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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2014. **(U 39 M)**	**Application No.** A1211009

GENERAL RATE CASE APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY

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Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2014. (U 39 M)	Application No.

GENERAL RATE CASE APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY

By this 2014 test year General Rate Case (GRC) Application, Pacific Gas and Electric Company (PG&E or the Company) asks the California Public Utilities Commission (Commission or CPUC), effective January 1, 2014, to increase electric and gas rates and charges to collect the reasonable level of revenue requirements that PG&E needs to continue to provide safe and reliable gas and electric service to its customers.[1/]

As explained by PG&E Corporation's Chairman, Chief Executive Officer and President (Exhibit (PG&E-1), Chapter 1), PG&E is embarking on a strategy to address three broad areas:

- Executing on a "back to basics" strategy to improve our operations;
- Strengthening PG&E's culture so that identifying issues and driving continuous improvement become deeply ingrained in PG&E's mindset and behavior; and
- Rebuilding relationships with PG&E's customers, communities and other stakeholders.

Executing on these strategies, this GRC places priority on minimizing risk and improving safety. In this GRC, PG&E charts a course for first quartile performance in public

1/ This application is submitted pursuant to Article 2 of the Commission's Rules of Practice and Procedure and the Commission's Rate Case Plan adopted in Decision (D.) 07-07-004 ("Rate Case Plan").

and employee safety. (Exhibit (PG&E-1), Chapter 3.) This GRC also forecasts increases in gas distribution expense and capital necessary to meet Senate Bill 705 requirements for implementation of industry best practices for gas pipeline safety.

PG&E's emphasis on safety and risk is consistent with Executive Director Clanon's March 5, 2012 letter to PG&E. The Executive Director's letter described a process by which the Commission's Consumer Protection and Safety Division (CPSD) would hire independent consultants to review operational and public safety issues regarding PG&E's forecast and PG&E would have an opportunity to formally respond to the review. PG&E looks forward to the review and to its opportunity to respond.

In this Application, PG&E requests that the Commission increase gas and electric distribution and generation base revenue requirements by a total of $1.282 billion, effective January 1, 2014, as compared to 2014 authorized and pending revenues.

Notwithstanding this request, the rates of PG&E's electric customers covered under the California Alternative Rates for Energy (CARE) program for usage at or below 130 percent of baseline will not, pursuant to current law, increase as a result of this request.[2/] PG&E's request represents an 8.0 percent increase over the projected 2013 total combined gas and electric revenue of $16.003 billion.

I. STATEMENT OF RELIEF AND AUTHORITY SOUGHT

Table 1 shows the bill impact for non-CARE electric residential customers using 550 kWh and 850 kWh per month and for non-CARE gas residential customers using 37 therms per month.

2/ Any increase to electric rates for customers covered under the CARE program for usage at or below 130 percent of baseline is constrained by California Public Utilities Code Sections 739.1.

Table 1
Impact on Non-CARE Residential Customer Bills*

Monthly Residential Customer Usage	Current 2012 Avg. Bill	Proposed 2014 Bill	Increase	2012 to 2014 Percent Increase
Electric:				
550 kWh	$ 89.36	$ 93.97	$ 4.61	5.16%
850 kWh	$184.41	$202.75	$18.34	9.95%
Gas:				
37 Therms	$ 46.13	$ 53.18	$7.06	15.3%

*** Some numbers in the tables in this Application may not add up due to rounding.**

Table 2 sets forth PG&E's request for an increase in base revenue amounts.

Table 2
Increase in Base Revenue Amounts
(Millions of Dollars)

	2012 Authorized and Pending Revenue Requirement[3/]	2014 Authorized and Pending Revenue Requirement[4/]	2014 Proposed Revenue Requirement	Increase: 2012 Authorized to 2014 Proposed		Increase: 2014 Authorized and Pending to 2014 Proposed	
Gas Distribution	$1,288	$1,324	$1,810	$ 522	40.5%	$ 486	36.7%
Electric Distribution	3,633	3,768	4,355	722	19.9%	587	15.6%
Electric Generation	1,707	1,737	1,946	239	14.0%	209	12.0%
Total	$6,629	$6,829	$8,111	$1,483	22.4%	$1,282	18.8%

Because PG&E's total electric and gas revenue requirements consist largely of energy procurement and other costs not included in the gas distribution, electric distribution, and electric generation revenue requirements presented in the GRC, the percentage increases over total revenue requirements are substantially lower than the percentage increases shown above. Table 3 below shows the total gas distribution revenue requirement increase over the

3/ These amounts include revenues from PG&E's 2011 GRC Decision 11-05-018, adjusted for attrition. The amounts also include the authorized and pending revenue requirements associated with the Cornerstone Project, Market Redesign and Technology Upgrade (MRTU), Fuel Cell Project, Vaca-Dixon PV Pilot Project, the SmartMeter™ program and meter reading. These amounts exclude pension costs.

4/ See footnote 3.

2012 total authorized gas revenue requirement and the 2013 forecast total gas revenue requirement. Also presented in Table 3 is the combined electric distribution and electric generation revenue requirement increase over the 2012 total electric revenue requirement and the 2013 forecast total electric revenue requirement.

Table 3
GRC Revenue Increase Over Total Revenues
(Millions of Dollars)

	2012 Authorized Revenues	2014 Revenue Increase Over 2012	% Increase over 2012 Revenues	2013 Revenue Forecast	2014 GRC Increase Over 2013	% Increase Over 2013 Revenues
Gas	$ 3,450	$ 522	15.1%	$ 3,371	$486	14.4%
Electric	12,332	961	7.8%	12,632	796	6.3%
Total	$15,782	$1,483	9.4%	$16,003	$1,282	8.0%

In this 2014 Application, PG&E also asks the Commission to authorize the Company to implement adjustments for the 2015 and 2016 attrition years. PG&E estimates the attrition adjustment mechanism will yield the revenue requirement increases set forth in Table 4.

