2013 test year cost of capital be effective January 1, 2013. The change in total electric and gas rates for the cost of capital will be implemented with the next electric and gas rate changes after a final Commission decision in this case. PG&E anticipates that with a timely decision by early December 2012, all electric rate changes for January 1, 2013 would be consolidated in PG&E's Annual Electric True Up proceeding (AET) for January 1, 2013 implementation. Changes applicable to Direct Access rates and Community Choice Aggregation rates for electric service would be made at the same time as changes in bundled electric customer rates. All gas rate changes for January 1, 2013 will be consolidated with PG&E's Annual Gas True Up of Balancing Accounts for implementation January 1, 2013. As a result of these consolidations, the ultimate net electric and gas revenue changes for January 1, 2013 may be different from those reflected in this Application.

#### **IV. PACIFIC GAS AND ELECTRIC COMPANY**

PG&E is, and since October 10, 1905, has been, an operating public utility corporation organized under California law. It is engaged principally in the business of furnishing electric and gas service in northern and central California.

PG&E's principal place of business is in San Francisco, California. Its address is 77 Beale B30A, San Francisco, CA 94105. Its telephone number is (415) 973-2902 and its attorneys in this matter are Peter Van Mieghem ([ppv1@pge.com](mailto:ppv1@pge.com)) and Shirley A. Woo ([saw0@pge.com](mailto:saw0@pge.com)).

All correspondence, communications, and service of papers regarding this Application should be directed to:

Peter Van Mieghem  
Law Department  
Pacific Gas and Electric  
Company  
77 Beale B30A  
San Francisco, CA 94105  
Telephone: (415) 973-2902  
Facsimile: (415) 973-5520  
E-mail: [PPV1@PGE.com](mailto:PPV1@PGE.com)

Shirley A. Woo  
Law Department  
Pacific Gas and Electric  
Company  
77 Beale B30A  
San Francisco, CA 94105  
Telephone: (415) 973-2248  
Facsimile: (415) 973-5520  
E-mail: [SAW0@PGE.com](mailto:SAW0@PGE.com)

Jonathan Seager  
Regulatory Relations  
Pacific Gas and Electric  
Company  
77 Beale B10A  
San Francisco, CA 94105  
Telephone: (415) 973-6410  
Facsimile: (415) 972-5333  
E-mail: [J7Se@PGE.com](mailto:J7Se@PGE.com)

**A. Articles of Incorporation (Rule 2.2)**

A certified copy of PG&E's Restated Articles of Incorporation, effective April 12, 2004, was filed with the Commission on May 3, 2004, with PG&E's Application No. 04-05-005.

These Articles are incorporated herein by reference.

**B. Balance Sheet and Income Statement (Rule 3.2(a)(1))**

PG&E's most recent balance sheet and income statement are attached as Exhibit B to this Application.

**C. Statement of Presently Effective Rates (Rule 3.2(a)(2))**

PG&E's presently effective electric and gas rates are attached as Exhibit A to this Application.

**D. Statement of Proposed Changes and Results of Operations at Proposed Rates (Rule 3.2(a)(3))**

This statement is not required since the proposed changes in revenues are not in excess of one percent.

**E. General Description of Property and Equipment (Rule 3.2(a)(4))**

As of December 31, 2010, PG&E's operative plant and equipment, and applicable depreciation reserves, consistent with Exhibit C, is as follows:

(\$ in Thousands)

	<b>Electric (\$)</b>	<b>Gas (\$)</b>	<b>Common (\$)</b>
Operative Plant	35,297,712	9,668,578	3,320,823
Depreciation Reserve	16,942,905	5,300,785	1,266,009

A detailed description of PG&E's properties and equipment is included in PG&E's exhibits submitted in support of A. 09-12-020, filed on or about December 21, 2009, which is incorporated herein by reference.

**F. Summary of Earnings (Rule 3.2(a)(5))**

Exhibit C shows for the recorded year 2010 the revenues, expenses and rate of return for PG&E's Electric Department, Gas Department, and all operating departments.

**G. Most Recent Proxy Statement (Rule 3.2(a)(8))**

PG&E's most recent proxy statement dated April 2, 2012 is attached as Exhibit D to this Application.

**V. PROPOSED CATEGORY FOR THIS PROCEEDING**

Pursuant to Rule 7.1, PG&E believes this is a rate setting proceeding, within the meaning of Rule 1.3(e) of the Commission Rules of Practice and Procedure.

