

Decision \_\_\_\_\_

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

Application of Pacific Gas and Electric Company  
for the Recovery of Costs Associated with the  
Acquisition and Transfer of the Assets of the  
Hercules Municipal Utility (U39E).

Application 13-07-001  
(Filed July 1, 2013)

**DECISION APPROVING SETTLEMENT AGREEMENT BETWEEN PACIFIC GAS  
AND ELECTRIC COMPANY (PG&E) AND THE UTILITY REFORM NETWORK  
PERTAINING TO PHASE 2 ISSUES IN PG&E'S  
ACQUISITION OF THE HERCULES MUNICIPAL UTILITY**



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**DECISION APPROVING SETTLEMENT AGREEMENT BETWEEN PACIFIC  
GAS AND ELECTRIC COMPANY (PG&E) AND THE UTILITY REFORM  
NETWORK PERTAINING TO PHASE 2 ISSUES IN PG&E'S  
ACQUISITION OF THE HERCULES MUNICIPAL UTILITY**

## **1. Summary**

This decision approves and adopts the Settlement Agreement dated April 3, 2014 between Pacific Gas and Electric Company (PG&E) and The Utility Reform Network pertaining to \$3.631 million in proposed safety and service enhancements, subject to the following cost recovery conditions:

- 1) Authorizes PG&E to record 2014-2016 safety and service enhancement capital expenditures up to a cumulative cap of \$3.631 million;
- 2) Authorizes PG&E, as part of its next General Rate Case, which is expected to have a 2017 Test Year, to consolidate in its base revenue requirements and rates the safety and service enhancement capital expenditures recorded in 2014-2016 without re-litigation of reasonableness of these capital expenditures; and
- 3) Directs PG&E to file a Tier 1 advice letter adding an accounting procedure to its Electric Preliminary Statement, Distribution Revenue Accounting Mechanism, to record the associated revenue requirement.

Application 13-07-001 is now closed.

## **2. Procedural History**

On July 1, 2013, Pacific Gas and Electric Company (PG&E) filed an Application (A.) 13-07-001 (Application) to recover costs associated with the acquisition and transfer of the assets of the Hercules Municipal Utility (HMU) by PG&E. PG&E requested authorization to recover a total revenue requirement for the three-year period 2014-2016 of \$6.4 million in electric distribution rates associated with \$7.4 million for the book value of the HMU assets, \$3.6 million in capital expenditures for necessary safety and service enhancements, plus 50% of

approximately \$5.3 million in benefits which PG&E maintained would be created in the first 15 years of the transfer as a direct result of the PG&E acquisition and transfer or “net benefits” proposal.<sup>1</sup>

On September 6, 2013, Assigned Commissioner Peterman issued a Scoping Memo that established the scope of the proceeding and procedural schedule.

According to the Scoping Memo, the proceeding would be bifurcated into two phases. The first phase of this proceeding would examine whether PG&E’s proposed acquisition of the HMU and net benefit sharing proposal was reasonable. If, in this first phase of the proceeding, the Commission approved the acquisition, a second phase would then address all remaining ratemaking issues in PG&E’s application.

On January 24, 2014, the Commission issued a Phase 1 Decision approving the Acquisition and Purchase Agreement between PG&E and the City of Hercules and denying the associated ‘Net Benefits’ Proposal. The Phase 1 Decision directed PG&E to close the transaction within 30 days of the issuance of the decision. The Phase 1 Decision also directed that PG&E collect the revenue requirement that reflects the book value of \$7.4 million for HMU assets beginning on the date the transaction closed.

Because the “net benefits” proposal was denied in Phase 1 of this proceeding, it is no longer necessary to address the calculation of and

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<sup>1</sup> “Application of Pacific, Gas and Electric Company for the Recovery of Costs Associated with the Acquisition and Transfer of the Assets of Hercules Municipal Utility” dated July 1, 2013, at 1. The Application pertains to a small volume of 800 residential and commercial customers with 825 meters. PG&E already serves a large volume of 8,000 residential customers and 460 commercial customers located inside the City of Hercules but outside the HMU service area.

assumptions behind the amount of proposed benefit sharing in Phase 2 of this proceeding. Therefore, Phase 2 of this proceeding addresses only ratemaking and the reasonableness of capital expenditures that PG&E estimates will amount to \$3.631 million over three years (2014-2016), proposed distribution requirements (including amounts and mechanics), and any other necessary direction.<sup>2</sup>

On March 7, 2014, PG&E submitted Advice Letter (AL) 4374-E seeking to establish a memorandum account (Hercules Safety and Services Memorandum Account or HSSEMA) to track such capital expenditures, plus the allowance for franchise fees and uncollectibles (FF&U). PG&E requested the HSSEMA to avoid “retroactive” ratemaking. PG&E anticipated incurring safety and service enhancement costs as early as April 2014, which was prior to issuance of a Phase 2 decision.

