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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Recovery of Recorded Expenditures in Memorandum and Balancing Accounts Related to Wildfire and Gas Safety (U 39 M)	Application No. 23-06-008 (Filed June 15, 2023)

REPLY BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M)

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Dated: June 16, 2025

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Summary of Recommendations

Pursuant to Commission Rule of Practice and Procedure 13.12, Pacific Gas and Electric Company respectfully submits the following summary of its recommendations in this proceeding:

1. The Commission should approve as reasonable and incremental $87.56 million of expenses recorded in the In-Line Inspection Memorandum Account;
2. The Commission should approve as reasonable and incremental $1.08 million of expenses recorded in the Internal Corrosion Direct Assessment Memorandum Account;
3. The Commission should approve as reasonable and incremental $9.72 million of expenses, and $1.01 million of capital expenditures, recorded in the Gas Statutes, Regulations and Rules Memorandum Account;
4. The Commission should approve as reasonable and incremental $0.32 million of expenses recorded in the Transmission Integrity Management Program Memorandum Account;
5. The Commission should approve as reasonable and incremental $13.95 million of capital expenditures recorded in the Measurement and Control Overpressure Protection Program Memorandum Account;
6. The Commission should approve as reasonable and incremental $1.89 million of expenses recorded in the Critical Documents Program Memorandum Account;
7. The Commission should approve as reasonable and incremental $8.64 million of expenses, and $92.65 million of capital expenditures, recorded in the Gas Storage Balancing Account;
8. The Commission should approve as reasonable and incremental $0.16 million of capital expenditures recorded in the Line 407 Memorandum Account;
9. The Commission should approve as reasonable and incremental $3.02 million of capital expenditures recorded in the Dairy Biomethane Pilots Memorandum Account;
10. The Commission should approve as reasonable and incremental $0.21 million of expenses recorded in the Avoided Cost Calculator Update Memorandum Account;
11. The Commission should approve as reasonable and incremental $4.81 million of expenses, and $2.90 million of capital expenditures, recorded in the Distribution Resources Plan Tools Memorandum Account;
12. The Commission should approve as reasonable and incremental $1.62 million of expenses recorded in the DERs Distribution Deferral Account;

13. The Commission should approve as reasonable and incremental $4.16 million of capital expenditures recorded in the Assembly Bill 841 Memorandum Account;
14. The Commission should approve PG&E's proposed revenue requirement of approximately $113.3 million (excluding interest) to recover these costs; and
15. The Commission should approve and find that PG&E's cost recovery proposal in this proceeding is reasonable.

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Pursuant to Commission Rule of Practice and Procedure 13.12, Pacific Gas and Electric Company (PG&E) hereby submits this Track 2 reply brief responding to the contentions raised by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), the Energy Producers & Users Coalition (EPUC) and Indicated Shippers (together, EPUC/Indicated Shippers), and The Utility Reform Network (TURN).

I. INTRODUCTION

PG&E has demonstrated that the costs incurred to perform critical gas safety and electric modernization work recorded in the memorandum and balancing accounts at issue were reasonable and incremental to amounts already included in PG&E's authorized revenue requirements. PG&E's showing was confirmed by an independent audit conducted by the Commission's Utility Audits Branch (UAB), which analyzed whether the gas safety and electric modernization costs at issue are sufficiently supported, incremental in nature, and directly attributable to allowable activities in the designated accounts. The Commission's UAB issued four audit findings totaling approximately $4.5 million, which—with one exception—were accepted by PG&E. The Commission's UAB did not make any findings that the recorded gas safety and electric modernization costs were not incremental. The parties ignore the UAB's findings in their opening briefs.

EPUC/Indicated Shippers recommend that the Commission disallow $12.24 million in capital expenditures recorded in the Measurement and Control Overpressure Protection Memorandum Account (MCOPPMA), and $62.1 million in capital expenditures recorded in the Gas Storage Balancing Account (GSBA).[1] EPUC/Indicated Shippers also argue—relying entirely on TURN's briefing in Track 1 of this

[1] EPUC/Indicated Shippers Opening Brief (OB), p. iv.

proceeding—that disallowances on the basis of unreasonableness should be permanently barred from recovery and rate base.[2] TURN echoes this recommendation in its Track 2 Opening Brief, and also refers the Commission to Track 1 briefing.[3] As explained below and in PG&E's Opening Brief, PG&E has demonstrated that the expenditures recorded in the balancing and memorandum accounts at issue were reasonable; therefore, no reductions to capital expenditures are warranted. In addition, any disallowances ordered by the Commission should not be permanent. Imposing a permanent capital disallowance for any reductions to recorded capital expenditures runs counter to fundamental ratemaking principles and reasonable investor expectations.

EPUC/Indicated Shippers argue in the alternative that—even if the Commission finds capital expenditures recorded in the MCOPPMA and the GSBA were reasonable—it should nevertheless disallow $12.24 million in the MCOPPMA, and $62.1 million in the GSBA, because PG&E failed to show that its recorded costs are incremental to amounts previously authorized by the Commission.[4] EPUC/Indicated Shippers do not recommend that disallowances on the basis of incrementality be permanent.[5] EPUC/Indicated Shippers' incrementality arguments are unsupported. PG&E demonstrated that the costs recorded in the MCOPPMA and GSBA are "in addition to amounts previously authorized to be recovered in rates,"[6] a standard that EPUC/Indicated Shippers acknowledge applies here. EPUC/Indicated Shippers misapply the Commission's incrementality standard to the evidence submitted by PG&E; their arguments should be rejected.

Cal Advocates does not recommend any reductions based on reasonableness, but recommends $29.46 million in expense reductions, and $15.41 million in capital expenditure reductions, on the grounds that straight-time labor and materials movement are not incremental.[7] Cal Advocates' arguments conflict with Commission authority, rely on a non-precedential Commission decision approving a settlement, and fail to account for how PG&E prepares forecasts for rate cases and the basis upon which the Commission authorizes revenue requirements.

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[2] EPUC/Indicated Shippers OB, p. iv.

[3] TURN OB, pp. 3-5.

[4] EPUC/Indicated Shippers OB, p. iv.

[5] EPUC/Indicated Shippers OB, pp. iv-v.

[6] D.21-08-024, p. 12.

[7] Cal Advocates OB, p. 3.

For the reasons explained below and in PG&E's Opening Brief, PG&E respectfully requests Commission authorization to recover approximately $116 million in expense, and $118 million in capital expenditures, recorded in the gas safety and electric modernization accounts at issue in Track 2.

II. BACKGROUND AND OVERVIEW

A. Procedural Background

Section II.A of PG&E's Opening Brief provides a summary of the procedural background of this proceeding.

B. Overview Of Gas Safety And Electric Modernization Costs Requested For Recovery

PG&E seeks recovery of reasonably incurred, incremental costs recorded in the following balancing and memorandum accounts related to gas safety: (1) In-Line Inspection Memorandum Account (ILIMA); (2) Internal Corrosion Direct Assessment Memorandum Account (ICDAMA); (3) Gas Statutes, Regulations, and Rules Memorandum Account (GSRRMA); (4) Transmission Integrity Management Program Memorandum Account; (5) MCOPPMA; (6) Critical Documents Program Memorandum Account (CDPMA); (7) GSBA; (8) Line 407 Memorandum Account (L407MA); and (9) Dairy Biomethane Pilot Memorandum Account (DBPMA). Cal Advocates and EPUC/Indicated Shippers recommend that the Commission reduce recorded amounts PG&E can recover in the ILIMA, ICDAMA, GSBA, MCOPPMA, and DBPMA. The parties do not recommend reductions to the recoverable amounts recorded in the GSRRMA, TIMPMA, CDPMA, and L407MA.[8]

PG&E also seeks recovery of reasonably incurred, incremental costs recorded in the following memorandum accounts related to electric modernization: (1) Distribution Resources Plan Tools Memorandum Account (DRPTMA); (2) Avoided Cost Calculator Update Memorandum Account (ACCUMA); (3) Distributed Energy Resources Distribution Deferral Account (DERDDA); and (4) Assembly Bill 841 Transportation Electrification Memorandum Account (AB841MA). No party challenged the reasonableness or incrementality of costs recorded in the electric modernization costs at issue here.

Table 1 below outlines parties' positions presented in their opening briefs.

[8] TURN does not recommend any reductions, and does not take a position on the recommendations of Cal Advocates and EPUC/Indicated Shippers. TURN OB, pp. 3-4.

