

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2013 and to Reset the Annual Cost of Capital Adjustment Mechanism.	Application 12-04-015 (Filed April 20, 2012)
And Related Matters.	Application 12-04-016 Application 12-04-017 Application 12-04-018

DECISION GRANTING L. JAN REID COMPENSATION FOR SUBSTANTIAL CONTRIBUTION TO DECISION 12-12-034

Claimant: L. Jan Reid	For contribution to Decision (D.) 12-12-034
Claimed (\$): 99,618.26	Awarded (\$): 99,618.26
Assigned Commissioner: Peevey	Assigned Administrative Law Judge (ALJ): ALJ Division¹

PART I: PROCEDURAL ISSUES

A. Brief Description of Decision:	D.12-12-034 adopted authorized ratemaking return on common equity (ROE) and return on rate base (ROR) and thus ratemaking capital structure for Pacific Gas and Electric Company (PG&E) and other utilities. PG&E's allowed ROE is 10.40% (down from 11.35%) and its allowed ROR is 8.06%, resulting in a reduction in revenue requirement of \$237-million per year.
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B. Claimant must satisfy intervenor compensation requirements set forth in Public Utilities Code §§ 1801-1812:

	Claimant	CPUC Verified
Timely filing of notice of intent to claim compensation (NOI) (§ 1804(a)):		
1. Date of Prehearing Conference:	June 4, 2012	Correct

¹ This proceeding was originally assigned to ALJ Galvin.

2. Other Specified Date for NOI:	N/A	N/A
3. Date NOI Filed:	July 5, 2012	Correct
4. Was the NOI timely filed? Yes.		Yes
Showing of customer or customer-related status (§ 1802(b)):		
5. Based on ALJ ruling issued in proceeding number:	A.12-04-015, <i>et seq.</i>	Correct
6. Date of ALJ ruling:	July 20, 2012	Correct
7. Based on another CPUC determination (specify):		
8. Has the Claimant demonstrated customer or customer-related status?		Yes
Showing of “significant financial hardship” (§ 1802(g)):		
9. Based on ALJ ruling issued in proceeding number:	<i>See Confidential Attachments A and B.</i>	Verified
10. Date of ALJ ruling:		
11. Based on another CPUC determination (specify):		
12. Has the Claimant demonstrated significant financial hardship?		Yes
Timely request for compensation (§ 1804(c)):		
13. Identify Final Decision:	D.13-03-015	Correct
14. Date of Issuance of Final Order or Decision:	April 2, 2013 (Effective Date)	Correct
15. File date of compensation request:	June 3, 2013	Correct
16. Was the request for compensation timely?		Yes; <i>See comment(s).</i>

C. Additional Comments on Part I:

#	Intervenor’s Comment(s)	CPUC Discussion
4	The NOI was filed within 30 days of the PHC, accounting for holidays and weekends. The NOI would have been due on July 4, 2012. However, July 4, 2012 was a holiday, so the NOI was due on July 5, 2012.	Accepted.
		Although Reid is filing to claim compensation for D.12-12-034, Reid filed his Intervenor Compensation Request within 60 days of the final Decision issued in this proceeding, D. 13-03-015. Per Public Utilities Code Section 1804(b)(c) “Following issuance of a final order or decision by the commission in the hearing or

		<p>proceeding, a customer who has been found, pursuant to subdivision (b), to be eligible for an award of compensation may file within 60 days a request for an award.” In this instance, Reid filed within 60 days of the issuance of the d D.13-03-015 closing the proceeding. As such, Reid’s request is timely and is therefore compensable.</p>
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PART II: SUBSTANTIAL CONTRIBUTION

A. In the fields below, describe in a concise manner Claimant’s contribution to the final decision (see § 1802(i), § 1803(a) & D.98-04-059).

Intervenor’s Claimed Contribution(s)	Specific References to Intervenor’s Claimed Contribution(s)	CPUC Discussion
<p>1. Support of the ROE Recommended in the ALJ’s Proposed Decision and the bulk of the Proposed Decision of ALJ Galvin</p>	<p>Reid was the only party that supported the ROE recommended in the PD and the bulk of the PD. He supported the PD with only two proposed minor corrections. His proposed Finding of Fact modification was adopted (Comments of L. Jan Reid on Proposed Decision of ALJ Galvin, at 1 and throughout; Reply Comments of L. Jan Reid on Proposed Decision of ALJ Galvin, at 1) Reid stands by the evidentiary showing that his witness Knecht made, as reflecting sound practice, judgments and results in COC regulatory matters. However, he also understands and appreciates the regulatory process and realizes that parties will not get everything they seek in complex cases such as COC dockets, even when they make a sound showing of the consumer and public interest. And he recognizes that the ALJ’s PD reflected diligent and due consideration of all viewpoints and evidence and standards, plus a concerted attempt to be fair to all and decide the issues here in a manner that finds the required balancing of interests. Finally, he believes that, once the ALJ has issued a PD, unless it is manifestly unfair or in error, it is</p>	<p>Yes</p>