On April 3, 2014, pursuant to Rule 12.1 of the California Public Utilities Commission’s Rules of Practice and Procedure (Rule), PG&E and The Utility Reform Network (TURN), collectively, the “Settling Parties,” moved that the Commission adopt a Settlement Agreement which resolves all remaining issues assigned to Phase 2 of this proceeding.<sup>3</sup> (*See* Summary of Settlement components in Section 4.) No parties filed responses or protests to the Settlement Agreement.

On April 30, 2014, the Commission’s Energy Division (ED) approved AL 4374-E dated March 7, 2014, which allowed PG&E to establish the Hercules

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<sup>2</sup> Decision (D.) 14-01-009 at 3.

<sup>3</sup> “Motion of Pacific Gas and Electric Company and the Utility Reform Network for Approval and Adoption of the Attached Settlement Agreement,” at 1.

Safety and Services Memorandum Account (HSSEMA), and transfer the associated revenue requirement recorded in the memorandum account to the Distribution Revenue Accounting Mechanism (DRAM) for recovery upon approval of the Settlement Agreement described above.

On May 30, 2014, consistent with Rule 12.1 (a), the assigned Administrative Law Judge (ALJ) issued an e-mail ruling requiring supplemental information on the PG&E and TURN motion for adoption of the Settlement Agreement, namely a “simple comparison chart that illustrates the respective disputed issues of PG&E and TURN, and how these issues were resolved.”

On June 16, 2014, the Settling Parties filed and served the requested supplemental information associated with the May 30, 2014 ALJ e-mail ruling.

### **3. PG&E Application**

In Phase 2 of this proceeding, PG&E provides the following projected breakdowns projected itemization of the \$3.631 million expenditures relating to safety as service enhancements:<sup>4</sup>

- 1) Replacing sulfur hexafluoride (SF6) switches with more standard oil filled or vacuum switches;
- 2) Upgrading current HMU electric meters to PG&E SmartMeters to allow customers access to on-line electric usage and conservation information;
- 3) Installing new conductor and conduit to system reliability;
- 4) Extending additional distribution lines and feeders to new project developments and installing transformers, switches, and meters; and
- 5) Maintaining the serviceability of the equipment.

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<sup>4</sup> Application at 10-13.

PG&E claims that the additional capital expenditures detailed in Table 2 are necessary to provide safe and reliable service at reasonable rates, provide customer benefits, and allow operation and maintenance to be carried out by PG&E employees:<sup>5</sup>

**Table 2**  
**Pacific Gas and Electric Company**  
**2014-2016 Service and Safety Enhancement Capital**  
**Expenditures**  
**(In Thousands of Dollars)**

<u>Line No.</u>	<u>Description</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
1	Electric Switch Safety Upgrades	\$819			\$819
2	Electric Meter Upgrades <sup>6</sup>	\$115			\$115
3	System Reliability Enhancements	\$140			\$140
4	System Growth Enhancements	\$577	\$320	\$1,324	\$2,221
5	System Maintenance	\$95	\$100	\$142	\$337
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7	<b>Total</b>	<b>\$1,745</b>	<b>\$420</b>	<b>\$1,466</b>	<b>\$3,631</b>

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<sup>5</sup> Application at 13.

<sup>6</sup> According to a June 23, 2014 PG&E response to an ED June 11, 2014 data request, PG&E has recorded an estimated \$195,473 in capital additions that became operative in April 2014.