TABLE 1
SUMMARY OF PARTIES' POSITIONS
(THOUSANDS OF DOLLARS)

Memorandum Account/Balancing Account	PG&E Proposed Cost Recovery	Cal Advocates Recommended Disallowances	EPUC/Indicated Shippers Recommended Disallowances
O&M Expense			
ILIMA	$87,560	$(26,983)	-
ICDAMA	$1,083	$(468)	-
GSRRMA	$9,721	-	-
TIMPMA	$317	-	-
CDPMA	$1,893	-	-
GSBA	$8,637	$(2,009)	-
ACCUMA	$207	-	-
DRPTMA	$4,814	-	-
DERDDA	$1,623	-	-
Total O&M Expenses	**$115,855**	**$(29,460)**	
Capital Expenditures			
GSRRMA	$1,008	-	-
MCOPPMA	$13,949	$(631)	$(12,240)
GSBA	$92,650	$(14,522)	$(21,060)/$(62,100)[9]
L407MA	$160	-	-
DBPMA	$3,020	$(256)	-
DRPTMA	$2,896	-	-
AB841MA	$4,156	-	-
Total Capital Expenditures	**$117,839**	**$(15,409)**	**$(33,300)/$(74,340)**

For the reasons explained below and in PG&E's Opening Brief, the parties' disallowance recommendations should be rejected.

[9] EPUC/Indicated Shippers' recommended disallowance for the GSBA is unclear. EPUC/Indicated Shippers' Summary of Recommendations suggests a $62.1 million disallowance, while the body of their Opening Brief suggests a $21.06 million disallowance. Compare EPUC/Indicated Shippers OB, pp. iv and 25. Section IV of EPUC/Indicated Shippers' Opening Brief suggests a "total of $33.8 million in capital should be permanently disallowed in the MCOPPMA and the GSBA." *Id.*, p. 10. It is unclear how this number was calculated. PG&E addresses this inconsistency in Section IV.A.7.b of this reply brief. For purposes of Table 1, PG&E presents the highest and lowest dollar figures presented by EPUC/Indicated Shippers.

III. LEGAL AND POLICY ISSUES

A. Burden Of Proof

It is undisputed that PG&E has the burden of proof to show that the costs recorded in the accounts at issue in Track 2 of this proceeding were reasonable and incremental to amounts already reflected in PG&E's authorized revenue requirements. EPUC/Indicated Shippers acknowledge that the standard of proof PG&E must meet in this ratesetting matter is preponderance of the evidence, defined "in terms of probability of truth, e.g., 'such evidence, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[10] In short, PG&E must present more evidence that supports the requested result than would support an alternative outcome.[11]

Cal Advocates appears to advocate for a higher standard of proof than preponderance of the evidence, claiming that "the burden rests heavily upon a utility to prove it is entitled to rate relief…"[12] The two cases Cal Advocates relies on in support of its claim are inapposite. The first—D.10-11-010—concerns a pipeline company's application to charge market-based rates for transportation of crude oil, and not a utility application for rate recovery.[13] The second—D.08-01-020—concerns an Order to Show Cause why a water company should not be fined for waiting until it served rebuttal testimony to provide the rationale for requesting at least half of the 20 new proposed general office positions.[14] Neither case is relevant to the standard that should be applied to an applicant's request to recover expenditures recorded in a memorandum or balancing account.

In addition, the Commission applied a clear and convincing evidence standard in D.08-01-020 that it has since jettisoned in ratesetting matters.[15] In PG&E's Pipeline Safety Enhancement Plan proceeding, Cal Advocates sought rehearing of D.12-12-030, on the grounds that the Commission should have applied a more stringent clear and convincing evidence standard, rather than a preponderance of the evidence standard.[16] The Commission rejected Cal Advocates' argument, finding

[10] D.12-12-030, p. 42, *aff'd* D.15-07-044, pp. 28-30; EPUC/Indicated Shippers OB, p. 6.

[11] D.12-12-030, p. 42.

[12] Cal Advocates OB, p. 4.

[13] D.10-11-010, pp. 1-3.

[14] D.08-01-020, p. 1.

[15] D.08-01-020, pp. 1-2.

[16] D.15-07-044, p. 28.

that, "the preponderance standard is the default standard to be used unless a more stringent burden is specified by statute or the Courts. . . . [C]ase law affirms the preponderance standard is lawful in civil cases such as administrative proceedings."[17] Thus, to the extent that Cal Advocates suggests that any standard other than a preponderance of the evidence standard should apply here, that argument should be rejected.

Furthermore, the parties ignore that they also bear a burden. Where, as here, intervenors propose a result different from that asserted by PG&E, "they have the burden of going forward to produce evidence, distinct from the ultimate burden of proof."[18] This "burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility's position and presenting evidence explaining the counterpoint position."[19] Intervenors must present evidence—not mere argument—to raise reasonable doubt as to PG&E's position.[20] Cal Advocates claims that, "[t]he ultimate burden of proof of reasonableness 'never shifts from a utility which is seeking to pass its costs of operations on to ratepayers on the basis of the reasonableness' of those costs."[21] The authority Cal Advocates cites—D.10-11-010—is inapposite. There, the Commission considered an application to charge market-based rates, and determined that the applicant "had to prove that it lacks significant market power and that shippers have alternative means of meeting the crude needs of their refineries."[22] The burden of proof on an applicant for market-based rates, however, has no bearing on the burden on utilities that are required to show by a preponderance of the evidence that proposed rates are just and reasonable.

B. Reasonableness Standard

Public Utilities Code Section 451 requires PG&E to show that the costs it seeks to recover in Track 2 of this proceeding were "just and reasonable." EPUC/Indicated Shippers acknowledge that the Commission has adopted the "prudent manager" standard in reviewing recorded costs.[23] To meet this standard, a utility must show that its actions, practices, methods, and decisions show reasonable

[17] D.15-07-044, p. 29.

[18] D.08-01-022, p. 4.

[19] D.08-01-022, p. 4.

[20] D.08-01-022, p. 5.

[21] Cal Advocates OB, p. 4, citing D.10-11-010, p. 4, n. 3.

[22] D.10-11-010, p. 4.

[23] *See, e.g., Re Southern California Edison Co.,* D.87-06-021, 24 CPUC 2d 476; EPUC/Indicated Shippers OB, pp. 7-8.

judgment in light of what it knew or should have known at the time the decision was made.[24] In addition, the utility must show that the act or decision is expected to accomplish the desired result at the lowest reasonable cost consistent with good utility practices.[25]

Moreover, "[a] 'reasonable and prudent' act is not limited to the optimum practice, method, or act to the exclusion of all others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with the utility system needs, the interest of the ratepayers and the requirements of governmental agencies of competent jurisdiction."[26] Perfection is not required.[27] Rather, "it is a standard of care that demonstrates all actions were well planned, properly supervised and all necessary records are retained."[28]

EPUC/Indicated Shippers seek to graft onto the reasonableness standard "an affirmative burden to demonstrate that its gas safety programs maximize the cost effectiveness of safety investments."[29] EPUC/Indicated Shippers rely on D.24-12-074–the Commission's decision in Sempra's 2024 GRC. Contrary to EPUC/Indicated Shippers' assertion, the Commission did not articulate a requirement in D.24-12-074 that utilities demonstrate that gas safety programs maximize the cost effectiveness of safety investments. The reference to maximizing cost-effectiveness of safety investments refers to the broad objectives of utilities' Pipeline Safety Enhancement Plans.[30] Furthermore, the Commission confirmed that: (1) the standard of proof in rate cases is that of a preponderance of the evidence; (2) costs are just and reasonable if "prudently incurred by competent management exercising the best practices of the era, and using well-trained, well-informed and conscientious employees and contractors who are performing their jobs properly;" and (3) parties that propose a different result have a "burden of going forward" to produce evidence to support their position and raise a reasonable doubt as to the utility's request.[31]

[24] *Re Southern California Edison Co.,* D.87-06-021, 24 CPUC 2d 476.

[25] *Re Southern California Edison Co.,* D.87-06-021, 24 CPUC 2d 476.

[26] *Re Southern California Edison Co.,* D.87-06-021, 24 CPUC 2d 476.

[27] D.14-06-007, pp. 31, 36.

[28] D.14-06-007, p. 36.

[29] EPUC/Indicated Shippers OB, p. 8.

[30] D.24-12-074, p. 212.

[31] D.24-12-074, pp. 17-18.

C. Incrementality

1. PG&E Demonstrated Recorded Amounts Were Incremental Under The Commission's Incrementality Standard

To recover amounts recorded in a memorandum account, the Commission must find that the costs were incremental.[32] To find that costs were incremental, the Commission must examine "whether the costs are in addition to amounts previously authorized to be recovered in rates."[33] As the Commission has explained:

> The basic idea of incrementality is that in order to recover any costs recorded in the [Wildfire Expense Memorandum Account], those costs must be incremental, and not recovered in another way, such as in a General Rate Case (GRC). For example, if PG&E had forecast certain wildfire-related costs in a GRC, resulting in those costs being included in rates, they would not be incremental, and PG&E could not record those same costs in the WEMA and subsequently seek rate recovery.[34]

Finally, the incrementality standard is applied on an activity-by-activity basis.[35] In other words, the test compares the amounts recorded in the memorandum accounts at issue to the relevant categories and types of authorized costs approved in other Commission proceedings.[36] The Commission does not examine incrementality on a total-company basis.[37] The Commission has explicitly rejected an approach that compares the ratio of overall actual-to-authorized GRC spending.[38]

PG&E demonstrated by a preponderance of the evidence that all costs for which it seeks cost recovery were recorded in accounts authorized by the Commission and for which no revenue requirement was provided in any other Commission proceeding.[39] PG&E submitted testimony concerning its rigorous cost recording and accounting practices to ensure that only incremental costs are recorded in the accounts at issue here. To ensure that costs are properly accounted for as incremental, all

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[32] D.22-11-010, p. 6.