	<p>inappropriate to try to re-litigate the findings, conclusions and orders under the guise of comment on the PD, as PG&E did. (<i>Ibid.</i>, at 1) Hence, upon review, he supported the PD, even though it gave PG&E a higher ROE, ROR and revenue requirement than he had proposed.</p>	
<p>2. Capital Structure, Costs of Debt and Preferred Stock, and (Lack of Need for) Adjustments to Proxy-Group-Based Direct Estimates of Market-Required ROEs</p>	<p>The Commission noted that it “must ensure that the utilities’ adopted [common] equity ratios are sufficient to maintain reasonable credit ratings and to attract capital.” (D.12-12-034, slip op. at 5) Further, it noted that PG&E requested 52% common equity (the key fraction in a capital structure), the same as its currently authorized capital structure. (<i>Ibid.</i> at 12). And the Commission adopted PG&E’s proposed costs of debt and preferred stock. (<i>Ibid.</i> at 16-17)</p> <p>Knecht noted that his normal and proper practice of adjusting the average ROEs for his proxy group for differences in capital structure was obviated because: 1) PG&E used the same common equity fraction as currently authorized in PG&E last adopted COC decision (D.07-12-049); and 2) his ROE analysis was based on changes in market-required ROEs of his various proxy groups from D.07-12-049 to this docket. (Exh. 33, Testimony of Ron Knecht, p. 13, l. 10 – p. 11, l. 9) He further testified in support of PG&E’s proposed costs of debt and preferred stock. (Exh. 33, p. 8, ll. 1-16)</p> <p>Thus, Reid made a substantial contribution to Commission resolution of the capital-structure issue because Knecht testified to the rigorously proper way to handle capital structure in determining ROE and ROR, and he showed that under the circumstances of this docket PG&E’s proposed capital</p>	<p>Yes</p>

	<p>structure and costs of debt and preferred stock could be used consistent with his and other parties' directly-estimated market-required ROEs – as the decision did.</p>	
<p>3. ROE Determination: Use of Screening Variables and Choice of Proxy Groups</p>	<p>The Commission stated that it adopted in D.07-12-049 the ValueLine utility universe with at least three screens, plus additional screens if justification is provided. It also noted that Reid (via Exh. 33, Testimony of Ron Knecht, at p. 14, l. 17 – p. 16, l. 9) used seven different screens, including that using the Commission's three screens, plus all those proposed here by PG&E and the other utilities. (D.12-12-034, slip OP. at 19-20)</p> <p>Knecht showed that six of his seven proxy groups yielded the same differentials in his estimates for the time of PG&E's last authorized COC and this docket (that differential providing the primary basis for his estimates of the ROE here), with a range of decrease in the market-required ROE of 213-221 bp. Only PG&E's proxy group yielded a lower level of decline, 189 bp, in the ROE. To be conservative (i.e., to estimate the highest currently reasonable allowed ROE), Knecht used the differential based on the PG&E proxy group to compute a 9.46% upper bound for the reasonable ROE range. (The lower bound was taken from his current ROE model results.) So, using proxy groups determined by the Commission's requirement, or of the other utilities, or even of the entire ValueLine energy utilities set would all yield the same ROE estimates – values roughly midway between Knecht's upper bound and the 9% figure from the upper end of his range that he proposed for Reid. (Exh. 33, Testimony of Ron Knecht, at</p>	<p>Yes</p>

	<p>p. 14, l. 17 – p. 16, l. 9)</p> <p>Thus, Reid make a substantial contribution by showing that the choice among proxy groups makes almost no difference in the allowed ROE and COC in this docket, because: 1) results using all of the proxy groups lie in the upper range of reasonable values; and 2) the differences among results using all proxy groups allowed by Commission standards, except PG&E’s, are de minimis (8 bp or less).</p>	
<p>4. ROE Determination: Model Choice, Implementation Methods and Application of Modeling Results to ROE for PG&E</p>	<p>The Commission discusses the basic models that it allows: the CAPM, ECAPM, RPM and DCF. (D.12-12-034, at 22 and for further detail at 24-28.) It noted that it has rejected the Fama-French Model. (<i>Ibid.</i>, at fn. 48.) Finally, it noted that the parties advance arguments for their own respective analyses and in criticism or each other, with none of them agreeing with the financial model results of the others. Thus, “The models are only helpful as rough gauges of the realm of reasonableness.” (<i>Ibid.</i>, at 28)</p> <p>Knecht used all the sanctioned methods (CAPM, ECAPM, RPM and two different DCFs), and he showed results also for Fama-French. He consigned the current direct ROE estimates using the models to provide only a lower bound for the reasonable ROE range; for his upper bound and recommended figure, he relied instead on the differences in the results of five models (i.e., not including Fama-French) from the time of the last COC case to this one, the practice the Commission has sanctioned in past decisions. (Exh. 33, Testimony of Ron Knecht, at p. 6, l. 21 – p. 7, l. 27; and at p. 32, l. 13 – p. 34, l. 4) He provided rigorous, detailed and careful documentation and support for his model</p>	<p>Yes</p>

	<p>choices, implementation methods and application of his modeling results to PG&E. (<i>Ibid.</i>, at p. 10, l. 4 – p. 14, l. 16; more detail at p. 19, l. 19 – p. 31, l. 16 and Attachment RLK-2) Importantly, Reid (via Knecht) was the only party to base its recommendation on the differences between estimates from the most recent COC docket to this one, using the same methods, models, implementation details, data sources, proxy groups, etc.</p> <p>Thus, Reid made a substantial contribution by a showing that anticipated and handled all the Commission’s sanctioned practices, concerns and caveats in choice and use of models, methods, implementation details, data sources, proxy groups, etc. – a showing that was the most extensive, rigorous and thoroughly documented and justified in the docket. Above all, he used the change in results from the last COC docket to this one to set his upper bound and was judicious in using ROEs from the upper end of the reasonable range to reflect that delta method (instead of willy-nilly relying only on the current direct estimates using the models).</p>	
<p>5. Changes (Severe Sustained Declines in Recent Years) in the ROE/ROR Foundational Building Block, the Riskless Rate – and in the Economic and Financial Outlook (or Risk Factors) That Indicate the Low Riskless Rates and Thus Low ROEs and RORs Will Prevail While the Rates Determined in This Proceeding Are in Effect</p>	<p>The Commission stated, “Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the method ... used to validate the theory and apply the method.” It noted further that the difference in dates of filings of the utilities and other parties can give rise to differences in inputs, and that, “It is the result of differences in the subjective inputs used in models that result in a wide range of ROEs being recommended by the parties.” (D.12-12-034, slip OP. at 22-23)</p>	<p>Yes</p>

