FILED
09-27-13
04:59 PM

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<br>(Filed November 15, 20102) |
| And Related Matter. | Investigation 13-03-007 |

**REPLY BRIEF**
**OF THE DIVISION OF RATEPAYER ADVOCATES**


LAURA TUDISCO
JONATHAN BROMSON
NOEL OBIORA
RASHID RASHID

Attorneys for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703-2164
Fax: (415) 703-2262
Email: laura.tudisco@cpuc.ca.gov


September 27, 2013

**TABLE OF CONTENTS**

**Page**

## TABLE OF AUTHORITIES

**Pages**

**CPUC Decisions**



**Cal. Pub. Util. Code**

# 1 Introduction

Pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure, and the schedule set by Administrative Law Judge (ALJ) Pulsifer, the Division of Ratepayer Advocates (DRA) submits this Reply Brief to address some of the arguments made by some parties to the General Rate Case (GRC) Application of Pacific Gas and Electric Company (PG&E) for Test Year (TY) 2014. DRA's Reply Brief is directed primarily to arguments PG&E made in its Opening Brief (OB). Many of PG&E's arguments are taken from its Rebuttal testimony, which DRA's Opening Brief already addresses. In this Reply, therefore, DRA focuses primarily on areas DRA did not previously address, or that require further discussion.[1]

## 1.1 Policy Overview

PG&E begins the Executive Summary of its Opening Brief with the following:

> Since Pacific Gas and Electric Company's (PG&E's) last General Rate Case (GRC), the Commission and Legislature have dramatically changed the paradigm for utility safety, making it a model for the nation. PG&E is committed to these higher standards and has undertaken an enormous program of system improvements, much of it at shareholder expense. PG&E's proposals in this case embrace the focus on safety and security. Not all parties agree with this focus. The Commission is at a crossroads. Its decision in this case can incorporate the state's new safety paradigm into the ratemaking process or it can go back to a "business as usual" approach that will not support California's safety leadership.[2]

The passage quoted above suggests that only PG&E has a clear understanding of what is required to achieve increased safety, and that those parties that disagree with PG&E's expense and capital forecasts are therefore not supportive of the "state's new safety paradigm." PG&E later says that "PG&E does not doubt that other parties in this case care about safety", but throughout its Opening Brief, PG&E nevertheless implies that DRA and the other parties do not, in fact, care about safety, or are willing to place economics ahead of matters of life and death

[1] Silence on any subject should not be interpreted as assent.

[2] PG&E Opening Brief, p. ES-1.

because these parties have developed forecasts that differ from PG&E's.[3] This is not just insulting, it is demonstrably untrue.

DRA's mandate comes from the California Legislature to "… represent and advocate on behalf of the interests of public utility customers and subscribers within the jurisdiction of the Commission." DRA's goal, set forth by statute, is "… to obtain the lowest possible rate for service consistent with reliable and safe service levels."[4] DRA's statutory responsibility has not changed since the San Bruno explosion, and DRA applied that goal to its review of the projects and forecasts in this Application.

In its Opening Brief, PG&E says that "[t]he Commission cannot rely on PG&E's overspending to meet its service obligations,"[5] ostensibly referring to PG&E's spending levels in 2012 and 2013 to date. PG&E entered into its last GRC settlement after the San Bruno incident, and has now requested a 97% increase in gas expense and a 170% in gas capital spending over its actual spending in 2011, the year after the accident. DRA's recommendation for gas expense is an 18 % increase over 2011 spending, with a balancing account to allow for additional Distribution Integrity Management Program (DIMP) spending. Most of the adjustments DRA recommends are due to PG&E's failure to meet its burden of proof of establishing a reasonable basis for its spending. DRA's recommendation on capital spending is a 56.7% increase over 2011 levels, with the advice letter process recommendation to allow recovery for additional spending for pipe replacement. PG&E has always had the obligation to maintain safe and reliable facilities, and DRA's recommendations in this proceeding provide significant increases for gas expenses and capital.

---

[3] Remarks such as: "Rather than moving toward industry best practices, DRA will take PG&E's safety journey backward;" (PG&E Opening Brief, p. 3-4), or "… it appears DRA is focused on reducing PG&E's revenue requirement without regard to… adverse safety impacts" (PG&E Opening Brief, p. 3-5) are too numerous to list, but appear in nearly every area where PG&E claims a "safety" impact, and DRA considers PG&E's proposal or forecast unreasonable.

[4] Public Utilities Code Section 309.5. On September 26, 2013, Governor Edmund G. Brown signed Senate Bill (SB) 96 into law. Among other things, SB 96 amends Section 309.5 of the Public Utilities Code changing the name of the Division of Ratepayer Advocates to the Office of Ratepayer Advocates. The goal is still: "…. to obtain the lowest possible rate for service consistent with reliable and safe service levels."

[5] PG&E's Opening Brief, p.ES-3.

### 1.1.1. Safety Measures Are "Basic" Utility Functions

According to PG&E, the strategies that support its rate case requests are:

(i) executing on a back-to-basics strategy to improve operations;

(ii) strengthening PG&E's culture so that identifying issues and driving continuous improvement become deeply ingrained in each employee's mindset and behavior; and

(iii) rebuilding relationships with PG&E's customers, communities and other stakeholders.[6]

By its very term, a back-to-basics strategy connotes doing things that should have been done, but were not. It does not follow that PG&E should be rewarded with unfettered spending to implement safety measures that should have been basic to the company in the first place.

One of the Safety and Enforcement Division (SED) consultants-- the Liberty Consulting Group-- PG&E relies on to make its safety arguments questioned the nexus between PG&E's forecasts, and risk or safety. As the authors of the Liberty Report stated:

> Any linkage between risk and safety-related spending strikes us as irrelevant if one cannot understand the resulting rationale for the level of spending. An infinite number of projects can be conceived; most organizations do indeed generate a lengthy wish list. Management, therefore needs the ability to "draw the line" at some appropriate level; i.e., to determine what aggregate level of spending makes the most sense, and to decide which proposals to delete or defer.[7]

The Liberty Report authors noted that when PG&E's Chief Executive Officer (CEO) and GRC Steering Committee reviewed the initial forecasts for this GRC, they asked for the "… total spending to be scaled back somewhat, to lower rate increase percentages."[8] Ultimately, PG&E's "scaling back" was to reduce the initial forecast for Energy Supply expenses by $39 million, but increase its capital expenditures by $7 million, and increase both the Energy

[6] PG&E's Opening Brief, p. 1-1.

[7] Ex. 168 (Liberty Report), p. 78.

[8] Ex. 168 (Liberty Report), p. 41.

Distribution expenses by an additional $17 million and capital expenditures by an additional $44 million.[9]

PG&E's 3-year cumulative requested GRC increase of $4.912 billion[10] is inconsistent with the assertion of PG&E's CEO that "affordability" is one of the three pillars of PG&E's back-to-basics strategy.[11] In the absence of any meaningful consideration of affordability by PG&E, DRA and other parties have developed forecasts to address that issue.

As the Liberty Consulting Group noted when it presented its report in May 2013, "… the Company has not demonstrated analytically that the benefits of proposed safety and security risk mitigation measures justify their costs."[12]

### 1.2 PG&E's Request

In its Opening Brief, PG&E says it is asking the Commission to approve total revenue requirements of $7.815 billion effective January 1, 2014. Compared to the adopted revenue requirements for 2014, PG&E's request represents a total revenue increase of $1.181 billion.

DRA recommends a $125 million decrease (relative to PG&E's currently authorized 2014 revenues) in 2014 for total proposed revenues of $6.472 billion in the Test Year.[13] DRA's recommendation for 2014 is $440 million higher than the $6.032 billion in revenue requirement which the Commission authorized in PG&E's last GRC for Test Year 2011.[14]

DRA has not re-run the Results of Operations Model since the close of hearings, and has since learned that some of the revenue requirement changes it made after submitting its testimony are not accurately reflected in DRA's Opening Brief. DRA regrets the inconvenience these discrepancies cause the Commission and the parties. DRA will attempt to identify below

---

[9] Ex. 168 (Liberty Report), pp. 41-42.

[10] See PG&E Opening Brief, p. ES-4: 2014 increase is $1.181 billion x 3 years = $3.543 billion; 2015 increase is $0.441 billion x 2 years = $0.882 billion; 2016 increase is $0.487 billion x 1 year = $0.487 billion.

[11] Ex. 1 (PG&E-1), p. 1-2.

[12] Ex. 168 (Liberty Report), p. 19

[13] Ex. 374 (Joint Comparison Exhibit), p. 1-4, Table 1-1, line 28.

[14] D11-05-018, mimeo, at pp. 2-3.

where those errors occurred; the dollar amounts that DRA is recommending as of the close of hearings can also be found in the Comparison Exhibit.[15]

### 1.3 Impacts on Customers and the Local Economy

In its Opening Brief, PG&E makes the statement that there is "… uncontroverted evidence that PG&E's forecast is good for the state economy by both strengthening the infrastructure on which businesses and residents depend as well as producing jobs both within and outside of PG&E."[16]

PG&E fails to support its claim of "uncontroverted evidence," but if PG&E is implying that this sweeping generalization is unchallenged, PG&E is mistaken. The so-called "independent" study PG&E cites for this proposition is hardly "independent" – PG&E bought those results.[17] As to PG&E's claim that adoption of its forecasts will provide economic stimulus, this attempt to portray itself as some sort of public benefactor should be firmly rejected. As TURN points out in its Opening Brief, "[f]or every dollar that the Commission approves for addition to rate base, it is saddling PG&E's ratepayers with the ongoing burden of PG&E's cost of capital (approximately 11.8% including income taxes on the return component.)"[18]

In its Opening Brief, PG&E also says that "DRA's forecast would eliminate nearly 3,000 existing jobs at PG&E."[19] PG&E mischaracterizes DRA's recommendations.

DRA's lower forecasts do not represent a reduction to the workforce; they reject the excessive increases PG&E proposes to make to its current workforce at ratepayer expense. As the historical figures show, PG&E's expenses have increased significantly over the past several years, and sizable workforce increases, along with sizeable employee compensation bonuses, are already embedded in PG&E's authorized revenues.

---

[15] Ex. 374 (Joint Comparison Exhibit).

[16] PG&E Opening Brief, p. 1-4

[17] Ex. 173 (PG&E Response to DRA-053-03, Q/A. 3)

[18] TURN Opening Brief, p. 16.

[19] PG&E Opening Brief, p. 1-4.

Nothing in DRA's testimony recommends or requires layoffs. PG&E's resort to scare tactics should not distract the Commission from basing its decision on the record, rather than the rhetoric, in this case.

### 1.4 Other Issues

DRA's Opening Brief discusses the Other Issues DRA asks the Commission to address.

## 2 Legal and Ratemaking Principles and Other General Issues

### 2.1 Legal and Jurisdictional Issues

#### 2.1.1 Commission Jurisdiction

DRA has no comment to make on this issue at this time.

#### 2.1.2 Burden of Proof

In its Opening Brief, DRA recommends the Commission apply the clear and convincing evidence standard of proof. Until recently, the Commission used that standard, based on a careful assessment of the imbalance in access to information that non-utility parties face in all general rate cases.