[33] D.21-08-024, p. 12.

[34] D.18-06-029, p. 8; *see also* D.22-06-032, p. 8. EPUC/Indicated Shippers acknowledge that "PG&E is required to demonstrate that the costs recorded in its MCOPPMA and GSBA accounts are incremental to costs approved in other Commission proceedings." EPUC/Indicated Shippers OB, p. 9.

[35] D.22-06-032, p. 8.

[36] D.22-06-032, p. 8.

[37] D.22-06-032, p. 9.

[38] D.22-11-010, p. 16, citing D.21-05-006 and D.21-08-024; *see also* D.21-08-024, pp. 13-15.

[39] PGE-21, p. 1-5.

costs for which PG&E seeks recovery in this Application were tracked in distinct orders that were tagged with identifiers different from those that are included in other cost recovery mechanisms.[40] If the incremental amounts being requested are due to an overrun of a two-way balancing account, then the distinct order would include costs originally adopted in the balancing account, but the request in this Application only includes the amounts above that original adopted amount.[41] This tracking approach is applicable to all costs recorded in the accounts under review.[42]

PG&E uses specific fields in SAP to track order costs and direct them into specific accounts for future recovery.[43] PG&E uses a field called Balancing Account Receiver Cost Center (BARCC) that assigns each order to a specific account.[44] PG&E conducts order quality control as part of its preparation for any cost recovery application in order to assure the BARCC field is appropriate for the work represented in each order and for the rate case being prepared.[45] PG&E does not include costs recorded in memorandum accounts in rates until they have been approved by the Commission.[46]

2. The Commission's Utility Audits Branch Confirmed That Recorded Costs Are Incremental

The Commission's UAB conducted an independent audit of PG&E's gas safety and electric modernization accounts included in this Application.[47] The UAB described the audit's objective as follows:

> Our audit objective was to determine whether expenditures recorded in the gas safety and electric modernization accounts and included in PG&E's A.23-06-008 for cost recovery, are sufficiently supported, *incremental in nature*, directly attributable to allowable activities in the designated accounts, and in compliance with applicable Public Utilities (PU) Code sections, CPUC Decisions, PG&E's policies and procedures, and other relevant criteria.[48]

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[40] PGE-02, p. 1-4.

[41] PGE-02, p. 1-4.

[42] PGE-02, p. 1-4.

[43] PGE-02, p. 1-4.

[44] PGE-02, p. 1-5.

[45] PGE-02, p. 1-5.

[46] PGE-02, p. 1-4.

[47] *Assigned Commissioner's Scoping Memo and Ruling* (Nov. 1, 2023), p. 7.

[48] PGE-20, p. 1 (emphasis added).

The UAB further explained that the amounts authorized in the GT&S Rate Case served as the basis for determining incremental cost.[49]

The UAB's final audit report confirmed that the costs recorded in the accounts at issue in Track 2 are incremental and should be recovered. The UAB issued four audit findings related to misstated, overstated, or unsubstantiated costs, with a total amount of approximately $4.52 million.[50] PG&E accepted all but one of the UAB's recommendations (Finding 3, concerning $468,789 recorded in the ILIMA), and updated its proposed revenue requirement accordingly. The UAB did not make any findings suggesting that the costs recorded in the gas safety and electric modernization accounts were not incremental. Tellingly, no party addressed the UAB's findings in their opening briefs.

3. Cal Advocates' Arguments Concerning Straight-Time Labor And Materials Movement Lack Merit

Cal Advocates argues that costs are incremental if the utility had to procure additional resources, be they in labor or materials, to complete the new activity.[51] Cal Advocates' position is contrary to Commission precedent, disregards that PG&E's forecasting methodologies are activity based, and should be rejected.

Cal Advocates recommends reducing costs that PG&E can recover in the ILIMA and GSBA to account for straight-time labor. According to Cal Advocates, straight-time labor costs are incremental only if PG&E created new positions and hired additional staff specifically to complete incremental projects for which costs were recorded to the account.[52] Cal Advocates' position is contrary to the Commission's established test of incrementality—to wit, whether the costs recorded to the memorandum or balancing account are already recovered in PG&E's revenue requirement and rates (such as through the GRC or GT&S Rate Case).[53]

Cal Advocates ignores the Commission's established test for incrementality, and instead relies on D.23-02-017, in which the Commission approved a contested settlement in PG&E's application to recover amounts related to wildfire mitigation, certain catastrophic events, and a number of other

[49] PGE-20, p. 3.

[50] PGE-20, pp. 10-14.

[51] Cal Advocates OB, p. 5.

[52] Cal Advocates OB, pp. 7-10 (ILIMA); p. 16 (GSBA).

[53] D.22-11-010, p. 20; D.22-06-032, p. 8; D.21-08-024, p. 12; D.18-06-029, p. 8.

activities. As a threshold matter, the Commission's adoption of the settlement agreement is non-precedential under Commission Rule 12.5, and the Commission declined to evaluate the incrementality of individual expenditures at issue, given that it found the settlement agreement reasonable as a whole.[54]

Even if D.23-02-017 were precedential, Cal Advocates misreads it. There, the Commission was concerned that utilities would be incentivized to reassign resources authorized in a GRC to activities not otherwise included in the GRC but whose costs are separately recoverable via a memorandum or balancing account.[55] No party has suggested that has happened with respect to the accounts at issue in this proceeding.

In addition, D.23-02-017 does not support Cal Advocates' argument that PG&E must hire new employees in order for the costs to be incremental.[56] Rather, the Commission recognized that it was appropriate to compare a utility's GRC funding with its spending to confirm that the utility did not merely redirect existing resources *in a related work category* to the work being sought through an incremental recovery mechanism.[57] PG&E need not show that it hired specific people to complete the work for which costs were recorded in this case.

Furthermore, Cal Advocates' straight-time labor argument rests on a fundamental misunderstanding of forecast ratemaking. In PG&E's rate cases, such as the GRC and GT&S Rate Case, PG&E typically develops program costs without regard to how much of a specific activity cost is expected to go toward internal labor or contractors (external labor).[58] Indeed, typically when PG&E forecasts the costs for a program, it does not assume that the activity will be performed by any specific set of employees, categories of employees, contractors, or combination thereof.[59] For this same reason, PG&E's rate cases do not include a total number of employees that will be employed or a specific number of contractors that will be used to perform all of the programs and activities included in the rate case.[60]

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[54] D.23-02-017, p. 27.

[55] D.23-02-017, p. 27.

[56] Cal Advocates OB, pp. 7-10.

[57] D.23-02-017, p. 27.

[58] PGE-02, p. 1-6.

[59] PGE-02, p. 1-6.

[60] PGE-02, p. 1-6.

As a result, the Commission has traditionally set PG&E's revenue requirement based on program and activity forecasts, not on the exact number of PG&E employees during the rate case period or contractors retained.[61] In PG&E's 2019 GT&S Rate Case, the Commission did not identify or approve a total number of employees and/or contractors to perform all the programs and activities addressed in that proceeding.[62] Instead, the Commission carefully reviewed the monetary forecast for each program and/or activity and determined the appropriate level of program funding based on that specific forecast. As a result, the Commission's adopted revenue requirement cannot be said to include an exact amount for internal labor or external labor costs.[63]

Cal Advocates' argument concerning materials movement suffers from the same flaws. Materials movement refers to the transfer of bulk, pre-purchased materials inventory for use during the execution of a project or process.[64] PG&E acquires materials in large quantities and holds them in warehouses until they are required at a project site; it initially records these costs as inventory (a current asset on its balance sheet) and does not seek recovery for them at the point of purchase.[65] When the materials are used during a project or process, PG&E records (debits) the cost of the materials used to the work order associated with that specific project and reduces (credits) the amount from its inventory account.[66] Only after materials are used and recorded to a work order as materials movement does PG&E include the cost as expense or capital expenditure in the appropriate memorandum or balancing accounts for potential recovery in rates.[67]

Cal Advocates argues that materials movement costs are not incremental "[b]ecause PG&E did not purchase additional materials when it moved pre-purchased materials from warehouses to staging sites. Therefore, PG&E did not incur incremental costs for bulk pre-purchased materials."[68] Materials movement costs recorded in the accounts at issue are incremental under the Commission's test because they are not recovered in any other proceeding. As with the total cost of straight-time labor, PG&E's

[61] PGE-02, p. 1-6.

[62] PGE-02, p. 1-6.

[63] PGE-02, p. 1-6.

[64] PGE-21, p. 1-7.

[65] PGE-21, p. 1-7.

[66] PGE-21, p. 1-7.

