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BEFORE THE PUBLIC UTILITIES COMMISION
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, 2023. (U39M)	Application 21-06-021

REPLY BRIEF OF THE PUBLIC ADVOCATES OFFICE ON DEPRECIATION ISSUES

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I. INTRODUCTION

Pursuant to the Administrative Law Judges' *Email Ruling Granting Extension of Time for Depreciation Section of Briefs*,[1] the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits this Reply Brief on Depreciation Issues in *Pacific Gas and Electric Company's (PG&E) Test Year (TY) 2023 General Rate Case (GRC) Application*.

PG&E's Opening Brief primarily repeats arguments PG&E made in its rebuttal testimony to which Cal Advocates responded in its Opening Brief. Cal Advocates' Reply Brief corrects certain misstatements in PG&E's Opening Brief and addresses PG&E's unreasonable references to California's 2045 net zero greenhouse gas emissions goal (Net Zero by 2045) to support its depreciation requests regarding service lives, net salvage rates, and the use of the Units of Production (UoP) method.[2]

II. CALIFORNIA'S NET ZERO BY 2045 GOAL IS NOT A PROPER BASIS FOR PG&E TO REQUEST RECOVERY IN THIS GRC PROCEEDING

It is unreasonable for PG&E to base its request for accelerated depreciation in this GRC on California's Net Zero by 2045 goal. As discussed below, the impact of decreasing gas demand in future decades is not an urgent issue that must be addressed in this GRC. Instead, accelerated depreciation due to the state's decarbonization efforts is better addressed in the Gas Planning Order Instituting Rulemaking (R.) 20-01-007 (Gas Planning OIR). The Gas Planning OIR offers the Commission an opportunity to review broader information and data and develop a plan for all California gas operators, not only PG&E.

A. The impact of Net Zero by 2045 on PG&E's depreciation rates is not an urgent issue that must be addressed in this GRC

PG&E recognizes that the Gas Planning OIR will address decarbonization's long-term impact on California's gas industry, including "accelerated depreciation."[3] However, PG&E argues that "proposals of other parties to defer any decisions to a future gas [proceeding] or the Gas Planning OIR will [not] only delay the inevitable — but will also cause more significant

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[1] E-Mail Ruling Granting Extension of Time for Depreciation Section of Briefs (Nov. 1, 2022) at 4.

[2] See Opening Brief on Depreciation of Pacific Gas and Electric Company (PG&E Opening Brief), filed Nov. 10, 2022) at 3, 8, 16, 16-33.

[3] PG&E Opening Brief at 17.

harm once higher depreciation is finally recognized and implemented."[4] PG&E further asserts that it "does not believe it is good policy to delay necessary increases in depreciation any further."[5]

These self-serving arguments do not support PG&E's request that accelerated depreciation due to Net Zero by 2045 be considered in this GRC. PG&E's beliefs about what constitutes "good policy" do not satisfy its burden of proof. Moreover, evidence presented by PG&E in this proceeding shows that a decrease in gas demand would not impact PG&E's revenue requirements per customer until after 2030.[6] Because the Commission will address accelerated depreciation in the Gas Planning OIR *before* 2030, deferring forecast of future gas demand will not harm ratepayers.[7] In fact, PG&E's evidence may have overestimated customer impacts because, as PG&E Opening Brief admits that, "the exact timing of these reductions [in gas consumption] have not been definitively established."[8] Simply put, PG&E failed to substantiate its assertion that deferring consideration of Net Zero by 2045 to the Gas Planning OIR will significantly harm ratepayers.

PG&E also cites to Commission Decision (D.) 11-05-018 to argue that it is proper to address "the expected gas throughput decline and change in forecast life of PG&E's gas assets at this earlier opportunity, rather than deferring cost recovery implementation until a later date."[9] However, PG&E's reliance on this decision to support an argument that it is proper to take the "earlier opportunity" to address the impact of Net Zero by 2045 misplaced. In D.11-05-018, the Commission noted that even if PG&E had addressed the change in forecast life earlier, "the question of appropriate ratemaking for a large amount of prematurely retired plant would need to

[4] PG&E Opening Brief at 31.

[5] PG&E Opening Brief at 32.

[6] See Ex. PG&E-23-E, Rebuttal Testimony on Gas Operations at 12-8, Figure 12-1 [demonstrating forecast of future gas demand with green line].

[7] See Cal Advocates' Opening Brief at 23.

[8] PG&E Opening Brief at 21.