In its Opening Brief, PG&E cites to three Commission decisions, beginning in 2009, all of which say that "… the standard of proof the applicant must meet is that of a preponderance of evidence."[20] None of these decisions explains why the Commission suddenly departed from the thorough legal analysis it had conducted and applied before 2009, and changed the standard.

In D-12-11-051, which PG&E cites, the Commission declares preponderance of the evidence to be the standard and quotes from the Evidence Code definition of proof as "the establishment of evidence of a requisite degree of belief."[21] But there is nothing in that definition that justifies shifting the standard of proof from previous rate cases without any rationale. The imbalance of access to information is even more pronounced as shown in this GRC by the voluminous, if often shallow, presentation of the utility, and the requested increase of $1.2 billion in the test year alone.

---

[20] PG&E Opening Brief, p. 2-1 citing D.12-11-051, D.11-05-018, and D.09-03-025.

[21] D.12-11-051, p. 9.

Rather than perpetuate this legal error, DRA recommends that the Commission affirm that the proper standard of proof for approval of rate increases is clear and convincing evidence, and apply that standard to this Application.

### 2.2 Safety and Risk in Ratemaking

#### 2.2.1 Legislative Developments

PG&E cites one subsection of SB 705[22] to argue that "there can be no reasonable doubt that the legislation was designed to effect a new state policy prioritizing safety *above all other considerations*."[23] Clearly, that subsection states that safety priority policy is to be "consistent with the principle of just and reasonable cost-based rates," not above the consideration of "just and reasonable cost-based rates."

#### 2.2.2 CPUC Developments

PG&E's OB acknowledges that the March 5, 2012 Executive Director letter directed that the GRC filing "should be founded on an explicit safety and security risk assessment,"[24] but never explictly acknowledges that PG&E failed to provide this explicit risk assessment, as detailed in DRA's OB and the reports of Liberty and Cycla.[25] PG&E tacitly acknowledges this failure by stating:

> While the timing of the March 2012 Clanon letter made it difficult for PG&E to fully develop the relationships between risks and PG&E's specific safety and security initiatives,[26] PG&E's risk management practices in place as of July 2012 were aligned with the intent of the letter and reflected in the GRC.[27]

---

[22] PG&E OB, p. 2-2, and fn. 11. "It is the policy of the state that the commission and each gas corporation place safety of the public and gas corporation employees as the top priority. The commission shall take all reasonable and appropriate actions necessary to carry out the safety priority policy of this paragraph *consistent with the principle of just and reasonable cost-based rates*." Section 963(b)(3) (emphasis added). Section 961(b)(1) required the submission of a gas safety plan "that implements the policies of" Section 963(b)(3), a plan which was not included nor reviewed in this proceeding but in R.11-02-019. *See* DRA OB, Section 2.2.1., pp. 17-18

[23] PG&E OB, p. 2-2 (emphasis added).

[24] PG&E OB, p. 2-4 and fn. 19, *citing* Ex. 51 (PG&E-16), p. 4A-1; *see also* Ex. 53 (PG&E-18 vol.1), p. 11A-1.

[25] DRA OB, Section 2.2.3, pp. 19-21 and fns. 80 – 87.

[26] PG&E OB, p. 2-5, *citing* Ex. 168 (Liberty), p. S-2.

[27] PG&E OB, p. 2-5, *citing* Ex. 51 (PG&E-16), p. 5-27.

These statements are both erroneous and insufficient. In its GRC application, PG&E did not attempt to develop "relationships between risks and PG&E's specific safety and security initiatives," let alone fully, and the difficulty of the task is no excuse for not even attempting to comply, and barely acknowledging it. PG&E does not otherwise argue that the timing of the letter constrained their safety efforts or their ability to meet "best practices." Liberty and Cycla also thoroughly castigated PG&E's failure not only to provide an explicit risk assessment but also even to link its proposed spending to identified risks.[28]

As for PG&E's argument that in its rebuttal testimony it demonstrated that its July 2012 PG&E's "management practices" met the "intent" of the letter, the letter requested that the GRC application contain a risk assessment, and "to identify and prioritize areas of risk and include the underlying rationale for [PG&E's] assessment."[29] PG&E's rebuttal testimony asserts only that PG&E was starting efforts to incorporate risk, but not that the application contained any of these efforts to identify and prioritize areas of risk.[30] Again, both Liberty and Cycla noted the lack of an explicit connection between any risk incorporation and PG&E's requests for funding in this application, which PG&E failed to address in its rebuttal testimony or OB. Cycla found that "PG&E's GRC filing does not present a clear logical linkage between safety risks and activities intended to control them."[31] Liberty noted that "for neither of the two units could we observe clear and strong connections between risk assessment and GRC budgeting for projects and programs." [32]

PG&E states that Liberty noted that the letter expects a "risk assessment that is beyond what one finds currently in the industry,"[33] but does not dispute Liberty's subsequent statement that the "expectations are appropriate to the circumstances."[34] Finally, PG&E argues that its comparison with other utilities it presented on rebuttal shows it "is among the leaders within its

[28] *See* DRA OB, pp. 19 – 20 and fns. 80 – 86. Moreover, Liberty

[29] Ex. 53 (PG&E-18 vol.1), p. 11A-1.

[30] Ex. 51 (PG&E-16), p. 5-27.

[31] Ex. 167 (Cycla), pp. 61- 62, Finding No. 11.

[32] Ex. 168 (Liberty), p. 18.

[33] PG&E OB, p. 2-5 and fn. 24, *citing* Ex. 168 (Liberty), p. S-2.

[34] Ex. 168 (Liberty), p. S-2.

industry peer group in the evolution of its risk management practices, the articulation of those in its GRC, and, importantly, integrating risk mitigation with investment planning and funding,"[35] but never addresses the conclusions of Cycla and Liberty that the GRC application utterly lacked any such articulation or integration.

PG&E claims that its approach is about "safety first," and requests cutting-edge safety measures, requests safety money in this GRC without any attempt at the required risk assessment. PG&E has no reasonable explanation for why it did not make this effort. PG&E zealously pursues funds, but does not recognize that without the effort to prioritize the risks its funding intends to address, evaluating the reasonableness of the proposals is difficult, if not impossible.

#### 2.2.3 Balancing Safety and Risk With Just and Reasonable Rates

PG&E's OB states that it balanced its "goal to be the safest utility in the nation against cost consideration in two ways":[36]

> First, in selecting the measures to mitigate identified safety and reliability risks, PG&E has chosen the measures that move the Company toward first quartile safety performance cost-effectively and has considered cost in determining the pace of implementing these measures.[37] Second, PG&E develops implementation plans to accomplish the selected mitigation measures efficiently.[38] In summary, this is how PG&E has balanced safety and rate impacts.

The brief passages of the transcripts PG&E cites in its OB only generally discuss how and why PG&E proposed to increase the miles of pipeline replacement per year, only one of numerous safety "measures" included in the application. PG&E provides no other examples in its OB of how it balances safety and rate impacts. PG&E has failed in this GRC to balance safety and rate impacts properly.

---

[35] PG&E OB, p. 2-5 and fn. 25, *citing* Ex. 51 (PG&E-16), p. 5-23.

[36] PG&E OB, p. 2-6.

[37] PG&E OB, p. 2-6 & fn. 29, *citing* Tr. Vol. 13, 1179:2-6, 1182:13 to 1183:25 (Stavropoulos).

[38] PG&E OB, p. 2-6 & fn. 30, *citing* Tr. Vol. 13, 1179:2 to 1180:20 (Stavropoulos).

#### 2.2.4 SED Reports

##### 2.2.4.1 Liberty Report

PG&E discussed Liberty's recommendations in various sections of its Opening Brief. DRA will respond to such discussions as appropriate in the corresponding Sections of this Reply Brief.

##### 2.2.4.2 Cycla Report

PG&E discussed Cycla's recommendations within Section 3 of its OB. DRA will respond to such discussions as appropriate in Section 3 of the Reply Brief.

##### 2.2.4.3 Overland Report

While PG&E claims in its OB that "the Overland report received little attention in this proceeding,"[39] DRA cross-examined most of PG&E's witnesses that responded to Overland and discusses the Overland Report extensively in its OB. DRA disputes Mr. O'Laughlin's analysis and conclusions.

PG&E inaccurately claims that "the Overland report is based entirely on a retrospective analysis that ends with 2010."[40] The Overland report contains a chapter titled "Management Deficiencies – 2011 and 2012."[41] PG&E further claims that the Overland report fails to consider developments since 2010 in gas operations, budgeting and planning, all of which DRA discussed extensively in Section 2.2.3.1 of its OB, with extensive references to Liberty's report.

DRA addressed PG&E's arguments against adopting Overland's reporting recommendations in its OB.

#### 2.2.5 Recommendations

PG&E's discussion in this section of its OB only addresses Recommendations for the 2017 GRC and a separate, post-GRC procedural recommendation, recommendations which they made for the first time in rebuttal testimony.[42] DRA will address these recommendations below.

---

[39] PG&E OB, p. 2-9.

[40] PG&E OB, p. 2-9.

[41] Ex. 169 (Overland), Chapter 13.

[42] PG&E OB, pp. 2-10 to 2-12 & fns. 53-56, *citing* Ex. 51 (PG&E-16).

#### 2.2.5.1 PG&E's Proposal For the 2017 GRC

In its Opening Brief, PG&E has proposed the following changes to its 2017 GRC to improve its showing on safety and risk:

- PG&E will provide additional testimony on its integrated planning process; affirmatively showing that risk management through integrated planning forms the foundation of the system safety and compliance projects and programs forecast in its 2017 GRC.
- PG&E will prioritize projects and programs in the 2017 GRC by using risk-based criteria and will demonstrate how the projects and programs it is forecasting mitigate the system safety risks listed on PG&E's risk registers.
- PG&E will provide enhanced testimony on its overall risk program from its Chief Risk Officer as well as LOB-specific risk testimony from the risk or asset management leads from Electric Operations, Energy Supply and Gas Operations.[43]

PG&E argues that this proposal "meaningfully addresses the priorities identified by Liberty and Cycla in their reports, while being cognizant of the cautionary words of Liberty that improvements to this process will require patience."[44] While DRA appreciates PG&E's proposed steps to assess risk in its next GRC, DRA disagrees this meaningfully addresses the priorities in Liberty and Cycla's Reports.[45] PG&E should perform a full risk assessment as part of its next GRC application.

#### 2.2.5.2 A Broader Stakeholder Process

PG&E proposes a stakeholder process to "to modify the GRC process in order to address utility risk more effectively."[46] The proposed process would "find the right way to achieve a reasonable balance between implementing critical safety and risk mitigation work while keeping rates affordable,"[47] and will "require direction from the Commission to:

---

[43] PG&E OB, pp. 2-10 to 2-11 & fn 53, *citing* Ex. 51 (PG&E-16), p. 2-16 to 2-17.

[44] PG&E OB, p. 2-11.

[45] *See* DRA OB pp. 19-25, 27-30.

[46] PG&E OB, p. 2-11.