	<p>Precisely for this reason, Knecht provided estimates using inputs that were available to the utilities and their witnesses at the time they did their work and made their filings, in addition to noting that the effect of updating these data to the most recent values at the time he filed his testimony would have been to lower his estimates noticeably. (Exh. 33, Testimony of Ron Knecht, at p. 34, l. 5 – p. 37, l. 6, esp. at p. 36, ll. 5-7) Therefore, the record shows clearly that by far the biggest reason for differences between Knecht’s direct model-based ROE/ROR estimates and those of PG&E and all other parties is the riskless rate (long-term Treasury bond interest rate) assumed. (D.12-12-034, slip op. at 25 and 26) He used the actual market value at the end of 2011, a figure (2.48%) available to the utilities as they prepared their filings, and he noted that the ROE/ROR figures would have declined if updated to the middle of 2012. PG&E and other parties used higher riskless rates and got higher ROEs/RORs because they erroneously used analysts’ estimates of future Treasury bond yields (estimates that have systematically been biased in recent years toward higher figures than have been realized), not actual market data as Knecht correctly did.</p> <p>Reid respectfully requests that, in making a decision on this claim the Commission take notice that the 20-year Treasury bond rates, listed at the Federal Reserve website have averaged 2.70% so far this calendar year, much closer to Knecht’s 2.48% than to the forecasts of 3.6% - 4.2% erroneously used by other parties. (Exh. 35A, Table 3) The other parties’ embrace of high forecasted riskless rates (and other economic outlook estimates) in early- and mid-2012, continues the trend that begin in 2010 and continues</p>	
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	<p>even in 2013 of many parties forecasting a return to pre-Great-Recession “normalcy” based on early-month stock market trends that are nonetheless followed by continued slow economic growth and low investment returns (ROEs). Knecht’s use of market data is not only theoretically correct, but it clearly has a much better track record than embrace of rosy-scenario forecasts.</p> <p>The Commission’s discussion and tables, plus the comparison exhibit, show that Knecht’s values on other inputs were in the mainstream among parties in this docket, making the riskless rate the real issue. Thus, Knecht’s market risk premium and beta values are squarely in the mainstream (Exh. 35A, Table 3), and the differences in his CAPM and ECAPM ROE estimates, as compared to those of other parties, are due to the riskless rates (except for PG&E’s huge MRP value). Similarly, his RPM used an historic RP in the mainstream and the difference in estimated ROE was due to the low-risk rate differential. (<i>Ibid.</i>, Table 4) And finally, his DCF results are only 10 bp below DRA’s (D.12-12-034, at 27), but that difference is reversed if one adds 21 bp for an issuance premium, as he allowed on his direct model ROE estimates. (Exh. 33, Testimony of Ron Knecht, at p. 32, ll. 10-12)</p> <p>In conclusion, Reid made a substantial contribution in this area because Knecht recognized the importance of what the Commission said regarding assumptions and inputs, and so he provided extensive and rigorous analyses to test, justify and explain his choices in that regard. Reid showed why the riskless rate, and thus inflation, real economic growth and market-required ROEs all have declined sharply and stayed at low levels in recent years. This key fact, which was the focus</p>	
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	<p>of Knecht’s cross-examination of utility witnesses Morin and Avera, by itself justifies the reductions adopted by the Commission in allowed ROEs.</p>	
<p>6. Business and Regulatory Risks Facing PG&E, and PG&E’s Allowed ROE</p>	<p>The Commission states, “Business risk pertains to new uncertainties resulting from competition and the economy. ... these business risks overlap into financial and regulatory risk.” (D.12-12-034, at 30) In discussing regulatory risk, it states: “An authorized ROE has risk when it does not adequately compensate a utility for the risk that investors must assume.” (<i>Ibid.</i>, at 31) Ultimately, the Commission made no specific modification on account of business, regulatory or financial risks to the reasonable ROE ranges based on financial modeling. (<i>Ibid.</i>, at 37) Instead, the Commission adopted a reasonable range of 9.8% - 10.6% for PG&E’s ROE and chose a point value of 10.4%. (<i>Ibid.</i>, at 43)</p> <p>Knecht recognized the business risk from new uncertainties in the economy, including especially the possibility that economic growth will be characteristically lower for a sustained period going forward than it has been in the past. He stated: “What must be emphasized in this regard in this docket is that the bleak macroeconomic prospects for the foreseeable future are lowering ROEs for nearly all firms, and reducing the opportunity cost of capital for PG&E and other utilities.” (Exh. 33, Testimony of Ron Knecht, at p. 34, l. 15 – p. 37, l. 6; quote at p. 36, ll. 20-23) Per his usual practice, he also made no specific adjustment for business and regulatory risks, because the proxy-company and other market data incorporate the best assessment available of the ROE consequences of these risks.</p>	<p>Yes</p>

	<p>Concerning the authorized ROE regulatory risk, he stated: “Further, while the methods, data, and other practices are sound, I believe that COC estimates at record low levels – much lower than the levels of the last decade – should be treated with an abundance of caution, especially in view of the volatile and extreme financial and economic circumstances and public policies that cause them to be so low. <i>Hence, instead of relying on the low raw levels that my usual practices would produce, I adopt a modified approach that mitigates the decline significantly and that is fully consistent with the previous findings, conclusions, and orders of the Commission.</i>” (<i>Ibid.</i>, at p. 7, ll. 15-22) The method to which he referred is using the change in model results from the last COC docket to this one, and it raised his estimates greatly. He recommended a reasonable ROE range of 7.18% - 9.46% and chose a point value of 9.0% -- not the 11.0% PG&E requested. (<i>Ibid.</i>, at p. 4, ll. 23-26)</p>	
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B. Duplication of Effort (§§ 1801.3(f) & 1802.5):

	Claimant	CPUC Verified
a. Was the Office of Ratepayer Advocates (ORA)² a party to the proceeding?	Yes.	Verified
b. Were there other parties to the proceeding with positions similar to yours?	Yes. (See Comment #1 below)	Verified
c. If so, provide name of other parties: Federal Executive Agencies (FEA), Energy Users and Producers Coalition (EPUC), and The Utility reform Network (TURN)		Verified

² The Division of Ratepayer Advocates was renamed the Office of Ratepayer Advocates effective September 26, 2013, pursuant to Senate Bill No. 96 (Budget Act of 2013: public resources), which was approved by the Governor on September 26, 2013.