Table 4
Attrition Year Revenue Requirement Increases
(Millions of Dollars)

	Gas Distribution	Electric Distribution	Electric Generation	Total
2015	$187	$234	$71	$492
2016	$160	$246	$98	$504

II. ACCEPTANCE OF THE NOTICE OF INTENT

On July 2, 2012, PG&E tendered its 2014 GRC Notice of Intent (NOI). On September 14, 2012, the Division of Ratepayer Advocates (DRA) accepted the tendered documents.[5/] Consistent with the Rate Case Plan, on September 19, 2012, PG&E served a Notice of Availability of the NOI on all appearances in PG&E's 2011 GRC, and sent a letter to Chief Administrative Law Judge (ALJ) Karen Clopton verifying service.[6/]

5/ *See* D.07-07-004, *mimeo*, p. A-11.

6/ *Id.*, pp. A-11 to A-12.

III. SUMMARY OF REASONS FOR PG&E'S REQUEST AND SPECIFIC AREAS OF INCREASE

A. Reasons for Requested Relief

PG&E provides detailed support for its 2014 GRC Application in the prepared testimony and workpapers accompanying this filing.[7/] The key reasons for the requested increase in revenue requirements are:

- Increases in the costs of delivering energy safely to customers, maintaining reliability, and providing responsive customer service;
- Need for substantial capital investments to replace aging infrastructure;
- Need for capacity-driven additions;
- Recovery of costs for depreciation associated with PG&E's plant investments; and
- Costs of complying with governmental regulations and orders applicable to PG&E's extensive electric and gas systems and facilities.

The specific areas of increase for the gas distribution and electric distribution and generation functions are discussed separately below.

B. Specific Areas of Increase

The fundamental elements comprising PG&E's gas distribution and electric distribution and generation revenue requirement increases are: Operations and Maintenance (O&M) expense; Customer Services expense; Administrative and General (A&G) expense; payroll taxes, franchise fees, and uncollectibles (FF&U); return, taxes, and depreciation; change in depreciation rates; and changes in Other Operating Revenue.

1. Gas Distribution Revenue Requirement

Table 5 lists the elements composing the gas distribution revenue requirement increase over the amounts the Commission adopted in PG&E's 2011 GRC, as adjusted per footnote 3, <u>supra</u>.

7/ *Id.*, pp. A-11 to A-12.

Table 5
Elements of Gas Distribution Revenue Requirement Increase

Area	(Millions of Dollars)
O&M Expense	$173
Customer Service Expense	10
A&G Expense	64
Increase in Other Operating Revenue	(2)
FF&U, Other Adjs, Taxes Other than Income	15
Return, Taxes, Depreciation, and Amortization	227
Increase in Retail Revenue Amount	$486

2. Electric Distribution Revenue Requirement

Table 6 lists the elements composing the electric distribution revenue requirement increase over the amounts the Commission adopted in PG&E's 2011 GRC, as adjusted per footnote 3, supra.

Table 6
Elements of Electric Distribution Revenue Requirement Increase

Area	(Millions of Dollars)
O&M Expense	$5
Customer Service Expense	14
A&G Expense	79
Decrease in Other Operating Revenue	26
FF&U, Other Adjs, Taxes Other than Income	32
Return, Taxes, Depreciation, and Amortization	431
Increase in Retail Revenue Amount	$587

3. Electric Generation Revenue Requirement

Table 7 lists the elements composing the electric generation revenue requirement increase over the amounts the Commission adopted in PG&E's 2011 GRC, as adjusted per footnote 3, supra.

Table 7
Elements of Electric Generation Revenue Requirement Increase

Area	(Millions of Dollars)
O&M Expense	$76
Customer Service Expense	0
A&G Expense	80
Increase in Other Operating Revenue	(3)
FF&U, Other Adjs, Taxes Other than Income	(109)
Return, Taxes, Depreciation, and Amortization	164
Increase in Retail Revenue Amount	$209

IV. REVENUE INCREASE

A. Amount of Revenue Increase by Customer Class

The illustrative percentage change for each customer class is presented in Tables 8 and 9 below.

Table 8
Illustrative Revenue Allocation By Customer Class: Gas

Customer Class	Revenues at Present (4/1/12) Rates ($000)	Proposed Illustrative Revenue Allocation ($000)	Revenue Change ($000)	Percentage Change
Core Retail				
Residential	$2,342,313	$2,704,770	$362,457	15.5%
Commercial, Small	646,342	735,560	89,218	13.8%
Commercial, Large	42,204	45,408	3,204	7.6%
Natural Gas Vehicle (Customer Compression)	11,080	11,283	203	1.8%
Natural Gas Vehicle (PG&E Compression)	4,533	4,488	-45	-1.0%
Noncore Retail – Transportation Only				
Industrial Distribution	50,911	65,949	15,038	29.5%
Industrial Transmission	109,583	121,914	12,331	11.3%
Industrial Backbone	555	619	63	11.4%
Electric Generation	65,621	68,719	3,098	4.7%
Natural Gas Vehicle (Customer Compression)	334	363	30	8.9%
Wholesale –				
Alpine Natural Gas	41	41	0	0.0%
Coalinga	149	149	0	0.0%
Island Energy	33	33	0	0.0%
Palo Alto	1,451	1,451	0	0.0%
West Coast Gas - Castle	103	133	30	28.8%
West Coast Gas – Mather, Distribution & Transmission	142	179	37	26.2%
Unbundled Backbone Transmission and Storage	174,832	174,832	0	0.0%
Total	$3,450,228	$3,935,891	$485,663	14.1%

The revenue changes set forth above in Table 8 are illustrative only. The gas distribution revenue change has been allocated to customer classes in proportion to the gas distribution base revenue allocation adopted in PG&E's most recent Biennial Cost Allocation Proceeding (BCAP) Decision. The revenue change also reflects the illustrative impacts of the Air Resources Board Administration Fee and Public Purpose Program Surcharge. Gas revenues include gas transportation and public purpose program surcharge revenues for all classes as applicable. Core revenues include illustrative annual gas procurement revenue as filed in PG&E's 2012 Annual Gas True-up and updated in April 2012.