[47] *Id.*

- Define the processes for presenting and evaluating risk mitigation investments;
- Establish a common lexicon for use by all stakeholders to analyze and interpret data in a similar fashion;
- Build the requisite competencies to be able to propose and evaluate risk informed GRC filings; and
- Acquire the necessary systems and tools to support the analysis required to properly evaluate risk properly."[48]

In contrast to the proposed stakeholder process, PG&E as the operator of its system should provide the data and analysis that it maintains is required to support risk mitigation investments and to evaluate risk properly in its 2017 GRC. Consistent with the GRC process, other intervening parties and stakeholders will have the opportunity to evaluate and conduct discovery on PG&E's showing and submit their own independent analysis and recommendations in the case.

### 2.3 Audit Reporting and Other Issues

In its Opening Brief, PG&E identifies two recommendations in DRA's Audit Report which remain in dispute: insurance and Allowance for Funds Used During Construction. DRA has already addressed the arguments PG&E makes about those recommendations in its Opening Brief. DRA's additional comments on the insurance issue are addressed in this Reply Brief, in Section 9, below.

## 3 Gas Distribution

### 3.1 Policy and Introduction

DRA has discussed the interaction of SB 705 with this proceeding and R.11-12-019, which specifically reviewed the safety plan mandated by the bill in its OB in Section 2.2.1. PG&E's OB fails to mention the review of the safety plan mandated by that statute has occurred separately from this proceeding in R.11-12-019.

PG&E notes that SB 705 fails to define "best practices."[49] PG&E "generally defines best practices as those achieved by top quartile utilities, identified through industry benchmarking."[50]

---

[48] *Id.*, pp. 2-11 to 2-12 and fn. 55, *citing* Ex. 51 (PG&E-16), p. 5-33.

[49] PG&E OB, p. 3-2.

PG&E asserts that no other party offered a definition of best practices, but overlooks that Cycla defined best practices somewhat differently:

> *Industry Best Practices* - Industry Best Practices can be defined as that set of practices, beyond minimal safety regulations, that have been demonstrated in practice to produce superior safety results.[51]

Cycla's definition seems to better capture the intent of the legislation, with an emphasis on demonstrated, superior safety results rather than just industry benchmarking and an arbitrary cut-off of the "top quartile."

PG&E states that "with very few exceptions, no party challenged PG&E's unit costs or work efficiency. The debate is how much work PG&E should do."[52] DRA has reviewed such cost elements as appropriate, including discussion of workpapers, and urges the Commission to review the support PG&E has offered for its cost projections. The workpapers often contain assumptions and arbitrary decisions to calculate cost elements, both for unit costs and amount of work to be performed.

PG&E notes that "DRA and TURN have also emphasized the fact that Cycla made no recommendation as to whether the Commission should authorize funding of any of the work they reviewed.[53] It was not Cycla's role to make this determination; that is the Commission's role."[54] PG&E is correct that it is not Cycla's role to make the determination of reasonableness of PG&E's cost forecasts. But it is PG&E's "rebuttal" testimony and now OB that repeatedly argues that Cycla's report, which did not take into account DRA's testimony nor any of the intervener recommendations,[55] and does not make any recommendations about specific funding level recovery, supports Commission approval of PG&E's specific funding recommendations. Cycla's report makes no such claims.

---

*(footnote continued from previous page)*

[50] PG&E OB, p. 3-3 and fn. 9, *citing* Ex. 14 (PG&E-3), p. 1-1, fn. 1.

[51] Ex. 167 (Cycla), Attachment 1, p. 1.

[52] PG&E OB, p. 3-3.

[53] PG&E OB, p. 3-7 and fn. 35, *citing* Ex. 167 (Cycla), p. iv; Exh. 141 (Sugar), p. 3; Tr. Vol. 26 (Bromson), 3283:13-16.

[54] PG&E OB, p. 3-7.

[55] Tr. Vol. 26 (Wood) 3290:1-13.

PG&E declares that SED's retention of Cycla for an "independent, expert opinion on how well PG&E's gas distribution forecast addresses risk….[56] included a review of PG&E's forecast costs."[57] But Cycla's cost review was not for reasonableness or purposes of recovery under Public Utilities Code §451, but instead for sufficiency, whether or not the cost level "was at least above a certain amount that would be sufficient to fund a particular project."[58] No party argues that PG&E's request for a 97% increase in expenses and 170% increase in capital expenditures is *insufficient* to fund PG&E's requested projects. DRA below will address as necessary PG&E's specific arguments that Cycla's report supports individual cost elements of PG&E's forecasts, without waiving our position that such PG&E arguments are both improper and a misreading of Cycla's report.

As for Cycla's "expert opinion" as to how well PG&E's GRC application addressed risk, Cycla found that "PG&E's GRC filing does not present a clear logical linkage between safety risks and activities intended to control them."[59] PG&E did not perform a risk assessment, and in its review of PG&E's purported risk assessment, Cycla itself did not perform a risk assessment.[60] Yet PG&E maintains that the "Cycla Report … proves that the work that PG&E is planning … will meaningfully reduce system risk."[61]

DRA opposes the adoption of PG&E's proposed uncapped, two-way balancing account for "leak-survey, leak repair, meter set leak repair and atmospheric corrosion inspection costs"[62] for reasons set forth in its OB.

### 3.2 System Operations and Distribution Control

#### 3.2.1 Expense

PG&E comments that "Cycla states that the project scope is 'consistent with practices employed by best operators' and that the planned '[s]taffing [is] consistent with [a] reasonable

[56] PG&E OB, p. 3-3 & fn. 11, *citing* Ex. 167 (Cycla), p. iv.

[57] PG&E OB, p. 3-3 & fn. 12, *citing* Tr. Vol. 26 (Wood), 3305:14-21.

[58] Tr. Vol. 26 (Bromson/Gawronski) 3287:10-24.

[59] Ex. 167 (Cycla), p. 61, Finding No. 11.

[60] Tr. Vol. 26 (Wood), 3278:19-270.

[61] PG&E OB, p. 3-3.

[62] PG&E OB, p. 3-7.

implementation time frame.'"[63] However, Cycla noted, in the body of its report and not just the summary table cited by PG&E:

> Activity staffing is consistent with the proposed implementation time frame, which may prove difficult to meet because of the need to install the large number (4,300) of remote monitoring pressure points, numerous remotely controlled valves, and automating regulator stations. The time allocated for achieving operability including training operators in a new control environment may be greater than currently forecast. Cost estimation of such a complex project is difficult.[64]

Cycla's comments have no bearing on DRA's argument in the OB regarding PG&E's own specific justifications for its staffing levels, based on testimony and data responses provided to DRA.

DRA addressed PG&E's primary justifications for its other recommendations in this area in its OB.

#### 3.2.2 Capital Expenditures

DRA addressed PG&E's arguments in its OB.

### 3.3 Gas Distribution Mapping and Records

PG&E references Cycla's comments about Gas Distribution and Mapping,[65] but Cycla's discussion has no bearing on DRA's specific arguments about the lack of support for PG&E's rough estimate for the amount of as-builts, and its accounting treatment for a headcount increase for other mapping expenses. DRA addressed PG&E's other arguments in its OB.

### 3.4 Gas Distribution Integrity Management Program

PG&E asserts that "Cycla, in contrast to DRA, found that the scope of PG&E's forecast Distribution Integrity Management Program is consistent with that of other high performing operators."[66] DRA never made a contrary finding. Cycla's comments on DIMP have no bearing

---

[63] PG&E OB, p. 3-11 and fn. 55, *citing* Ex. 167 (Cycla), p.35.

[64] Ex. 167 (Cycla), p. 41.

[65] *See generally* PG&E OB, pp. 3-22 to 3-24.

[66] PG&E OB, p. 3-37 and fn. 236, *citing* Ex. 167 (Cycla), p. 44.

on DRA's specific arguments about numerous aspects of PG&E's request which PG&E failed to support, particularly on Emergent Work and Program Management.

With respect to cross-bores, PG&E still claims that "PG&E *should* perform at least 30,000 inspections annually until all have been remediated"[67] even though the same witness admitted that the 2014 forecast has since been reduced to 25,000,[68] and that PG&E has performed less than 5000 inspections more than halfway through 2013.[69] PG&E's forecasted expenditures are for what PG&E *will* do, and they have not demonstrated they will be able to perform the number of inspections for which they request funding.

PG&E claims with respect to its forecast for Project Management that "DRA and TURN's witnesses have not demonstrated that PG&E's staffing plan is unreasonable. In contrast, PHMSA and Cycla found that it is reasonable."[70] It is not DRA's burden to prove a negative, but PG&E's burden to show its plan is reasonable. Cycla's purported finding of "reasonableness" is not the "reasonableness" standard used by the Commission, and Cycla's comments do not address the specifics of DRA's recommendations.

PG&E's comment that the "Distribution Integrity Management Program was new in the 2011 GRC, which made a balancing account reasonable,"[71] is both an improper, post-hoc rationale for a balance account to which PG&E agreed in a black box settlement, and not a reason itself to exclude balancing accounts. Given the extent and amount of PG&E's new safety spending in this proceeding, if "newness" of programs were the standard as to whether a balancing account should be adopted, much of PG&E's request would be governed by balancing accounts.

DRA addressed PG&E's other arguments in its OB.

---

[67] PG&E OB, p. 3-40 (emphasis added) and fn. 256, *citing* Tr. Vol. 14, 1338:7-21 (Cowsert Chapman).

[68] Tr. Vol. 14, 1335:17- 1337:11 (Cowsert Chapman), *citing* Ex. 54 (PG&E-18 Vol. 2) pp. A-41 to A-43, PG&E response to DRA-49 question 5.

[69] Tr. Vol 14, 1338:27-1339:14 (Cowsert Chapman).

[70] PG&E OB, p. 3-44 and fn. 290, *citing* Ex. 53 (PG&E-18), p. 4-6, lines 12-16; Ex. 167 (Cycla), pp. 36 and 44.

[71] PG&E OB, p. 3-49 and fn. 331, *citing* Ex. 53 (PG&E-18), p. 4-28, lines 25-28.

### 3.5 Pipe, Meter and Other Preventative Maintenance

#### 3.5.1 Expense

PG&E states that "Cycla found that the scope of work PG&E forecast is 'consistent with practices employed by best operators' and that PG&E's forecast staffing is "consistent with [the] forecasted work activity level.'"[72] Cycla also stated that "[t]he projected number of locates results from significant projected increases in construction and infrastructure activity, and may be a little high."[73] Cycla's observations do not address the specifics of DRA's recommendations.

#### 3.5.2 Capital Expenditures

PG&E concedes that it has in the recent past "deemphasized" capital spending for meter prevention, but "does not plan to continue to deemphasize the program. … PG&E plans to, and will, perform more work on this program in 2013 and 2014, including making up the work it did not perform in 2012."[74] PG&E offers no further proof of the reasonableness of its forecasted capital spending levels.

### 3.6 Leak Survey and Repair

#### 3.6.1 Expense

PG&E comments that Cycla recognizes the cost-efficiency of PG&E's practice of repairing rather than rechecking above-ground Grade 3 leaks.[75] Cycla noted that "[w]hile these [Grade 3]leaks are the cheapest and easiest leaks to repair and represent a major source of customer concern, early repair may result in only a minimal risk reduction," and only that early repair "may be a source of efficiency."[76]

PG&E argues that "because leak repair is mandatory, and because of the unusual degree of uncertainty as to how many leaks PG&E will find and need to fix in 2014, due both to the new Picarro technology and to that fact that PG&E's 2011 survey followed the accelerated leak survey, whereas 2014 will follow a normal leak survey, PG&E is proposing a two-way balancing

---

[72] PG&E OB, p. 3-51 and fn. 340, *citing* Ex. 167 (Cycla), p. 36.