<p>d. Describe how you coordinated with ORA and other parties to avoid duplication or how your participation supplemented, complemented, or contributed to that of another party:</p> <p>Knecht met with the DRA after the Prehearing Conference, and throughout the course of the proceeding, and Reid and/or Knecht contacted DRA, TURN, FEA and EPUC at various times to understand the nature of their testimonies and pleadings, and thus to avoid duplication. Reid does not seek compensation for all of these meetings. As a matter of personal policy, Reid does not participate in Commission proceedings where his showing is likely to duplicate the showings of other consumer representatives such as DRA and TURN. For example, Reid did not serve testimony in Phase 2 of A.12-04-018 because his showing would likely have duplicated the showings of the DRA and TURN.</p> <p>Because other parties (such as TURN) were making extensive qualitative showings on utility business and regulatory risks, Reid did not have Knecht make an extensive showing in that area. Instead, he had Knecht focus especially on the capital-structure-related issues, screening variables and proxy-group determination, technical issues of model choice, implementation methods and application of modeling results to ROE for PG&E, areas where Knecht has comparative advantage (as evidenced by the fact that he regularly co-teaches with Roger Morin these matters in nationally recognized two-day seminars held by SNL Financial for regulators and staff and utility and other corporate executives and staff, as well as financial analysts from the investment world). For the same reasons of comparative advantage, he also had Knecht focus on rebutting PG&E’s showing, especially the testimony of PG&E witness Avera.</p> <p>Reid’s compensation in this proceeding should not be reduced for any duplication with respect to the showings of other parties. In a proceeding with subject matter as complex as in this one and with multiple parties, it virtually impossible for Reid or any party to fully anticipate where showings of other parties may duplicate Reid’s, especially in view of the need to make a coherent and sufficient showing on the issues Reid emphasizes and on the ultimate issues.</p> <p>Indeed, the nature of financial analysis modeling and ROE/ROR estimation was specifically not pursued, in order to minimize even any appearance of concerted bias in modeling inputs, assumptions, methods and other practices. Any duplication that may have occurred in ROE/ROR estimation or any other parts of this docket is more than justified by the independent showings of the numerous and respected professional analysts that testified here that PG&E’s requested ROE and ROR were far above market-required costs of capital. In particular, Reid’s witness Knecht made a specific and unique contribution in his financial analysis modeling and ROE/ROR estimation by showing and relying on the changes in such estimates from the time at which PG&E’s authorized returns were last set in 2007 to the</p>	<p>No duplication issues</p>
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<p>present time. In the past, the Commission has strongly encouraged (if not insisted on) such showings of the changes from one case to its successor using the same methods, models, proxy groups, data sources, etc. – and Knecht was the only witness to do so here.</p> <p>Under all these circumstances, no reduction to Reid’s requested compensation due to duplication is warranted, given the standards adopted by the Commission in D.03-03-031.</p>	
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C. Additional Comments on Part II:

#	Intervenor’s Comment(s)	CPUC Discussion
1	Reid was the only party to support the ROE, capital structure and ROR in the PD; he also supported the overwhelming bulk of the PD, as discussed <i>supra</i> in item II.A.1.	Verified
2	In addition to extensive testimony discussed in item II.A.5 <i>supra</i> , on the actual market-indicated riskless rate (versus the biased forecasts of it used by PG&E and other parties), Knecht prepared Exh. 49 (received into evidence), showing that in mid-2011 the long-term (20 year and 30 year) actual Treasury yield rates dropped precipitously below the rate assumed by PG&E witness Avera, falling to the 2.48% level used by Knecht and then continuing further downward to the time of hearings. He also prepared Exh. 44 (received into evidence), showing the same thing for the rate used by SDG&E/SCG witness Morin. Among all riskless rates proffered in this docket, only Knecht’s estimate is close to the actual 20-year Treasury yields that have prevailed since the time rates were adopted reflecting the COCs adopted by the Commission.	Verified
3	Reid, via Knecht’s “delta” model work, was the only party to compare the model results between the last COC docket and this one using common methods, models, implementation details, data sources, proxy groups, etc., discussed <i>supra</i> in item II.A.4. Previously, the ALJ and Commission emphasized this approach almost to the point of discounting direct model estimates by themselves. This portion of Reid’s showing is a unique and very valuable substantial contribution,	Verified