Beyond the standard upgrades to make the former HMU system on a par with existing PG&E infrastructure, system growth enhancements at a forecasted \$2.2 million comprise approximately 60% of the forecasted \$3.631 million total expenditures for the 2014-2016 period. According to PG&E, the former HMU system has several, large undeveloped areas that are already permitted for housing and commercial development or are in the permitting process. These developments involve approximately 2,500 new housing units and substantial new commercial developments.<sup>7</sup> The planned Waterfront/Bayfront project comprises 1,392 units or approximately 55% of the total project units, and will be phased in over 16 years between 2016-2032.<sup>8</sup> According to PG&E, “With PG&E’s added electric system capability and reliability to serve planned developments, customer growth and consequent electric demand is expected to increase from the current 800 customers in 2013 to more than 3000 customers by 2029.”<sup>9</sup> If the City of Hercules experiences load growth in the coming years, PG&E’s existing Franklin Substation will be able to accommodate the growth.<sup>10</sup>

With added infrastructure, new PG&E customers within the former HMU service area or new PG&E service area will enjoy the same electrical service enjoyed by the rest of the City – services that are supported by PG&E’s expertise and resources.<sup>11</sup> Both the transfer of assets from HMU to PG&E and system

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<sup>7</sup> Application at 14.

<sup>8</sup> Application at 14, which refers to Exhibit C: Declaration of Simon Herrmann.

<sup>9</sup> Application at 13.

<sup>10</sup> D.14-09-001, Finding of Fact (FOF) 28, at 48.

<sup>11</sup> Application at 15.

upgrades will enable new customers to have expanded service at lower rates.<sup>12</sup> New customers will benefit from the “safety and efficiency” from having a single city-wide electric provider.<sup>13</sup> New customers will have access to online services to initiate service, report a problem, or schedule a service request.<sup>14</sup>

#### **4. Proposed Settlement**

Pursuant to Rule 12.1(b) on January 30, 2014, PG&E invited all parties to attend a Settlement Conference for the purpose of discussing the settlement of all remaining Phase 2 issues. On February 10, 2014, PG&E and TURN participated in a Settlement Conference and reached a proposed settlement that would eliminate the need for evidentiary hearings and further litigation. No other party attended the Settlement Conference.<sup>15</sup>

In addition to the general terms and conditions, the Settling Parties agreed to the following substantive compromises of their litigation positions as part of the Settlement Agreement:

That only PG&E’s actual recorded expenditures for those safety and service enhancement capital expenditures as generally described in PG&E’s Application for the years 2014, 2015, and 2016, up to the cumulative cap of \$3.631 million as set forth in the Application, shall be presumed necessary and reasonable and eligible for recovery in rates;

That PG&E should have an opportunity to recover in rates the revenue requirement associated with capital expenditures for Hercules safety and service enhancements made between the

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<sup>12</sup> Application at 15.

<sup>13</sup> D.14-09-001 at 28.

<sup>14</sup> PG&E Response to Scoping Memo at 12.

<sup>15</sup> PG&E and TURN Motion at 3.

closing of the transaction with HMU and the approval of this Settlement Agreement;<sup>16</sup>

That PG&E shall be authorized to record and recover the revenue requirement that reflects *actual* [emphasis added] capital recorded expenditures recorded in years 2014-2016 for those safety and service enhancements identified in Section IV of PG&E's Application through the Distribution Revenue Accounting Mechanism (DRAM), and incorporated into rates each year as part of the Annual Electric True-up (AET) advice filing, until such time as the expenditures are included for recovery in PG&E's next General Rate Case (GRC), expected to occur as of January 1, 2017 (the presumed start of its next test year;

That PG&E shall be authorized as part of its next GRC, presumed to be effective January 1, 2017 (start of its next test year) to consolidate in its base revenue requirements and rates the safety and service enhancement capital expenditures recorded in years 2014-2016 *without re-litigation of reasonableness of these capital expenditures* [emphasis added]; and

That PG&E will file a Tier 1 advice letter adding an accounting procedure to Electric Preliminary Statement part CZ, DRAM, to record the revenue requirement that reflects capital expenditures in years 2014-2016 for those safety and service enhancements identified in Section IV of PG&E's Application.<sup>17</sup>

In their Motion, PG&E and TURN strongly urge the Commission to approve the Settlement Agreement because it is reasonable in light of the whole record, consistent with the law, and in the public interest. The parties claim they were able to resolve their differences by approving actual recorded costs rather

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<sup>16</sup> This has already been accomplished through approval of AL 4374-E effective April 6, 2014. (See Section 2 "Procedural History.")