[73] Ex. 167 (Cycla), p. 45.

[74] PG&E OB, pp. 3-58 and 3-59, *citing* Ex. 53 (PG&E-18), p. 5-20 at lines 20-30.

[75] PG&E OB, p. 3-71 and fn. 482, *citing* Ex. 167 (Cycla), p. 47.

[76] Ex. 167 (Cycla), p. 47.

account for recovery of leak repair costs."[77] Although leak repair is mandatory, and there is uncertainty as to leak rate, PG&E has discretion as to what measures to employ to detect and repair leaks, and an uncapped, two-way balancing account fails to provide incentives for PG&E to manage such costs effectively. PG&E states, "[w]hile DRA argues that this would eliminate PG&E's incentive to perform the work efficiently[78], DRA has taken no issue with PG&E's forecast unit costs, nor has any other party."[79] DRA's witness stated, "There's no incentive for PG&E to cut any kind of cost," not just referring to unit costs and not mentioning efficiency at all,[80] testimony consistent with DRA's opposition to uncapped, two-way balancing accounts. Picarro and traditional methods have different unit costs, and there will be costs associated with integrating Picarro, so even if unit costs are not disputed PG&E's relative choice of each technology will impact the total cost. Finally, PG&E argues that the Commission's adoption of a two-way balancing account for an SDG&E $1.1 million request for TIMP costs in SDG&E's recent GRC supports PG&E's request for adoption of a two-way balancing account,[81] although the costs at issue here are not analogous to TIMP costs and PG&E opposes DRA's proposal of adoption of a balancing account for DIMP costs.

### 3.7 Gas Field Services and Response

#### 3.7.1 Expense

PG&E notes that the Cycla Report included the following observations:

- "Emergency response time goals are consistent with performance of best operators;"
- "Staffing consistent with reasonable implementation time frame and has been optimized by relocating staff and adjusting shifts to reflect public reporting profiles;" and
- "Increase in GSRs reflects a reasonable activity scale-up."[82]

---

[77] PG&E OB, p. 3-80 and fn. 545, *citing* Ex. 14 (PG&E-3), p. 6-38, lines 7-33; Exh. 53 (PG&E-18), p. 6-50, line 11 to p. 6-51, line 4.

[78] PG&E OB, p. 3-82 and fn. 555, *citing* Tr. Vol. 28, 3864:24-27 (Phan).

[79] PG&E OB, p. 3-82.

[80] Tr. Vol. 28, 3864:24-27 (Phan).

[81] PG&E OB, p. 3-80, and fn. 544, *citing* D.13-05-010, *mimeo*, p. 387.

[82] PG&E OB, p. 3-83 and fn. 562, *citing* Ex. 167 (Cycla), p. 37; PG&E OB, p. 3-87 and fn. 589, *citing* Ex.

*(footnote continued on next page)*

The Cycla Report pointedly states that "the impact of scaling up staffing level by the full 120 people on response time goals has not been demonstrated."[83]

DRA otherwise addressed PG&E's arguments in its OB.

#### 3.7.2 Capital Expenditures

DRA has addressed PG&E's arguments in its OB.

### 3.8 Gas Distribution Capital and Expenditure Planning

With respect to DRA's proposed advice letter process for recovery of MWC 14 and MWC 50 costs, PG&E's OB notes that "DRA's witness indicated that the advice letter would not be subject to protest and would be a Tier 1 advice letter.[84] This understanding alleviates much of PG&E's concern over DRA's alternative rate recovery mechanism."[85]

PG&E still opposes DRA's advice letter process "because it is unnecessary and inconsistent with risk-based investment planning."[86] PG&E concludes that DRA's proposal "would earmark portions of PG&E's revenues for specific work"[87] and that "it is unwise to earmark funding for specific, non-mandatory work."[88] MWC 50 includes funding "to maintain compliance with safety regulators,"[89] and MWC 14 covers the GPRP, and PG&E "submits annual status reports on the GPRP to the Commission in accordance with Decision 86-12-095, 23 CPUC 149, 199."[90] DRA's proposal does not "earmark portions of revenue for specific work." The proposal provides a forecast based on the most recent capital expenditures plus additional revenue for capital expenditures that PG&E actually makes above the forecast.

---

*(footnote continued from previous page)*

167 (Cycla), p. 37.

[83] Ex. 167 (Cycla), p. 49.

[84] PG&E OB, p. 3-95 and fn. 640, *citing* Tr. Vol. 28, 3728:13-29 (Chia). DRA agrees with the requested transcript correction as described in fn. 640.

[85] PG&E OB, pp. 3-95 to 3-96.

[86] PG&E OB, p. 3-96.

[87] PG&E OB, p. 3-102.

[88] *Id.*

[89] Ex. 14 (PG&E-3), p. 8-14.

[90] Ex. 14 (PG&E-3), p. 8-6 fn. 2.

PG&E also argues that an advice letter process is "unnecessary"[91] because:

> DRA's and TURN's proposals are premised on speculation that PG&E will not be able to ramp up resources quickly enough to execute on its plan. These concerns are unfounded. Based on PG&E's recent hiring, plans to hire additional resources, progress to date on engineering 2014 projects and PG&E's access to contract resources that typically execute PG&E's gas distribution capital work, PG&E can complete the forecasted work.[92]

PG&E provides no empirical or factual basis other than this statement to support its claims of "progress to date on engineering 2014 projects" or "PG&E's access to contract resources that typically execute PG&E's gas distribution work." PG&E's claims of inconsistency with risk-based planning ring hollow given PG&E's failure to provide a risk assessment. Cycla notes for spending on replacing leak-prone pipe that "it is difficult to determine to what degree additional funding would reduce the risk or improve system safety."[93]

PG&E states that if DRA's proposal is adopted, it should be a Tier 1 advice letter not subject to protest.[94] DRA agrees, as the only question is whether or not spending is in the MWC 14 or MWC 50 categories, which can be determined by the Commission. PG&E further argues that "there should either be no cap, or a cap above PG&E's forecast, to enable PG&E to perform additional prudent work if PG&E deems it appropriate to do so."[95] DRA disagrees that PG&E should have an advice letter process for recovery without a cap on its spending or a cap higher than its forecast, given the extremely large increase PG&E has requested. PG&E next requests that "[i]f there is a cap, it should be a combined cap for MWCs 14 and 50, enabling PG&E the flexibility to reallocate resources between these programs."[96] While DRA prefers separate caps given the different characteristics of the spending in the MWCs, DRA would not oppose a combined cap. PG&E finally asserts that "the Commission should ensure that whatever amount PG&E spends and ultimately is authorized to recover in 2014 is appropriately reflected in the attrition year revenue requirement. One way to do this would be to continue the advice letter

[91] PG&E OB, p. 3-102 to 3-103 and fn. 687, *citing* Ex. 53 (PG&E-18), p. 8-3, lines 14-20.

[92] PG&E OB, p. 3-103.

[93] Ex. 167 (Cycla), p. 50.

[94] PG&E OB, p. 3-103.

[95] PG&E OB, p. 3-103.

[96] PG&E OB, p. 3-103.

process through the rate case cycle, enabling PG&E to continue to recover its actual capital expenditures for MWCs 14 and 50."[97] DRA agrees that the amount PG&E ultimately is authorized to recover in 2014 should be reflected in the attrition year revenue requirement. DRA did not recommend that the advice letter process be extended past 2014, as the attrition mechanism should be sufficient, but if a yearly advice letter process is adopted after 2014, the subsequent yearly caps should be tied to the adopted attrition mechanism and not PG&E's post-2014 forecasts in these areas.

With respect to MWC 05, PG&E notes that Cycla recognized that "[t]he effect of this increase for capital tools … will facilitate some of the capital and expense related work needed to improve the overall gas system safety."[98] The full Cycla quote is: "[t]he effect of this increase for capital tools *and NGV facilities* ***on reducing risk is minor****, however, it* will facilitate some of the capital and expense related work needed to improve the overall gas system safety."[99] With such a minor reduction on risk, PG&E's comment is misleading.

### 3.9 New Business and Work at the Request of Others

DRA addressed PG&E's arguments in its OB. PG&E's references to Cycla[100] do not impact DRA's recommendations.

### 3.10 Technical Training and Research and Development

PG&E claims it "put considerable effort into determining the appropriate allocation and arrived at 82 percent Distribution and 18 percent Transmission."[101] But Cycla had noted that "[s]ince PG&E has estimated the cost for developing or enhancing each course, splitting out the costs applicable to gas transmission should be straightforward."[102] PG&E did not split out the costs applicable to gas transmission in a straightforward fashion, but rather concocted their own

[97] PG&E OB, p. 3-103 and fn. 689.

[98] PG&E OB, p.3-94 to 3-95 and fn. 633, *citing* Ex. 167 (Cycla), Attachment 6, p. 26.

[99] Ex. 167 (Cycla), Attachment 6, p. 26 (italics for omitted words, further emphasis added).

[100] PG&E OB, p. 3-105 and fns. 703 – 704, *citing* Ex. 167 (Cycla), p. 38, Attachment 6, p. 35.

[101] PG&E OB, p. 3-111 and fn. 740, *citing* Ex. 53 (PG&E-18), p. 10-8, lines 20-22.

[102] Ex. 167 (Cycla), Attachment 6, p. 37.

allocation methodology. DRA addressed the allocation methodology and PG&E's other issues in its OB.

### 3.11 Gas Operations Technology Costs

#### 3.11.1 Expense

PG&E asserts "delaying the [Pathfinder] project is also contrary to Cycla's findings, which recognize that it …'reflect[s] a reasonable phase-in rate.'"[103] The full text of the relevant box in Cycla's Table 2 says, *"[a]lthough ambitious in scope*, the proposed activities reflect a reasonable activity phase-in rate."[104] Ambitious projects sometimes take longer than initially estimated. Cycla neither addresses nor references PG&E's past delays for Pathfinder nor PG&E's overestimates of recent spending. Cycla's comments do not impact DRA's funding recommendations. DRA otherwise addressed PG&E's arguments in its OB.

#### 3.11.2 Capital Expenditures

DRA addressed PG&E's arguments in its OB.

### 3.12 Gas Operations Building Projects, AGA Fees and PAS 55 Certification

DRA addressed PG&E's arguments in its OB.

## 4 Electric Distribution

In its Opening Brief, PG&E says that its "…Electric Operations has renewed its commitment to maintain safety as the primary objective in everything it does."[105] As "an indicator" of its "safety focus," PG&E points to the fact that its largest forecast expense increase is in "Safety, Maintenance and Compliance."

This is exactly the problem. "Safety, Maintenance and Compliance" are functions that PG&E's ratepayers have been paying for all along. A case in point is PG&E's request for $31.117 million in Electric Mapping and Records Management expenses. This is an increase of ***825%*** over what PG&E actually spent on Electric Mapping and Records Management in 2011, which was only $3.364 million.[106]

---

[103] PG&E OB, p. 3-118 and fn. 779, *citing* Ex. 167 (Cycla), p. 38.