**VI. ISSUES PRESENTED**

The issues presented for Commission decision in this Application are as follows:

1. What should PG&E's authorized rate of return on equity capital be for its electric distribution, and generation operations, and its gas distribution, transmission and storage operations in 2013.
2. What should PG&E's authorized cost of preferred stock be for 2013.
3. What should PG&E's authorized cost of debt be for 2013.
4. Should PG&E's adopted utility capital structure for 2013 be 52 percent equity, 47 percent debt and 1 percent preferred stock.
5. Should the Commission re-authorize an annual cost of capital adjustment mechanism as presented in PG&E's testimony in place of an annual cost of capital proceeding through 2015.

**VII. REQUEST FOR HEARING AND PROPOSED SCHEDULE FOR PROCESSING THIS APPLICATION**

PG&E has filed this Application based on the Commission's direction in the Rate Case Plan and D. 09-10-016. Hearings will be needed on this Application to take testimony and develop the record for the Commission to determine the issues in this case. Based on the April 20, 2012 filing date, PG&E submits the following schedule for hearing and processing this Application:

Application Filed	April 20, 2012
Protests/Responses Due	May 23, 2012
Applicant Reply to Protests/Responses	May 25, 2012
Prehearing Conference	May 30, 2012
DRA/Intervener Testimony	July 13, 2012
Rebuttal Testimony	August 17, 2012
Hearings	August 27-31, 2012
Late-Filed Exhibits	September 12, 2012
Concurrent Opening Briefs	September 19, 2012
Reply Briefs	September 28, 2012
ALJ Proposed Decision (PD)	October 26, 2012
Opening Comments on PD	November 15, 2012
Reply Comments	November 20, 2012
Final Decision Issued	November 29, 2012

**VIII. STATUTORY AUTHORITY**

This Application is made pursuant to Sections 451, 454, 491 and 701 of the Public Utilities Code of the State of California, the Commission’s Rules of Practice and Procedure, and the prior decisions, orders and resolutions of the Commission

**IX. SERVICE OF NOTICE OF APPLICATION (RULE 3.2(B-D))**

In compliance with Rule 3.2 of the Commission’s rules of Practice and Procedure and Public Utilities Code Section 454, attached hereto as Exhibit E is a list of cities and counties to which PG&E will mail notice of its cost of capital proposals. The State of California is the only state that may be affected by PG&E’s proposals. Notice of PG&E’s cost of capital proposals for its electric utility operations and its gas distribution, transmission and storage operations will be

included with the regular bills mailed to all customers. Notice of this Application also will be inserted in appropriate newspapers for publication.

This Application will be served on all parties of record in PG&E's 2011 general rate case, Phase 1, A.09-12-020 and on all parties of record in PG&E's most recent cost of capital proceeding, A.07-05-003, and its most recent Gas Accord Proceeding, A.09-09-013.

**X. RELIEF REQUESTED**

PG&E is ready to proceed with its showing in support of its proposals set forth herein. WHEREFORE, PACIFIC GAS AND ELECTRIC COMPANY respectfully requests the Commission to issue appropriate orders:

1. Establishing a schedule for the conduct of hearings and the presentation of witnesses in accordance with PG&E's proposed schedule.
2. Authorizing an overall rate of return for PG&E's electric utility generation and distribution utility operations of 8.45 percent, a return on common equity of 11.00 percent, a cost of long-term debt of 5.69 percent, and a cost of preferred stock of 5.60 percent.
3. Authorizing an overall rate of return for PG&E's gas distribution, transmission and storage utility operations of 8.45 percent, a return on common equity of 11.00 percent, a cost of long-term debt of 5.69 percent, and a cost of preferred stock of 5.60 percent.
4. Authorizing a 2013 capital structure for PG&E of 52 percent common equity, 47 percent debt and 1 percent preferred stock.
5. Continuing the existing annual cost of capital adjustment mechanism in place of an annual cost of capital proceeding through 2015 with a trigger mechanism that would automatically adjust the cost of capital if utility bonds (12-month average) increase or decrease by more than 100 basis points.

6. Granting PG&E such other and further relief as the Commission finds to be just and reasonable.

Dated at San Francisco, California, this 20<sup>th</sup> day of April 2012.

PACIFIC GAS AND ELECTRIC COMPANY

\_\_\_\_\_/s/  
KENT M. HARVEY  
Senior Vice President Financial Services,  
Pacific Gas and Electric Company

PETER VAN MIEGHEM  
SHIRLEY A. WOO

BY: \_\_\_\_\_/s/  
PETER VAN MIEGHEM

Law Department  
Pacific Gas and Electric Company  
77 Beale B30A  
San Francisco, CA 94105  
Telephone: (415) 973-2902  
Fax: (415) 973-5520  
[ppv1@pge.com](mailto:ppv1@pge.com)

Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

April 20, 2012