<sup>17</sup> PG&E and TURN Motion at 3-4.

than forecasts for various infrastructure improvements for the period between PG&E's acquisition of the HMU system and its next regularly-scheduled GRC (expected to have a 2017 Test Year).<sup>18</sup> They argue that "[d]ue to the limited scope of the infrastructure improvements at issue, the limited period in which such costs will be incurred, and the relatively small amount associated with those costs, permitting cost recovery is a reasonable approach."<sup>19</sup>

According to PG&E, the capital improvement enhancements associated with Phase 2 will allow the utility to move forward with fully integrating the HMU system into PG&E's distribution system and former HMU customers would enjoy the same level of service as longstanding PG&E customers. More specifically, PG&E will be able to immediately install SmartMeters for all HMU customers, replace HMU's Sulfur Hexafluoride switches with standard, EPA-approved oil or vacuum switches, install back-ties that will improve reliability and reduce outage duration, and be able to expand infrastructure based on expected residential and commercial growth in the area with no increase in staffing.<sup>20</sup>

In response to the May 30, 2014 assigned ALJ ruling requiring supplemental information on the motion for adoption of the Settlement Agreement, PG&E and TURN provided a simple comparison chart that illustrates the respective issues that were raised in the earlier stages of the proceeding and how these were resolved. They maintain that following a Phase 1 decision "[t]he determination that 'benefits sharing' was no longer on

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<sup>18</sup> PG&E and TURN Motion at 4-5.

<sup>19</sup> PG&E and TURN Motion at 5.

<sup>20</sup> PG&E and TURN Motion at 5.

the table in the proceeding significantly narrowed the dispute and created a very different context for the parties to consider a proposed settlement of issues assigned to Phase 2 of this proceeding.”<sup>21</sup>

## 5. Parties’ Positions

TURN had raised concerns regarding PG&E’s forecasted actual expenditures or “System Growth Enhancements.” Most significantly, it questioned whether the anticipated growth would occur as quickly as PG&E’s expert predicted, which would cause the anticipated expenditures of \$2.2 million to be lower for the projected three year period 2014-2016. PG&E and TURN resolve two outstanding issues as follows: First, with PG&E allowed to recover the revenue requirement on an actual recorded instead of forecast basis, the proposed Settlement Agreement eliminates the risk to ratepayers regarding the accuracy of PG&E’s service and safety enhancement forecast, including the system growth enhancements.<sup>22</sup> Second, with a cost cap recovery of \$3.631 million, the Settlement Agreement eliminates the risk that PG&E’s customers might bear additional costs associated with capital expenditures that exceed PG&E’s forecast for the projected three-year period as reflected in its original Application.<sup>23</sup>

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<sup>21</sup> “Response of Pacific Gas and Electric Company and the Utility Reform Network to ALJ’s Ruling of May 30, 2014” dated June 16, 2014, at 2.

<sup>22</sup> PG&E and TURN Response to ALJ Ruling at 2.

<sup>23</sup> *Ibid*, at 2.

## 6. Relevant Precedent

For a settlement, the Commission's Rule of Practice and Procedure set a standard for review:

12.1 (d) The Commission shall not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

In addition, in a San Diego Gas & Electric Company rate case, the Commission amended the standard to adopt a policy on "all party" settlements.<sup>24</sup> As a "precondition" to approval of all party settlement, the Commission must be satisfied that:

- a. the settlement commands the unanimous sponsorship of all active parties to the proceeding;
- b. the sponsoring parties are fairly representative of all interests;
- c. no term of settlement contravenes statutory provisions or prior Commission decisions; and
- d. the settlement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

We will examine the proposed capital expenditures in safety and service enhancements, as modified by the Settlement Agreement, to determine whether it meets these requirements. We will also determine whether the proposed transaction, as modified by the Settlement Agreement, is in the public interest according to Rule 12.1(d).

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<sup>24</sup> D.92-12-019 (46 CPUC2d 538, 550-551).