[104] Ex. 167 (Cycla), p. 38 (italics for omitted words).

[105] PG&E Opening Brief, p. 4-1.

[106] Ex. 74 (DRA-6), p. 9.

In its Opening Brief, PG&E says that DRA "…fail[s] to appreciate the importance of these initiatives in supporting system safety, and improving reliability."[107] On the contrary, DRA is well aware of the importance of accurate records and maps.

Over the years, PG&E has sought and obtained ratepayer funding for its record-keeping functions. And, although, it has known for decades that its records are missing fundamental information, PG&E is only now getting around to doing something about it.

PG&E's statement in its Opening Brief that "…in the past, and to this day PG&E has maintained its records consistent with regulatory requirements using appropriate technology"[108] is contradicted by the record. By its own admissions, PG&E's electric distribution records are missing information as basic as the date of installation, and the identity of the manufacturer. In some instances, PG&E knows that the information in its records is actually wrong.[109] Yet PG&E seems to be suggesting that, in the absence of a specific "CPUC regulation" requiring it to keep the manufacturer and date installed information for its facilities, it need not do so. DRA disagrees.

As the Commission said in connection with PG&E's unreliable natural gas transmission records, the statutory duty to furnish and maintain safe equipment and facilities "… requires that the natural gas transmission system operator know the location and essential features of all installed equipment and facilities."[110] The same is true here. As the Commission noted in its Decision in the SCE TY2012 GRC, "[w]hen the Commission considers safe and reliable service, our commitment is to ensure that the utility has accurate records *about all of its facilities*…."[111]

Ratepayers have already paid PG&E to maintain accurate records. In fact, in PG&E's last two rate cases, PG&E specifically asked for increased funding for mapping and asset records management technology projects. Assuming PG&E actually completed some of those projects, there are embedded costs are available for the next ones. If, as PG&E says in its Opening Brief, PG&E is "…heavily dependent on manual and paper-based process to manage its electric

[107] PG&E Opening Brief, p. 4-5.

[108] PG&E Opening Brief, p. 4-48.

[109] Ex. 74 (DRA-6), p. 13, citing PG&E Response to DRA-PG&E-085-TLG, Q/ A.7.b.

[110] D.12-12-030, mimeo, p. 91-92.

[111] D.12-11-051, p. 15, emphasis added.

distribution system…"[112] it is not for lack of ratepayer funding. Over the past five years, PG&E has spent only about half of the funds that were earmarked for Electric Mapping and Records Management for that purpose.[113]

For capital projects, PG&E points to the Liberty Report as recognizing "… the importance of programs to support safety" in the areas of Substation Asset Strategy and Underground Asset Management.[114] In fact, both of these programs are examples of instances where DRA relied on PG&E to ensure that DRA's recommended 2014 reductions would not negatively impact safety.

In PG&E's Opening Brief, PG&E says that its forecast to replace 325,000 feet of conductor per year is "… consistent with PG&E's recent focus on reducing conductor failure and associated "wire down' events that impact public and system safety."[115] DRA is recommending funding to replace 160,000 feet per year. This is twice the 80,000 feet PG&E proposed to replace in 2013. Surely, after the experience of San Bruno in 2010, PG&E would never have proposed a replacement forecast for 2013 that would fail to consider the public and system safety issues presented by 'wire down' events. If PG&E was satisfied that replacing 80,000 feet in 2013 would meet public and system safety demands, then the Commission should be able to rely on that forecast, and adopt DRA's recommendation which funds twice that in 2014.

Similarly, DRA's recommendations for replacing underground switches are based on PG&E's own conduct since San Bruno. DRA recommends that the Commission adopt funding for 100 replacements for 2014. By 2014, according to PG&E's own evidence, all of the Tier 1-7 switches, those most in need of replacement, will in fact have been replaced. For 2013, PG&E proposed replacing 80 switches. If it is true that the Polk and O'Farrell fire in 2009 "catalyzed PG&E's decision to replace the switches,"[116] and the San Bruno disaster in 2010 "focused" PG&E's attention on safety, then the Commission should be able to rely on PG&E's decision to replace 80 switches in 2013 as consistent with public and system safety.

---

[112] PG&E Opening Brief, p. 4-8.

[113] Ex. 74 (DRA-6), p. 5, Table 6-2.

[114] PG&E Opening Brief, p. 4-4.

[115] PG&E Opening Brief, p. 4-149.

[116] PG&E Opening Brief, p. 4-163.

In its Opening Brief, PG&E says that "…the main focus of DRA's and TURN's recommendations is on cost reductions based on historic spending levels."[117] According to PG&E, DRA's recommendations "…are inconsistent with California's new vision for safety priority."[118] Safety should always have been PG&E's priority. There is no justification for making ratepayers pay over and over for work PG&E has always been obligated to perform to furnish and maintain safe equipment and facilities.

If read in isolation, Section 4 of PG&E's Opening Brief seems to be suggesting that DRA and other parties ignored safety and reliability concerns, cherry-picked data, and ignored facts in making their recommendations. While PGE's arguments are lengthy, they are without substance. Nothing in PG&E's or CUE's Opening Briefs causes DRA to change any of its conclusions or recommendations relating to Electric Distribution.

## 5 Customer Care

In the Customer Care Policy and Introduction section of its Opening Brief, PG&E says that its "Customer Care forecast supports the Company's safety focus,"[119] and that the Liberty Report supports PG&E's forecasts.[120] PG&E makes this "safety" argument throughout its Opening Brief, but for PG&E to make these statements in connection with its Customer Care forecast is particularly unconvincing. Not only has PG&E made this "safety focus" claim in the past, and then diverted Customer Care funds elsewhere, the support PG&E claims it gets from the Liberty Report is just not there.

In PG&E's last GRC, PG&E assured the Commission that its Customer Care forecasts were "focused" on providing customers with safe and reliable electric and gas service.[121] And then, once that GRC was over, PG&E "re-prioritized" away the funding.[122] In this GRC, PG&E

---

[117] PG&E Opening Brief, p. 4-4.

[118] PG&E Opening Brief, p. 4-4.

[119] PG&E Opening Brief, p. 5-1 (heading to Section 5.1.1).

[120] PG&E Opening Brief, p. 5-2,

[121] Ex. 215, p. 1-1.

[122] See, e.g., PG&E Opening Brief, p. 5-19: "PG&E's reduction in CSR staffing from 2008 through 2011 was due to a reprioritization of GRC funding away from Customer Care toward operational and safety activities."

now says that it did so because "PG&E did not receive its full forecasted revenue requirement in either the 2007 or 2011 GRCs."[123] This is hardly the fault of the Commission or other parties.

PG&E entered into settlements in both the TY 2007 and 2011 GRCs. No one forced PG&E to accept the revenue requirements it did. And no one but PG&E dictated how PG&E chose to spend the money it claimed was "necessary" for Customer Care functions. If, as it now appears, PG&E chose to spend those funds to avoid reduction or suspension of dividends,[124] or paying for public relations campaigns[125], or paying out incentive plan bonuses[126], then it is time for PG&E to use the ratepayer funding it already receives for the purposes for which they were authorized. PG&E's attempt to portray itself as a victim of outside budgetary constraints should be explicitly rejected.

PG&E also cites to the Liberty Report as if it supports PG&E's Customer Care safety outreach work forecasts.[127] According to PG&E, "[i]n its Report to the Safety and Enforcement Division, Liberty identified third-party electrical contacts as a safety hazard and stated that PG&E's forecasted Electric and Gas Safety and Reliability Outreach activities, including local events, locally targeted media, printed collateral and online communications would contribute to reduced third-party contact incidents."[128]

But, on the pages of the Liberty Report PG&E cites for this, Liberty does not make that statement. What the Liberty Report states is the following:

> We found that, *since 2010*, PG&E has substantially increased public outreach programs to reduce electrical contact incidents. Third party actions are by far the leading cause of reportable electrical contact incidents. Overall, PG&E has greatly increase their public outreach programs and focused on downed electric conductor safety. These programs are anticipated to contribute to reduced third part[y] contact incidents.[129]

---

[123] PG&E Opening Brief, p. 5-19.

[124] Ex. 170 (PG&E Annual Report 2012), p. 19.

[125] Ex. 69 (DRA-1), p. 15.

[126] Ex. 83 (DRA-15), p. 6.

[127] PG&E Opening Brief, pp. 5-1—5-2

[128] PG&E Opening Brief, p. 5-2, citing Liberty Report, p. 159.

[129] Ex. 168, Liberty Report, p. 159, emphasis added.

This is not an endorsement of PG&E's TY 2014 GRC forecast. In fact, it actually supports DRA's position that PG&E is already receiving sufficient ratepayer funding for public outreach programs to reduce electrical contact incidents.

Liberty's Report looks at the programs in place since 2010, and PG&E's ratepayers are already funding those. If PG&E believes its outreach programs are not providing customers with necessary information to understand "electric and gas safety hazards and to reduce unsafe incidents," the PG&E should look to ways to use its ratepayer funds more effectively, rather than continually asking for more.

DRA's Opening Brief addresses the arguments PG&E makes in relation to Customer Care costs. Nothing in PG&E's Opening Brief causes DRA to change its conclusions or recommendations. DRA does have some additional comments to make to arguments PG&E makes for its Local Office Facilities Improvements (Section 5.3.1.3.3 of PG&E's Opening Brief; Section 5.3.2.1 of DRA's Opening Brief) and Customer Energy Solutions (Section 5.7 of PG&E's and DRA's Opening Briefs). These are discussed below.

**Local Office Facilities Improvements**

As discussed in DRA's Opening Brief, DRA opposes PG&E's expense and capital forecasts for its Local Office Facilities. PG&E is seeking funding in this GRC for work for which it sought funding in the last GRC.

In its Opening Brief, PG&E says that its "… deferral of the forecasted office improvements is due to PG&E not receiving its full forecasted revenue requirement in the 2011 GRC." PG&E did not receive its "full forecasted revenue requirement in the 2011 GRC" because it voluntarily entered into a settlement for a lesser amount.

PG&E goes on to say that "[a]lthough resource constraints delayed the office improvements work, the delay does not support DRA's circular argument that deferring work signifies that the work is not necessary."[130] "Resource constraints" does not explain what work PG&E decided was more important than local office improvements or why. Presumably, PG&E considered the work was necessary when it asked for funding for it in the last GRC. But then PG&E did not do it. There is no assurance in this GRC that PG&E will do the work, even if authorized the funding.

---

[130] PG&E Opening Brief, p. 5-21.

Finally PG&E argues that "[i]n fact, deferral of the forecasted upgrades has resulted in further degradation and wear and tear on the local offices, providing added justification for the upgrades at this time."[131] Far from providing added justification, this sounds very much like PG&E brought about the additional costs it seeks for local office improvements in this GRC because it failed to maintain the offices with funding it received in the last GRC.

