

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**05/09/18  
11:30 AM

May 9, 2018

**Agenda ID #16499**  
**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 16-10-019:

This is the proposed decision of Administrative Law Judge Yacknin. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's June 21, 2018, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ MICHELLE COOKE for  
Anne E. Simon  
Chief Administrative Law Judge

AES:avs  
Attachment

Decision PROPOSED DECISION OF ALJ YACKNIN (Mailed 5/9/2018)

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

Application of Pacific Gas and Electric Company to Recover Costs Recorded in the Catastrophic Event Memorandum Account Pursuant to Public Utilities Code Section 454.9. (U39E.)

Application 16-10-019

**DECISION APPROVING SETTLEMENT**

**Summary**

This decision approves the all-party settlement agreement resolving this matter. Pacific Gas and Electric Company may recover in revenue requirement \$117.0 million of its electric distribution, gas distribution, and gas transmission expense and capital costs associated with responding to 15 catastrophic events from 2012 to March 2016. This proceeding is closed.

**1. Procedural Background**

Pacific Gas and Electric Company (PG&E) filed this application on October 31, 2016, to recover incremental gas and electric costs recorded in its Catastrophic Event Memorandum Account (CEMA) and incurred while responding to declared disasters from 2012 to March 2016.<sup>1</sup> The Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) protested the application.

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<sup>1</sup> PG&E concurrently served prepared direct testimony in support of its application.

After the conduct of a prehearing conference on December 19, 2016, the assigned Commissioner issued a scoping memo identifying the issues to be addressed as follows:

1. For each event for which CEMA cost recovery is sought, is there a declaration of disaster from a competent state or federal authority?
2. Are the costs for which the utility seeks rate recovery related to the declared disasters, both in terms of geography and the nature of impacts covered by the disaster declaration?
3. For each event for which CEMA cost recovery is eligible, are the costs for which the utility seeks rate recovery reasonable, prudently incurred, and incremental to costs already included or recoverable in other utility accounts?
4. Is the ratemaking treatment that is sought for CEMA-eligible cost recovery reasonable? This issue encompasses consideration of whether it is consistent with Commission precedent and its impact on ratepayers.

Evidentiary hearing was initially set for September 5 through 8, 2017, and re-set to November 6 through 9, 2017, at TURN's unopposed request. On February 24, 2017, PG&E served errata and supplemental prepared direct testimony to its October 31, 2016, prepared direct testimony. On October 3, 2017, ORA and TURN served their prepared testimony responding to PG&E's prepared direct testimony. On October 24, 2017, PG&E served its prepared rebuttal testimony.

At the Administrative Law Judge's (ALJ) October 6, 2017, direction, the parties met and conferred to explore settlement. On October 23, 2017, the ALJ granted the parties' October 20, 2017, request to take the evidentiary hearings taken off calendar to allow them to further pursue settlement.

On January 4, 2018, the parties filed a joint motion for approval and adoption of a settlement agreement resolving this matter and, concurrently, a joint motion for the admission of their prepared testimonies into evidence.

## **2. PG&E's Litigation Position**

PG&E's litigation position seeks \$145.8 million in overall revenue requirement to recover incremental gas and electric costs recorded in its CEMA account incurred while responding to the following declared disasters:<sup>2</sup>

- 2012 December Severe Storm;
- 2013 Rim Fire;
- 2013 Clover Fire;
- 2014 Eiler Fire;
- 2014 Napa Earthquake;
- 2014 Bridge Fire;
- 2014 King Fire;
- 2014 Courtney Fire;
- 2014 December Severe Storms;
- 2015 February Severe Storms;
- 2015 July Severe Storms;
- 2015 Wildfires, including the following:
  - Tassajara Fire;
  - Rough Fire;

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<sup>2</sup> PG&E's application sought to recover \$195.768 million and included costs related to the Butts Fire. In its witnesses' rebuttal testimony, PG&E updated its request to \$145.8 million reflecting concessions and corrections, including the Butts Fire's ineligibility as a qualifying CEMA event.

- Jerusalem Fire;
- Valley Fire;
- Parkhill Fire;
- Olive Tree Fire;
- Sky Fire;
- Wragg Fire;
- Tesla Fire
- Corrine Fire;
- Oak and Hill Fire;
- Rocky Fire;
- Swedes Fire;
- Lumpkin Fire;
- Kyburz Fire;
- Mallard Fire;
- Sky (Rd 632) Fire; and
- Lowell Fire;
- 2015 October Severe Storms;
- 2016 March Severe Storms; and
- 2015 Drought.

The \$145.8 million includes \$138 million in electric distribution revenue requirement, \$6.3 million in gas distribution revenue requirement, and \$1.5 million in gas transmission revenue requirement.