## 7. Discussion

As to the first two preconditions, the Settlement Agreement does not meet the condition of an “all party” settlement because it does not have the unanimous sponsorship of all active parties in both phases of the proceeding. However, it is more significant to note that the sponsoring parties do represent the full range of affected interests in the second phase of this proceeding. According to PG&E, to date, no other party has indicated it intends to oppose the proposed Settlement. “Instead, all of the parties to this proceeding have either stated that they will neither join nor oppose the Settlement in its current form,<sup>25</sup> or they have no intention of participating in Phase 2 of the Hercules Municipal Utility proceeding.”<sup>26</sup> Although ORA did not actively participate in Phase 2 of this proceeding, both TURN and ORA represent the interests of ratepayers. Further, based on the record of this proceeding, ORA, City of Hercules, City and County of San Francisco, Merced Irrigation District, and Modesto Irrigation District expressed a primary or sole interest in Phase 1 of this proceeding, which involved an extensive policy evaluation of the acquisition and transfer of HMU assets by PG&E and related “net benefits” proposal. While Phase 1 had a high level of business risk associated with the proposed transactions, Phase 2 has a minimal level of business risk associated with the relatively small size and scale

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<sup>25</sup> PG&E and TURN Motion at 1. (See Footnote 1: “The Settling Parties understand this to be the position of the Commission’s Office of Ratepayer Advocates (formerly Division of Ratepayer Advocates), the Merced Irrigation District, and Modesto Irrigation District.”)

<sup>26</sup> PG&E and TURN Motion at 1. (See Footnote 2: The Settling Parties understand this to be the position of the City and County of San Francisco, and the City of Hercules.)

of the proposed capital expenditures. Therefore, it appears that the sponsoring parties, including PG&E and TURN, are fairly representative of the affected interests for Phase 2 of this proceeding.

Our review of the Settlement Agreement indicates that it meets the third “precondition” set in D.92-12-019, that no term of the settlement contravenes any statutory provisions or prior Commission decision.

Finally, the Settlement Agreement meets the last precondition because it provides the Commission with sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests. In particular, the terms of the Settlement Agreement are simple and straightforward, and require no complex ratemaking procedures. Therefore, the Settlement Agreement provides all information needed to execute its terms and establishes a detailed framework that facilitates easy implementation of the decision.

In this decision, we agree with Settling Parties that the \$3.631 million cap in proposed safety and service enhancements as detailed in Section 3 herein is reasonable in light of the whole record, consistent with the law, and is in the public interest. With PG&E’s long and continued service in the Hercules area, the expenditures will allow PG&E to fully integrate the HMU system into PG&E’s distribution system and former HMU customers would enjoy the same level of service as longstanding PG&E customers. PG&E will be able to immediately install SmartMeters for all HMU customers, replace HMU’s Sulfur Hexafluoride switches with standard, EPA-approved oil or vacuum switches, install back-ties that will improve reliability and reduce outage duration, and be able to respond to expand infrastructure based on expected residential and commercial growth in the area without an increase in employee staffing.

The proposed capital improvements help fulfill the Commission's mission to provide "safe and reliable service at just and reasonable rates."<sup>27</sup> In this decision, we agree with PG&E that customers will benefit from the "safety and efficiency" from having a single city-wide electric provider. New customers will have access to online services to initiate service, report a problem, or schedule a service request. Both the transfer of assets from HMU to PG&E and system upgrades will enable new customers to have expanded service at lower rates.

The Settlement Agreement represents a reasonable compromise between the litigation positions of PG&E and TURN as developed on the record of this proceeding. TURN had questioned the earlier projected system growth enhancements at an estimated \$2.2 million because they thought that this number was derived from inflated growth assumptions for the subject period.

However, in this decision, we agree that the Settlement Agreement resolves this issue by: 1) allowing PG&E to recover the associated revenue requirement based on actual expenses only (rather than forecasted) for the period 2014-2016, relieving ratepayers of any cost burden associated with inaccurate forecasts; and 2) establishing an agreed upon \$3.631 million cap that eliminates the risk that PG&E customers might be responsible for additional costs associated with capital expenditures that exceed PG&E's forecast for the 2014-2016 period. PG&E supports the \$3.631 million cap and claims it reflects a reasonable approximation of costs. If additional capital expenditures beyond the cap are required for unforeseen reasons, then these expenditures could possibly be considered in a subsequent GRC.

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<sup>27</sup> See Public Utilities Code Section 451.

Given the limited scope and cost of the proposed PG&E infrastructure improvements during a limited period of time, this Settlement Agreement is approved and authorized subject to specific cost recovery conditions as highlighted in the Settlement Agreement.

#### **8. Categorization and Need for Hearing**

In Resolution ALJ 176-3317, dated July 11, 2013, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. With the filing of the Motion by PG&E and TURN and the Settlement Agreement, the proposed transaction as modified by the settlement, is unopposed. Given these developments, a public hearing is not necessary.