Table 9
Illustrative Revenue Allocation By Customer Class: Electric

Customer Class	Revenues at Present (7/1/12) Rates ($000)	Proposed Illustrative Revenue Allocation ($000)	Revenue Change ($000)	Percentage Change
Bundled				
Residential	$5,172,382	$ 5,501,505	$ 329,123	6.4%
Small Light and Power (L&P)	1,441,793	1,549,940	108,147	7.5%
Medium L&P	1,309,552	1,391,026	81,475	6.2%
E-19 Total	1,528,905	1,621,166	92,261	6.0%
Streetlights	68,294	71,373	3,079	4.5%
Standby	57,534	60,497	2,963	5.1%
Agriculture	865,225	924,910	59,685	6.9%
E-20 Total	1,119,778	1,178,285	58,507	5.2%
Total Bundled	$ 11,563,463	$ 12,298,703	$ 735,240	6.4%
Direct Access				
Residential	$ 61,726	$ 67,681	$ 5,955	9.6%
Small L&P	28,388	31,118	2,730	9.6%
Medium L&P	80,275	87,060	6,786	8.5%
E-19 Total	228,723	246,746	18,024	7.9%
Streetlights	673	726	53	7.9%
Standby	879	934	54	6.2%
Agriculture	3,267	3,545	278	8.5%
E-20 Total	241,514	258,012	16,499	6.8%
Total Direct Access	$645,444	$695,822	$50,378	7.8%

The revenue changes set forth above in Table 9 are illustrative only. Revenues have been allocated to each customer class consistent with the current allocation practice approved by Decision 11-12-053.

B. Summary Supporting Increase

The costs and associated revenue requirements that are the subject of this Application are those estimated to occur in calendar year 2014. These costs include all O&M and A&G expenses, depreciation, taxes, and a fair return on rate base for the electric and gas distribution and electric generation functions that PG&E performs. PG&E is presenting this GRC in an "unbundled" format, consistent with all of PG&E's GRCs since 2003. All the costs have been separated into Unbundled Cost Categories (UCCs) and aggregated into business functional areas. This Application does not address revenue requirement changes in the areas of electric transmission, gas transmission and storage, public purpose programs and conservation programs, except for the purpose of allocating common costs. In the area of common cost allocation, this Application asks that the Commission approve the allocations of A&G expenses and common plant to all UCCs for use in other non-GRC Commission ratemaking mechanisms.

Consistent with the Rate Case Plan, PG&E developed and presented its test year revenue requirement estimates using the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. (See, for example, Exhibit (PG&E-1), Chapter 5, of the testimony supporting this Application.) In addition, PG&E augmented this traditional FERC-account presentation with a complete description of its operational activities and costs necessary to conduct its utility business in a safe and reliable manner.

As done since the 2003 GRC, PG&E has organized its operational activity and cost forecasts by Major Work Category (MWC), the basic unit of work activity PG&E uses for its operational planning, budgeting and managing purposes.[8/] PG&E's testimony regarding costs, organized by MWC, is found in Exhibits (PG&E-3) through (PG&E-7) and Exhibit (PG&E-9). PG&E's internal accounting system (using software that SAP AG developed) keeps track of PG&E's operational costs by MWC. The entries in this system are expressed in "SAP dollars," which include certain overhead costs, i.e., in addition to the direct costs of

8/ PG&E's A&G Department costs are managed by cost centers, not MWCs.

an activity, like labor and materials, they contain indirect costs such as benefits and payroll taxes.

For O&M expense, the SAP dollars for a given MWC typically may be booked to several different FERC accounts. The testimony in Exhibit (PG&E-2), Chapters 2 through 6, explains how the forecast SAP dollars in each MWC are determined and then assigned to their corresponding FERC accounts. In turn, aggregating all of the MWC expense to a particular FERC account provides the corresponding FERC-dollar forecast.

V. COST OF CAPITAL/AUTHORIZED RATE OF RETURN

The Rate Case Plan requires a utility to "use the most recently authorized rate of return in its calculations" supporting its results of operations presentation.[9/] Accordingly, PG&E has used the authorized cost of capital information set forth in Decisions 07-12-049, 08-05-035 and 09-10-016.

VI. REVENUES AT PRESENT RATES IN THE RESULTS OF OPERATIONS REPORT

PG&E's rates and charges for electric and gas service are set forth in PG&E's electric and gas tariffs on file with this Commission. The Commission has approved these tariffs in decisions, orders, and resolutions. Exhibit B sets forth PG&E's present electric and gas rates.

At rates currently in effect, PG&E estimates that, in 2014, its electric and gas distribution operations would be able to earn returns on rate base of 6.25 percent and 1.78 percent respectively, as shown in detail in Exhibit H. These forecast rates of return on rate base equate to returns on common equity for the electric distribution function of 6.47 percent, and for the gas distribution function of -2.13 percent. For the generation function, at present rates the 2014 return on rate base would be 6.44 percent, which equates to 6.82 percent return on common equity.

VII. EXHIBITS AND PREPARED TESTIMONY

The testimony exhibits in this Application consist of chapters setting forth the testimony of witnesses familiar with the subject matter of their testimony. The witnesses

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9/ D.07-07-004, *mimeo*, p. A-30.

present PG&E's principles and policies for managing its utility functions to provide safe and reliable service, and the factual support for the forecasted costs.

VIII. EXHIBITS AND SPECIAL STUDIES FURNISHED

Each testimony exhibit generally contains an introductory chapter explaining the contents of the exhibit. In addition, each chapter generally contains an introduction which summarizes the information and material discussed in the chapter. A list of the testimony exhibits showing their contents and identifying the sponsoring witnesses is attached to this Application as Appendix 1.

IX. OTHER MATTERS RELATED TO PG&E'S APPLICATION

A. Relationship to Decision 09-09-020 (Pension)

The revenue requirement for the pension contributions in the period 2014 through 2016 will be collected through the Pension Cost Recovery Mechanism, not in the 2014 GRC request. Consistent with the revenue requirements adopted in Decision 09-09-020, capitalized pension costs through 2013 are included in GRC rate base effective January 1, 2014.

