



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

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Application of Pacific Gas and Electric
Company for Recovery of Recorded
Expenditures Related to Wildfire
Mitigation, Catastrophic Events, and Other
Recorded Costs

Application No. 21-09-008
(Filed September 16, 2021)

(U 39 M)

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M) OPENING COMMENTS ON
THE PROPOSED DECISIONS**

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Dated: November 27, 2024

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SUBJECT INDEX OF RECOMMENDED CHANGES

Pacific Gas and Electric Company (PG&E) recommends that the Proposed Decision (PD) and Alternate Proposed Decision (APD) (collectively, the PDs) be revised to:

- Reflect the critical times prevailing in 2020 when PG&E incurred the costs at issue in this application;
- Treat PG&E consistently with the other utilities that have received full funding for similar work;
- Conclude that PG&E's contracting strategy, which used a mix of "unit cost" and "time and equipment" contracts, was reasonable;
- Restore full funding of PG&E's routine vegetation management activities or, at the very least, reduce the disallowance to \$51.341 million;
- Restore full funding of PG&E's enhanced vegetation management costs;
- Restore full funding of PG&E's tree mortality costs; and
- Provide for authorization to implement the approved revenue requirement over a 12 month collection period with flexibility to minimize customer rate changes.

Appendix A provides proposed redline changes to the APD's Findings of Fact, Conclusions of Law, and Ordering Paragraphs, consistent with these recommendations.

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the Commission or CPUC), Pacific Gas and Electric Company (PG&E) respectfully submits these opening comments to the proposed decision (PD) and alternate proposed decision (APD) (collectively, the PDs).

PG&E is disappointed by the PDs, which would create significant disallowances nearly four years after the costs were incurred and customer safety and reliability benefits received. The disallowances send a strong discouraging signal to utilities contemplating safety investments. The PDs are strikingly out-of-sync with the urgent conditions and regulatory requirements that existed at the time we completed the work – a time when unprecedented wildfire risks were threatening the state and recently-enacted state policy mandated that we address the risk aggressively.¹ The large disallowances are also incongruous with the Commission’s recent decisions approving nearly 100 percent of similar vegetation costs of our sister utilities, who also used time and equipment (T&E) contracts.² For instance, in D.24-06-003, the Commission acknowledged that SDG&E’s T&E costs were more expensive than unit-pricing and still approved the costs.³ Similar facts exist here, yet the Commission inappropriately finds fault with our T&E contract strategy and costs.

There is no dispute that our vegetation management work significantly reduced wildfire risk and

¹ D.19-05-037, p. 26 (discussing enhancing vegetation management in the 2019 WMP and stating “in the near term, the conservative approach is to be aggressive with these measures . . . ;” the Commission requested additional analysis in future WMPs).

² D.24-06-003, pp. 14-16 (approving 100 percent of San Diego Gas & Electric Company’s (SDG&E’s) vegetation costs, including cost increases resulting from SDG&E’s use of T&E contracts); D.24-03-008, p. 48 (approving 99 percent of Southern California Edison Company’s (SCE’s) vegetation costs).

³ D.24-06-003, p. 15.

increased safety and reliability for our customers. Despite these benefits, the PDs both adopt significant disallowances exceeding \$200 million, denying recovery of approximately 40% to 50% of our request. The funds we seek reduced fire risk in furtherance of state and Commission policy, and fulfilled commitments made in our Commission-approved 2020 Wildfire Mitigation Plan (WMP).

Our work was the right work at the time, and we did it the right way. We respectfully urge the Commission to appropriately acknowledge the importance of our work and to revise the PDs to remove the large disallowances. These comments address the following three vegetation management categories:

- **Routine Vegetation Management (Routine VM)** – The Commission should determine that our decision to use T&E contracts for a portion of Routine VM work was prudent in light of the tight labor market conditions that existed nationally for skilled vegetation workers in 2019 and 2020.⁴ The Commission should approve our request for \$424 million in Routine VM costs.
- **Enhanced Vegetation Management (Enhanced VM)** – The Commission should find that our decision to meet Commission-approved WMP commitments for Enhanced VM work and our prioritization of that work were reasonable. The Commission should approve our request for \$69 million in Enhanced VM costs.
- **Tree Mortality** – The Commission should find that we provided sufficient documentation to support all VM costs, including all Tree Mortality costs. The supporting documentation includes the audit findings provided by Ernst & Young, who determined that there was “no material evidence to undermine PG&E’s assertions that costs were: (1) incurred for the activities set forth in the corresponding, relevant Commission-approved balancing accounts; and (2) accurately recorded.”⁵ The Commission should approve our request for \$98 million in Tree Mortality costs.