[67] PGE-21, p. 1-7.

[68] Cal Advocates OB, p. 7.

total cost of materials movement is not forecasted in the GT&S Rate Case, the GRC, or elsewhere.[69] PG&E's forecasts are activity-based; only the cost of materials movement that PG&E expects to incur in the context of completing GRC or GT&S activities are forecasted in those rate cases.[70] Furthermore, Cal Advocates' apparent position that PG&E should purchase materials for projects recorded to memorandum accounts separately from other materials is infeasible for the efficient operations of the utility, and is likely to result in higher costs to customers, compared to pre-purchasing materials in bulk.[71] Finally, for the reasons explained above with respect to straight-time labor, Cal Advocates' reliance on D.23-02-017 (which does not discuss materials movement) is misplaced.[72]

4. EPUC/Indicated Shippers State The Correct Standard, But Misapply It

EPUC/Indicated Shippers acknowledge that the Commission's test for incrementality examines whether recorded costs are "incremental to costs approved in other Commission proceedings."[73] They also recognize that, "the Commission, in assessing the incrementality of PG&E's request here for recovery of over-expenditures, must compare PG&E's costs to the relevant categories and types of authorized costs from PG&E's 2019 GT&S Rate Case Decision."[74]

While EPUC/Indicated Shippers correctly articulate the Commission's standard, they misapply it in arguing that recorded costs in the MCOPPMA and the GSBA are not incremental. With respect to the former, EPUC/Indicated Shippers assert that, "the Commission approved $6.1 million for the OPP Program."[75] This is inaccurate. The Commission did not approve any funding for the Overpressure Protection Program in PG&E's 2019 GT&S Rate Case.[76] Therefore, all costs recorded in the MCOPPMA are incremental to spending authorized by the Commission.

With respect to the GSBA, the Commission adopted $8.5 million in expense, and $30.5 million in capital expenditures for 2022; PG&E recorded $8.64 million in expense and $92.65 million in capital

[69] PGE-21, p. 1-8.

[70] PGE-21, p. 1-8.

[71] PGE-21, p. 1-8.

[72] Cal Advocates OB, p. 7.

[73] EPUC/Indicated Shippers OB, p. 9.

[74] EPUC/Indicated Shippers OB, p. 10.

[75] EPUC/Indicated Shippers OB, p. 19.

[76] D.19-09-025, p. 331, OP 62.

expenditures in the GSBA, resulting in incremental expense of $0.17 million, and incremental capital expenditures of $62.1 million. There can be no dispute that PG&E incurred $62.1 million in capital expenditures above and beyond what the Commission authorized in the 2019 GT&S Rate Case. EPUC/Indicated Shippers implicitly recognize that $62.1 million capital expenditures are incremental, because they refer to that figure repeatedly as representing "over-expenditures."[77] EPUC/Indicated Shippers misapply the Commission's incrementality test, and their arguments should be rejected.

IV. BALANCING AND MEMORANDUM ACCOUNTS UNDER REVIEW

A. Gas Safety Accounts

1. In-Line Inspection Memorandum Account

a. Commission Authorization For Account

No party challenged Commission authorization for the ILIMA.

b. Reasonableness

No party disputed the reasonableness of expenditures recorded in the ILIMA.

c. Incrementality: Cal Advocates' Argument That Straight-Time Labor And Materials Movement Costs Are Not Incremental Should Be Rejected

Cal Advocates recommends the Commission reduce PG&E's ILIMA recoverable expenses by $26.9 million, which includes: (1) straight-time labor costs totaling $19.2 million; and (2) materials movement costs totaling $7.7 million.[78] Cal Advocates argues that these costs are not incremental. See Section III.C.3 above, and Section III.C of PG&E's Opening Brief, for PG&E's response to Cal Advocates' claim that straight-time labor costs and materials movement costs recorded in the ILIMA are not incremental.

d. Costs Appropriate To Record And Recover Through The Corresponding Account

No party argued that it is not appropriate to record and recover the costs described above in the ILIMA.

[77] *See, e.g.,* EPUC/Indicated Shippers OB, p. 25.

[78] Cal Advocates OB, pp. 6-10.

2. Internal Corrosion Direct Assessment Memorandum Account

a. Commission Authorization For Account

No party challenged Commission authorization for the ICDAMA.

b. Reasonableness

No party disputed the reasonableness of expenditures recorded in the ICDAMA.

c. Incrementality: Cal Advocates' Argument That Materials Movement Costs Are Not Incremental Should Be Rejected

Cal Advocates recommends the Commission reduce PG&E's recoverable amount in the ICDAMA by $0.468 million associated with materials movement costs, which Cal Advocates argues is not incremental.[79] See Section III.C.3 above, and Section III.C of PG&E's Opening Brief, for PG&E's response to Cal Advocates' claim that materials movement costs recorded in the ICDAMA are not incremental.

d. Costs Appropriate To Record And Recover Through The Corresponding Account

No party argued that it is not appropriate to record and recover the costs described above in the ICDAMA.

e. Whether The Account Should Continue

As PG&E explained in its Opening Brief, the Commission ordered the discontinuation of the ICDAMA in PG&E's 2023 GRC.[80] No party takes the position that the ICDAMA should be continued. Therefore, the Commission should not disturb the decision it made in PG&E's 2023 GRC to discontinue the account.

3. Gas Statutes, Regulations, and Rules Memorandum Account

No party disputed that $9.72 million of expenses, and $1.01 million of capital expenditures, recorded in the GSRRMA were reasonable, incremental, and appropriately recorded in and recovered through the GSRRMA.

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[79] Cal Advocates OB, p. 11.

[80] D.23-11-069, p. 130.

4. Transmission Integrity Management Program Memorandum Account

No party disputed that $0.32 million of expenses recorded in the TIMPMA were reasonable, incremental, and appropriately recorded in and recovered through the TIMPMA.

5. Measurement And Control Station Overpressure Protection Memorandum Account

a. Commission Authorization For Account

No party challenged Commission authorization for the MCOPPMA.

b. Reasonableness: EPUC/Indicated Shippers' Disallowance Recommendation Should Be Rejected

EPUC/Indicated Shippers recommend that the Commission permanently disallow $12.24 million in capital expenditures recorded in the MCOPPMA "because PG&E failed to demonstrate that its recorded costs are reasonable, prudent, and cost effective."[81] EPUC/Indicated Shippers make four arguments in support of their assertion: (1) PG&E failed to show installing secondary OPP devices was reasonable and prudent; (2) PG&E's reliance on legal and regulatory requirements is misplaced; (3) PG&E did not consider alternatives and did not show that the program is cost-effective; and (4) PG&E improperly expanded the scope of the program. Each of these arguments suffers from significant flaws, as shown below.

i. PG&E Acted As A Prudent Manager

PG&E began the M&C Station Overpressure Protection Enhancement Program in 2017 as a mitigation to prevent large overpressure events due to equipment-related failure at regulator stations.[82] Pilot operated regulator stations, when compared to other M&C station types, are subject to a higher likelihood of OP event than other station designs.[83] This is primarily because both the regulator and monitor (the primary OPP device) installed in many of these stations can fail in the "open" position—known as the "common failure mode"—when affected by contaminants in the system (sulfur, liquids, and other debris).[84]

[81] EPUC/Indicated Shippers OB, p. 4.

[82] PGE-02, p. 2-AtchE-2.

[83] PGE-02, p. 2-AtchE-2.

[84] PGE-02, p. 2-AtchE-2.

PG&E acted as a prudent manager when it developed a program to install secondary OPP devices at the pilot operated regulator stations.[85] PG&E's practice of installing secondary OPP devices such as slam shuts is recognized as one of the leading practices.[86] EPUC/Indicated Shippers claim that PG&E did not reference a source in support of the assertion that installing secondary OPP devices is a leading practice.[87] Not so. In fact, PG&E's OP Elimination Program Long-Term Execution Plan—which outlines the program development and execution plan for this program and was provided as part of PG&E's rebuttal testimony—includes an extensive discussion of industry best practices.[88] For example, PG&E explained the benchmarking it performed developing the OP Elimination Program as follows:

> The benchmarking studies and lessons learned from the research have been shared throughout the industry. We continue to collaborate with other operators and contribute to regulatory and industry publications. Our various subject matter experts have produced several presentations and articles to promote the need for overpressure event mitigation strategies. Our company has assisted the American Gas Association with the development of the AGA's "Leading Practices to Reduce the Possibility of a Natural Gas OP Event" document to share current standards and procedures.[89]

PG&E's OP Elimination Program includes myriad references to the use of secondary overpressure protection devices—and slam shuts in particular—as an industry best practice. For example, the 2021 Update provides the following:

> **2021 Update:** The OP team continues to engage with AGA and its industry partners to develop best practices and share knowledge. In December of 2020 we participated in an informal survey regarding the use of secondary overpressure protection devices. While the specific installation counts were not available, 22 of the 31 respondents currently use slam shut or relief valve devices to reduce OP risk. The common strategy amongst these companies indicates widespread acceptance of slam shuts and relief valves as OP risk mitigating equipment.[90]

In short, EPUC/Indicated Shippers' assertion that "PG&E reached broad conclusions about what it deemed necessary to prevent large OP events, but without providing the necessary sources of

[85] PGE-02, p. 2-AtchE-2.