In its decision in the TY 2012 SCE GRC, the Commission rejected funding for a Station Office Betterment Project that had been authorized funding in the TY 2006 GRC. In doing so, the Commission said:

> We agree with TURN that these costs appear to be excessive and growing as a result of SCE's management making discretionary choices to not use authorized funds for the identified projects and to keep coming back to ratepayers for more. Accordingly, the Commission finds it reasonable to exclude the entire capital request.[132]

The Commission should do the same here, and exclude all expenses as well.

**Customer Energy Solutions**

As discussed in DRA's Opening Brief, DRA recommends a $22.56 million adjustment to PG&E's forecasts for Provide Account Services in Customer Energy Solutions. As DRA noted in its testimony and in its Opening Brief, PG&E has embedded funding from its last GRC (D.11-05-018), the Energy Efficiency proceeding (D.12-04-045), the Demand Response proceeding (D.12-11-015), and through the 2010 Rate Design Window proceeding (D.10-02-032).

In its Opening Brief, PG&E says that "DRA's arguments are wrong, contrary to clear Commission precedent, and indicate a fundamental lack of understanding of the distinction between GRC-funded activities and non-GRC funded activities."[133] DRA has asked PG&E repeatedly for specific citations to this "clear Commission precedent," and has not succeeded in getting anything that actually applies to DRA's recommendations. As best as DRA can tell,

---

[131] PG&E Opening Brief, p. 5-21.

[132] D.12-11-051, pp. 89-90.

[133] PG&E Opening Brief, p. 2-193.

PG&E's entire argument rests on two Commission decisions: D.93-12-044 and D.10-02-032.[134] Neither of them supports PG&E's claims.

PG&E cites to two Ordering Paragraphs of D.10-02-032, the Rate Design Window proceeding, neither one of which prohibits anything.[135] Nor could PG&E's witness identify where in any other part of the decision there was a prohibition for use of funds from the Energy Efficiency proceeding for Provide Account Services.[136] "Provide Account Services" includes, among other things, "promote EE."[137]

From D.93-12-044, PG&E's 1993 Energy Cost Adjustment Clause case, PG&E cites the following: "…only clearly verifiable Demand-Side Management (DSM) expenditures which fit into the stringent guidelines carefully crafted by this Commission will be allowed."[138]

What PG&E does not mention is that this decision came about after the Commission learned that PG&E had used ratepayer-funded Demand Side Management dollars for "…corporate image enhancement and perquisites for PG&E managers and selected customers of seasonal box seats, preferred parking spaces, access to VIP lounges, tailgate parties, New York road shows, and purchase of Giants memorabilia."[139]

At this discovery, the Commission said that:

> [i]nappropriate use of ratepayer-funded DSM funds must stop. It is imperative that ratepayers receive the value of ratepayer-funded DSM programs; programs which this Commission believes are essential to a viable energy policy under our current regulatory framework.

---

[134] Ex. 238 (PG&E Response to DRA-272-Q/A 2.)

[135] Ex. 238, citing to D.10-02-032 Ordering Paragraphs 60 and 61. Ordering Paragraph 60 says: "Outreach and education costs for the residential optional PDP rate program will be covered by customer acquisition cost recovery authorized in the AMI decision." Ordering Paragraph 61 says: "All costs associated with customer outreach and education/ acquisition for the voluntary SmartRate program, either in its current form or after the date the underlying rate changes to PDP, were authorized in the AMI Decision through the period of meter deployment and therefore are not requested by PG&E in this proceeding."

[136] 21 RT 2559, Brown/ PG&E.

[137] Ex. 22 (PG&E-5), p. 7-12.

[138] PG&E Opening Brief, p. 5-64, citing D.93-12-044 (52 CPUC 2d 607, 626).

[139] D. 93-12-044 (52 CPUC 2d 607, 625.)

One of the functions of Customer Accounts Services is to "promote DR."[140] DRA's recommendations that PG&E use embedded funding from the Demand Side Management, Energy Efficiency, and the Rate Design Window proceedings are clearly consistent with the Commission's policy that ratepayer funds be used to promote a viable energy policy.

In connection PG&E's arguments about Customer Rate Education funding, PG&E says that, "[i]f DRA wanted to use recorded PDP Implementation costs as a proxy for Customer Rate Education and Outreach, it would have been more reasonable for DRA to use PG&E's more recent 2012 recorded PDP implementation costs of $14.0 million.[141] DRA disagrees.

PG&E requested $23.7 million yearly for 2011 -2013 for ongoing support of the Peak Day Pricing program in its last GRC. PG&E has not spent anywhere near that. Moreover, as DRA noted in its testimony, PG&E has requested and received millions of ratepayer dollars for marketing, education and outreach activities for 2014 in numerous other proceedings, in addition to what it received in the TY 2011 GRC.[142] DRA continues to recommend no additional incremental funding for Customer Rate Education.

## 6 Energy Supply

DRA's Opening Brief included some incorrect figures for recommended revenue requirement changes in Energy Supply. As noted in DRA's Errata, and in the Comparison Exhibit, DRA recommends that the Commission authorize $563.789 million for PG&E's Energy Supply Operations and Maintenance (O&M) expenses which is lower than PG&E's request by about $156.28 million. DRA's recommended reduction consists of $92.717 million dollars from the nuclear generation O&M, about $47 million from the Hydroelectric O&M, and approximately $16 million from Fossil and Other Generation and Energy Procurement Administration.[143]

---

[140] Ex. 22 (PG&E-5), p. 7-12, line 22.

[141] PG&E Opening Brief, p. 5-70, footnote 351.

[142] See, e.g., Ex. 81 (DRA-13), p. 114-115.

[143] Ex. 105 (Errata to DRA-11), p. 2.

### 6.1 Policy and Introduction

DRA's Opening Brief addresses the arguments PG&E makes relating to Electric Distribution Policy. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 6.2 Hydro Operations Costs

DRA's Opening Brief addresses the arguments PG&E makes relating to its Hydro Operations Costs. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 6.3 Nuclear Operations Costs

DRA's Opening Brief addresses the arguments PG&E makes relating to its Nuclear Operations Costs. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 6.4 Fossil and Other Generation Costs

DRA's Opening Brief addresses the arguments PG&E makes relating to its Fossil and Other Generation Costs. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 6.5 Energy Procurement Administration Costs

DRA's Opening Brief addresses the arguments PG&E makes relating to its Energy Procurement Administration Costs. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 6.6 Energy Supply Ratemaking

DRA's recommendations relating to particular Energy Supply Ratemaking issues are set forth in DRA's Opening Brief by Energy Supply Department.

## 7 Shared Services and Information Technology

PG&E did not present any new argument to support its TY 2014 GRC requests for the Shared Services and Information Technology line of business, but from the arguments in its Opening Brief, PG&E either misunderstood DRA's position or has mischaracterized DRA's testimony.

DRA found that what PG&E spent on projects for which it used its Concept Estimating Tool was actually 14% less than the estimates generated by the Concept Estimating Tool. For this reason, DRA recommends that the Commission limit ratepayer funding of PG&E's requests for projects whose costs were estimated by the Concept Estimating Tool to 86% of those forecasts.

PG&E claims DRA's recommendation is flawed for the following reasons:

> DRA's analysis showed that PG&E spent 86 percent of the funding it requested for IT projects in the 2011 GRC where the forecast was developed using the Concept Cost Estimating Tool.[144]
>
> DRA's methodology for performing its analysis is flawed and should not be relied on as the basis for reducing PG&E's application development project forecasts. DRA's analysis compiled the recorded costs for completed, cancelled, and deferred projects that were forecast in the 2011 GRC and compared the recorded costs to the original forecast amounts for those same projects. DRA's methodology is flawed for three reasons: (1) DRA uses data from a single period that does not take into consideration costs for incomplete, multi-year projects; (2) DRA's analysis inappropriately includes cancelled projects; and (3) DRA's analysis inappropriately includes projects that were deferred to the 2014 GRC. PG&E addresses each of these flaws in turn[145].

PG&E's claim that DRA used data from a single period is not a flaw in DRA's analyses. DRA used data that PG&E provided of its forecasted and recorded costs from 2010 through 2012. It is difficult to see how PG&E could claim that the information is for a single period when PG&E itself says "the concept estimate is completed very early in the project lifecycle."[146] Thus, at the time PG&E forecasts these projects, detailed project requirements and solutions are not yet developed. As a project progresses through the four stages defined in the IT Methodology, more detailed project requirements and solutions are prepared and more refined cost estimates are developed. According to PG&E, this refinement occurs over time and aligns with both the IT Methodology and standard industry practice for delivering application development projects.[147] As the project requirements and solutions mature, the cost estimates

[144] PG&E Opening Brief, p.7-83.

[145] Id.

[146] Ex. 234.

[147] PG&E Opening Brief, p. 7-82.

are continually refined until a detailed cost estimate can be produced – just before the commencement of the project.[148]

PG&E also claims that part of the reason why DRA's recommendation is flawed is that "[t]he projected 2013 spending is not included in DRA's analysis even though the 2013 forecast amounts are included."[149] DRA matched recorded costs with forecasted costs. DRA did not include any 2013 data, but based its recommendation on forecasted and recorded capital cost from 2010 to 2012 combined with forecasted and recorded expense costs from 2010 to 2011.

In its Opening Brief, PG&E says that:

> DRA includes the forecast amounts for projects that were deferred to the 2014 GRC in its analysis; but because there are no recorded costs (since the projects were deferred), DRA is inflating one side of the equation further.[150]

DRA's analysis compared recorded to forecasted costs for projects that used the Concept Estimating Tool. In effect, DRA's analysis compared what PG&E requested/received and what PG&E actually spent. Thus, while PG&E is correct that DRA did not remove individual projects that were deferred or cancelled, neither did DRA adjust for projects with changes in scope and duration.

PG&E says it "corrected" the flaws in DRA's analysis by including the 2013 budget amounts for projects still in development and removing the forecast costs for cancelled and deferred projects.[151] According to PG&E, "[t]he results of the corrected analysis show that PG&E spent 99 percent of the amount it forecast in the 2011 GRC for application projects whose forecast were developed using the Concept Cost Estimating Tool.[152]

PG&E's "corrected" analysis only compares the projects that are operational and in development and PG&E chooses to ignore those projects that PG&E cancelled or deferred. PG&E received funding for these cancelled and deferred projects. PG&E should be

[148] PG&E Opening Brief, p. 7-82.

[149] PG&E Opening Brief, p. 7-83.

[150] PG&E Opening Brief, p. 7-84.

[151] PG&E Opening Brief, p. 7-84.

[152] Id., p. 7-84.

held accountable for these funds. In its Opening Brief, PG&E states that "…PG&E spent 99% of the amount it forecast in the 2011 GRC…" PG&E does not discuss whether ratepayers got 99% of the projects forecasted from the 99% spent.

DRA continues to recommend that the Commission limit ratepayer funding of IT projects to 86% of PG&E's requested costs for those projects not otherwise opposed by DRA.[153]

## 8 Human Resources

DRA's Opening Brief addresses the arguments PG&E makes relating to Human Resources. Nothing in PG&E's Brief or that of any other party, causes DRA to change its conclusions or recommendations. DRA does have one additional comment to a PG&E argument regarding Employee Benefits (Section 8.4).

**Employee Benefits**

PG&E requests ratepayer funding of $3.485 million in 2014 for its Supplemental Executive Retirement Plans. For the reasons discussed in DRA's Opening Brief, DRA recommends zero ratepayer funding for this item.