#### **9. Waiver of Comment Period**

Since all outstanding issues are resolved through the adoption of the Settlement Agreement, the matter before the Commission is uncontested. Moreover, this decision grants the relief requested via the Settlement Agreement subject to specific cost recovery conditions. Therefore, this is now an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) and Rule 14.6(c)(2) of the Commission's Rules, the otherwise applicable 30-day period for public review and comment is being waived.

#### **10. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner and Colette E. Kersten and Seaneen M. Wilson are the assigned ALJs and Presiding Officers in this proceeding.

**Findings of Fact**

1. On July 1, 2013, PG&E filed an Application for recovery of costs associated with the acquisition and transfer of HMU.
2. On January 24, 2014, the Commission issued a Phase 1 Decision Approving the Acquisition and Purchase Agreement between PG&E and the City of Hercules and denying the associated “Net Benefits” Proposal; the Phase 1 Decision was effective immediately.
3. On April 3, 2014, pursuant to Rule 12.1, PG&E and TURN, collectively, the “Settling Parties,” moved that the Commission adopt a Settlement Agreement which resolves all remaining issues assigned to Phase 2 of this proceeding.
4. PG&E’s breakdown of the projected \$3.631 million expenditures at issue in Phase 2 of this proceeding relate to safety and service enhancements including electric safety upgrades, electric meter upgrades, system reliability enhancements, system growth enhancements, and system maintenance.
5. PG&E forecasts system growth enhancements of \$2.2 million for 2014-2016, which is 60% of the \$3.631 million forecast.
6. According to PG&E, with PG&E’s added electric system capability and reliability to serve planned developments, customer growth and consequent electric demand is expected to increase from the current 800 customers in 2013 to more than 3000 customers by 2029.
7. If the City of Hercules experiences load growth in the coming years, PG&E’s existing Franklin Substation will be able to accommodate this growth.
8. The Settling Parties agreed that only actual recorded expenses for those safety and service enhancement capital expenditures as generally described in PG&E’s Application for the years 2014, 2015, and 2016, up to the cumulative cap

of \$3.631 million as set forth in the Application, shall be presumed reasonable and eligible for recovery in rates.

9. Through ED approval of AL 4374-E on April 6, 2014, PG&E has an opportunity to record and recover in rates the revenue requirement associated with capital expenditure for Hercules safety and service enhancements made between the close of the Phase 1 Decision and approval of the Settlement Agreement.

10. The Settling Parties were able to resolve their differences by approving actual recorded costs rather than forecasts for various infrastructure improvements for the period between PG&E's acquisition of the HMU system and its regularly-scheduled GRC (expected to have a 2017 Test Year).

11. The Settling Parties claim that the cost cap of \$3.631 million eliminates the risk that PG&E's customers might bear additional costs associated with capital expenditures that exceed PG&E's forecast.

12. Capital improvement enhancements associated with Phase 2 of this proceeding will allow the utility to move forward with fully integrating the former HMU system into PG&E's distribution system.

13. Capital improvement enhancements will allow former HMU customers to enjoy the same level of service as longstanding PG&E customers.

14. Capital improvement enhancements will allow PG&E to provide service necessary to provide safer and reliable service at reasonable rates, provide customer benefits, and allow operation and maintenance to be carried out by PG&E employees.

15. Capital improvement enhancements will enable PG&E to immediately install SmartMeters for all former HMU customers who became new PG&E customers.

16. Capital improvement enhancements will enable replacement of the former HMU System's Sulfur Hexafluoride switches with standard, EPA-approved oil or vacuum switches, install back-ties that will improve reliability and reduce outage duration, and allow PG&E to expand infrastructure based on actual rather than forecasted expenses.

17. Due to the limited scope of the infrastructure improvements at issue, the limited period in which such costs will be incurred, and the relatively small amount associated with these costs, permitting cost recovery, evidentiary hearings or pleadings are not needed in this proceeding.

18. Given the completeness of the Application, and the Settlement Agreement and PG&E and TURN Motion seeking its approval, the ALJ held no evidentiary hearings.

19. While the Settlement Agreement was not an "all party" settlement that commands the unanimous sponsorship of all parties, the settlement is a fairly representative of the affected interests for Phase 2 of this proceeding.