Section I.A.1 discusses the PDs’ failure to reflect the urgent conditions and regulatory requirements existing at the time we completed our work. Section I.A.2 discusses the PDs’ misunderstanding of our contract strategy to complete the work. Section I.B discusses several specific errors based on the PDs’ incorrect use of record evidence and faulty application of disallowances to work and costs that have already been reviewed and approved.

⁴ A tight labor market persisted in 2019 leading into 2020. These conditions continued in 2020 due to the COVID pandemic and other nationwide events that further strained the availability of skilled vegetation workers. See *infra* Section I.A.2.

⁵ Exhibit PGE-01, p. 2-6, see Appendix A, Ernst & Young (EY) Report.

I. DISCUSSION

The PDs err overall by not reflecting the times and urgency of our work, as well as in the specifics of their proposed disallowances.

A. The PDs Are Late And Out-of-Sync With The Dangerous Conditions Prevailing In 2020

PG&E submitted its application more than three years ago in September 2021. PG&E sought expedited treatment for the application, which was justified under Public Utilities Code Section 459.9 and Commission Rule 2.9.⁶ PG&E's proposed schedule called for a decision two years ago, as did the Scoping Ruling.⁷ This expedited schedule, though adopted, was not followed. We are sympathetic to and truly understanding of the Commission's need to provide a full deliberative process and the resulting timing of the PDs. Here, however, the delays have produced PDs that are out-of-sync with the conditions that prevailed at the time when we did the work. The PDs also do not acknowledge the necessity of our T&E contracting strategy, the reasons justifying T&E contracts, and the benefits those contracts provided.

1. The PDs Fail To Consider the Context And History Justifying Our Activities

At a fundamental level, the PDs do not fully consider the pressures of climate change, extreme drought, emergent wildfire risk, and regulatory requirements that preceded the development of our 2020 vegetation management programs and dictated the massive volume of vegetation work that we completed in 2020. The PDs contain very little discussion of these issues and how they impacted costs, despite their central place in PG&E's efforts. The PDs thus overlook the essential justification for the scope, timing, and execution of our vegetation work and associated costs.⁸ In context, the work was

⁶ Application of Pacific Gas and Electric Company for Recovery of Recorded Expenditures Related to Wildfire Mitigation, Catastrophic Events, and Other Recorded Costs; Request for Expedited Schedule Under Rule 2.9 (Sept. 16, 2021), p. 20.

⁷ Assigned Commissioner's Scoping Memo and Ruling (Nov. 18, 2021), p. 3.

⁸ The PDs also do not appear to appreciate the difficulty of vegetation work and how that difficulty affects costs. The work is extremely hazardous and requires a skilled and trained workforce. Work is frequently required in geographically remote and rugged terrain. Trees can reach heights of 100 feet or more, requiring multiple workers to trim or remove them, manage traffic controls and boundaries to keep the public safe, and dispose of waste. Tree work takes many hours to complete, and workers must be appropriately compensated for this labor- and time-intensive work. In addition, we incur additional costs for environmental reviews, safety oversight, and quality verifications. We also incur costs in managing customer refusals to allow work on their property, being respectful of our customers' objections and working through issues with them. This frequently requires us to reschedule work, which also adds costs. See Exhibit PGE-01, pp. 3-13 to 3-19 (explaining cost drivers).

necessary to swiftly reduce wildfire risk threatening our customers, after recent years proved this threat to be alarmingly high and increasing. We performed this work in accordance with then-evolving state and Commission policy to address wildfire risk aggressively.

In 2020, the year at issue here, we were in emergent response to dramatic, unexpected, and unprecedented changes in the wildfire risk profile in northern California. Stakeholders' collective understanding of that risk was rapidly evolving. Policy decisions made by the state legislature and this Commission⁹ called for actions to mitigate that risk as quickly and fully as possible. This history is central to understanding our work plans, but is overlooked in the PDs.

a. 2012-2017—Wildfire Risk In Northern California Was Thought To Be Low

In 2012, the Commission viewed wildfire risk for PG&E's service area as low:

There is no history of catastrophic power-line fires in Northern California, and Northern California does not experience Santa Ana winds that contribute significantly to the risk of catastrophic power-line fires in Southern California.¹⁰

Prior to 2018, the Commission had designated only a comparatively small portion of our electric system as being at higher risk of wildfire, generally in the Santa Barbara area.¹¹ Consistent with that perceived risk, PG&E had a moderate but reasonable vegetation management program. This would all change quickly in the years to come.

b. 2018-2019—PG&E's Vegetation Management Program Rapidly Evolves to Address Increasing Wildfire Risk

By 2018, the Commission recognized that more than half of PG&E's service area was subject to extreme or elevated-fire risk.¹² The Commission's 2018 Fire-Threat Map identified that our service area contained more High Fire Threat District (HFTD) areas than the territories of the other two large

⁹ See e.g. Wildfire Safety Division Action Statement on PG&E's 2020 WMP (June 11, 2020), p. 1, available at: <<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M340/K895/340895473.PDF>> (accessed Nov. 26, 2024).