B. Cornerstone Improvement Project

In Application 08-05-023, PG&E proposed the Cornerstone Improvement Project (Cornerstone Project), which was intended to improve the resiliency and reliability of PG&E's electric distribution system. In D.10-06-048, the Commission approved some, but not all, of the key Cornerstone Project elements. Since that decision was issued, PG&E has commenced work on the approved Cornerstone Project and has provided the Commission with annual reports to discuss its progress. The Cornerstone Project ends in 2013. PG&E's 2014 GRC forecast does not include expenditures to complete work previously approved in the Cornerstone decision. That work is handled separately in accordance with the Cornerstone decision.

C. Balancing Accounts and Memorandum Accounts

PG&E is proposing that new two-way balancing accounts be adopted for costs associated with: gas leak survey and repair (see Exhibit (PG&E-3), Chapter 6); major emergencies that are not covered by the Catastrophic Event Memorandum Account (see Exhibit (PG&E-4), Chapter 10); FERC relicensing for hydroelectric facilities and pending new license conditions (see Exhibit (PG&E-6), Chapter 2); and implementation of Nuclear Regulatory Commission (NRC) rulemaking requirements for PG&E's Diablo Canyon Power Plant (see Exhibit (PG&E-6), Chapter 3). PG&E proposes to continue the existing one-way balancing account and tracking account for vegetation management (see Exhibit (PG&E-4), Chapter 8).

PG&E proposes to eliminate existing balancing accounts for the distribution integrity management program (DIMP) (see Exhibit (PG&E-3), Chapter 4); and SmartMeter™ Program deployment and meter reading (see Exhibit (PG&E-5), Chapters 5 and 10). PG&E also proposes to close the Service Disconnection Memorandum Account (see Exhibit (PG&E-5), Chapter 4); the non-demand response portion of the MRTU Memorandum Account (see Exhibit (PG&E-10), Chapter 9); and, depending on update testimony, the Tax Memorandum Account (see Exhibit (PG&E-2), Chapter 14).

D. A&G

As the Commission explained in PG&E's 1999 GRC decision, "A&G expenses are of a general nature and are not directly chargeable to any specific utility function. They include general office labor and supply expenses and items such as insurance, casualty payments, consultant fees, employee benefits, regulatory expenses, association dues, and stock and bond expenses."[10/] A&G expenses support the Company's provision of safe and reliable gas and electric distribution and electric generation services. The process for forecasting A&G is set forth in the testimony and supporting workpapers of Exhibit (PG&E-9).

10/ D.00-02-046, *mimeo*, pp. 243-244.

E. Depreciation Study

As in past GRCs, PG&E has engaged a depreciation expert to study PG&E's plant additions, retirement and net salvage data, to review present depreciation rates and to recommend changes to those rates for its distribution plant as necessary. The depreciation study is described in Exhibit (PG&E-2), Chapter 11.

F. Post Test Year Ratemaking -- Attrition

PG&E seeks an attrition ratemaking mechanism for 2015 and 2016 designed to increase the Company's authorized revenues to reflect pre-determined increases in capital costs due to its ongoing investments in infrastructure, as well as pre-determined increases in wages and other expenses due to inflation. (See Exhibit (PG&E-11).) The primary driver of attrition increases in this GRC is capital investment which drives increases in rate base and depreciation expense, irrespective of inflation. As for the expense portion of attrition, PG&E's attrition proposal includes a fixed and pre-forecasted escalation of labor, medical costs, goods and services that PG&E must purchase to operate its business, as well as other adjustments described in Exhibit (PG&E-11). Finally, under its attrition proposal PG&E is proposing throughout the GRC cycle to allow for upward or downward adjustments to revenue for certain exogenous changes under a "Z factor" mechanism, similar to the mechanism adopted for other California utilities. The Company estimates that its attrition proposal will result in an increase of approximately $492 million for 2015 and an additional $504 million for 2016.

G. Studies and Information Required by Previous Commission Policy Statements or Decisions

In its decision on PG&E's 1984 GRC, the Commission ordered PG&E to provide, among other things a "presentation of levels of wages and salaries estimated by the utility for comparison with similar wages and salaries paid in the marketplace."[11/] Pursuant to PG&E's 2011 GRC decision, this study will not include information related to long-term incentives,

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11/ D.83-12-068; 14 CPUC 2d 15, 263, Ordering Paragraph No. 15.d.

which are not funded by customers.[12] Also pursuant to PG&E's 2011 GRC decision, PG&E has not proffered studies of multifactor productivity in this case.[13]

Other compliance items are listed in Exhibit (PG&E-10), Chapter 8.

H. Recorded Data

Pursuant to the Rate Case Plan's requirement regarding recorded data, PG&E is presenting recorded data, in results of operations format, for base year 2011.

I. Previously Litigated Issues

One A&G issue in this case deals with recovery of that portion of management employee compensation which is at risk pursuant to the Company's Short-Term Incentive Plan (STIP). In this GRC, PG&E seeks recovery of STIP only for eligible non-officer employees. In PG&E's 1999 GRC, the Commission allowed 50 percent recovery of PG&E's requested payments, with PG&E's request based on a target of 1.0 (out of a potential payout of 2.0).[14] The issue was not specifically addressed in the 2003 and 2007 Distribution and Generation Settlements. Although not precedential, PG&E's 2011 GRC Settlement Agreement reflects a reduction in STIP recovery to reflect parties' arguments in the case.[15]

Since the Commission's decision in PG&E's 1999 GRC, the Commission has spoken on this issue in several rate case decisions and authorized recovery of 100 percent of incentive compensation programs.[16] Similarly, in this case, PG&E will demonstrate that recovery of the full STIP revenue requirement for non-officer employees (as described in Exhibit (PG&E-8), Chapter 5, is reasonable and consistent with Commission precedent in recent GRCs.

Another issue in this case is recovery of premiums for Directors and Officers (D&O) liability insurance. The Commission has acknowledged that D&O liability insurance is a

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12/ D.11-05-018, *mimeo*, p. 1-19 (Settlement Agreement Section 3.12(l)).

13/ D.11-05-018, *mimeo*, p. 1-19 (Settlement Agreement Section 3.12(k)).