[86] PGE-02, p. 2-AtchE-2.

[87] EPUC/Indicated Shippers OB, p. 11.

[88] PGE-21, Attachment K.

[89] PGE-21, p. 2-AtchK-11.

[90] PGE-21, p. 2-AtchK-47.

information or analysis demonstrating that those conclusions were reasonable and prudent"[91] is belied by the evidence.

ii. PG&E Does Not Rely On The Protecting Our Infrastructure Of Pipelines And Enhancing Safety Act

EPUC/Indicated Shippers argue that "PG&E relies on the Protecting our Infrastructure of Pipelines and Enhancing Safety Act (2020 PIPES Act, or Act), signed into law in 2020, as the basis for the OPP Program's subsequent refinement which led to PG&E's overspend."[92] This is demonstrably false. In fact, PG&E explained in its testimony that the Overpressure Protection Program began in 2017—as means to prevent pressure excursions 10 percent greater than the Maximum Allowable Operating Pressure (MAOP)—long before Congress passed the PIPES Act.[93] Since the program's inception in 2017, PG&E has continued to evaluate the best methods to manage overpressure incidents, including the installation of secondary overpressure protection devices such as slam-shuts, and other measures.

PG&E has never claimed that any of the work performed in the Overpressure Protection Program is mandated by the PIPES Act. Rather, PG&E noted that the program (already well underway in 2020) is consistent with the intent behind the legislation:

> Additionally, the Protecting our Infrastructure of Pipelines and Enhancing Safety Act that was signed into law in December 2020 includes new mandates for Pipeline and Hazardous Materials Safety Administration to establish requirements for operators to mitigate common failure mode conditions and have appropriate secondary OPP devices (e.g., slam shuts, relief valves, etc.) at district regulator stations to prevent and mitigate OP events. PG&E's OPP program is consistent with this intent *and the program was started prior to these requirements.*[94]

In short, the PIPES Act confirmed the actions that PG&E was already taking to prudently manage its system by developing a program designed to mitigate common failure mode conditions by installing secondary OPP devices.

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[91] EPUC/Indicated Shippers OB, p. 12.

[92] EPUC/Indicated Shippers OB, p. 13.

[93] Consolidated Appropriations Act, 2021, Pub. L. No. 116-260 (Dec. 27, 2020) 134 Stat. 1182, Div. R Protecting our Infrastructure of Pipelines and Enhancing Safety (PIPES Act) of 2020 – Section 206, Pipeline Safety Practices.

[94] PGE-02, p. 2-AtchE-3 (emphasis added).

EPUC/Indicated Shippers also argue that 1) PG&E has discretion under the PIPES Act, and 2) the Pipeline and Hazardous Materials Safety Administration (PHMSA) rulemaking to implement the Act was not opened until 2023.[95] PG&E has never claimed otherwise. EPUC/Indicated Shippers' statement that, "PG&E attempts to explain its activities under its OPP Program as 'mandated' by the Act, prior to receipt of any final guidance by the federal agency responsible for implementing the Act—PHMSA" is patently false. PG&E does not claim the Overpressure Protection Program is "mandated" by the PIPES Act.[96] Tellingly, EPUC/Indicated Shippers provide no citation for this naked assertion.

It is EPUC/Indicated Shippers—not PG&E—that make the PIPES Act the centerpiece of their argument. While EPUC/Indicated Shippers devote nearly four pages of their Opening Brief to discussing the PIPES Act, PG&E mentions it *only once* in its testimony (in the paragraph excerpted above).[97] Furthermore, PG&E does not mention the PIPES Act at all in its rebuttal testimony, likely because EPUC/Indicated Shippers saved this argument for briefing. Simply put, the PIPES Act is a strawman that EPUC/Indicated Shippers erected for the sole purpose of tearing it down.

iii. PG&E Considered Alternatives When Crafting The OP Elimination Plan

EPUC/Indicated Shippers criticize PG&E for failing to consider alternatives to the installation of secondary overpressure protection devices.[98] This criticism is unwarranted. As EPUC/Indicated Shippers acknowledge, PG&E's OP Elimination Plan includes a robust exploration of alternatives.[99] The OP Elimination Plan explains that PG&E considered six alternatives "as a possible mitigation to be added to existing distribution and transmission regulator stations to mitigate the risk of large OP events" including 1) slam shut devices, 2) additional regulation on single run stations, 3) additional working monitor, 4) station relief valves, 5) system relief valves, and 6) SCADA control and visibility.[100] After considering these alternatives, PG&E concluded that the "most effective solution to prevent OP events from occurring" included 1) installation of slam shut devices on the monitoring regulators, 2)

[95] EPUC/Indicated Shippers OB, p. 14.

[96] While PG&E does not oppose EPUC/Indicated Shippers' May 27, 2025 Motion for Official Notice, we note that the motion repeats several of the misstatements regarding PG&E's reliance on the PIPES Act, which PG&E addresses in this reply brief.

[97] PGE-02, p. 2-AtchE-3.

[98] EPUC/Indicated Shippers OB, p. 12.

[99] EPUC/Indicated Shippers OB, p. 12.

[100] PGE-21, p. 2-AtchK-18.

installation of filtering equipment on the regulator pilot sensing lines, and 3) installation of pressure monitoring and transmitting instruments to provide visibility of the process conditions at the Gas Control Center.[101]

EPUC/Indicated Shippers argue that, "the Plan was published after the over-expenditures were incurred, and after the 2022 cost recovery period, and therefore should be disregarded by the Commission."[102] This is misleading. As the Document Revision Log included in the OP Elimination Plan makes clear, it was originally published in April 2019, and has been revised each year since.[103] PG&E's OP Elimination Plan was in place long before the expenditures at issue were recorded in the MCOPPMA.

EPUC/Indicated Shippers also argue that PG&E failed to perform a cost-benefit analysis.[104] As discussed above, the reasonableness inquiry focuses on whether the utility's actions, practices, methods, and decisions show reasonable judgment in light of what it knew or should have known *at the time the decision was made.*[105] At the time PG&E prepared its 2019 GT&S Rate Case forecast in 2017, the concept of cost-benefit analyses as part of rate case showings had not been implemented. In fact, Risk-Spend Efficiency (RSE) was only introduced in PG&E's 2023 GRC, and it was followed by Cost-Benefit Ratio (CBR) in PG&E's recently filed 2027 GRC. The CBR for the GT Overpressure Protection Program presented in Exhibit 3, Chapter 6 of PG&E's 2027 GRC was 1.9, which is considered cost-effective.

iv. PG&E's Refinement Of The Program Since Filing The 2019 GT&S Rate Case Is Justified

EPUC/Indicated Shippers argue that, "PG&E inappropriately and prematurely expanded the scope of its authorized OPP Program to pursue significant retrofitting and outright replacement and expansion of existing regulator stations without demonstrating that doing so was prudent, reasonable, and cost effective."[106] This argument misses the mark. First, the Commission did not delineate the

[101] PGE-21, p. 2-AtchK-19.

[102] EPUC/Indicated Shippers OB, p. 12.

[103] PGE-21, p. 2-AtchK-3.

[104] EPUC/Indicated Shippers OB, p. 12.

[105] *Re Southern California Edison Co.,* D.87-06-021, 24 CPUC 2d 476.

[106] EPUC/Indicated Shippers OB, p. 14.

scope of the OP Program in the 2019 GT&S Rate Case. Rather, the Commission acknowledged that the program was new and the forecasts were necessarily high-level:

> However, PG&E's vision of the program appears to be in flux. …Thus, while we encourage PG&E to continue to evaluate the best methods to manage overpressure incidents on its system, we find that requiring PG&E to track capital expenditures for this program in a memorandum account is appropriate until a firmer understanding of necessary activities and projects and the associated project costs can be forecast with a reasonable degree of accuracy.[107]

Second, PG&E has justified the inclusion of retrofitting and rebuilding LVCRs and LVCMs within the scope of the program. Since the program's inception in 2017, PG&E has continued to evaluate the best methods to manage overpressure incidents, consistent with the Commission's directive.[108]

EPUC/Indicated Shippers also repeat their debunked unit cost calculations, claiming that, "the aggregate $12.24 million PG&E spent on a mere seven (7) regulator stations equates to a unit cost of $1.6 million-$1.8 million per regulator station."[109] As PG&E explained in rebuttal testimony, the seven stations mentioned by EPUC/Indicated Shippers are the LVCR rebuilds and retrofits made operational in 2022, which had total associated spend in 2022 of $7.3 million, not $12.24 million.[110] On average, this is $1.0 million per station spent in 2022, and not $1.6-$1.8 million stated by EPUC/IS.[111] The $12.24 million includes costs for operational, engineering and closeout stages for 58 LVCR rebuilds and retrofits.[112] In addition, while this Application addresses costs recorded in the MCOPPMA in 2022 only, most projects span multiple years, including prior years for which recovery has already been authorized in Track 2 of PG&E's 2023 GRC.[113] To derive a true unit cost for each project type, one would need to use all the costs incurred from inception to closeout.[114] The table below sets forth the average unit cost of projects (per project type) for projects that were operational in 2019-2022.