[9] PG&E Opening Brief at 32-33.

be analyzed in the same way as was done in this decision for PG&E's proposal."[10] Thus, the question is whether PG&E's proposal is reasonable ratemaking, and not whether PG&E made its proposal at the earliest possible time. Put another way, D.11-05-018 does not require that the Commission address the impact of California's decarbonization goals in this GRC, especially when the reasonableness of PG&E's proposal is better addressed in an open rulemaking.

Finally, there is significant uncertainty about how and when California's decarbonization goals will impact PG&E; whether PG&E will still own its gas transmission and distribution systems at that time is an open question. The Commission may authorize PG&E to transfer its assets before the end of their service life.[11] For example, in 1997, PG&E sold three electric generating plants pursuant to a Commission directive to divest at least 50% of its fossil generating assets.[12] Similarly, in 2021, the Commission authorized PG&E to sell its general office headquarters.[13] If PG&E were to decide to sell its gas transmission or distribution systems prior to 2045, accelerating depreciation now would result in a windfall to the company at the time of the sale.

For these reasons, PG&E is wrong to claim that "Net Zero by 2045 creates an *urgency* in which failing to recovery capital through depreciation at an adequate rate carries significantly more risk for both investors and future customers."[14] It is not timely let along urgent, for PG&E to rely on Net Zero by 2045 as a basis for its depreciation requests in this GRC.

B. The Commission should consider the impact of Net Zero by 2045 on all California gas operators, not just PG&E

Deferring consideration of accelerated depreciation to the Gas Planning OIR offers the Commission an opportunity to review broader information and data across companies and to develop a plan for all California gas operators. In assessing a depreciation calculation method,

[10] D.11-05-018 at 63-64.

[11] Pub. Util. Code § 851.

[12] D.97-09-046, *Interim Opinion* at 2.

[13] D.21-08-027, *Decision Authorizing Pacific Gas and Electric Company's Sale of Its San Francisco General Office Complex and Related Matters* at 1.

[14] PG&E Opening Brief at 16 [emphasis added].

the Commission noted that "the data gathering process should be impartial."[15] The Commission has highlighted the importance of "weighing all the pertinent information to arrive at a reasonable depreciation rate…that allows a utility to recover its investment over the useful life of the asset."[16]

Here, PG&E presented the Commission with various decarbonization scenarios for its gas plant assets based on company-specific plant-in-service balances as of December 31, 2020.[17] PG&E compared each scenario to the depreciation expense that results from the company-specific depreciation rate.[18] Based on this exercise, PG&E claims that "current depreciation rates are not sufficient to recover the Company's costs even if alternative methods of incorporating California's decarbonization goals are not considered."[19] Thus, PG&E is relying on statewide-decarbonization goals as a basis for company-specific depreciation requests.

However, PG&E is not the only California gas operator that will be impacted by California's decarbonization goals. In assessing the reasonableness of PG&E's depreciation requests, the Commission should consider pertinent information from other utilities. That way, the Commission may support a comprehensive data gathering process

For these reasons, the Commission should defer consideration of California's decarbonization goals to the Gas Planning OIR.

III. PG&E MISSTATES THE BASIS FOR CAL ADVOCATES' NET SALVAGE RECOMMENDATION

PG&E's Opening Brief claims that the "sole difference" between PG&E's and Cal Advocates' net salvage proposals "is the use of gradualism, and the only support either party's witness provides for their net salvage estimates is the use of gradualism."[20] This is incorrect. As

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[15] D.88-12-085, *Interim Opinion San Diego Gas and Electric Company*, 1988 Cal. PUC LEXIS 888 at *16.

[16] D.88-12-085, *Interim Opinion San Diego Gas and Electric Company*, 1988 Cal. PUC LEXIS 888 at *17.

[17] Ex. PG&E-10, Results of Operations at 12-34:13-17 and Table 12-7.

[18] Ex. PG&E-10, Results of Operations at 12-34:14-15 and Table 12-7.

[19] Ex. PG&E-10, Results of Operations at 12-34:23-26.

[20] PG&E Opening Brief at 13.

explained in Cal Advocates' Opening Brief, Cal Advocates' recommendation is primarily based on PG&E's failure to substantiate its proposed net salvage rates for certain accounts.[21] Specifically, PG&E was unable to provide invoices or supporting documents to validate its recorded costs of removal.[22] Thus, while Cal Advocates also requests that the Commission apply the principle of gradualism to avoid rate shock, it is not the "only support" or even the primary basis for Cal Advocates' net salvage recommendation.

IV. CONCLUSION

For the reasons provided in this Reply Brief and Cal Advocates' Opening Brief, Cal Advocates requests that the Commission adopt its recommendations related to PG&E's depreciation requests.

Respectfully submitted,

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[21] See Cal Advocates Opening Brief at 15-17.

[22] Cal Advocates Opening Brief at 17.