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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2014.	Application 12-11-009 (Filed November 15, 2012)

PROTEST
OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) submits this Protest to the Application (A.12-11-009) of Pacific Gas and Electric Company (PG&E) for authority to increase rates for gas and electric service effective January 1, 2014.

PG&E filed this General Rate Case Application on November 15, 2012. In it, PG&E requests authorization from the California Public Utilities Commission (CPUC or Commission) for revenue increases associated with its Electric Distribution, Gas Distribution, and Electric Generation operations which fall within the CPUC's ratemaking jurisdiction. If the Commission were to grant PG&E's requests, the utility's general rate case revenue requirement would increase from a currently projected level of \$6.83 billion to \$8.11 billion in Test Year (TY) 2014.[1]

PG&E estimates that the bill impact for an electric residential customer using an average of 550 kWh/month would experience a \$4.61 increase (about 5.2%) per month, from \$89.36 to \$93.97, while a customer using an average of 850 kWh/month would experience an \$18.34 increase (about 10.0%) per month, from \$184.41 to \$202.75.[2]

[1] Application, p. 3.

[2] Application, p. 3.

PG&E estimates that a gas residential customer using an average of 37 therms/month would experience a $7.06 increase (about 15.3%) per month, from $46.13 to $53.18.[3]

PG&E proposes a post-test year ratemaking (PTYR) mechanism to account for: (1) escalation of operating expenses, with one exception; and (2) capital revenue requirement growth based on escalating adopted test year plant additions. The expense escalation exception is for gas leak repairs, "…where PG&E expects significant cost increases in 2015 and 2016 due to the implementation of new leak survey technology."[4] PG&E also wants the PTYR mechanism to allow revenue requirement adjustments for uncontrollable factors such as postage rate changes; franchise, payroll, income, and property tax changes; and other new taxes and fees.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, Protests must be filed within 30 days of the date the notice of filing of the Application first appears in the Daily Calendar. Since the Application was first noticed on the Commission's calendar on November 16, 2012, this Protest is timely filed.

DRA is reviewing PG&E's requests and conducting discovery. Below, DRA lists some of the areas where it expects to make recommendations. DRA intends to propose a schedule for the proceeding at the pre-hearing conference set for this case.

II. PG&E'S REQUEST

The sections below identify the functional areas where PG&E forecasts significant cost increases.

A. Operation & Maintenance Expenses

PG&E forecasts a $254 million (or 17.8%) increase in operation & maintenance (O&M) expenses for 2014 over present levels, from $1.42 billion to $1.68 billion.[5] The test year increase comprises: (1) a $5 million (or 1.0%) increase in Electric Distribution; (2) a $173 million (or 71.8%) increase in Gas Distribution; and (3) a $76 million (or

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[3] Application, p. 3.

[4] Ex. PG&E-11, p. 1-1, lines 26-28.

[5] Ex. PG&E-1, p. 5-14, Table 5-2.

13.8%) increase in Electric Generation.[6] PG&E says the increases in O&M expenses are driven by such things as:

- Electric Distribution – additional focus on vegetation management and wildfire patrols to reduce outages and mitigate wildfire risk; and increased usage of infrared inspections.[7]
- Gas Distribution – moving from a 5-year to a 3-year leak survey cycle to ensure that leaks are more quickly identified and repaired; increasing staffing of gas service representatives (GSR) who are typically the first responders to gas emergency calls; and developing new and improved training.[8]
- Electric Generation (Energy Supply) – relicensing costs and new licensing conditions for hydro; and implementing new guidelines and requirements for nuclear plant operators.[9]

B. Administrative & General Expenses

PG&E forecasts a $223 million (or 27.7%) increase in A&G expenses for 2014 over present levels, from $806 million to $1.03 billion.[10] PG&E says the increases in A&G expenses are driven by such things as:

- Company-wide labor escalation of 2.79% per year for 2014 through 2016.[11]
- Higher employee benefit costs (i.e., medical and dental insurance), from $300.4 million in 2011 to an estimated $396.8 million in 2014.[12]
- Higher payouts from the utility's Short-Term Incentive Plan (STIP), from $60.9 million in 2011 to an estimated $130.3 million in 2014.[13]

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[6] Ex. PG&E-1, p. 5-14, Table 5-2.

[7] Ex. PG&E-1, p. 5-7, lines 7-11.

[8] Ex. PG&E-1, p. 5-5, line 16 thru p. 5-6, line 7.

[9] Ex. PG&E-1, p. 5-10, lines 5-19.

[10] PG&E's forecast of A&G expenses excludes pension contribution costs, because rate recovery of PG&E's pension has been separately provided in CPUC D.09-09-020. However, the GRC does include the department costs associated with administering the utility's pension plan.