¹⁰ D.12-01-032, p. 74.

¹¹ Exhibit PGE-01, p. 1-6. See D.12-01-032, Appendix C (showing Reax Map for Northern California and Fire and Resource Assessment Program map for Santa Barbara County); see also D.19-05-037, p. 20 (noting that the Commission's prior fire-threat map had a distinct focus on facilities in "Southern California," which had included only a small part of PG&E's service area – about 15 percent).

¹² Exhibit PGE-01, p. 1-6.

California electric utilities combined.¹³

The California Legislature responded to the emerging wildfire risk by promulgating new requirements under Senate Bill (SB) 901 in 2018 and Assembly Bill (AB) 1054 in 2019. These bills require utilities to significantly expand their wildfire mitigation programs and implement a wildfire mitigation plan (WMP). Approval of a WMP by the Commission indicates that the “WMP contains...elements that the SB 901 Legislature deemed essential to catastrophic wildfire mitigation.”¹⁴ Under SB 901, the Commission may impose penalties on a utility for failure to comply substantially with an approved WMP.¹⁵ State law therefore requires a utility to perform the “essential” wildfire mitigation activities in its approved WMP.¹⁶

In addition, AB 1054 requires utilities to submit detailed plans, annual updates, and reports for all wildfire prevention work.¹⁷ AB 1054 also requires utilities to engage an independent evaluator “to review and assess the electrical corporation’s compliance with its plan” and to report if a utility did not fund any activities in its WMP.¹⁸ Finally, this law precludes a utility from reprioritizing WMP funding to “activities or investments” outside of the WMP.¹⁹

The legislative framework provided by SB 901 and AB 1054 established the importance of the WMP as the central and essential tool to assure utilities’ wildfire mitigation efforts were timely and effectively implemented to address emerging and increasing risks. Consistent with this objective, our vegetation management activities and compliance with the WMP were also a focus of our Federal Monitor.²⁰ The Monitor’s work concerning our vegetation management activities began in early 2019.

¹³ Exhibit PGE-01, p. 1-6. Our service area also has more overhead distribution circuit miles that traverse HFTD areas than the other two California utilities combined. Approximately 65 percent of California investor-owned utilities’ overhead distribution line-miles in Tier 2 and Tier 3 HFTD areas are within PG&E’s service area.

¹⁴ D.19-05-036, pp. 13-25 (citing Pub. Util. Code, § 8386(d)) (emphasis added); see also Pub. Util. Code, § 8386(c).

¹⁵ Public Utilities Code (Pub. Util. Code) §§ 8386.1, 8389(e)(7).

¹⁶ D.19-05-036, p. 25; Pub. Util. Code § 8386.

¹⁷ Pub. Util. Code § 8386.4(b)(1).

¹⁸ Pub. Util. Code § 8386.3(c)(2)(B)(i).

¹⁹ Pub. Util. Code § 8386.3(d)(1).

²⁰ In 2017, PG&E was placed under a Federal Monitorship to, among other things, review PG&E’s efforts to become a safer utility. In late 2018 and early 2019, the Court expanded the scope of the Monitorship to include an assessment of PG&E’s wildfire mitigation efforts, including vegetation management. See Independent Monitor Report of November 19, 2021, p. 1, available at: <<https://www.courthousenews.com/wp-content/uploads/2021/12/pge-monitor-report.pdf>> (accessed Nov. 26, 2024).

The Monitor assessed our compliance with court-imposed conditions designed to promote safer and more thorough wildfire mitigation efforts. These conditions included requiring us to comply with all vegetation management laws; to meet the targets in its state-approved wildfire mitigation plan; to maintain traceable, verifiable, accurate and complete records; and to ensure that sufficient resources, both financial and personnel, were devoted to achieving the conditions of probation.²¹

During this legislative, regulatory, and judicial activity, PG&E proactively initiated a number of programs specifically designed to reduce wildfire risk. In its first WMP submitted in 2019, PG&E proposed a substantial expansion of its vegetation management program, including establishing an Enhanced VM program. The Commission approved PG&E's 2019 WMP, including the Enhanced VM work, noting that:

In the near term, the conservative approach is to be aggressive with these measures, but we expect far more analysis of this issue in PG&E's future WMPs. As PG&E points out, it is not possible to install covered conductor across the entire HFTD before fire season, or even in the next five years, so at least in the short term, EVM will play an important role.²²

c. 2020—The Funding For Vegetation Management Radically Changed

In 2020, the wildfire risk in California continued to take on increasing urgency. Reflecting this urgency, the Commission's 2020 GRC decision tripled our vegetation management budget. Further, the decision acknowledged that even this larger budget may not be enough and converted the prior one-way balancing account to a two-way balancing account. The Commission stated, "[a] two-way balancing account will enable PG&E to act with less delay in case further mitigation activities and additional costs above the authorized level become necessary to mitigate wildfire risk."²³ The two-way balancing account was designed to allow PG&E to recover the first 20 percent above the authorized revenue requirement amounts through a Tier 2 advice letter. Additional amounts were to be sought via an application, like the one at issue here.