	<p>and it involved all of Knecht’s extensive, rigorous and very detailed modeling work.</p>	
<p>4</p>	<p>As noted in item II.A.4 <i>supra</i>, Knecht made estimates using the Fama-French model, relying on them only in his direct six-model average and expressly excluding them in the “delta” ROE estimates on which his upper bound and recommended ROE rested. The cost for including that model was at most <i>de minimis</i> because his workbook was already set up before he began work in this docket (providing a cost savings here) and it includes slots and data for the Fama-French model. Due to this set up and his use of batch entry of data from the Morningstar-Ibbotson source, it well may have been more economic to pick up the Fama-French input data and allow the workbook model to process it than to omit that input data, which would have been very cumbersome. Moreover, Knecht’s testing and limited use of that data and model was a good faith effort to learn whether circumstances have changed since the Commission last considered and rejected it. When Knecht co-teachers the COC and utility finance seminar with Morin, they emphasize that the Fama-French method has gained great currency in investment practice. Hence, no disallowance for what would be at most a <i>de minimis</i> cost if it could be quantified is justified for Knecht’s investigation of this model.</p>	<p>Verified</p>
	<p>Knecht’s use, discussed in item II.A.3 <i>supra</i>, of multiple proxy groups is another beneficial feature of his 150-page Excel workbook. Because the workbook includes all data for all the ValueLine utilities, it is quick, easy and costs very little to test the results of modeling using the various proposed proxy groups. Often there is endless debate about the legitimacy of proposed screening variables and resulting proxy groups -- debate that is sterile because, as Knecht notes, the issue of a screening variable’s legitimacy is inherently an empirical one that he, alone among COC witnesses has addressed as such. Instead of fostering useless advocacy, his approach allows one to test various proxy groups</p>	<p>Verified</p>

<p>to see whether the screening variables and resulting groups make any significant difference to the bottom-line ROE estimates. As he showed in this docket, only one proxy group – that proposed by PG&E – among all those used here made more than a <i>de minimis</i> (8 bp) difference in the result. In fact, the PG&E proxy group made a difference of only 28 bp versus the average of the other methods. And, in an abundance of caution, Knecht relied on the PG&E proxy group to give his upper limit a boost of that amount from what it otherwise would have been. (The correct characterization of Knecht’s proxy group methods was the change noted in item II.A.1 <i>supra</i> as requested by Reid to the PD that was adopted by the Commission.)</p>	
<p>In his comments on the PD, noted in item II.A.1 <i>supra</i>, Reid proposed also to broaden the reasonable range of ROEs for PG&E to encompass the rates advocated by all parties. This would have been consistent with the many merits of all of them noted but not discussed by the Commission. The Commission declined to make that change. The fact that a party’s recommendation lies outside the Commission’s range should not be held against the party, because the proposed ROEs of PG&E and other utilities also lie outside the Commission’s adopted range. Furthermore, the Commission recognizes that estimating COCs at this time is extremely difficult and subject to volatility and uncertainty due to unprecedented macro-economic and financial circumstances.</p>	<p>Verified</p>

PART III: REASONABLENESS OF REQUESTED COMPENSATION

A. General Claim of Reasonableness (§§ 1801 & 1806):

<p>a. Intervenor’s claim of cost reasonableness: In consolidated Rulemaking 97-01-009 and Investigation 97-01-010, the Commission required intervenors seeking compensation to show that they represent interests that would otherwise be underrepresented and to present information sufficient to justify a finding that the overall benefits of a customer's participation will exceed the customer's costs.</p>	<p style="text-align: center;">CPUC Verified</p> <hr/> <p style="text-align: center;">Verified</p>
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<p>(D.98-04-059, 79 CPUC2d 628, Finding of Fact 13 at 674, Finding of Fact 42 at 676)</p> <p>A reduction in a utility’s authorized ROE, as compared to what the ROE would be absent the showings of parties like Reid, directly reduces the utility’s revenue requirements, due to a lower allowed return on rate base. D.12-12-034 shows in a table at p. 3 the reduction in PG&E’s annual revenue requirement of \$237-million for the change from the 11.35% ROE PG&E was previously authorized to the 10.40% adopted in this docket. Because the revenue-requirement effect using the adopted ROE are expected to prevail for three years, the total benefit to PG&E’s retail ratepayers is \$711-million and likely higher due to growth in rate base.</p> <p>As mentioned previously, Reid made a substantial contribution to the ROE issue in this proceeding. The reduction in ROE from PG&E’s requested 11.0% level to the adopted 10.4% figure conveys to PG&E’s retail ratepayers a three-year revenue requirement reduction of \$449-million (\$150-million annually). This is over 4,000 times the compensation sought by Reid in this proceeding. Therefore, the Commission can safely find that the participation of Reid in this proceeding was productive and justifies compensation in the amount requested.</p>	
<p>b. Reasonableness of Hours Claimed.</p> <p>The great bulk of Reid’s substantive showing in this proceeding was performed by Ron Knecht, with L. Jan Reid providing peer and client review, and handling major administrative functions. Thus, no unnecessary internal duplication took place, but in fact significant economies were realized as compared to operating models with attorneys and multiple witnesses and support staff. Reid realized economies with at most two persons (and usually only one) that must read PG&E’s various testimonies and other filings and then coordinate and interact to prepare for hearings, filings and the party’s own direct showings.</p> <p>Reid seeks compensation for approximately 300 hours of professional time worked by Knecht (7.5 working weeks), approximately 45 hours of travel time, and 45 hours of professional time worked by Reid. Reid and Knecht’s time not only resulted in 116 pages of pre-filed testimony, attachments and exhibits, backed up by extensive financial research and the 150-page plus COC workbook described above for a direct showing as extensive, detailed, rigorous, sophisticated, thoughtful and precise as any in this docket. Further, it included reading and analysis of many hundreds of pages of highly technical testimony, transcripts, briefs, other filings by PG&E and other parties, plus proposed and final decisions, other rulings, etc. by the ALJ and Commission -- in</p>	<p>Verified</p>