### 3. ORA's Litigation Position

ORA's litigation position, as set forth in its witnesses' prepared testimony, recommends a reduced revenue requirement of \$100.1 million based on disallowing expense and capital expenditures associated with straight-time labor and overhead costs.<sup>3</sup>

### 4. TURN's Litigation Position

TURN's litigation position, as set forth in its witnesses' prepared testimony, recommends disallowance of PG&E's entire CEMA request for PG&E's failure to demonstrate the reasonableness of the costs of the work performed, with the utility permitted an opportunity to bolster its reasonableness showing; TURN's litigation position further recommends that the Commission direct PG&E to modify its cost recording practices during future major events in order to permit a better demonstration of cost reasonableness in future CEMA applications. TURN's litigation position also recommends disallowing \$16.7 million in expense and \$14.9 million in capital expenditures associated with straight-time labor, and disallowing \$1.0 million for overhead costs associated with straight-time labor.

### 5. Settlement Agreement

The parties agree to and ask the Commission to adopt the following terms and conditions of the settlement agreement:

- PG&E's total CEMA revenue requirement shall be reduced by \$28.8 million, from \$145.8 million to \$117.0 million.
- PG&E's CEMA revenue requirement of \$117.0 million shall include \$110.6 million for electric distribution

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<sup>3</sup> ORA's recommended disallowances included costs associated with Butts Fire, which PG&E has since conceded. (See footnote 2, *supra*.)

- (\$105.8 million for 2018, \$4.8 million for 2019), \$5.1 million for gas distribution (\$5.1 million for 2018), and \$1.3 million for gas transmission (\$1.3 million for 2018).
- CEMA costs will be recovered in the same manner as other electric distribution, gas distribution, and gas transmission costs are recovered in rates, using existing methodologies for revenue allocation and rate design.
  - PG&E's CEMA revenue requirement for 2018 will be recovered through rates beginning January 1, 2018, or as soon thereafter as practicable following a final decision in this proceeding.
  - PG&E's CEMA revenue requirement for 2019 will be recovered through rates beginning January 1, 2019.
  - PG&E's CEMA revenue requirement for 2020 onward shall be recovered through base revenues via PG&E's 2020 General Rate Case.
  - In future CEMA applications, PG&E shall provide a showing to demonstrate the reasonableness of costs requested in the application as set forth in Appendix A to the Settlement Agreement, which includes work-related metrics at the event level and metrics for a similar event type (*e.g.*, storms, fires, earthquake) for comparison purposes and an explanation of the key drivers that lead to significant results in the emergency response performance metrics.

## 6. Discussion

There is no dispute among the parties regarding issues 1 ("For each event for which CEMA cost recovery is sought, is there a declaration of disaster from a competent state or federal authority?"), 2 ("Are the costs for which the utility seeks rate recovery related to the declared disasters, both in terms of geography and the nature of impacts covered by the disaster declaration?") or 4 ("Is the

ratemaking treatment that is sought for CEMA-eligible cost recovery reasonable?”).<sup>4</sup>

The only dispute is with respect to issue 3 (“For each event for which CEMA cost recovery is eligible, are the costs for which the utility seeks rate recovery reasonable, prudently incurred, and incremental to costs already included or recoverable in other utility accounts?”). This dispute turns on whether PG&E’s CEMA straight-time labor and overhead costs are included in PG&E’s general rate cases or gas transmission and storage rate cases and on whether PG&E has provided sufficient detail in its cost showing. The parties present considerable evidence and argument on both sides of the issue in their prepared testimony.<sup>5</sup>

The settlement agreement reasonably compromises between PG&E’s position and those of ratepayer representatives ORA and TURN, and reduces the likelihood of dispute in future CEMA applications by requiring PG&E to provide additional showing to demonstrate cost reasonableness of the work performed. By resolving these issues without requiring litigation, the settlement agreement preserves the time and resources of all parties as well as the Commission, which benefits ratepayers and the agency. The settlement agreement does not contravene any rule of law. Thus, the settlement agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

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<sup>4</sup> ORA disputed the eligibility of the Butts Fire, which PG&E conceded in its prepared rebuttal testimony to be ineligible.

<sup>5</sup> As discussed supra, the parties’ motion to receive their prepared testimony into evidence is granted.