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[107] D.19-09-025, p. 111.

[108] D.19-09-025, p. 111.

[109] EPUC/Indicated Shippers OB, p. 18.

[110] PGE-21, p. 2-9.

[111] PGE-21, p. 2-9.

[112] PGE-21, p. 2-9.

[113] PGE-21, p. 2-9; D.23-11-069, pp. 761-62 (finding approximately $44.30 million recorded in the MCOPPMA in 2019-2021 recoverable).

[114] PGE-21, p. 2-9; *Response of Pacific Gas and Electric Company to Administrative Law Judge's Ruling* (April 29, 2025), p. 16.

Table 2: Average Unit Cost Calculations[115]

Station type	Total count of operational units between 2019 and 2022	Total spent since inception to end of 2024 for projects operational in 2019-2022 (in thousands of dollars)	Average unit cost (in thousands of dollars)
LVCR Rebuild	29	$ 38,785	$ 1,337
LVCM Rebuild	1	$ 283	$ 283
LVCR Retrofit	17	$ 10,863	$ 639
LVCM Retrofit	3	$ 170	$ 57
Simple Stations Retrofit	2	$ 1,153	$ 577
LVCR Retirement	2	$ 475	$238

EPUC/Indicated Shippers failed to show that the more accurate unit cost presented above was not reasonable.

c. Incrementality

i. Cal Advocates' Argument That Materials Movement Costs Are Not Incremental Should Be Rejected

Cal Advocates recommends a reduction of approximately $0.631 million of capital expenditures related to materials movement, which it argues is not incremental.[116] See Section III.C.3 above, and Section III.C of PG&E's Opening Brief, for PG&E's response to Cal Advocates' claim that materials movement costs recorded in the MCOPPMA are not incremental.

ii. EPUC/Indicated Shippers' Incrementality Argument Suffers From Numerous Flaws

EPUC/Indicated Shippers argue that 2022 recorded capital expenditures in the MCOPPMA are not incremental because: (1) the Commission approved $6.1 million for the OP Program in the 2019 GT&S Rate Case; and (2) the Commission did not approve regulator station retrofits or rebuilds in the 2019 GT&S Rate Case.[117] EPUC/Indicated Shippers are wrong on both accounts. First, PG&E forecast $6.1 million annual expenditures for the M&C OPP in its 2019 GT&S Rate Case, but the Commission adopted no funding, and instead ordered PG&E to establish a memorandum account to track capital

[115] *Response of Pacific Gas and Electric Company to Administrative Law Judge's Ruling* (April 29, 2025), p. 17.

[116] Cal Advocates OB, p. 14.

[117] EPUC/Indicated Shippers OB, p. 19.

expenditures for the program.[118] Thus, all expenditures recorded in the MCOPPMA are incremental to authorized funding in the 2019 GT&S Rate Case–the standard acknowledged by EPUC/Indicated Shippers as discussed in Section III.C.4. Second, as described above, the Commission did not adopt a particular scope of work for the OP Program in the 2019 GT&S Rate Case, but rather ordered PG&E to continue to evaluate the best methods to manage overpressure incidents on its system, and track capital expenditures in a memorandum account until the projects and the associated project costs can be forecast with a reasonable degree of accuracy.[119] The expenditures recorded in the MCOPPMA to retrofit and rebuild stations are a direct result of the Commission's guidance, and are not covered by PG&E's existing revenue requirements.

d. Costs Appropriate To Record And Recover Through The Corresponding Account

EPUC/Indicated Shippers argue that PG&E "impermissibly enlarged the scope of the OPP Program," and that it is inappropriate to record costs relating to retrofits and rebuilds in the MCOPPMA. PG&E has addressed the former argument above. As to the latter argument, PG&E's Gas Preliminary Statement Part ET is not limited to the scope of work that forecasted in the 2019 GT&S Rate Case. Rather, it allows PG&E to record in the MCOPPMA "the revenue requirement associated with capital expenditures for the Measurement and Control Station Over-Pressure Protection Program during the 2019 Gas Transmission and Storage (GT&S) rate case cycle."[120] PG&E's 2022 capital expenditures for the OP Program were properly recorded in the MCOPPMA.

6. Critical Documents Program Memorandum Account

No party disputed that $1.89 million of expenses recorded in the CDPMA were reasonable, incremental, and appropriately recorded in and recovered through the CDPMA.

7. Gas Storage Balancing Account

a. Commission Authorization For Account

No party challenged Commission authorization for the GSBA.

[118] D.19-09-025, p. 111.

[119] D.19-09-025, p. 111.

[120] Gas Preliminary Statement, Part ET.

b. Reasonableness: EPUC/Indicated Shippers' Disallowance Recommendation Should Be Rejected

EPUC/Indicated Shippers argue that the Commission should permanently disallow capital expenditures recorded in the GSBA on reasonableness grounds. As a threshold issue, the dollar value EPUC/Indicated Shippers assign to their recommendation is unclear; their Opening Brief is contradictory, both internally and with respect to the record evidence. In their Opening Brief, EPUC/Indicated Shippers simultaneously recommend that the Commission permanently disallow $62.1 million in capital over-expenditures recorded in the GSBA,[121] and that the Commission "permanently disallow $21.06 million in capital over-expenditures recorded in the GSBA, because PG&E failed to demonstrate that its recorded costs are reasonable, prudent, and cost-effective."[122] Section IV of EPUC/Indicated Shippers' Opening Brief suggests a "total of $33.8 million in capital should be permanently disallowed in the MCOPPMA and the GSBA."[123] EPUC/Indicated Shippers do not indicate how the $33.8 million figure was derived.

Consulting EPUC/Indicated Shippers' testimony does not clarify the issue. They submitted testimony on September 3, 2024 recommending that $44 million recorded in the GSBA should be disallowed, but partially revised that recommendation in their April 11, 2025 errata to $21.06 million in capital disallowances.[124] Yet, EPUC/Indicated Shippers (either mistakenly or intentionally) retained the recommended $44 million disallowance in the body of their errata testimony.[125] In their Opening Brief, however, EPUC/Indicated Shippers seem to have abandoned the $44 million recommended disallowance altogether.

Whatever the number, EPUC/Indicated Shippers' argument that the expenditures recorded in the GSBA in 2022 were not reasonably incurred lacks merit. EPUC/Indicated Shippers argue broadly that PG&E presented insufficient evidence of the shifting regulatory and legislative landscape to justify the 2022 expenditures recorded in the GSBA.[126] EPUC/Indicated Shippers assert that, "[a]t the time the

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[121] EPUC/Indicated Shippers OB, p. iv (Summary of Recommendations).

[122] EPUC/Indicated Shippers OB, p. 25.

[123] EPUC/Indicated Shippers OB, p. 10.

[124] EIS-03, p. 2 (recommending that the Commission "[r]eject at least $21.06 million of PG&E's requested $62.1 million for its [GSBA] capital costs (category MAT 3L4) because of PG&E's undisciplined capital spending and lack of project cost control.").

[125] EIS-03, p. 11 (recommending that the Commission reject "at least *$44 million* of PG&E's requested $62.1 million for its [GSBA] capital costs (category MAT 3L4) because of PG&E's undisciplined capital spending and lack of project cost control.") (emphasis added).

[126] EPUC/Indicated Shippers OB, pp. 21-22.

Commission approved the GSBA in 2019, the CalGEM gas storage regulations were finalized."[127] While true, this assertion obscures two critical points: (1) when PG&E prepared its 2019 GT&S Rate case in 2017, CalGEM had only issued draft or interim regulations upon which PG&E could construct a forecast; and (2) the adopted regulations require CalGEM to approve PG&E's work plan, which was not obtained until June 2021. This uncertainty was the basis for the Commission's adoption of the GSBA:

> We find that PG&E's request for a two-way balancing account for gas storage expenditures is reasonable. We agree with TURN's assessment of the uncertainty of costs associated with PG&E's implementation of the DOGGR regulations. While the regulations have been finalized, eliminating the single-point-of-failure design for over 80 injection and withdrawal wells could be a significant undertaking given the scope and nature of the work required.[128]

Thus, EPUC/Indicated Shippers' suggestion that the Commission should discount the considerable regulatory uncertainty that existed both before and after the 2019 GT&S Rate Case was filed should be rejected.