<p>addition to Reid and Knecht composing and filing more than 61 pages (plus cover pages, tables of contents, verifications, service lists, etc.) of briefs, comments, responses to discovery, and other required filings, and this Claim. And it included active, but parsimonious and effective participation after due preparation at five days of hearings, in conferences with other parties, etc. The result was a comprehensive and very sophisticated and reliable showing on Phase I issues for PG&E’s ROE. <i>See</i> also the six items <i>supra</i> in section II.A and another six items in section II.C, both incorporated herein by reference and documenting Reid’s substantial contribution.</p> <p>The travel time required was the minimum for Knecht from his home to Commission offices for the hearings. Also, the direct expenses of \$258.51 for Express Mail, postage and copies are quite small, reflecting the fact that no costs have been claimed for printing e-mailed documents, etc. – just copying costs for the hard copies required to be provided to parties in the proceedings. The low overhead fraction of the total amount claimed here would pass any test of reasonableness, and it guarantees that the Commission is being asked to cover productive professional time.</p>	
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<p>c. Allocation of Hours by Issue</p>														
<p>Hours billed for Reid and Knecht were allocated for specific issue areas listed below where possible, as documented in the billing time sheets provided to Reid by Knecht and in the time records Reid keeps for himself. Substantial numbers of hours of work cannot be allocated only to specific and unique issues and was allocated to the “General” category. This includes reviewing testimonies and pleadings of parties, which covers multiple issue areas. In addition, time spent on writing testimony, briefs and other filings was allocated among issues by page counts. Time for financial modeling was allocated judgmentally among issues. The resulting total allocations, determined by the allocations of Knecht’s time, are shown in the following list.</p>														
<table> <tr> <td>General</td> <td>39%</td> </tr> <tr> <td>Financial Modeling & Determining PG&E’s ROE</td> <td>36%</td> </tr> <tr> <td>Financial Modeling: Screening & Proxy Groups</td> <td>7%</td> </tr> <tr> <td>Capital Structure and ROE Adjustments for It</td> <td>6%</td> </tr> <tr> <td>Decline of Riskless Rates, Inflation & COCs</td> <td>12%</td> </tr> <tr> <td>Total</td> <td>100%</td> </tr> </table>	General	39%	Financial Modeling & Determining PG&E’s ROE	36%	Financial Modeling: Screening & Proxy Groups	7%	Capital Structure and ROE Adjustments for It	6%	Decline of Riskless Rates, Inflation & COCs	12%	Total	100%		
General	39%													
Financial Modeling & Determining PG&E’s ROE	36%													
Financial Modeling: Screening & Proxy Groups	7%													
Capital Structure and ROE Adjustments for It	6%													
Decline of Riskless Rates, Inflation & COCs	12%													
Total	100%													

Specific Claim:*

CLAIMED						CPUC AWARD		
ATTORNEY, EXPERT, AND ADVOCATE FEES								
Item	Year	Hours	Rate	Basis for Rate*	Total \$	Hours	Rate	Total \$
Ron Knecht	2012	299.7	\$275	Rationale Attached infra	\$82,417.50	299.7	\$275	\$82,417.50
Ron Knecht	2013	0	\$280	Rationale Attached infra	\$0.00	0	\$280	\$0.00
L. Jan Reid	2012	40.5	\$200	D.12-06-011, Appendix, Resolutions ALJ-281 and ALJ-287	\$8,100.00	40.5	\$200 ³	\$8,100.00
L. Jan Reid	2013	0	\$215	D.12-06-011, Appendix, Resolutions ALJ-281 and ALJ-287	\$0.00	0	\$215 ⁴	\$0.00
Subtotal:					\$90,517.50	Subtotal:		\$90,517.50

OTHER FEES								
Describe here what OTHER HOURLY FEES you are Claiming (paralegal, travel **, etc.):								
Item	Year	Hours	Rate	Basis for Rate*	Total \$	Hours	Rate	Total \$
L. Jan Reid, NOI	2012	4.3	\$100	See Box 18, Item 5.	\$430.00	4.3	\$100	\$430.00
Ron Knecht, Travel	2012	45.4	\$137.50	Rationale Attached Infra	\$6,242.50	45.4	\$137.50	\$6,242.50
Subtotal:					\$6,672.50	Subtotal:		\$6,672.50

³ Approved in D.13-12-018.

⁴ Approved in D.13-12-018.

INTERVENOR COMPENSATION CLAIM PREPARATION **								
Item	Year	Hours	Rate	Basis for Rate*	Total \$	Hours	Rate	Total \$
Ron Knecht	2013	14.5	\$140	Rationale Attached Infra	\$2,030.00	14.5	\$140	\$2,030.00
L. Jan Reid	2013	1.3	\$107.50	D.12-06-11, Appendix	\$139.75	1.3	\$107.50	\$139.75
Subtotal:					\$2,169.75	Subtotal:		\$2,169.75
COSTS								
#	Item	Detail			Amount	Amount		
1	Postage	Postage for 2012 (See Attachment A)			\$47.05			\$47.05
2	Copies	1,180 copies for the period 2012 as billed by UPS Store in SF. (See Attachment A)			\$211.46			\$211.46
Subtotal:					\$258.51	Subtotal:		\$258.51
TOTAL REQUEST \$:					\$99,618.26	TOTAL AWARD \$:		\$99,618.26
<p>* We remind all intervenors that Commission staff may audit their records related to the award and that intervenors must make and retain adequate accounting and other documentation to support all claims for intervenor compensation. Intervenor’s records should identify specific issues for which it seeks compensation, the actual time spent by each employee or consultant, the applicable hourly rates, fees paid to consultants and any other costs for which compensation was claimed. The records pertaining to an award of compensation shall be retained for at least three years from the date of the final decision making the award.</p> <p>** Reasonable claim preparation time typically compensated at ½ of preparer’s normal hourly rate.</p>								

B. Attachments Documenting Specific Claim and Comments on Part III

Attachment or Comment #	Description/Comment
1.	Certificate of Service
2.	Service List
3.	Attachment C, a daily listing of the work performed by Reid
4.	Attachment D, a daily listing of the work performed by Knecht