The urgency to address fire risk also was reflected in the 2020 WMP ratified by the Commission. PG&E's 2020 WMP proposed performing 1,800 miles of Enhanced VM work in 2020 as well as

²¹ Federal Monitor, April 2019, Order, Dkt. 1040 (April 2019 Order) available at: <https://s1.q4cdn.com/880135780/files/doc_downloads/wildfire_updates/2021/02/Dkt.-1040-2019.04.03-Order-Adopting-New-Conditions-of-Probation.pdf> (accessed Nov. 26, 2024). See also PG&E Independent Monitor Report of November 19, 2021, p. 17.

²² D.19-05-037, p. 26 (emphasis added).

²³ D.20-12-005, p. 78.

continuing PG&E's Routine VM program. The Commission ratified PG&E's 2020 WMP, including its vegetation management program.²⁴ The Commission also noted the personnel shortages facing all of the California utilities but cautioned "this problem is not a defense to catastrophic wildfire caused by vegetation contact."²⁵

d. The Context Of The Time And Requirements Underscores The Reasonableness Of Our Work

The reasonableness of our costs cannot be divorced from the time we completed the work, nor the regulatory requirements that compelled it. Instead, reasonableness is evaluated based on the facts and circumstances existing at the time to determine whether the utility exercised reasonable judgment.²⁶ This context matters, and the Commission should consider the facts and circumstances existing at the time to determine whether PG&E's conduct in 2020 was reasonable. Here, the record demonstrates that PG&E's decisions regarding vegetation management were reasonable. Wildfires were becoming the "new normal." We performed the vegetation work under review in this proceeding in order to quickly and comprehensively address wildfire risk that had only recently been understood to exist and define the time. We also performed this work to meet our 2020 WMP commitments to address this emerging and increasing risk head-on. This included WMP requirements to complete 1,800 miles of Enhanced VM in addition to our Routine VM practices.²⁷

Our efforts to meet our 2020 WMP commitments and address wildfire risk produced results. In 2020, PG&E removed significant risk and made our infrastructure safer and more resilient, directly benefitting all customers. We ask that the Commission acknowledge our challenges during this time, the merits of our work, our required compliance with the 2020 WMP, and approve our costs.

2. The PDs Err In Finding Our Contracting Strategy Imprudent

The PDs' findings on our contracting strategy contradict the Commission's recent findings approving similar costs incurred by our sister utilities. In D.24-06-003, the Commission specifically addressed the 2019-2021 vegetation labor shortage and SDG&E's use of T&E rates to attract tree trimmers. The Commission acknowledged that SDG&E's T&E costs were more expensive and still

²⁴ Resolution WSD-003 (June 11, 2020).

²⁵ Resolution WSD-003 (June 11, 2020), p. 42.

²⁶ D.22-06-032, p. 8 (describing Commission's reasonableness and prudence standards).

²⁷ R.18-10-007, PG&E's 2020 Updated Wildfire Mitigation Plan Report (Feb. 28, 2020), p. 1, Table 1 (Summary of 2019 and 2020 Wildfire Mitigation Activities), Program 1.A Enhanced VM.

determined that “SDG&E acted reasonably and prudently in hiring contractors to perform the necessary vegetation management work and incurred the costs of these contractors reasonably” to ensure that the work was completed on time.²⁸ Similar facts exist here, yet the Commission inappropriately finds fault with our strategy and costs. We explain the reasonableness of T&E costs in further detail below.

a. T&E Contracts Were Reasonable

Most of the PDs’ disallowances (\$221 million in the PD, and \$137 million for Routine VM and \$69 million for Enhanced VM in the APD) are premised on the erroneous finding that there were avoidable increased labor costs that PG&E incurred under T&E contracts. The PDs do not consider the tight labor market conditions that required us to enter into T&E contracts to get the work done safely and correctly.²⁹ The PDs also do not acknowledge the important role of T&E contracts.

The PDs’ findings are contrary to evidence that explains the T&E contracts were necessary due to the higher volume of work we were required to complete coupled with a significant demand for skilled vegetation workers throughout California.³⁰ The PDs assume incorrectly that we could have completed the same high volume of vegetation work at a lower price under unit-based contracts. This is not correct. There is no evidence or reasonable basis for the PDs to reach this conclusion.