14/ D.00-02-046, *mimeo*, p. 256.

15/ D.11-05-018, *mimeo*, p. 1-12 (Settlement Agreement Section 3.6.1).

16/ D.04-07-022, *mimeo*, pp. 213-217 (Southern California Edison (SCE) 2003 GRC); D.06-05-016, *mimeo*, pp. 127-132 (SCE 2006 GRC); D.08-07-046, *mimeo*, p. 22 (Sempra 2008 GRC).

necessary and reasonable cost of doing business, provides significant benefit to customers, is critical to obtaining and maintaining qualified directors and officers, and therefore had previously allowed the utility to include the costs of this insurance in rates.[17/] However, the Commission later reversed course, authorizing the utility to include only 50 percent of D&O costs in rates, notwithstanding its reaffirmation that D&O insurance was a necessary cost of doing business.[18/] Because the Commission has consistently acknowledged the necessity of this type of coverage, PG&E requests that the Commission revisit this policy and authorize PG&E to recover the full amount of D&O insurance premiums in rates.

PG&E has computed working cash, consistent with its prior GRC filings and in conformity with Commission Standard Practice (SP) U-16. PG&E's practice of excluding customer deposits from working cash follows Commission precedent involving PG&E that have endorsed the SP U-16 methodology. PG&E has not followed the Commission's treatment of SCE on this issue, which the Commission in PG&E's 2007 GRC characterized as "something of an aberration."[19/]

PG&E has also computed rate base using a forecast of nuclear fuel. PG&E's proposal to include nuclear fuel in rate base contrasts with the Commission's treatment of SCE.[20/] However, given ongoing turmoil in the financial markets and lessons learned about excessive leveraging – and consistent with industry practice throughout the United States – PG&E will once again show that nuclear fuel must be financed with a combination of equity and long-term debt, the same as for other nuclear plant. If PG&E is not permitted to include nuclear fuel in rate base, PG&E will not be able to recover its costs of financing this specially designed material, which has no use other than at the Diablo Canyon Power Plant.

17/ D.87-12-066, 26 CPUC 2d, 422 (SCE 1988 GRC).

18/ D.96-01-011, 64 CPUC 2d 241, 319 (SCE 1996 GRC).

19/ *Cf.* D.07-03-044, *mimeo*, pp. 201-202 (PG&E 2007 GRC) with D.04-07-022, *mimeo*, pp. 249-255 (SCE 2003 GRC) and subsequent SCE GRC decisions; also see language supportive of PG&E's position in D.08-07-046, *mimeo*, pp. 28-29 (Sempra 2008 GRC).

20/ See D.06-05-016, *mimeo*, pp. 272-273 (SCE 2006 GRC).

J. Rate Case Plan Matters Determined in Phase 2 of this Proceeding or in Other Proceedings

1. Electric Marginal Costs and Revenue Allocation

The Rate Case Plan requires electric utilities to submit, as part of the GRC application, cost allocation studies by classes of service and marginal cost data in sufficient detail to allow the development of rates for each customer class, with a complete electric rate design proposal to be filed no later than 90 days after filing of the application.[21/] Consistent with PG&E's practice in prior GRCs, PG&E will present in "Phase 2" of this proceeding, electric marginal cost, revenue allocation, and rate design, on a later timetable than the revenue requirement showing in "Phase 1."[22/] Given this practice, PG&E is not including electric marginal costs and revenue allocation in this application. Gas marginal costs, revenue allocation, and rate design are addressed in the Biennial Cost Allocation Proceeding.

2. Demand Side Management (Public Purpose) Program Issues

The Rate Case Plan requirement for demand-side management (DSM) program information[23/] has been superseded by Public Utilities Code Sections and distinct Commission proceedings and decisions governing DSM program offerings, cost-effectiveness and funding levels. In addition to the Commission DSM proceedings which authorize and fund DSM programs, Public Utilities Code Section 382 provides that electric low-income programs (low-income energy efficiency and the CARE low-income rate discount programs) continue to be funded at levels not less than those in effect during 1996. Further, Public Utilities Code Section 890 requires the Commission to establish a non-bypassable gas surcharge to fund gas energy efficiency, low-income and public interest research and development programs.

21/ D.07-07-004, *mimeo*, p. A-22.

22/ See Assigned Commissioner Bohn's ruling in PG&E's 2007 GRC (issued February 3, 2006), directing PG&E to "file a separate application for Phase 2 issues" on the grounds that such "treatment of Phase 2 issues is consistent with recent GRC proceedings and the Commission's responsibility under Pub. Util. Code § 1701.5 to complete ratesetting proceedings within 18 months."

23/ D.07-07-004, *mimeo*, p. A-32.

The Application requests funding for one component of the low-income Energy Savings Assistance DSM program: the Natural Gas Appliance Testing (NGAT) Program. (See Exhibit (PG&E 5), Chapter 7.) The NGAT program is not covered in other cost proceedings or recovery mechanisms and has historically been covered in the GRC.

3. Current Resource Plan

The Rate Case Plan, developed long before the advent of Electric Industry Restructuring in California, requires electric utilities to submit their "current Resource Plan."[24/] The Commission now reviews the long-term electric procurement plans of the state's major electric utilities in the Long Term Procurement Plan Proceeding, which typically occurs every two years. The Commission approved PG&E's most recent long-term electric procurement plan in Decision 12-01-033. Similarly, PG&E's gas resource plan for its core gas customers is addressed in the Biennial Cost Allocation Proceeding.

K. Estimates by Account

PG&E has presented its O&M and A&G estimates in this Application by FERC Account. In addition, as discussed above, PG&E has presented its estimates by MWC consistent with how the Company plans, budgets, and manages it operations.

L. Guidelines or Directions Affecting PG&E's GRC Presentation

The Rate Case Plan provides that "[w]hen controlling affiliates provide guidelines or directions to the Company's presentation, these shall be set forth in the direct showing or available in the workpapers."[25/] PG&E Corporation has been apprised of and has participated in the development of this GRC application, including direction in the development of Exhibit (PG&E-1), Chapter 1. PG&E Corporation departments also provided information regarding the cost of services the PG&E Corporation provides to the Utility, which are described in Exhibit (PG&E-9).