[11] Ex. PG&E-10, p. 3-4, Table 3-2.

[12] Ex. PG&E-8, p. 6-29, Table 6-1.

[13] Ex. PG&E-8, p. 5-12, Table 5-4.

- Higher liability insurance premiums, from $51.3 million in 2011 to an estimated $105.2 million in 2014.[14]
- New positions for various A&G departments, e.g., in Risk & Audit, Human Resources, and Regulatory Relations.[15]

C. Information Technology Expenses

PG&E forecasts a $45 million (or 20.7%) increase in Information Technology (IT) expenses for 2014 compared to recorded costs in the base year, from $217.0 million to $261.6 million.[16] PG&E says the increase in IT expenses is primarily driven by escalating costs for maintenance contracts and licensing supporting the growth of assets as services, and increased IT-related headcount to support various initiatives proposed by PG&E's Lines of Business.[17]

Although the IT organization administers and conducts IT work which supports PG&E's other Lines of business (LOBs) (Electric Operations, Gas Operations, Energy Supply, Customer Care, etc.), each of the individual LOBs are responsible for justifying the IT costs requested in those areas. Hence, the IT expenses discussed here only represent a subset of the total IT expenses which PG&E requests in this GRC.

D. Capital Expenditures

PG&E forecasts capital expenditures of about $3.04 billion in 2012, $3.18 billion in 2013, and $3.96 billion in 2014,[18] or an average of $3.39 billion per year from 2012-2014. This compares to recorded capital expenditures of about $2.79 billion in 2011.[19]

PG&E is requesting significant increases in capital expenditures for 2012, 2013, and 2014 compared to the base year. PG&E says the increases in capital expenditures are driven by such things as:

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[14] Ex. PG&E-9, p. 3-22, Table 3-4.

[15] Ex. PG&E-9, p. 1-3, line 5 thru p. 1-4, line 11.

[16] Ex. PG&E-7, p. 8-5, Table 8-1.

[17] Ex. PG&E-7, p. 8-4, lines 13-22.

[18] Ex. PG&E-1, p. 5-15, Table 5-3.

[19] Ex. PG&E-1, p. 5-15, Table 5-3.

- Electric Distribution – addressing demand growth; continuing to upgrade the worst-performing circuits to improve reliability; and expanding the use of Supervisory Control and Data Acquisition (SCADA) equipment to monitor, control, and remotely shut off electricity during emergencies.[20]
- Gas Distribution – connecting new customers; as part of its Gas Pipeline Replacement Program, replacing 180 miles of distribution pipe per year, with a focus on pipes with the highest leak rate; and investing in a gas distribution control center that is supposed to allow greater visibility into, and control over, the gas distribution system.[21]
- Electric Generation (Energy Supply) – investing in hydro reliability projects to maintain the units and supporting infrastructure; investing in hydro facilities to address risks to public safety; investing in projects intended to minimize extended shutdowns at the Diablo Canyon Power Plant (DCPP or Diablo Canyon); and implementing cyber security precautions at Diablo Canyon.[22]
- Customer Care – investing in Information Technology (IT) projects designed to improve PG&E's ability to serve customers; expanding the Sacramento and Fresno Contact Center facilities to accommodate new employees and relocation of existing staff from the Stockton and San Jose facilities; relocating the Billing and Credit Operations at lease expiration in 2014; and remodeling local offices.[23]
- Shared Services – complying with Air Resource Board requirements for vehicles; replacing vehicles at or beyond their lifecycle;[24] increasing costs to maintain aging buildings and yards; improving and providing additional office space; rebuilding outdated and inefficient service centers; and providing new buildings and yards to support business needs.[25]
- Information Technology – implementing a Disaster Recovery program to address IT risk mitigation and meet business requirements for ensuring the availability of mission-critical processes; undertaking a large-scale Telecommunications Network Enhancement program to support grid modernization, address cyber security risk mitigation, and

[20] Ex. PG&E-1, p. 5-7, lines 1-15.

[21] Ex. PG&E-1, p. 5-5, line 16 thru p. 5-6, line 7.

[22] Ex. PG&E-1, p. 5-10, lines 8-25.

[23] Ex. PG&E-5, p. 1-4, line 5 thru p. 1-5, line 2.

[24] Ex. PG&E-7, pp. 3-21 thru 3-27.