20. No term of the Settlement Agreement contravenes statutory provisions or prior Commission decisions.

21. The Settlement Agreement conveys to the Commission sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.

22. The Settlement Agreement is 1) reasonable in light of the whole record; 2) consistent with the law; and 3) in the public interest.

23. The proposed capital expenditures, as described in PG&E's Application and as modified by terms of the Settlement Agreement, are necessary to provide safe and reliable service at reasonable rates, provide customer benefits, and allow operations and maintenance to be carried out by existing PG&E employees.

24. The Settlement Agreement represents a reasonable compromise position between the litigation positions of PG&E and TURN.

25. The denial of PG&E's "benefit sharing" proposal significantly narrowed the dispute between parties and created a very different context for parties to consider a proposed settlement of issues assigned to Phase 2 of this proceeding.

26. No other parties filed responses or protests to PG&E and TURN's motion to approve the Settlement Agreement.

### **Conclusions of Law**

1. The Settlement Agreement should be approved because it is reasonable in light of the whole record, consistent with the law, and in the public interest.

2. The Settlement Agreement should be approved because it enables safe and reliable service at just and reasonable rates.

3. With the filing of the Settling Agreement, this proceeding becomes an uncontested matter. In approving this Settlement Agreement, which modifies terms of the original Application, we are granting the relief requested.

4. No hearings are necessary.

5. It is reasonable that only PG&E's actual recorded expenditures for those safety and service enhancement capital expenditures as generally described in PG&E's Application for the years 2014, 2015, and 2016, up to the cumulative cap of \$3.631 million as set forth in the Application, should be presumed necessary and reasonable and eligible for recovery in rates.

6. It is reasonable that PG&E should be authorized to record and recover the revenue requirement that reflects actual capital recorded expenditures recorded in years 2014-2016 for those safety and service enhancements identified in Section IV of PG&E's Application through the DRAM, and incorporated into rates each year as part of the AET advice filing, until such time as the

expenditures are included for recovery in PG&E's next GRC, expected to have a 2017 Test Year.

7. It is reasonable that PG&E should be authorized as part of its next GRC, to consolidate in its base revenue requirements and rates the safety and service enhancement capital expenditures recorded in years 2014-2016 without re-litigation of reasonableness of these capital expenditures.

8. It is reasonable that PG&E will file a Tier 1 advice letter adding an accounting procedure to Electric Preliminary Statement part CZ, DRAM, to record the revenue requirement that reflects capital expenditures in years 2014-2016 for those safety and service enhancements identified in Section IV of PG&E's Application.

9. This Settlement Agreement should be effective immediately.

## **O R D E R**

IT IS ORDERED that:

1. The April 3, 2014 Pacific Gas and Electric Company (PG&E) and The Utility Reform Network Motion for Adoption of a Settlement Agreement regarding Phase 2 issues in this proceeding is approved subject to the following cost recovery terms and conditions:

- a) That only PG&E's actual recorded expenditures for those safety and service enhancement capital expenditures as generally described in PG&E's Application for the years 2014, 2015, and 2016, up to the cumulative cap of \$3.631 million as set forth in the Application, shall be presumed necessary and reasonable and eligible for recovery in rates;
- b) That PG&E shall be authorized to record and recover the revenue requirement that reflects actual capital recorded expenditures recorded in years 2014-2016 for those safety

- and service enhancements identified in Section IV of PG&E's Application through the Distribution Revenue Accounting Mechanism (DRAM), and incorporated into rates each year as part of the Annual Electric True-up (AET) advice letter filing, until such time as the expenditures are included for recovery in PG&E's next General Rate Case (GRC), expected to have a 2017 Test Year.
- c) That PG&E shall be authorized as part of its next GRC, which is expected to have a 2017 Test Year, to consolidate in its base revenue requirements and rates the safety and service enhancement capital expenditures recorded in years 2014-2016 without re-litigation of reasonableness of these capital expenditures; and
  - d) That PG&E will file a Tier 1 advice letter adding an accounting procedure to its Electric Preliminary Statement part CZ, DRAM, to record the revenue requirement that reflects capital expenditures in years 2014-2016 for those safety and service enhancements identified in Section IV of PG&E's Application.
2. No evidentiary hearings are necessary.
  3. Application 13-07-001 is closed.

This order is effective today.

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