5.	<p>Reid Hourly Rate</p> <p>Reid requests that the Commission authorize an hourly rate of \$200 for L. Jan Reid for 2012 professional work and \$215 for 2013 professional work. Reid also requests an hourly rate for L. Jan Reid of \$100 for 2012 compensatory time and \$107.50 for 2013 compensatory time.</p> <p>The Commission has previously awarded Reid compensation for 2010-2011 professional work at a rate of \$185 per hour. (D.12-06-011, Appendix) Intervenor compensation rates for experts are separated into three tiers based on experience. The tiers are Tier I (0-6 years), Tier II (7-12 years), and Tier III (13 years and over). (<i>See</i> Resolution ALJ-281, slip op. at 5)</p> <p>Reid now has 14 full years of experience (1998-2012). Thus, Reid moved from Tier II to Tier III in 2011. The Commission has provided that intervenors will receive two step increases of 5% within each tier, rounded up to the nearest \$5 increment. (Resolution ALJ-281, Ordering Paragraph 2, slip op. at 7; and D.08-04-010, slip op. at 11-13) The Commission has also adopted two cost of living adjustments (COLAs): a 2.2% COLA for 2012 (<i>See</i> Resolution ALJ-281, slip op. at 1.) and a 2.0% COLA for 2013 (<i>See</i> Resolution ALJ-287, slip op. at 1).</p> <p>Thus, Reid should receive two increases for calendar year 2012: a 5% step increase and a 2.2% Cost of Living Adjustment. Five percent of Reid's 2011 rate (\$185) is \$9.25, which rounds to an hourly increase of \$10 for a total rate of \$195/hr. for 2012 work. 2.2 percent of \$195 is \$4.29, which rounds to an hourly increase of \$5 for a total rate of \$200/hr. for 2012 work.</p> <p>For 2013, Reid should receive a step increase of 5% (\$5/hr.) for work performed in 2013 and a 2.0% COLA (\$5 hour). Thus, Reid should be awarded a 2013 rate of \$215/hr.</p>
6.	<p>Knecht's Hourly Rate</p> <p>Reid requests that the Commission authorize an hourly rate of \$275 for 2012 for Ron Knecht, with a 2% increase to \$280 for 2013. The corresponding half-rate fees for travel, preparing compensation requests, etc., would be \$137.50 and \$140, respectively. The requested rates are just below the middle of the ranges for Knecht's experience level, as adopted April 18, 2013 by the Commission in Resolution ALJ-287, as shown in Table 1 in the Attachment to that resolution for Experts with 13+ years of experience. Knecht has 42 years of senior and principal-level professional, management and executive experience, including 36 years since he began a career as an expert witness in regulatory matters.</p> <p>As shown in Attachment RLK-1 to his testimony in this docket, Ron Knecht is an economist and policy analyst, Registered Professional Mechanical Engineer (in CA), and law school graduate. He has spent half of his 42 working years in public service / education and half in private entrepreneurial small business, all</p>

in professional and managerial positions. He conducts a wide range of economic, financial, technical and policy analyses and has written and testified extensively as an expert witness in all those areas. In 2001-12, he worked at Nevada's Public Utilities Commission, ending his tenure there as Senior Economist, and he now works as a consultant. Twice a year, he co-teaches a two-day seminar for SNL Financial on utility finance, cost of capital, economic and policy issues for regulators, professionals, managers, securities analysts and others from around the country and Canada. Also, twice a year in New York, he presents a SNL Financial seminar on Valuations for similar audiences. Knecht has been a founder, executive or board member for six business firms and six charitable and public interest groups. Details of his background and qualifications follow.

Professional, Managerial and Business Experience and Elected Office

- Economist / Senior Economist, Resource and Market Analysis Division, Public Utilities Commission of Nevada, 2001-12.
- Regent, District 9, Nevada System of Higher Education, elected to terms for 2007-12 and 2013-18; Past Chairman, Business & Finance and Audit Committees; also served on Investment & Major Projects, Health Sciences System, Research & Economic Development, Health Sciences System and Cultural Diversity & Security committees and various Presidential Search and Performance Review committees, chairing two of the latter
- Assemblyman, District 40, Nevada Assembly (Carson and Washoe Cities), 2002-04; Commerce and Labor, Government Affairs, and Transportation Committees
- President, Economic & Technical Analysis Group (San Francisco and Los Altos CA), 1990–2001
- Board of Directors, Minimax Research Corporation (Campbell CA), 1988-94
- Vice-President, Spectrum Economics, Inc. (Palo Alto and Mountain View CA), 1988-90
- Principal, QED Research, Inc. (Palo Alto CA), 1986-88
- Senior Economist, Dames & Moore, Engineers & Consultants (SF, CA), 1986
- Section Supervisor, principal analyst (economics, finance, technical analysis and policy) and member of all division management committees, California Public Utilities Commission (San Francisco CA), 1979-86
- Cofounder, Chairman, CEO & CFO, The Rainbow Connection, Inc. Restaurant (Springfield IL), 1979-83