EPUC/Indicated Shippers' specific arguments concerning work performed in 2022 should also be rejected. They argue that: (1) PG&E's decision to perform 19 well reworks in 2022, instead of the 9 well reworks adopted by the Commission in the 2019 GT&S Rate Case, was imprudent; (2) construction requirements and mechanical integrity testing (MIT) are independent obligations that PG&E was not required to simultaneously undertake; and (3) PG&E failed to justify the cost overruns and delays on the Turner Cut Station project. For the reasons explained below, these arguments lack merit.

First, EPUC/Indicated Shippers argue that PG&E exercised discretion to execute 19 well re-works in 2022, instead of the 9 well re-works adopted by the Commission in the 2019 GT&S Rate Case.[129] What EPUC/Indicated Shippers omit is that all 19 well re-work projects were required to comply with regulations and the 2021 Implementation Plan approved by CalGEM. As discussed above, the Commission adopted 9 well re-work projects in the 2019 GT&S Rate Case based on PG&E's forecast prepared in 2017, when CalGEM had only published draft or interim regulations. Final regulations adopted by CalGEM require dual-barrier construction over a 7-year period.[130] The regulations also require a minimum of 10 percent in Year 1 and 15 percent in each subsequent year of the non-conforming wells be brought into compliance with the dual barrier requirements of 14 CCR §

[127] EPUC/Indicated Shippers OB, pp. 20-21.

[128] D.19-09-025, p. 95.

[129] EPUC/Indicated Shippers OB, p. 22.

[130] PGE-2, p. 2-AtchG-9.

1726.5.[131] In addition, in response to CalGEM's direction to submit a revised implementation plan with an accelerated inspection schedule, PG&E submitted a revised implementation plan in January 2021.[132] The 2021 Revised Implementation Plan accelerated PG&E's workplan to convert wells to dual barrier construction by one year (from 2025 to 2024).[133] CalGEM approved PG&E's Revised Implementation Plan in June 2021.[134] In short, PG&E was required to perform 19 well re-works in 2022 to comply with regulations; no discretion was exercised.

Second, EPUC/Indicated Shippers argue that PG&E should not have exercised discretion to align dual barrier well construction requirements and MIT, because "CalGEM made it clear that construction requirements and MIT were 'independent obligations.'"[135] While PG&E acknowledges that it had some discretion concerning the schedule for dual-barrier construction and MIT, it exercised that discretion appropriately. The CalGEM Letter referenced by EPUC/Indicated Shippers also made clear that "PG&E may choose to accelerate and align well construction work with MIT where possible and consistent with each regulatory scheme, but it is not required to do so."[136] PG&E prudently managed its work by taking advantages of efficiencies gained in completing both workstreams at the same time. Had PG&E decoupled these workstreams, it would have as much as doubled the cost of the program, since the same equipment (including a rig) is required to complete both workstreams.

Third, EPUC/Indicated Shippers argue that PG&E failed to justify spending $21 million on the Turner Cut Station platform pipeline replacement projects, and provided "no explanation for why the Turner Cut Station Project was not completed as scheduled."[137] Neither claim is accurate. PG&E's testimony explained both the cost overruns and the schedule delays. When PG&E submitted the 2019 GT&S Rate Case in November 2017, it did not anticipate that the work to replace both the Whiskey Slough and Turner Cut infill pipe (the pipe that goes from the wellheads at each station to the respective platform) would extend into 2022.[138] Whiskey Slough was planned to be completed in 2018, with the east side completed first, followed by the west side. Turner Cut's north and south sides were similarly

[131] 14 CCR § 1726.3(d)(1) and (5).

[132] PGE-02, p. 2-AtchG-11 to p. 2-AtchG-12.

[133] PGE-02, p. 2-AtchG-12.

[134] PGE-02, p. 2-AtchG-12.

[135] EPUC/Indicated Shippers OB, p. 23.

[136] PGE-22, *PG&E Response to Data Request JointEI_004_Q004, Attachment 09.*

[137] EPUC/Indicated Shippers OB, p. 24.

[138] PGE-21, p. 2-13.

planned to be completed in 2020.[139] However, CalGEM adopted regulations in 2018 that required California storage operators, including PG&E, to convert wells to dual barrier construction.[140] As a result, PG&E was required to begin conversion of wells and was no longer permitted to use both casing and tubing annuli in the well to flow the wells, restricting flow to the inner tubing.[141]

Due to the redesign and reengineering, project costs increased, and PG&E's execution timeline was pushed back for both the Whiskey Slough and Turner Cut projects.[142] Whiskey Slough and Turner Cut were planned for execution in consecutive years to maintain deliverability at the McDonald Island facility.[143] In addition, PG&E had to delay the Whiskey Slough West side infill to 2020 to maintain necessary withdrawal capacity through 2019 because the number of well rework projects increased in 2019 to meet CalGEM regulations.[144] As the number of well rework projects increased to meet CalGEM regulations in 2019, PG&E had to delay the Whiskey Slough West side infill to 2020 to maintain necessary withdrawal capacity through 2019.[145] These combined delays resulted in all projects ultimately being completed in 2022, with Turner Cut South Side Replacement being completed last and included as part of this application.[146]

c. Incrementality

i. PG&E Demonstrated That Costs Recorded In The GSBA In 2022 For Which It Seeks Recovery Are Incremental

As discussed above and in PG&E's Opening Brief, to determine incrementality, the Commission considers whether recorded amounts are "in addition to amounts previously authorized to be recovered in rates."[147] In the 2019 GT&S Rate Case, the Commission adopted costs of $8.5 million in expense and $30.5 million in capital expenditures for the MAT codes included in the GSBA. As of December 31,

[139] PGE-21, p. 2-13.

[140] PGE-21, p. 2-13.

[141] PGE-21, p. 2-13.

[142] PGE-21, p. 2-14.

[143] PGE-21, p. 2-14.

[144] PGE-21, p. 2-14.

[145] PGE-21, p. 2-14.

[146] PGE-21, p. 2-14. Despite PG&E detailing the timeline for construction at Whiskey Slough and Turner Cut, EPUC/Indicated Shippers inexplicably claim that, "It is unclear from PG&E's Application as to whether the Turner Cut project was completed in 2022." EPUC/Indicated Shippers OB, p. 24.

[147] D.21-08-024, p. 12.

2022, PG&E recorded $8.6 million in expenses and $92.7 million in capital expenditures to the GSBA, for a variance of approximately $0.2 million in expense, and $62.1 million in capital expenditures.[148] The variance represents incremental costs that were not included in PG&E's 2019 GT&S adopted revenue requirement.

ii. Cal Advocates' Incrementality Arguments Should Be Rejected

Cal Advocates recommends the Commission reduce PG&E's recoverable amount for expense by $2.0 million, relating to straight-time labor costs which Cal Advocates claims are not incremental.[149] Cal Advocates also recommends the Commission reduce PG&E's recoverable amount for capital expenditures by $8.23 million in straight-time labor costs, and $6.3 million in materials movement costs.[150] PG&E responds to Cal Advocates' claim that straight-time labor and materials movement costs recorded in the GSBA are not incremental in Section III.C.3 above, and in Section III.C. of PG&E's Opening Brief.

iii. EPUC/Indicated Shippers' Incrementality Arguments Lack Merit

EPUC/Indicated Shippers claim that PG&E submitted testimony concerning its cost accounting practices, but failed to address incrementality of costs recorded in the GSBA.[151] Not so. PG&E explained in its testimony that the Commission adopted $8.5 million in expense, and $30.5 million in capital expenditures for 2022; PG&E recorded $8.64 million in expense and $92.65 million in capital expenditures in the GSBA, resulting in incremental expense of $0.17 million, and incremental capital expenditures of $62.1 million. There can be no dispute that PG&E incurred $62.1 million in capital expenditures above and beyond what the Commission authorized in the 2019 GT&S Rate Case. In addition, PG&E included detailed descriptions of the work performed for the $0.2 million in expense, and $62.1 million in capital expenditures that were not included in PG&E's adopted revenue requirement in the 2019 GT&S Rate Case.

d. Costs Appropriate To Record And Recover Through The Corresponding Account

EPUC/Indicated Shippers repeat their reasonableness arguments addressed above, and conclude

[148] Cal Advocates OB, p. 16.

[149] Cal Advocates OB, p. 16.

[150] Cal Advocates OB, p. 16.

[151] EPUC/Indicated Shippers OB, p. 25.

that "the Commission should determine that these costs are inappropriate to record and recover through the GSBA."[152] PG&E's Gas Tariff Preliminary Statement Part EJ allows PG&E to "track and record actual expenses and capital revenue requirements based on actual capital expenditures, compared to the revenue requirements based on the adopted capital expenditures for PG&E's natural gas storage facilities, excluding Gill Ranch." [153] While EPUC/Indicated Shippers contest the amount of expenditures PG&E should be allowed to recover, there can be no dispute that these expenditures fall within the broad category of actual expenses and capital expenditures for PG&E's natural gas storage facilities, excluding Gill Ranch.

8. Line 407 Memorandum Account

No party disputed that $0.16 million of capital expenditures recorded in the L407MA were reasonable, incremental, and appropriately recorded in and recovered through the L407MA.