In its Opening Brief, PG&E says that these Supplemental Executive Retirement benefits "… are not special, nor are they tax disfavored. In any event, *buried* within this $3.485 million total is $250,000 of administrative costs that relate to administering all employee pension plans, which DRA should not have objected to, and which should be allowed separately in full."[154] In its Rebuttal testimony, PG&E said that the amount of the administrative fees is $225,000.[155] Whatever the amount, it was indeed buried in PG&E's showing, and DRA cannot at this late date, verify it. DRA continues to recommend zero ratepayer funding for Supplemental Executive Retirement Plans.

As to all other Employee Benefits, DRA's Opening Brief already addresses the arguments PG&E makes. Nothing in PG&E's Opening Brief causes DRA to change those conclusions or recommendations.

---

[153] Ex. 86 (DRA-18), p. 69.

[154] PG&E Opening Brief, p. 8-53, emphasis added.

[155] Ex. 62 (PG&E-23), p. 8-5.

### 8.1 Workers' Compensation

DRA does not oppose PG&E's forecast in this area.

### 8.2 Workforce Management --- Severance

DRA's Opening Brief addresses the arguments PG&E makes relating to Workforce Management – Severance. Nothing in PG&E's Opening Brief causes DRA to change its conclusions or recommendations.

## 9 Administrative and General Expenses

DRA's Opening Brief addresses the arguments PG&E makes relating to Administrative and General Expenses. Nothing in PG&E's Opening Brief causes DRA to change its conclusions or recommendations. DRA does have additional comments to reply to arguments PG&E makes in connection with Excess Liability (Section 9.3.2.3.2 of PG&E's Opening Brief; Section 9.3.5.2 of DRA's Opening Brief), and Equal Employment Opportunity litigation costs (Section 9.4.2.3.1.2 of PG&E's Opening Brief, and Section 9.6.1.1 of DRA's Opening Brief). These are discussed below.

**Excess Liability**

PG&E forecasts $74.3 million for excess liability insurance in 2014. DRA recommends removing $11.1 million from the base year, and forecasts test year 2014 excess liability insurance at $25.219 million.[156]

In the course of DRA's review of the financial data on which PG&E based its forecast, DRA noticed a significant general liability increase of $11.1 million from 2010 to 2011.[157] When asked to account for that large increase, PG&E alluded to:

> … insurance industry concerns about the age of infrastructure in the U.S. in general, and in California in particular. In addition, significant losses for the insurance industry affect excess liability premiums. This includes costs of the San Bruno accident as well as other losses worldwide.

[156] Ex. 84 (DRA-16), p. 45. DRA's recommendation was a reduction of $49.081 million from PG&E's Application. PG&E reduced its forecast slightly in an Errata, so the difference between PG&E's forecast and DRA's recommendation is $49.091 million.

[157] Ex. 91 (DRA-23), p. 5.

DRA's further attempts to find out what effect the San Bruno accident had on the increased insurance costs to PG&E were unsuccessful.

In its Opening Brief, PG&E refers to a DRA data response in which DRA said that, as part of this GRC, "… any costs related to San Bruno should be removed for ratemaking purposes."[158] According to PG&E:

> [t]he underlying premise of the auditor's reduction is incorrect. PG&E voluntarily agreed to remove certain incremental costs related to San Bruno in this GRC consisting primarily of incremental headcount, outside consulting service, and San Bruno settlement, judgments and claims. Insurance claims were not among these.

PG&E goes on to say that "the Commission should adopt PG&E's forecast because the cost of procuring liability insurance is a common and reasonable cost of service, one that is necessary to PG&E's business."[159]

DRA continues to recommend that Commission remove $11.1 million from PG&E's base year expenses for ratemaking purposes. First of all, it is not up to PG&E to decide what incremental costs related to San Bruno should be removed from this GRC. Second, PG&E apparently made no attempt to find out what effect the San Bruno disaster had on its insurance premiums; PG&E simply passed the increase on to its ratepayers.

It seems highly unlikely that the insurance industry was unaware of the San Bruno incident, or unconcerned at the corporate behavior at PG&E that led to that disaster. DRA therefore does ***not*** agree that passing along the $11.1 million increase to ratepayers is reasonable.

**Equal Employment Opportunity (EEO) Litigation Costs**

DRA recommends that all costs related to employment settlements in which there is a claim of discrimination should not be charged to ratepayers.[160] In support of that, DRA noted that in its Opening Brief that the Commission has followed the Federal Energy Regulatory Commission's (FERC) Accounting Release (AR) -12 since it was issued in 1980. AR-12 says that the proper accounting treatment for expenditures made by a utility resulting from

---

[158] PG&E Opening Brief, p. 9-15.

[159] PG&E Opening Brief, p. 9-15.

[160] *See,* Ex. 63 (PG&E-24), p. A-200

employment practices that "…were found to be discriminatory ... or that were the result of a compromise settlement or consent decree … should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate non-operating expense accounts."

In its Opening Brief, PG&E points to the Commission's decision in PG&E's Test Year 1983 GRC which allowed PG&E "reasonably incurred costs of EEO litigation."[161] DRA was not aware of this decision at the time it wrote its Brief. Having read it, though, DRA notes that the decision includes the following language, not cited by PG&E:

> Further, the reasonableness of out-of-court settlements will also be examined. We instruct the Executive Director to provide for a legal analysis, as needed, to determine whether future requests for EEO compensation are reasonable.[162]

Since that 1983 decision, the Commission has issued at least two decisions where the proper ratemaking treatment of employment discrimination litigation costs was fully litigated. In both, the Commission reviewed and considered the legal theories of both sides and concluded that costs incurred in settlements of discrimination claims should not be charged to ratepayers. DRA, therefore, continues to recommend that this Commission-provided legal analysis be applied to PG&E, and that the Commission remove the Settlements and Judgments cost from PG&E's TY 2014 forecast.

In DRA's Opening Brief, based on DRA's Errata, that amount was identified as $1.372 million.[163] When PG&E's Errata is taken into account, DRA's proposed reduction is $1.228 million from PG&E's Test Year 2014 estimate.[164]

## 10 Results of Operations

### 10.1 Taxes

DRA's Opening Brief already addresses these issues relating to Taxes and presents DRA's recommendations.

---

[161] PG&E Opening Brief, p. 9-48, citing D.83-12-068, 14 CPUC 2d 15, p. 122.

[162] D.83-12-068, 14 CPUC 2d 122.

[163] Ex. 357.

[164] Ex. 374 (Joint Comparison Exhibit), p. 2-359.

### 10.2 Depreciation

PG&E's Opening Brief mischaracterizes DRA's position on depreciation by claiming that "DRA agrees with PG&E's forecasts, but argues the cost to current ratepayers of paying their fair share would result in an excessive rate increase."[165] Further, PG&E takes much of DRA's position out of context in order to present DRA's statements in a light that suggests they are consistent with PG&E's position. In this respect, PG&E argues that DRA "agrees that PG&E's removal costs are increasing under the SP U-4 'forecasting' approach, and agrees that many of PG&E's parameters appear to be reasonable."[166] These assertions of agreement between PG&E's and DRA's positions are far from the truth.

DRA's testimony is replete with evidence showing that PG&E's removal costs are anything but "reasonable, realistic and conservative" as PG&E's claims[167]. While DRA did not focus on the analytic examination of why the study PG&E conducted yielded such a bias in favor of high removal costs and hence greater immediate dollar impact[168], TURN's analysis did. What is revealing about PG&E's depreciation proposal is how consistent it is with the overall thrust of PG&E's TY 2014 GRC in seeking to create as much liquidity for PG&E as possible at the expense of ratepayers without regards to the facts.

Regarding removal costs in PG&E's depreciation study, DRA stated:

> While DRA does not contest the bulk of PG&E's recommended depreciation parameters herein, it should be noted that PG&E's depreciation study shows a disconcerting trend toward sharply escalating removal costs, a trend not reflected in the GRC filings of the other major Investor-Owned Utilities (IOUs).[169]

It is unclear why PG&E considers the notion that its depreciation study is "disconcerting" and shows a trend "not reflected in the GRC filings of the other major Investor-Owned Utilities" an endorsement or agreement with its study. In fact, PG&E's Opening Brief also acknowledges that "DRA suggests the current removal cost may be lower based on recorded data…"[170]

---

[165] PG&E Opening Brief, p. 10-14.

[166] Id., p. 10-27.

[167] Id., p. 10-17.

[168] Id., p. 10-14.

[169] Ex. 87 (DRA-19), p. 7.

[170] PG&E Opening Brief, p. 10-26.

In its Opening Brief, PG&E states:

> The subjective evidence reinforces the trend. Garnett Fleming conducted extensive interviews with PG&E personnel in 2012. Those reveal that in addition to increasing labor costs (which could be expected to increase 3 percent to 4 percent based on wage escalation, including medical expenses), there are other factors adding to costs that further increase the trend. Mr. Clarke (Gannett Fleming) states:
>
> > PG&E has investigated this issue. As is the normal practice for a depreciation study, I reviewed the historical data and analyzed trends in the data. During this process, I noted the extent to which costs had increased in recent years. As a result, I spent a significant amount of the study reviewing the historical data with Company personnel and discussing reasons for these increases.
> >
> > …
> >
> > [Based on PG&E information] there have been a number of factors that have contributed to increasing removal costs. Most have been contributors to increasing construction costs in general. Labor costs have increased, both due to hourly costs for labor and due to increased numbers of hours required for projects. Reasons for increased numbers of hours include environmental and safety regulations that require more work. Additionally, much of PG&E's work in high population density areas, which require permitting, traffic control and often that construction is not performed during normal working hours. For example work performed in the city after hours requires not only special permitting, but more personnel at the worksite for traffic control, often at overtime or special salary levels.[171]

This argument about the reasons for increasing removal costs shows that much of PG&E's reasoning is both subjective and speculative. An example of this is the notion that the removal would be done at employee overtime rates because much of the work in the city would need to be done after hours. A second-shift of workers who begin work in the afternoon would not require overtime, and, while San Francisco might require traffic control to be done during the work, the majority of the cities in PG&E's service territory would not require it to the same degree. Thus, PG&E has projected its expected expenses in the highest cost area to the removal

---

[171] PG&E's Opening Brief, p. 10-25.

costs for all areas. It seems clear that PG&E's removal costs have been overstated, in part because of the depreciation study's overreliance on PG&E's employees, for its conclusions about labor costs, medical costs and other areas the study was based on. As in other areas of this GRC, with its depreciation arguments, PG&E has shown that it has every reason to overstate any costs that would lead to higher immediate rates or company liquidity.

This assessment is consistent with TURN's argument that PG&E has not adjusted the data for temporarily higher labor costs, primarily relating to training. It is also consistent with TURN's arguments regarding the flawed methodology whereby PG&E estimates the entire replacement cost of a job, and then allocates a portion of this cost to cost of removal[172]. TURN's explanation is compelling and PG&E has not provided any convincing argument in its Opening Brief to rebut the assessment.

