Decision **PROPOSED DECISION OF ALJ NOJAN (Mailed 10/11/2022)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U39M) for recovery of recorded expenditures related to wildfire mitigation and catastrophic events, as well as other recorded costs.	Application 20-09-019

DECISION APPROVING RATE RECOVERY

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DECISION APPROVING RATE RECOVERY FOR VARIOUS INCREMENTAL COSTS BOOKED IN MEMORANDUM ACCOUNTS

Summary

This decision grants Pacific Gas & Electric Company (PG&E) the authority to recover incremental expenses recorded in (1) the Fire Hazard Prevention Memorandum Account, (2) the Fire Risk Mitigation Memorandum Account, (3) the Wildfire Mitigation Plan Memorandum Account, (4) the Catastrophic Events Memorandum Account (CEMA), (5) the Land Conservation Plan Implementation Account, and (6) the Residential Rate Reform Memorandum Account. This decision denies the Joint Motion for Approval of the Settlement Agreement.

The total authorized recovery amount is $1,208,909,522, broken down by account as follows:

1. Fire Hazard Prevention Memorandum Account authorized recovery amount: $167,219,913.
2. Fire Risk Mitigation Memorandum Account and Wildfire Mitigation Plan Memorandum Account authorized recovery amount: $810,780,317.
3. CEMA authorized recovery amount: $251,327,000.
4. Land Conservation Plan Implementation Account authorized recovery amount: $77,000.
5. Residential Rate Reform Memorandum Account authorized refund amount: ($20,494,708).

The cost allocation shall be consistent with the methodology the Commission adopted in Decision (D.) 21-11-016, PG&E's most recent cost allocation and rate design proceeding. Furthermore, PG&E shall only collect the difference between the $447,034,500 in interim rate relief granted in D.20-10-026 and what is authorized in the instant decision.

Application 20-09-019 is closed.

1. Procedural History

On September 30, 2020, Pacific Gas and Electric Company (PG&E) filed Application (A.) 20-09-019 to recover expenditures related to wildfire mitigation, certain catastrophic events, and a number of other activities.

PG&E had filed a predecessor application on February 7, 2020, A.20-02-003 (Interim Rate Relief Application), seeking to recover, on an interim basis, eighty-five percent (or $899 million) of the revenue requirement associated with the recorded costs in four of the memorandum accounts at issue in the instant proceeding: (1) the Fire Hazard Prevention Memorandum Account; (2) the Fire Risk Mitigation Memorandum Account; (3) the Wildfire Mitigation Plan Memorandum Account; (4) the Catastrophic Event Memorandum Account. In Decision (D.) 20-10-026 the Commission approved $447 million in interim rate recovery, subject to reviewing the reasonableness of the costs recorded in those accounts. Recovery of the $447 million was to occur over a period commencing December 2020 and continuing through April 2022.

In the instant application, A.20-09-019, PG&E requests an additional $423 million in incremental costs beyond its request in the Interim Rate Relief Application, resulting in an outstanding request for cost recovery of $868 million. Though only $868 million is sought for cost recovery, the reasonableness assessment for the full amount booked in the memorandum accounts, $1,983,575,000, is the subject of this proceeding.

The Utility Reform Network (TURN), The Public Advocates Office, Thomas Del Monte, and Wild Tree Foundation filed protests to the Application. Peninsula Clean Energy Authority, Pioneer Community Energy, and Sonoma Clean Power (the Joint CCAs) filed a response to the Application. PG&E

filed a Reply to Protests and Response. Thomas Del Monte filed a Response to PG&E's Reply to Protests and Response.

The Commission held a telephonic prehearing conference on December 4, 2020. The assigned Commissioner, Marybel Batjer, issued a Scoping Memo and Ruling on December 23, 2020.