24/ *Id.*

25/ *Id.*

M. Proposal for Implementing Proposed Revenue Change at the Beginning of the Test Year

Proposals for implementing electric and gas revenue changes on January 1, 2014, are set forth in Exhibit (PG&E-10), Chapters 6 (electric) and 7 (gas), and the workpapers supporting those chapters.

X. WORKPAPERS

PG&E's witnesses have prepared workpapers supporting PG&E's exhibits in accordance with the requirements of the Rate Case Plan. PG&E intends to request inclusion of the workpapers in the record of the 2014 GRC. Therefore, when the witnesses adopt their prepared and rebuttal testimony along with any other testimony that may be submitted, the witnesses will also sponsor and adopt their workpapers, if any.

XI. COMPLIANCE WITH THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE

A. Statutory Authority

PG&E files this Application pursuant to Sections 451, 454, 728, 729, 740.4 and 795 of the Public Utilities Code, the Commission's Rules of Practice and Procedure, and prior decisions, orders, and resolutions of the Commission.

B. Categorization - Rule 2.1.(c)

PG&E proposes that this Application be categorized as a "ratesetting" proceeding.

C. Need for Hearing - Rule 2.1(c)

PG&E anticipates that hearings will be requested. PG&E's proposed schedule is set forth in subsection E, below.

D. Issues to be Considered - Rule 2.1(c)

The principal issues are whether:

1. The proposed revenue requirement for the gas distribution function in 2014 is just and reasonable and the Commission should authorize PG&E to reflect the adopted gas distribution revenue requirement in rates.

2. The proposed revenue requirement for the electric distribution function in 2014 is just and reasonable and the Commission should authorize PG&E to reflect the adopted electric distribution revenue requirement in rates.

3. The proposed revenue requirement for the electric generation function in 2014 is just and reasonable and the Commission should authorize PG&E to reflect the adopted electric generation revenue requirement in rates.

4. With respect to the Gas Distribution organization described in Exhibit (PG&E-3):

a. The two-way balancing account for leak survey and repair described in Exhibit (PG&E-3), Chapter 6, should be adopted.

5. With respect to the Electric Distribution organization described in Exhibit (PG&E-4):

a. The one-way balancing account and tracking account for Vegetation Management described in Exhibit (PG&E-4), Chapter 8, should be continued.

b. The two-way balancing account for major emergency costs not covered by the Catastrophic Event Memorandum Account described in Exhibit (PG&E-4), Chapter 10, should be adopted.

c. The annual PG&E Electric Tariff Rule 20A work credit allocation amount of $41.3 million adopted in the 2011 General Rate Case decision should be extended through 2016, as described in Exhibit (PG&E-4), Chapter 18.

d. The rate design for light-emitting diode (LED) streetlights described in Exhibit (PG&E-4), Chapter 19, should be adopted.

6. With respect to the Customer Care organization described in Exhibit (PG&E-5):

a. The costs recorded in the Service Disconnection Memorandum Accounts as of December 31, 2013, are reasonable and should be recoverable through the mechanism described in Exhibit (PG&E-10), Chapter 9.

b. The proposed changes to customer fees (i.e., the non-sufficient funds fee and reconnection fees) described in Exhibit (PG&E-5), Chapter 4, are just and reasonable and should be adopted.

c. The proposed change to PG&E's uncollectibles mechanism as described in Exhibit (PG&E-5), Chapter 4, is just and reasonable and should be adopted.

d. The reporting requirements concerning the SmartMeter™ program specifically identified in Exhibit (PG&E-5), Chapter 10, are no longer required;

e. The joint proposal between PG&E and the Center for Accessible Technology in Exhibit (PG&E-5), Chapter 11, is just and reasonable and should be adopted.

7. With respect to the Energy Supply organization described in Exhibit (PG&E-6):

a. The decommissioning and fuel oil inventory costs described in Exhibit (PG&E-6), Chapter 4, should be authorized.

b. The expenditure of $1 million in capital costs above the amount authorized in Decision 10-04-028 for the fuel cell projects should be authorized because the additional expenditure was reasonable and necessary, as explained in Exhibit (PG&E-6), Chapter 4.

c. The credit to the Electric Generation Revenue Requirement with funds received as a result of Department of Energy (DOE) litigation and revenue overcollections associated with PG&E's Utility-Owned Generation Photovoltaic Program, should be authorized, as described in Exhibit (PG&E-6), Chapter 6.

d. The two-way balancing accounts for Hydroelectric Relicensing Costs and Nuclear Regulatory Costs described in Exhibit (PG&E-6), Chapter 1, should be approved.

8. With respect to the Human Resources and A&G functions described in Exhibits (PG&E-8) and (PG&E-9):

a. The full STIP revenue requirement for eligible non-officer employees is just and reasonable, as described in Exhibit (PG&E-8), Chapter 5, and should be approved.

b. The full cost of D&O liability insurance is just and reasonable, as described in Exhibit (PG&E-9), Chapter 3, and should be approved.

9. The budget reporting requirements adopted in PG&E's 2011 GRC, as described in Exhibit (PG&E-1), Chapter 5, should be continued.

10. The proposed allocation of common costs (A&G expenses and common plant) should be approved for use in other, non-GRC Commission ratemaking mechanisms.

11. The proposed attrition adjustments for 2015 and 2016 for the electric and gas distribution and electric generation functions are just and reasonable and the Commission should authorize PG&E to implement the annual attrition adjustments by compliance advice letters.

12. The proposed computations for working cash are in conformity with SP U-16, just and reasonable, and should be approved.

13. The forecasts of generation rate base, including the inclusion in rate base of forecast nuclear fuel inventory, are just and reasonable, and should be approved.

14. The revisions to existing balancing and memorandum accounts, described in Exhibit (PG&E-10), Chapter 9, are just and reasonable, and should be approved.