PG&E argues in its Opening Brief that cost data presented by DRA in Exhibit 345 supports the increasing trend in removal costs forecast by PG&E.[173] This claim, however, is also taken out of context. Exhibit 345 shows that, while removal costs might be rising overall, the increases are nowhere near as alarming as PG&E claims. The cost data for pole removal presented by DRA in hearings and cited under footnote 80 in Chapter 10 of PG&E's Opening Brief shows that PG&E is using inflated and inaccurate cost forecasts to derive its requested net salvage rates. PG&E's forecast called for pole removals costs of 167% of the actual five year mean removal cost per pole.

In testimony, DRA pointed out in an account- by- account analysis that PG&E has provided insufficient information to justify its requested increases to negative net salvage collections on many of the accounts in question.[174] For FERC Account 353.01 DRA states that "PG&E does not fully explain the drivers of these increasing costs."[175] For FERC Account 354, DRA states that PG&E has not provided sufficient information as to the drivers of these increasing costs."[176] For FERC Account 365, DRA states that PG&E does not explain the

---

[172] Ex. 120, pp. 12-13, p. 14; PG&E Opening Brief, p. 10-32.

[173] PG&E Opening Brief, p. 10-23.

[174] Ex. 87 (DRA 19), pp. 10-19.

[175] Ibid. pp. 10.

[176] Ibid. pp. 10-11.

reasons for the sharp increases in cost of removal."[177] DRA makes similar statements for FERC Accounts 366, 369.01, 370.01, 373.03, and 380. In fact, for nearly every asset account analyzed by DRA, DRA states that PG&E has not provided adequate explanation for its forecasted increases to cost of removal. For PG&E to claim that DRA agrees with PG&E's cost forecasts misrepresents DRA's testimony. On the contrary, DRA agrees with TURN's argument in its Opening Brief that "PG&E has failed to meet its burden of demonstrating the reasonableness of its proposed net salvage parameters."[178]

In requesting a cap to any increases in net salvage rates, DRA compared PG&E's removal costs to those of the other California Investor Owned Utilities (IOUs), noting that in previous rate cases, even while SCE's removal costs were far lower than PG&E's, the Commission still found it necessary to mitigate the rate impact that those costs would have on SCE's ratepayers.

> Largely due to the severity of these increases, the depreciation parameters requested by PG&E would contribute significantly to a sudden and considerable rate impact. As such, DRA is recommending a cap of 25% to any increases in negative net salvage for this GRC cycle. This will help to mitigate the shock to rates that would result from the adoption of the depreciation parameters requested by PG&E. There is precedent for such a cap; the Commission has previously limited increases to negative net salvage in order to mitigate the impact of such increases on rates.[179]

PG&E claims that DRA's proposal would only exacerbate intergenerational inequity by deferring costs today, but that argument misses the point. The need for a cap arises in part to militate against the likelihood that errors in current studies are responsible for the rate shock. As future studies correct the errors, the cap would no longer be necessary. DRA will continue to monitor this situation to ensure that not only are current ratepayers not overburdened, but that future ratepayers will not be unfairly impacted.

---

[177] Ibid. pp. 12-13.

[178] TURN Opening Brief, pp. 313.

[179] D.09-03-025 at 384, Conclusion of Law 155.

### 10.3 Other Operating Revenues (OOR)

In its Opening Brief, PG&E says that "[t]he uncontroverted testimony is that reimbursed revenues match the related expenses subject to reimbursement."[180] DRA agrees with that general principle. DRA is not convinced, however, that PG&E has applied it.

PG&E forecasts $114.1 million of OOR for TY 2014. PG&E derived its forecast on an item-by- item basis, first establishing base estimates from 2011 recorded revenues.[181] Then, to forecast test year OOR, PG&E adjusted the base year estimate to reflect changes that are expected to affect the forecast.

In its forecasts for O&M and A&G expenses elsewhere in the GRC, PG&E apparently does not include expenses for mutual aid to another utility as in the situation of Hurricane Sandy.[182] In situations like Hurricane Sandy, however, PG&E is using equipment and labor paid for by PG&E ratepayers.[183]

Based on DRA's analysis of PG&E's Opening Testimony and PG&E's responses to DRA's data requests, DRA recommends that the Commission adopt $123.811 million for TY 2014.[184] DRA's estimate of OOR for 2014 is $9.665 million higher than PG&E's forecast.[185]

DRA bases its $123.811 million forecast on PG&E's recorded 2012 OOR of $170.7 million.[186] The $123.811 million amount is what PG&E says is the GRC related portion of PG&E's recorded 2012 OOR. This is a conservative estimate of PG&E's test year OOR based on the following:

- The $123.811 million amount does not include any portion of the $15.4 million PG&E received as Reimbursed Revenues (in FERC Account 456) for PG&E's efforts to help east coast utilities in the aftermath of Hurricane Sandy. The $15.4 million includes labor expenses funded by PG&E's ratepayers for work in California while PG&E was occupied on the east coast.

---

[180] PG&E Opening Brief, p. 10-43.

[181] Ex. 71 (DRA-3), p. 8.

[182] See Ex. 52, p. 6-2, lines 14-15: "DRA's position on reimbursed revenues is illogical unless DRA also increases offsetting expenses subject to reimbursement."

[183] 28 RT 3747, Kanter/ DRA).

[184] Ex. 370 (DRA-3-E).

[185] Ex. 370 (DRA-3-E).

[186] Ex. 71 (DRA-3), p. 8.

- Using 2012 recorded OOR as a starting point for estimating PG&E's test year OOR, a fair estimate for the test year would be $123.811 million *plus* $2.8 million, which is the normalized amount of OOR reimbursements that PG&E would receive for mutual aid assistance. Although $2.8 million is the average of such reimbursements PG&E received over the nine year period from 2003 to 2012, DRA did not add it to the $123.811 million.[187]

DRA continues to recommend the Commission adopt a TY 2014 forecast of $123.811 million for Other Operating Revenues.[188]

## 11 Rate Base, Working Cash and Finance Issues

### 11.1 Allowance for Funds Used During Construction

DRA's Opening Brief and testimony already address the issues relating to the proper ratemaking treatment of Allowance for Funds Used During Construction and Construction Work in Progress. Nothing in PG&E's Opening Brief causes DRA to change any of its conclusions or recommendations.

### 11.2 Nuclear Fuel

DRA's Opening Brief and its testimony address the appropriate ratemaking treatment of Nuclear Fuel. In its Opening Brief, PG&E mischaracterizes DRA's testimony, data responses, and DRA's witness testimony on the stand.

For example, PG&E says that, "[a]s DRA acknowledged, the balancing account provides no assurance of recovery of this substantial capital commitment should, for example, the fuel prove defective, or Diablo Canyon cease operation." The citation PG&E gives for this is "Tr. Vol. 24, 3023: 10-25, DRA/ Lee." The actual questions and answers are the following:

> Q. Do you know whether it is possible that DRA will seek to disallow some or all of the nuclear fuel costs of SONGS now that the nuclear fuel will no longer be used or useful?
>
> A. I would say that we have to wait on how the proceeding will play out because at this point I don't think there's much information available yet. And I don't think we have – as far as I know, you know, nobody told me about DRA's position on that.

[187] Ex. 71 (DRA-3), p. 8.

[188] Ex. 374 (Joint Comparison Exhibit), p. 2-25.

Q. Are you aware of DRA taking position that property that is no longer used or useful should not receive the return and in some cases should not be recoverable?

A. I'm not aware.

PG&E's mischaracterization of DRA's testimony should be accorded no weight. Nothing in PG&E's Opening Brief or in the record justifies changing the Commission's long-standing policy on Nuclear Fuel for the sole benefit of PG&E's shareholders.

### 11.3 Customer Deposits

DRA has no comment on this issue at this time.

### 11.4 Other Working Cash Issues

**Forecasting Approach**

In its Opening Brief, PG&E says that the Commission should adopt PG&E's forecasts in six areas where DRA and PG&E's forecasts are in dispute because PG&E's forecasting approach is "consistent."[189] As the Commission held in the most recent SCE GRC, "[f]orecasting is educated estimation, is imprecise by nature, and more than one method may be reasonable."[190]

Merely because PG&E has "consistently forecasted working cash items using base year data or a 4-year average of recorded data unless special circumstances exist"[191] does not mean that PG&E's approach uses the "best information available."[192] DRA continues to recommend the Commission adopt DRA's working cash forecasts as they take into account factors specific to each contested item.

**Cash Required Due to Time Lags**

DRA's Opening Brief and its testimony address the appropriate calculation for the expense lag days for California State Corporation Franchise Tax (CCFT). DRA recommends

---

[189] PG&E Opening Brief, p. 11-31.

[190] D.12-11-051, mimeo, p. 14.

[191] Ex. 52 (DRA-17), p. 5-3

[192] D.12-11-051, p. 14.

132.85 days, which is the average based on PG&E-calculated lag days for 2008, 2009, 2010 and 2011.[193]

In its Opening Brief, PG&E also says that "DRA ignores PG&E's 2014 GRC specific [State Income Tax] Lag calculation as well as data provided for 2012."[194] Once again, PG&E mischaracterizes DRA's testimony. DRA did not "ignore" data for 2012." DRA did not *have* data for 2012.

On July 23, 2013, after the evidentiary hearings had begun, PG&E sent DRA a data request asking DRA to:

> Please confirm DRA's agreement that if the Commission computes a historical average of state income tax expense lags, these overpayments should be reflected as shown in the schedule above and that the average state income tax lag for the period of 2011-2008 would be adjusted from 132.85 days to 15.91 days….. The details of PG&E's calculations of the adjusted state income tax lags appear in the attached file.[195]

The "schedule above" included what purported to be 2012 "Overpayment" amounts, and "State Income Tax Lag Adjusted for Overpayments" and "Without Overpayment Adjustments." In a "note" to the schedule, PG&E says "Amount is an estimate. 2012 CA tax return not filed yet."

DRA was given these figures for the first time in the data request and had no opportunity to verify or conduct discovery on the information in the schedule and files, or verify any of the assumptions. Thus, PG&E's argument in its Opening Brief that, if DRA had not "ignored" 2012, the resulting lag days might have been less than PG&E's forecast,[196] should be dismissed as pure speculation.

DRA continues to recommend that the Commission adopt the lag days set forth in DRA's testimony.[197]

---

[193] Ex. 89 (DRA-21), p. 17.

[194] PG&E Opening Brief, p. 11-36.

[195] Ex. 372 (PG&E-DRA-077)

[196] PG&E Opening Brief, p. 11-37.

[197] Ex. 89 (DRA-21), pp. 16-18.

## 12 Post Test Year Ratemaking

DRA's Opening Brief and its testimony address the DRA's recommendations for Post Test Year ratemaking. Nothing in PG&E's Opening Brief or the brief of any other party causes DRA to change its recommendations.

## 13 Settlements and Joint Proposals

DRA has no comments on these issues at this time.

## 14 Conclusion

For all the foregoing reasons, and for the reason set forth in DRA's testimony and its Opening Brief, DRA asks that the Commission adopt DRA's recommendations.


LAURA TUDISCO
JONATHAN BROMSON
NOEL OBIORA
RASHID RASHID

/s/ LAURA TUDISCO

______________________________
LAURA TUDISCO

Attorneys for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703.2164
Email: ljt@cpuc.ca.gov


September 27, 2013