9. Dairy Biomethane Pilots Memorandum Account

a. Commission Authorization For Account

No party challenged Commission authorization for the DBPMA.

b. Reasonableness

No party disputed the reasonableness of expenditures recorded in the DBPMA.

c. Incrementality: Cal Advocates' Argument That Materials Movement Costs Are Not incremental Should Be Rejected

Cal Advocates recommends the Commission reduce PG&E's recoverable amount in the DBPMA by $0.256 million associated with materials movement costs, which Cal Advocates argues are not incremental.[154] See Section III.C.3 above, and Section III.C of PG&E's Opening Brief, for PG&E's response to Cal Advocates' claim that materials movement costs recorded in the DBPMA are not incremental.

[152] EPUC/Indicated Shippers OB, p. 26.

[153] PG&E's Gas Tariff Preliminary Statement Part EJ.

[154] Cal Advocates OB, pp. 18-19.

d. Costs Appropriate To Record And Recover Through The Corresponding Account

No party argued that it is not appropriate to record and recover the costs described above in the DBPMA.

e. Whether The Account Should Continue

PG&E recommends continuation of the DBPMA to track on-going expenditures associated with dairy biomethane pilot projects. This is consistent with the Commission's decision on PG&E's 2023 GRC, which ordered forecast costs for the DBPMA and several other memorandum accounts be removed from the revenue requirement request for 2023-2026 until the Commission has the opportunity to review recorded amounts for reasonableness.[155] No party argued that the DBPMA should not be continued.

B. Electric Distribution

1. Distribution Resources Plan Tools Memorandum Account

No party disputed that $4.81 million of expenses, and $2.90 million in capital expenditures recorded in the DRPTMA were reasonable, incremental, and appropriately recorded in and recovered through the DRPTMA.

2. Avoided Cost Calculator Update Memorandum Account

No party disputed that $0.21 million of expenses recorded in the ACCUMA were reasonable, incremental, and appropriately recorded in and recovered through the ACCUMA.

3. DERs Distribution Deferral Account

No party disputed that $1.62 million of expenses recorded in the DERDDA were reasonable, incremental, and appropriately recorded in and recovered through the DERDDA.

4. AB 841 Memorandum Account

No party disputed that $4.16 million of capital expenditures recorded in the AB841MA were reasonable, incremental, and appropriately recorded in and recovered through the AB841MA.

[155] D.23-11-069, pp. 770-77.

V. REVENUE REQUIREMENT AND COST RECOVERY

A. Whether The Ratemaking Proposal Is Reasonable

No party challenged PG&E's ratemaking proposal.

B. Ratemaking For Capital Disallowances

TURN recommends that the Commission follow the recommendations it presented in Sections 11.2 and 11.3 of its Track 1 Opening Brief, which it summarizes as follows:

> TURN recommended that the ratemaking for capital disallowances depend on the basis for the disallowance. For any capital costs disallowed on the basis that the costs are unreasonable, such costs should be permanently barred from recovery in rate base. For any disallowances based on a failure to demonstrate incrementality, the disallowance should: (1) be limited to the applicable rate case period; and (2) if necessary, should include a ratemaking adjustment to achieve a revenue requirement equal to 14.8% of the disallowed capital costs.[156]

TURN refers the Commission to its Track 1 Opening Brief. Similarly, EPUC/Indicated Shippers recommend that the Commission "[a]dopt [TURN's] recommendation that ratemaking for any Track 2 capital disallowances should follow TURN's discussion in Sections 11.2 and 11.3 of TURN's Track 1 Opening Brief, whereby for any capital over-expenditures disallowed on the basis of reasonableness, such disallowances should be permanently barred from recovery in rate base."[157]

For the reasons explained above, no reductions to capital expenditures in the MCOPPMA or GSBA based on reasonableness are warranted. However, even if the Commission were to adopt any of EPUC/Indicated Shippers' recommendations, that should result in a reduction to the revenue requirement for only for 2022, and PG&E should be permitted to include in future applications the future revenue requirements associated with capital expenditures under review in this Application.

Imposing a permanent capital disallowance for any reductions to recorded capital expenditures in Track 2 runs contrary to fundamental ratemaking principles. It is a bedrock principle of utility cost-of-service ratemaking that used and useful assets should be part of a utility's rate base.[158] No party in Track

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[156] TURN OB, p. 4.

[157] EPUC/Indicated Shippers OB, p. iv.

[158] D.84-09-089, 16 CPUC 2d 205, 1984 Cal. PUC LEXIS 1013, p. 55 ("Over the years, this Commission has closely adhered to the 'used and useful' principle, which requires that utility property be actually in use and

2 has argued—let alone introduced any evidence—that the facilities underlying PG&E's capital investments are not used and useful. To the contrary, the capital expenditures recorded in the MCOPPMA and GSBA are for critical work performed on PG&E's M&C and storage facilities, respectively. These facilities will remain used and useful for years to come. Under standard utility ratemaking principles, the capital costs for these facilities should be shared across future generations of customers who will benefit from them.

TURN argued in its Track 1 Opening Brief that, "when the utility fails to meet its burden of showing that recorded capital costs are just and reasonable, the Commission typically orders that the costs in question be permanently disallowed."[159] The two Commission decisions TURN relies on, however, were not "typical" at all. In D.16-06-056 concerning PG&E's 2015 GT&S Rate Case, TURN argued that the Commission should disallow rate recovery of 2011-2014 capital expenditures during the 2015-2017 period.[160] As the Commission explained, the 2011-2014 capital expenditures at issue were "far in excess of the adopted amounts to meet new and heightened safety requirements adopted following the San Bruno fire and explosion."[161] The Commission rendered its decision in the context of D.15-04-024 (the "Penalties Decision"), which directed PG&E to implement over 75 remedies to enhance pipeline safety and imposed an $850 million disallowance to be spent on safety improvements as sanctions on PG&E for violations arising from three investigations associated with 2010 San Bruno explosion and fire.[162] Decision 16-06-056 must be read in the context of the Penalties Decision. As the Commission explains, its determination that capital expenditure disallowances in PG&E's 2015 GT&S Rate Case should be permanent was "[c]onsistent with the *Penalties Decision*."[163]

The permanent capital disallowances ordered in D.19-09-025 (PG&E's 2019 GT&S Rate Case) were also based on the unique circumstances at issue in that case. There, the Commission recognized that, in its decision on PG&E's 2015 GT&S Rate Case, the Commission "established specific unit costs

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providing service in order to be included in the utility's ratebase"); D.20-12-005, p. 380, FOF 301; Pub. Util. Code, § 454.8 ("[W]hen the commission has found and determined that the addition or extension is used and useful, the commission shall consider a method for the recovery of these costs that would be constant in real economic terms over the useful life of the facilities").

[159] TURN Track 1 OB, p. 135.

[160] D.16-06-056, p. 267.

[161] D.16-06-056, p. 260.

[162] D.16-06-056, pp. 16-17.

[163] D.16-06-056, pp. 272, 276.

for pipe replacement projects to resolve extensive disputes raised by multiple parties in that proceeding."[164] TURN argued that PG&E should remove from rate base cost overruns for pipe replacements that PG&E implemented in lieu of performing hydrostatic testing.[165] Noting that "the Commission did not establish a memorandum account for these expenditures," the Commission (with one exception) directed PG&E to permanently remove the capital expenditures in excess of approved unit costs from rate base.[166] The circumstances that led to this permanent capital disallowance are not present here. Unlike PG&E's 2019 GT&S Rate Case, the Commission did *not* adopt any specific unit cost for any of the programs at issue here, and did order the establishment of memorandum accounts (or, in the case of the GSBA, a balancing account) to track spending above authorized amounts.

Moreover, as PG&E argued in Track 1, the concept of a permanent capital disallowance without a finding that specific assets are not used and useful runs contrary to reasonable investor expectations, creating regulatory uncertainty. Utilities and investors will feel less confident that critical utility investments will be recovered. The investment community will perceive the permanent capital disallowance as inconsistent with the reasonable exercise of the Commission's oversight function, and be unsupportive of utilities taking timely action to ensure long-term safety. Such a result could have a negative impact on PG&E's cost of debt and equity, ultimately resulting in higher customer costs.

The Commission should reject any recommendation that any capital disallowance ordered in Track 2 be permanent. Rather, PG&E proposes that future revenue requirements associated with capital expenditures under review in Track 2 be included in future GRCs or as otherwise authorized.

VI. IMPACTS ON ENVIRONMENTAL AND SOCIAL JUSTICE COMMUNITIES

No intervenor addressed this issue in opening briefs.

[164] D.19-09-025, pp. 157-58.

[165] D.19-09-025, p. 157.

[166] D.19-09-025, p. 158.

VII. CONCLUSION

For the reasons discussed above and in PG&E's May 27, 2025 Opening Brief, PG&E requests that the Commission find the costs requested in Track 2 of this proceeding were reasonably incurred, incremental to the Company's other revenue requirements, and appropriate for recovery in rates.

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Respectfully submitted,

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