	<ul style="list-style-type: none"> • Commissioner’s Senior Advisor and then principal analyst (economics, technical analysis and policy), California Energy Commission (Sacramento CA), 1978-79 • Partner, Bertschi & Knecht Engineers & Consultants (IL and CA), 1976-86 • Energy Research Engineer (1974-77); Center for Advanced Study Research Associate (1973-74); Research Assistant (Economics, 1970-71; Social Work, 1971-72); Grader/Consultant (Computer Science, 1969-71); <i>Daily Illini</i> Reporter (1971-72) and Columnist (1973-75); Assistant to Dean of Student Services (1970-71); Student Senate Office Manager (1968-69); hourly student non-professional employment, 1967-71 – all at University of Illinois, Urbana-Champaign • Assistant City Engineer, City of Urbana IL, 1972-73 <p>Education, Teaching and Professional Registration</p> <ul style="list-style-type: none"> • University of San Francisco Law School, 1995: Juris Doctor • Stanford University, 1989: M.S., Engineering-Economic Systems • University of Illinois at Urbana-Champaign, 1971: B.A., Liberal Arts & Sciences (major in Mathematics; minor in Physics & Chemistry); completed additional course work in economics and engineering, plus Civil Engineering masters degree project (American Nuclear Society award winner) in Power Generating Economics, 1977 • Economics Instructor (Micro- and Macro-Economic Analysis), Western Nevada Community College, Carson City, NV, 2003-06 • Instructor, Regulatory & Legal Aspects of Telecommunications, for graduate students, Golden Gate University, Sacramento CA, 1991 • Registered Professional Mechanical Engineer, State of California, since 1986 <p>Areas of Experience, Publication and Expert Testimony (~150 times; 25 jurisdictions)</p> <ul style="list-style-type: none"> • Regulation: Electric; Natural Gas; Nuclear Power; Coal; Communications; Water, Waste-water and Sewers; Insurance; Transportation; Environmental; Land Use; Finance and Securities; Discount Rates for Public Policy and Business • Utilities: Ratemaking (all aspects); Finance; Strategic and Resource Planning and Forecasting; Operations and Modeling; Operating and Facilities Certificates • Business Analysis and Management: Planning, Strategy, Finance, Valuations, Cost of Capital, Market Power, and Operations
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	<ul style="list-style-type: none"> • Regulatory and Industrial Change: Incentive-based Regulation; Industry De- and Re-regulation and Restructuring; Public vs. Private Provision of Services • Energy: Electricity, Natural Gas, Nuclear Power, Coal, Oil, Cogeneration, Conservation, Renewables, Distribution Companies, Transmission and Independent System Operators, Transportation and Industrial Use • Economics and Policy: Micro- and Macro-economic Analysis; Taxation, Budgeting and Public Finance; Resources and Pollution; Transportation; Public Safety; Health Care; Human and Social Services; Education • Law and Economics: Anti-trust; Due Diligence; Mergers and Acquisitions; Bankruptcy Workouts; Litigation Settlement; Alternative Dispute Resolution; Diversification • Engineering Economics: Systems Analysis/Control; Optimization; Decision & Probabilistic Analysis • Other: Mechanical and Civil Engineering; Statistics; Program and Project Management; Staff Supervision <p>Reid submits that Knecht’s long and distinguished experience and his extensive and high skills would support a request for Knecht’s compensation to be set at the top of the \$160/hr - \$400/hr range for 2012 -- but he has requested only a figure from the middle of the range. The proposed 2013 figures represent merely the 2% increase for the cost-of-living adjustment adopted by the Commission in Resolution ALJ-287 (slip op. at 1). Reid respectfully requests that the Commission adopt a rate of \$275/hr. for Knecht for 2012, increasing to \$280/h. for 2013. This request has been prepared using those rates.</p>
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C. CPUC Disallowances and Adjustments:

#	Reason
1. Adoption of Ron Knecht’s hourly rate(s).	The Commission agrees with the presentation of Knecht’s qualifications as an expert and an economist and adopts the rates of \$275 per hour during 2012 and \$280 per hour during 2013 for work Knecht completed in this proceeding.

PART IV: OPPOSITIONS AND COMMENTS

A. Opposition: Did any party oppose the Claim?	No
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B. Comment Period: Was the 30-day comment period waived (see Rule 14.6(2)(6))?	Yes
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FINDINGS OF FACT

1. L. Jan Reid has made a substantial contribution to D.12-12-034.
2. The requested hourly rates for L. Jan Reid's are comparable to market rates paid to experts and advocates having comparable training and experience and offering similar services.
3. The claimed costs and expenses are reasonable and commensurate with the work performed.
4. The total of reasonable compensation is \$99,618.26.

CONCLUSION OF LAW

1. The Claim, with any adjustment set forth above, satisfies all requirements of Pub. Util. Code §§ 1801-1812.

ORDER

1. L. Jan Reid is awarded \$99,618.26.
2. Within 30 days of the effective date of this decision, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company shall pay L. Jan Reid their respective shares of the award, based on their California-jurisdictional electric and gas revenues for the 2012 calendar year, to reflect the year in which the proceeding was primarily litigated. Payment of the award shall include compound interest at the rate earned on prime, three-month non-financial commercial paper as reported in Federal Reserve Statistical Release H.15, beginning August 17, 2013, the 75th day after the filing of L. Jan Reid's request, and continuing until full payment is made.
3. The comment period for today's decision is waived.
4. This decision is effective today.

Dated _____, at San Francisco, California.

APPENDIX**Compensation Decision Summary Information**

Compensation Decision:		Modifies Decision?	No
Contribution Decision(s):	D1212034		
Proceeding(s):	A1204015 et al.		
Author:	ALJ Division		
Payer(s):	Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company		

Intervenor Information

Intervenor	Claim Date	Amount Requested	Amount Awarded	Multiplier?	Reason Change/Disallowance
L. Jan Reid	6/3/13	\$99,618.26	\$99,618.26	N/A	N/A

Advocate Information

First Name	Last Name	Type	Intervenor	Hourly Fee Requested	Year Hourly Fee Requested	Hourly Fee Adopted
Ron	Knecht	Expert	L. Jan Reid	\$275	2012	\$275
Ron	Knecht	Expert	L. Jan Reid	\$280	2013	\$280
L. Jan	Reid	Expert	L. Jan Reid	\$200	2012	\$200
L. Jan	Reid	Expert	L. Jan Reid	\$215	2013	\$215

(END OF APPENDIX)