Further, there is nothing inherently unreasonable about T&E contracts, which are widely used in the utility industry and other industries. As reflected in the Commission’s decision approving SDG&E’s costs, T&E contracts are commonplace for completing large volumes of non-standard work of uncertain scope, as was the case for much of our vegetation management activities in 2020.

The PDs misunderstand when T&E contracts are appropriate. T&E billing is common when the scope of work is non-standard and uncertain, and can mitigate additional costs to the extent a unit price overestimates the cost of performing work.³¹ Where contractors perceive execution risks, costs rise accordingly and sometimes disproportionately. T&E contracts mitigate this risk. For PG&E, T&E contracts allowed us to mitigate schedule-related impacts resulting from customer refusals and permitting delays by giving us greater flexibility to deploy available resources to geographically diverse

²⁸ D.24-06-003, p. 15.

²⁹ Under T&E billing, contractors’ charges are based upon time increments for labor, materials, tools, equipment and supplies using rates specified in our contractor agreements. As cost controls, written work requests and approval, supporting timesheets, and cost documentation are required.

³⁰ Exhibit PGE-01, pp. 3-14 to 3-15.

³¹ Bruner and O’Connor on Construction Law, Section 2:29 (discussing “time and materials” contracts; Section 8.1 (discussing unit-price contracts).

locations and target dangerous work.

T&E contracts were particularly appropriate given our vegetation management requirements and then-current market conditions. As explained in the context discussion above, during 2020, we needed to complete a high volume of Routine VM with an increase of Enhanced VM work and WMP commitments.³² Our Wildfire System Inspection Program (WSIP) also added a significant number of vegetation related corrective notifications requiring additional work.³³ At the same time our 2020 work volume increased, there was an increased market demand for skilled vegetation workers not just in California, but also nationwide.³⁴ This tight labor market increased contractor rates.³⁵ In 2020, the imbalance between demand and labor was exacerbated by the COVID-19 pandemic and other large natural disasters (e.g., record hurricanes and nearly 10,000 wildfires that ravaged California and other western states).³⁶

Attracting qualified vegetation contractors to work in California is extremely difficult, even under normal market conditions. Many contractors are unwilling to work in California for various reasons including: liability risk, regulatory/business environmental and insurance requirements, and lack of available qualified personnel to expand.³⁷ Other contractors expressed an interest in only emergency/short-term work, not a willingness to commit long-term to developing a workforce in California or moving their existing workforce.³⁸

In light of these challenges, it was not just reasonable, but also imperative, for us to use T&E contracts to attract, retain, and engage qualified resources. Absent doing so, we would have been unable to complete required vegetation work, meet our regulatory commitments, and reduce wildfire risk. In approving our 2020 WMP, the Wildfire Safety Division cautioned that staffing challenges would not be a defense to non-compliance with the WMP and catastrophic wildfires caused by vegetation contact.³⁹

³² Exhibit PGE-01, pp. 3-16 to 3-17.

³³ Exhibit PGE-01, p. 3-17.

³⁴ Exhibit PGE-01, pp. 3-14 to 3-15.

³⁵ Exhibit PGE-01, p. 3-15.

³⁶ [2020 Fire Season Incident Archive | CAL FIRE](#) and [2020 Atlantic Hurricane Season](#) (accessed November 25, 2024).

³⁷ Exhibit PGE-01, p. 3-15; see also R.18-10-007, PG&E's 2019 Wildfire Mitigation Plan (Feb. 6, 2019), p. 83.

³⁸ *Id.*

³⁹ See Resolution WSD-003 (June 11, 2020), p. 42.

The Commission should determine that our use of T&E contracts was reasonable and reverse the PDs' disallowances of T&E labor costs.

b. Deployment of External Resources Was Necessary

The APD notes that labor shortages were initially identified during the WMP process and wrongly finds PG&E imprudent for failing to move the contractor labor in-house. The APD's finding is wrong for several reasons.

First, the APD misunderstands PG&E's GRC forecast. That forecast did not contemplate bringing tree *trimmers* in-house. Rather, the forecast contemplated bringing supplemental tree *inspectors* in-house.⁴⁰ Inspection costs generally comprise only about 20 percent of total vegetation costs. The vast majority of the costs are for the labor to cut or remove the trees and dispose of the waste.

Second, it is unreasonable to expect that PG&E could have hired, onboarded, and trained the workers to complete the work more quickly than engaging contractors. We regularly evaluate our in-house and contractor mix to meet customer needs. These evaluations include assessing qualifications, costs, time pressures, and other factors important to completing the work. Bringing the tree trimming work in house could have taken years to accomplish, putting aside the time and effort to stand-up an organization to train and manage them. By contracting for this labor, PG&E was able to complete more work quickly than could have been performed while simultaneously trying to stand-up an entire organization, not to mention the likelihood that the staffing challenges would be temporary as the conditions causing the labor shortages subsided.