E. Proposed Schedule – Rule 2.1(c)

The Rate Case Plan identifies certain activities associated with processing a GRC and specifies the dates by which these activities should occur. The Rate Case Plan contemplates separate sets of evidentiary hearings on an Applicant's direct testimony and rebuttal testimony. In previous GRCs, the Commission has consolidated these hearings, resulting in a more efficient process. Consolidated hearings are reflected in the schedule proposed below. The schedule also introduces milestones pertaining to the process described in the Executive Director's March 5, 2012 letter to PG&E. Specifically, PG&E has included items pertaining to the submission of the third-party reviews being conducted by the CPSD, as well as responsive testimony to those reviews.

PG&E's proposed schedule is as follows:

Activity	Date
File Application	November 15, 2012
Informal Public Workshop	December 19, 2012
Prehearing Conference	January 11, 2013
CPSD Reports Submitted	February __, 2013
DRA report served	February 15, 2013
Intervenor reports served	March 8, 2013
Rebuttal testimony served (including Responsive Testimony to CPSD Reports)	April 5, 2013
Public Participation Hearings	TBD
Evidentiary Hearings begin	April 22, 2013
Evidentiary Hearings end	May 24, 2013
Comparison Exhibit	June 14, 2013
Opening Briefs	July 12, 2013
Reply Briefs	August 9, 2013
Update Filing	September 6, 2013
Update Hearing	September 16, 2013
ALJ PD	November 1, 2013
Comments on PD	November 22, 2013
Reply to PD Comments	November 29, 2013
Oral Argument, if ordered	December 5, 2013
Decision	December 19, 2013

As described in the testimony supporting this Application, this GRC proposes many important new measures, measures that must be planned in advance. To ensure that such measures are implemented in 2014, it is important that the Commission decision be issued prior to the end of 2013. PG&E's larger capital projects take at least several months advance planning. Should a final decision be issued during 2014, the benefits from some of the larger projects could be delayed beyond the schedule anticipated by PG&E's testimony.

PG&E is committed to doing what it can to accelerate this proceeding. In this regard, PG&E has included in the above schedule an informal public workshop that will be open to all parties. At this workshop, PG&E will provide parties with a roadmap of the filing, summarize the contents of the exhibits and be available to answer questions. PG&E will also be open to participation in settlement discussions, whether mandated or not, in order to remove or narrow issues from further litigation. PG&E will be looking for additional ways during the course of the case to help ensure that it proceeds on schedule.

F. Legal Name and Principal Place of Business - Rule 2.1(a)

The legal name of the Applicant is Pacific Gas and Electric Company. PG&E's principal place of business is San Francisco, California. Its post office address is Post Office Box 7442, San Francisco, California 94120.

G. Correspondence and Communication Regarding This Application - Rule 2.1.(b)

All correspondence and communications regarding this Application should be addressed to Steven W. Frank and Shelly J. Sharp at the addresses listed below:

Steven W. Frank
Law Department
Pacific Gas and Electric Company
Post Office Box 7442
San Francisco, California 94120
Telephone: (415) 973-6976
Fax: (415) 973-5520
E-mail: SWF5@pge.com

<u>Overnight hardcopy delivery</u>:

Steven W. Frank
Law Department
Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, California 94105

Shelly J. Sharp
Senior Director
Pacific Gas and Electric Company
77 Beale Street, B9A
San Francisco, California, 94105
Telephone: (415) 973-2636
Fax: (415) 973-6520
E-Mail: SSM3@pge.com

H. Articles of Incorporation - Rule 2.2

PG&E is, and since October 10, 1905, has been, an operating public utility corporation organized under California law. It is engaged principally in the business of furnishing electric and gas services in California. A certified copy of PG&E's Restated Articles of Incorporation, effective April 12, 2004, is on record before the Commission in connection with PG&E's Application 04-05-005, filed with the Commission on May 3, 2004. These articles are incorporated herein by reference pursuant to Rule 2.2 of the Commission's Rules.

I. Balance Sheet and Income Statement - Rule 3.2(a)(1)

PG&E's balance sheet and an income statement for the three months ending September 30, 2012, are contained in Exhibit A of this Application.[26/]

J. Statement of Presently Effective Rates - Rule 3.2(a)(2)

The presently effective gas and electric rates PG&E proposes to modify are set forth in Exhibit B of this Application.

K. Statement of Proposed Changes and Results of Operations at Proposed Rates - Rule 3.2(a)(3)

The proposed changes and the Results of Operations at Proposed Rates are set forth in Exhibits C and D of this Application.

L. General Description of PG&E's Electric and Gas Department Plant - Rule 3.2(a)(4)

A general description of PG&E's Electric Department and Gas Department properties, their original cost, and the depreciation reserve applicable to these properties are shown in Exhibit E of this Application.

M. Summary of Earnings - Rules 3.2(a)(5) and 3.2(a)(6)

Exhibit F shows for the recorded year 2011 the revenues, expenses, rate bases and rate of return for PG&E's Electric and Gas Departments.

N. Statement of Election of Method of Computing Depreciation Deduction for Federal Income Tax - Rule 3.2(a)(7)

A statement of the method of computing the depreciation deduction for federal income tax purposes is included in Exhibit G.

26/ See also Exhibit (PG&E-10), Chapter 2.

O. Most Recent Proxy Statement - Rule 3.2(a)(8)

PG&E's most recent proxy statement dated April 2, 2012 was filed with the Commission in application A.12-04-018 on April 20, 2012. This proxy statement is incorporated herein by reference.

P. Type of Rate Change Requested - Rule 3.2(a)(10)

This proposed change reflects changes in PG&E's base revenues to reflect the costs PG&E incurs to own, operate and maintain its gas and electric plant and to enable PG&E to provide service to its customers.

Q. Notice and Service of Application - Rule 3.2(b)-(d)

Within twenty (20) days after filing this Application, PG&E will mail a notice stating in general terms the proposed revenues, rate changes, and ratemaking mechanisms requested in this Application to the parties listed in Exhibit I, including the State of California and cities and counties served by PG&E. A Notice of Availability of the Application and attachments is being served on the parties of record in PG&E's 2011 GRC A.09-12-020 in accordance with Rule 1.9.(d) and the Rate Case Plan.[27/]

PG&E will publish in newspapers of general circulation in each county in its service territory a notice of filing this Application. PG&E will also include notices with the regular bills mailed to all customers affected by the proposed changes.