## 7. Admission of Prepared Testimony

The all-party motion of PG&E, ORA, and TURN for the admission of the parties' testimonies into evidence is hereby granted. The testimonies are marked for identification as follows:

- Exhibit 1: PG&E's 2016 Catastrophic Event Memorandum Account Prepared Testimony, which is sponsored by J. Conor Doyle, Angie M. Gibson, Niel Fischer, Melvin J. Christopher, Bryan G. Wong, and Dan E. Cano (dated and served on October 31, 2016).
- Exhibit 2: PG&E's Errata to Chapter 2 Testimony, Electric Distribution Costs (dated and served February 24, 2017);
- Exhibit 3: PG&E's 2016 Catastrophic Event Memorandum Account Supplemental Testimony, which is sponsored by J. Conor Doyle (dated and served on February 24, 2017);
- Exhibit 4: ORA's Report on the Results of Examination for Pacific Gas and Electric Company's Catastrophic Event Memorandum Account Regarding Events Occurring from December 2012 to March 2016, which is sponsored by Mark Waterworth and Charlotte Chitajde (dated and served on October 3, 2017);
- Exhibit 5: TURN's Prepared Testimony of Robert Finkelstein and attachments thereto (dated and served on October 3, 2017);
- Exhibit 6: TURN's Report on PG&E's Catastrophic Event Memorandum Account (CEMA) Application and attachment thereto, which is sponsored by John E. Sugar (dated and served on October 3, 2017);
- Exhibit 7: PG&E's 2016 Catastrophic Event Memorandum Account Rebuttal Testimony, which is sponsored by Minci Han, Angie M. Gibson, Niel Fischer, Melvin J. Christopher, and Joseph M. Marshman (dated and served on October 24, 2017).

## 8. Comments on Proposed Decision

The proposed decision of ALJ Yacknin in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

## 9. Assignment of Proceeding

Carla Peterman is the assigned commissioner and Hallie Yacknin is the assigned ALJ and presiding officer for the proceeding.

## Findings of Fact

1. It is undisputed that there has been a declaration of disaster from a competent state or federal authority for each event for which PG&E seeks CEMA cost recovery.
2. It is undisputed that the costs for which PG&E seeks rate recovery are related to the declared disasters, both in terms of geography and the nature of impacts covered by the disaster declaration.
3. It is undisputed that the ratemaking treatment that PG&E seeks for CEMA-eligible cost recovery is reasonable.
4. The settlement agreement provisions to reduce PG&E's total CEMA revenue requirement by \$28.8 million, from \$145.8 million to \$117.0 million, and to require PG&E to provide additional showing to demonstrate cost reasonableness of the work performed, reasonably compromise between PG&E's position and those of ratepayer representatives ORA and TURN with regard to whether the costs for which PG&E seeks rate recovery are reasonable, prudently incurred, and incremental to costs already included or recoverable in other utility accounts.

5. The settlement agreement provision requiring PG&E to provide additional showing to demonstrate cost reasonableness of the work performed reduces the likelihood of dispute in future CEMA applications.

6. The settlement agreement preserves the time and resources of all parties as well as the Commission by avoiding litigation.

### **Conclusions of Law**

1. The settlement agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

2. The settlement agreement should be approved.

3. A.16-10-019 should be closed.

## **O R D E R**

### **IT IS ORDERED** that:

1. Pacific Gas and Electric Company is authorized to recover in revenue requirement \$117.0 million of its electric distribution, gas distribution, and gas transmission expense and capital costs associated with responding to 15 catastrophic events from 2012 to March 2016, and shall include \$110.6 million for electric distribution (\$105.8 million for 2018, \$4.8 million for 2019), \$5.1 million for gas distribution (\$5.1 million for 2018), and \$1.3 million for gas transmission (\$1.3 million for 2018), in the same manner as other electric distribution, gas distribution, and gas transmission costs are recovered in rates, using existing methodologies for revenue allocation and rate design.

2. Pacific Gas and Electric Company shall recover its authorized Catastrophic Emergency Memorandum Account revenue requirement for 2018 through rates beginning as soon as practicable.

3. Pacific Gas and Electric Company shall recover its authorized Catastrophic Emergency Memorandum Account revenue requirement for 2019 through rates beginning January 1, 2019.

4. Pacific Gas and Electric Company shall recover its authorized Catastrophic Emergency Memorandum Account revenue requirement for 2020 onward via its 2020 General Rate Case.

5. In future Catastrophic Emergency Memorandum Account cost recovery applications, Pacific Gas and Electric Company shall provide a showing to demonstrate the reasonableness of costs requested in the application which includes work-related metrics at the event level and metrics for a similar event type (*e.g.*, storms, fires, earthquake) for comparison purposes and an explanation of the key drivers that lead to significant results in the emergency response performance metrics, as set forth in Attachment A to this order.

6. The parties' prepared testimonies are marked as Exhibits 1 through 7 and received into evidence.

7. Evidentiary hearings are not necessary.

8. Application 16-10-019 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.