Third, there is no evidence that if PG&E had hired in-house all the required vegetation workers that the costs would have been less than the T&E contract costs incurred during a portion of 2020. The APD only speculates that in-house costs would have been cheaper and incorrectly concludes that \$27.9 million of GRC funding set for inspection costs would have obviated the need to spend hundreds of millions on actual tree trimming work. The APD's findings on PG&E's labor strategy should thus be corrected.

B. The PDs Make Various Specific Errors

In addition to the omissions described above, the PDs' calculations should be updated to remove unjustified disallowances. First, the PDs err by calculating disallowances for Routine VM based upon

⁴⁰ A.18-12-009, Hearing Exhibit (HE)-16: Exhibit (PG&E-4), p. 7-31 and Workpaper Table 7-9 (discussing bringing in pre-inspectors in-house).

the full volume of Routine VM work completed over the course of a year, instead of just the volume of work subject to review in this application. Second, the PDs err in adopting disallowances for our Enhanced VM work, with the PD finding that we poorly prioritized this work and the APD finding that we mismanaged this work. Neither is the case. Third, both PDs err in finding that we did not provide sufficient documentation to support an accounting adjustment for \$10 million of Tree Mortality costs. There is no record of opposition to this adjustment and the EY audit provides assurance that these costs are valid. Each of these errors is discussed below.

- 1. The PDs Miscalculate Routine VM Disallowances**
 - a. Labor Cost Increases**

The PDs effect disallowances for Routine VM labor cost increases based on perceived imprudence in our use of T&E contracts. Even if the Commission declines to find that our T&E contracts were reasonable for the reasons we explain in Section I.A.2, the PDs err in how they calculate the proposed disallowances. That is, the PDs wrongly calculate disallowances based upon the full volume of routine vegetation work (approximately 1.6 million trees) completed over the course of a full year. The PDs also incorrectly calculate costs associated with our T&E contracts of \$117.10 per tree.

The first error is that the PDs do not separate (i) the vegetation work completed with VMBA costs already approved (which were below the 120 percent authorized and already collected) from (ii) the vegetation work corresponding to the amounts now under review (which are *only* those costs exceeding the 120 percent authorized). This results in the PD disallowing costs that were authorized by the GRC and included in base rates.⁴¹ This is a legal error. Pursuant to the legal authority in D.20-12-005, PG&E submitted Advice 4507-G/6357-E on October 8, 2021 seeking recovery of our costs up to the 120 percent threshold. Our advice letter was accepted, made effective on December 13, 2021, and those costs have already been collected in rates.⁴² Indeed, the PDs acknowledge this in their respective

⁴¹ A simple hypothetical illustrates this point. Assume: (1) a Commission authorizes \$1,000 for vegetation work corresponding to 100 trees at \$10 per tree, allowing for 20 percent additional costs to be collected through a balancing account; (2) the 120 percent threshold is thus \$1,200; (3) the utility incurs \$1,650, based on completing 110 trees at \$15 per tree; and (4) a party moves to disallow the \$5/tree overspending against the entire population of trees processed. In this hypothetical, the party would seek to disallow \$550 (i.e., \$5 x 110 trees) and authorize only \$1,100. In so doing, the party would be seeking to disallow \$100 of costs that were eligible for collection through the balancing account.

⁴² The PDs acknowledge that the terms of the 2020 VMBA also found reasonable a contingency of allowance of 20 percent over \$548.013 million, for a total VMBA authorization of \$657.615 million. PD, p. 3; APD, p. 4. Yet the PDs' disallowances inappropriately include previously authorized costs.

Findings of Fact. If the Commission had any intention of clawing back the amounts already collected in rates – ignoring the legal issues associated therewith – there was no evidence of this intention in this proceeding’s Scoping Ruling that would have put us on notice of this intention. To correct for this error, the PDs’ disallowance for Routine VM should only apply to Routine VM costs that have not been recovered and that are subject to review in this proceeding. That amount is \$424 million, which reflects 61 percent of our total costs for Routine VM (\$424M/\$699M).

The second error is that the PDs’ disallowance assumes that the entire remainder of the unit cost increase (beyond that of the SB 247 labor premium) is attributable to the T&E contracts.⁴³ This is not so, as explained in the record. The record shows that PG&E incurred \$112.205 million in costs associated with the T&E contracts.⁴⁴ It is this amount – the \$112.205 million – that should be reduced by 61 percent (explained above) to calculate the disallowance. Or, to use the unit cost approach presented by the PDs, the \$112.205 million, when divided by the 1.6 million trees worked, shows that only \$71.93 of the \$448 unit cost is attributable to the T&E contracts, not \$117.10 as the PDs assume.