R. Exhibit List and Statement of Readiness

PG&E is ready to proceed with this case based on the testimony of witnesses regarding the facts and data contained in the accompanying exhibits in support of the revenue request set forth in this Application. A list of PG&E's testimony by Exhibit and Chapter number is attached as Appendix 1.

XII. REQUEST FOR COMMISSION ORDERS

PG&E requests that the Commission issue appropriate orders:

27/ See D.07-07-004, *mimeo*, pp. A-12 to A-13.

1. Finding that the proposed revenue requirement for the gas distribution function in 2014 is just and reasonable and that PG&E may reflect the adopted gas distribution revenue requirement in rates;

2. Finding that the proposed revenue requirement for the electric distribution function in 2014 is just and reasonable and that PG&E may reflect the adopted electric distribution revenue requirement in rates;

3. Finding the proposed revenue requirement for the electric generation function in 2014 is just and reasonable and that PG&E may reflect the adopted electric generation revenue requirement in rates;

4. With respect to the Gas Distribution organization described in Exhibit (PG&E-3), finding that:

   a. The two-way balancing account for leak survey and repair described in Exhibit (PG&E-3), Chapter 6, should be adopted.

5. With respect to the Electric Distribution organization described in Exhibit (PG&E-4), finding that:

   a. The one-way balancing account and tracking account for Vegetation Management described in Exhibit (PG&E-4), Chapter 8, should be continued.

   b. The two-way balancing account for major emergency costs not covered by the Catastrophic Event Memorandum Account described in Exhibit (PG&E-4), Chapter 10, should be adopted.

   c. The annual PG&E Electric Tariff Rule 20A work credit allocation amount of $41.3 million adopted in the 2011 General Rate Case decision should be extended through 2016, as described in Exhibit (PG&E-4), Chapter 18.

   d. The rate design for LED streetlights described in Exhibit (PG&E-4), Chapter 19, should be adopted.

6. With respect to the Customer Care organization described in Exhibit (PG&E-5), finding that:

a. The costs recorded in the Service Disconnection Memorandum Accounts as of December 31, 2013, are reasonable and should be recoverable through the mechanism described in Exhibit (PG&E-10), Chapter 9.

b. The proposed changes to customer fees (i.e., the non-sufficient funds fee and reconnection fees) described in Exhibit (PG&E-5), Chapter 4, are just and reasonable and should be adopted.

c. The proposed change to PG&E's uncollectibles mechanism as described in Exhibit (PG&E-5), Chapter 4, is just and reasonable and should be adopted.

d. The reporting requirements concerning the SmartMeter™ program specifically identified in Exhibit (PG&E-5), Chapter 10, are no longer required.

e. The joint proposal between PG&E and the Center for Accessible Technology set forth in Exhibit (PG&E-5), Chapter 11, is reasonable and should be adopted.

7. With respect to the Energy Supply organization described in Exhibit (PG&E-6), finding that:

a. The decommissioning and fuel oil inventory costs described in Exhibit (PG&E-6), Chapter 4, should be authorized.

b. The expenditure of $1 million in capital costs above the amount authorized in Decision 10-04-028 for the fuel cell projects should be authorized because the additional expenditure was reasonable and necessary, as explained in Exhibit (PG&E-6), Chapter 4.

c. The credit to the Electric Generation Revenue Requirement with funds received as a result of DOE litigation and revenue overcollections associated with PG&E's Utility-Owned Generation Photovoltaic Program should be authorized, as described in Exhibit (PG&E-6), Chapter 6.

d. The two-way balancing accounts for Hydroelectric Relicensing Costs and Nuclear Regulatory Costs described in Exhibit (PG&E-6), Chapter 1, should be approved.

8. With respect to the Human Resources and A&G functions described in Exhibits (PG&E-8) and (PG&E-9), finding that:

a. Recovery of the full STIP revenue requirement for eligible non-officer employees is just and reasonable, as described in Exhibit (PG&E-8), Chapter 5, and should be approved.

b. Recovery of the full cost of D&O liability insurance is just and reasonable, as described in Exhibit (PG&E-9), Chapter 3, and should be approved.

9. Finding that the budget reporting requirements adopted in PG&E's 2011 GRC, as described in Exhibit (PG&E-1), Chapter 5, should be continued.

10. Finding that the proposed allocation of common costs (A&G expenses and common plant) is approved for use in other, non-GRC Commission ratemaking mechanisms.

11. Finding that the proposed attrition adjustments for 2015 and 2016 for the electric and gas distribution and electric generation functions are just and reasonable and that PG&E is authorized to implement the annual attrition adjustments by compliance advice letters.

12. Finding that the proposed computations for working cash are in conformity with SP U-16 are just and reasonable, and should be approved.

13. Finding that the forecasts of generation rate base, including the inclusion in rate base of forecast nuclear fuel inventory, are just and reasonable, and should be approved.

14. Finding that the revisions to existing balancing and memorandum accounts, described in Exhibit (PG&E-10), Chapter 9, are just and reasonable, and should be approved.

15. Establishing a schedule for the remainder of this proceeding pursuant to the Commission's Rate Case Plan and issuing other orders that will authorize the requested relief to become effective no later than January 1, 2014; and

16. Granting such additional relief as the Commission may deem proper.

Respectfully submitted,

MICHELLE L. WILSON
STEVEN W. FRANK

By: *____/s/ Steven W. Frank____*
STEVEN W. FRANK

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

November 15, 2012

VERIFICATION

I, the undersigned, say:

I am an officer of PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, and am authorized to make this verification for and on behalf of said corporation, and I make this verification for that reason; I have read the foregoing pleading and I am informed and believe the matters therein are true and on that ground I allege that the matters stated therein are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed at San Francisco, California, on November 15, 2012.

/s/ Trina Horner
TRINA HORNER
VICE PRESIDENT
REGULATORY PROCEEDINGS AND RATES