[25] Ex. PG&E-7, p. 6-3, lines 4-11.

to keep pace with increased telecommunications network and data demands resulting from technology initiatives across PG&E's lines of business.[26]

E. Depreciation Expenses

PG&E forecasts about $2.27 billion in depreciation expense for 2014, comprising $1.35 billion for Electric Distribution, $464.0 million for Gas Distribution, and $452.0 million for Electric Generation.[27]

PG&E's test year request is an $820.4 million increase over the recorded depreciation expense in 2011. PG&E says the increase is mainly attributable to plant growth and proposed changes to accrual rates (due to net salvage estimates):

- Of the $531.8 million increase in Electric Distribution-related depreciation expense, approximately $162.0 million is due to plant growth since 2011 and $369.8 million is due to differences in accrual rates.[28]
- Of the $181.5 million increase in Gas Distribution-related depreciation expense, approximately $90.4 million is due to plant growth since 2011 and $91.1 million is due to differences in accrual rates.[29]
- Of the $107.1 million increase in Electric Generation-related depreciation expense, approximately $67.2 million is due to plant growth since 2011, $34.3 million is due to differences in accrual rates, and $5.6 million is due to the net effects of three items—a refund of the electric steam fossil production over-collection, a reduction in the URG Regulatory Asset amortization, and reduction in the fossil decommissioning expense.[30]

F. New Balancing Accounts

PG&E proposes that new two-way balancing accounts be established in the following areas:[31]

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[26] Ex. PG&E-7, p. 8-5, line 5 thru p. 8-7, line 6.

[27] Ex. PG&E-2, p. 10-3, Table 10-1.

[28] Ex. PG&E-2, p. 10-4, lines 27-30.

[29] Ex. PG&E-2, p. 10-4 – p. 10-5.

[30] Ex. PG&E-2, p. 10-5, lines 1-10.

[31] Ex. PG&E-1, p. 5-27, Table 5-4.

- Leak Survey and Repair – due to uncertainty in predicting leak volume and repair costs as new leak detection technology is introduced.
- Major Emergencies – due to uncertainty in predicting severe storm events and natural disasters, and not covered by the Catastrophic Event Memorandum Account (CEMA).[32]
- Hydro Relicensing – due to regulatory uncertainty at the Federal Energy Regulatory Commission (FERC) regarding relicensing for hydroelectric facilities and pending new license conditions.[33]
- Nuclear Safety – due to regulatory uncertainty regarding implementation of Nuclear Regulatory Commission (NRC) rulemaking requirements for Diablo Canyon.[34]

PG&E also proposes to continue the existing one-way balancing account for vegetation management.

III. DRA'S REVIEW

DRA has been conducting discovery since PG&E submitted its Notice of Intent to file this General Rate Case in July 2012. DRA will make recommendations to the Commission as appropriate when it serves its testimony.

Below is a non-exhaustive list and brief discussion of the major issues that DRA has identified so far. Other issues may arise with further discovery and analysis.

- PG&E's proposed level of staffing (i.e., new Full-Time Equivalent positions, or FTEs);
- the forecasted amount of work activity and unit costs associated with the work activities;
- the level of settlements, claims, workers compensation, insurance and benefits costs;
- the amount of incentives or awards that should be paid out to the utility's employees;
- costs associated with replacing aging and/or obsolete equipment;
- the reasonableness of new programs or initiatives;
- PG&E's forecasting methodologies;

[32] Application, p. 12.

[33] Application, p. 12.

[34] Application, p. 12.

- the reasonableness and adequacy of PG&E's justifications and supporting documentation associated with its requested cost increases; and
- whether the new balancing accounts are necessary and whether the proposed two-way balancing accounts which provide for funding above an authorized level are reasonable.

Further discovery and analysis may eliminate some of these issues areas, while others may arise.

IV. CATEGORIZATION OF PROCEEDING

PG&E proposes that this proceeding be categorized as "ratesetting."[35] DRA agrees with this designation.

V. PROCEDURAL ISSUES

Based on the above list of issues, DRA recommends that evidentiary hearings be scheduled in this proceeding. PG&E proposes a procedural schedule that includes evidentiary hearings. DRA agrees that hearings are likely to be needed to resolve the numerous issues raised by this Application.

PG&E's proposed schedule for processing its 2014 General Rate Case would have DRA testimony due February 15, 2013. DRA considers PG&E's proposed schedule unrealistic in light of the significant rate increases PG&E is seeking in numerous areas, and also given the schedules the Commission has adopted for other major energy utility General Rate Cases in recent years. DRA expects to propose a schedule at the prehearing conference that would allow all parties sufficient time to prepare thorough analyses of PG&E's proposals and would give the Commission sufficient time to consider them.

VI. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that a reasonable schedule be set that includes adequate time for discovery, the preparation of testimony, and evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest.

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[35] Application, p. 18.

Respectfully submitted,

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