When the PDs are corrected to (i) apply only to the costs subject to review in this Application (as opposed to all costs spent) and (ii) use a more accurate figure for the T&E contracts, the following calculations and disallowances result.

		<i>Per-Unit Increase \$ Attributable to T&E contracts</i>		<i>Total # of Trees Remediated in 2020</i>	<i>% of Routine VMBA Costs in 2021 WMCE</i>	<i>Resulting Disallowance</i>
<i>As Issued</i>	PD	\$117.10	x	1,560,055		= \$182.682M
	APD	\$87.825	x	1,560,055		= \$137.012M
<i>As Corrected</i>	PD	\$71.93	x	1,560,055	x 61%	= \$68.451M
	APD	\$53.95 ⁴⁵	x	1,560,055	x 61%	= \$51.341M

While PG&E still strongly disagrees with any disallowance and finds it unduly inconsistent with Commission’s approval of other IOUs’ vegetation costs, if the Commission still chooses to move forward with a disallowance, it should do so with accurate calculations.

b. The PD Errs In Disallowing Additional Amounts For Deferred Routine VM Work

The PD disallows an additional \$38.541 million for PG&E’s carry-over of 302,900 Routine VM trees from 2019 into 2020. The PD’s calculation, however, includes trees that are a subset of the 1.6

⁴³ See APD, p. 33.

⁴⁴ Exhibit TURN-01, p. 8, Figure 1, and Appendix 2, p. APP2-2.

⁴⁵ This amount is 75 percent of \$71.93, consistent with the APD’s treatment of these costs.

million tree population used to calculate the disallowance for Routine VM labor cost increase, thus double counting the disallowance in error. Noting that carry-over work is not unreasonable and that PG&E prioritized Enhanced VM in 2019, the APD does not double-count or disallow any costs for the carry-over Routine VM work. The APD's finding on carry-over work should be adopted.

2. The PDs Err In Disallowing Enhanced VM Costs

The PD errs in adopting a \$44 million disallowance based on a finding that our risk prioritization for Enhanced VM work was imprudent. The APD correctly determines that “there are many possible ways to prioritize enhanced VM work according to risk that are consistent with the Commission’s direction,” and that PG&E’s completion of “74% of its enhanced VM work in the top 50% riskiest miles reflects one such approach.”⁴⁶ There should be zero disallowance based on our risk prioritization.

While finding that our prioritization for Enhanced VM work was a reasonable approach, the APD nevertheless errs in adopting a \$69 million disallowance based on the finding that our T&E contracting strategy was imprudent.

The APD bases this disallowance on an assumed increase in T&E spending of \$308 million for the Enhanced VM program, which is not accurate. PG&E did not have increased costs of \$308 million due to T&E contracts. The data request line item cited in the APD was inartfully labeled. The amount actually is the total T&E costs, not the increase. In fact, PG&E’s unit costs for Enhanced VM are lower than the GRC authorized unit costs. PG&E’s total tree work cost for Enhanced VM was \$327 million of which \$175 million was due to SB 247 implementation that was not forecast in the GRC. PG&E’s unit cost per tree is \$1,156 (\$152 million divided by 131,460 trees), which is lower than the GRC authorized unit cost of \$1,637.⁴⁷ PG&E also incurred costs for debris removal in the amount of \$93 million and safety oversight in the amount of \$22 million. These costs are the drivers for the incremental costs and should not be disallowed. Debris removal and safety oversight were critical components of the Enhanced VM program for customers and the safety of our coworkers. Accordingly, the APD should be revised to authorize recovery for \$69 million of Enhanced VM costs.

3. The PDs Incorrectly Disallow Tree Mortality Costs

Both PDs wrongly disallow \$10 million of Tree Mortality costs on the basis that one of the

⁴⁶ APD, p. 39.

⁴⁷ Exhibit TURN-01, Appendix 2, p. APP2-8.

adjustments in our calculation did not have supporting documentation.⁴⁸ Importantly, no party recommended a disallowance of these costs. There is thus no record to support the disallowance.

PG&E understands that we have the burden of proof to establish a prima facie case of reasonableness. Yet, in a proceeding of this size, it is unrealistic to expect that all line entries will have supporting documentation, especially when detail can be sought during the discovery process. In fact, the Commission routinely pleads with parties like PG&E to streamline our proceedings and make them more accessible. To the extent that parties, including Commission staff, are interested in details behind a showing, parties and Commission staff can – and do – ask questions about those entries. Had we been asked to do so, we could have explained the \$10 million adjustment.

The Commission should determine that a reconciliation for this adjustment is not necessary. The EY audit proves the validity of the adjustment. EY reviewed all vegetation management costs and found “no material evidence to undermine PG&E’s assertions that costs were: (1) incurred for the activities set forth in the corresponding, relevant Commission-approved balancing accounts; and (2) accurately recorded.”⁴⁹ The EY audit should provide assurance that these costs are valid. PG&E respectfully requests that the adjustment be allowed for recovery.

C. The APD’s Amortization Should Be Corrected to 12 Months Given the Lateness of the PDs

The PD is right to adopt a 12-month amortization period given the delays in this proceeding. The APD should also adopt a 12-month amortization period. In terms of timing, PG&E requests the flexibility to implement the rates in a manner that reduces the frequency of rate changes for customers. For instance, PG&E may seek to implement the change at a time so that when the approved revenue requirement is removed from rates that timing coincides with a scheduled consolidated rate change. The Commission previously adopted a flexible approach like this in D.24-03-006.⁵⁰

II. CONCLUSION

For the reasons explained above, the Commission should reverse the disallowances in the PDs or, at the very least, correct the specific calculation errors in the PDs.

⁴⁸ PD, p. 53; APD, pp. 39-40.

⁴⁹ Exhibit PGE-01, p. 2-6, see Appendix A, EY Report.

⁵⁰ D.24-03-006, p. 36, Ordering Paragraph 1.

APPENDIX A

PROPOSED MODIFICATIONS

Findings of Fact

20. PG&E received funding in the 2020 GRC approval to implement a strategy to bring inspection labor in-house to hedge against rising labor costs, but this would have had an immaterial effect on PG&E's costs. ~~PG&E did not implement that strategy.~~

* * *

24. PG&E recorded \$98.131 million for work in Tree Mortality in 2020 including a blanket cost adjustment of \$10.159 million that was subject to an audit, which PG&E does not attaches in testimony.

25. PG&E has provided sufficient evidence to support the reasonableness of ~~\$375.648~~ 591.718 million of recorded costs.

26. From 2019-2021, there was a shortage of qualified tree trimming personnel throughout California.

Conclusions of Law

8. It is reasonable to rely upon PG&E's accounting of total recorded costs per program element for the purpose of ~~calculating disallowances~~ reviewing costs.

9A. PG&E acted reasonably and prudently in hiring contractors under time and equipment (T&E) contracts to perform the necessary vegetation management work and incurred the costs of these contractors reasonably, and therefore PG&E should be allowed to recover these costs.

10. ~~It is reasonable to disallow a~~ The portion of the unit cost premium associated with ~~1,560,055~~ 328,096 trees worked in 2020 at the rate of \$87.825 per tree is reasonable.

11. It is reasonable to approve cost recovery of ~~\$87.972~~ 98.131 million of recorded Tree Mortality costs.

12. It is reasonable to approve cost recovery of \$1.448 million of recorded Power Generation Tree Mortality costs.

13. PG&E established costs of ~~\$375.648~~ 591,718 million recorded to the 2020 VMBA as reasonable over the Commission's 2020 VMBA authorization in D.20-12-005 of \$657.615 million.

14. PG&E ~~failed to~~ established by a preponderance of evidence the reasonableness of a total of ~~\$216.242~~ million in requested VM costs.

15. ~~\$137.012~~ 423.960 million of PG&E's requested cost recovery for routine VM is ~~not~~ reasonable and should be disallowed under Pub. Util. Code Section 451.

16. \$69.071 million of PG&E's requested cost recovery for enhanced VM is ~~not~~ reasonable and should be ~~dis~~allowed under Pub. Util. Code Section 451.

17. ~~\$10.159~~ 98.131 million of PG&E's requested cost recovery for Tree Mortality is ~~not~~ reasonable and should be ~~dis~~allowed under Pub. Util. Code Section 451. \$1.448 million of PG&E's requested cost recovery for Power Generation Tree Mortality is reasonable and should be allowed under Pub. Util. Code Section 451. ~~because PG&E did not meet its burden of proof to substantiate its claimed blanket costs adjustment of that amount.~~

18. PG&E should be authorized to recover in rates a revenue requirement of ~~\$375.648~~ 591.718 million over at least a ~~24~~ 12-month period.

Ordering Paragraphs

1. Pacific Gas and Electric Company is authorized to recover a revenue requirement of ~~\$375.648~~ 591.718 million for expenses recorded in its 2020 Vegetation Management Balancing Account over at least a ~~24~~ 12-month period.

2. Upon the effective date of this decision, Pacific Gas and Electric Company is authorized to transfer the authorized revenue requirement, including interest, to the distribution subaccount of the Base Revenue Requirement Balancing Account for recovery from customers, amortized over at least a 12- ~~24~~-month period, ~~starting with the next regularly scheduled consolidated revenue requirement and rate change following issuance of this decision or as soon as practicable.~~