The Commission held evidentiary hearings on June 14, 2021 through June 16, 2021. On July 23, 2021, PG&E, Thomas Del Monte, The Public Advocates Office, TURN, Wild Tree Foundation, and the Federal Executive Agencies filed Opening Briefs.

On July 30, 2021, the Public Advocates Office, TURN, and PG&E jointly filed a Motion to Vacate Briefing Deadline and Extend Settlement Deadline. On August 2, 2021, the ALJ issued a ruling granting the Joint Motion to Vacate Briefing Deadline and Extend Settlement Deadline.

On September 21, 2021, PG&E, on behalf of itself and the Public Advocates Office, filed a Joint Motion for Approval of Settlement Agreement. On October 14, 2021, Thomas Del Monte requested a 7-day extension for comments on the settlement agreement. On the same date, the assigned Administrative Law Judge (ALJ) granted an extension for comments on the Settlement Agreement. On October 28, 2021, TURN, Thomas Del Monte, and Wild Tree Foundation filed comments on the proposed Settlement Agreement. On Friday November 12, 2021, PG&E, the Public Advocates Office, and the Federal Executive Agencies jointly filed reply comments on the proposed Settlement Agreement.

On October 13, 2021, the ALJ issued a ruling directing the filing of a joint summary table. On December 8, 2021, the ALJ issued a ruling directing the Public Advocates Office to serve data requests and their associated responses. On

December 17, 2021, the Public Advocates Office filed a Motion for Leave to Identify and Admit Pacific Gas and Electric's Data Request Responses Into Evidence, in addition to a Motion to File Under Seal Attachment B. On January 18, 2022, the ALJ issued a ruling granting the Public Advocates Office's December 17, 2021 Motions and submitting the record for this proceeding.

On September 23, 2021, the Commission issued D.21-09-041, extending the statutory deadline for the issuance of a proposed decision until April 1, 2022, concurrent with the 18-month statutory timeframe for resolving ratesetting proceedings. On April 7, 2022, the Commission issued D.22-04-018, extending the statutory deadline for a proposed decision to October 1, 2022. On November 3, 2022, the Commission issued D.21-11-011, extending the statutory deadline for a proposed decision to June 30, 2023.

1.1. Issues to be Decided

The Scoping Memo identified the following issues:

a. Whether the Commission should grant PG&E's request to recover up to $1.3 billion in revenue requirement.

b. Whether the recorded costs are reasonable and incremental in nature.

c. Whether the costs are appropriate to record and recover through the corresponding account.

d. Whether the cost recovery proposal is reasonable.

e. Whether the Commission should grant PG&E's proposal to recover the authorized revenue requirements over a 12-month or 24-month period, or some other time period.

f. Whether the Commission should grant PG&E's proposed functionalization of the costs at issue in the Application.

Each of these issues will be reviewed for the memorandum accounts for which PG&E seeks recovery.

2. Description of Memorandum Accounts Under Review

This application includes costs from six accounts:

a. Fire Hazard Prevention Memorandum Account,

b. Fire Risk Mitigation Memorandum Account,

c. Wildfire Mitigation Plan Memorandum Account,

d. Catastrophic Events Memorandum Account,

e. Land Conservation Plan Implementation Account, and

f. Residential Rate Reform Memorandum Account.

2.1. Fire Hazard Prevention Memorandum Account

The Fire Hazard Prevention Memorandum Account is used to record costs related to what are known as the "Fire Safety Rulemakings" that began in 2008. PG&E may recover reasonable costs prudently incurred to comply with the Commission's measures to reduce fire hazards for electric transmission and distribution lines. PG&E also can recover the costs of complying with General Order (GO) 95, which sets forth requirements for Extreme and Very High Fire Threat Zones in Southern California.[1] In Rulemaking (R.) 08-11-005, the Commission issued D.12-01-032, which affirmed that such costs should be verified and recovered in general rate case (GRC) proceedings and established interim mechanisms to "ensure that funding is available in a timely manner to implement the fire-prevention measures adopted in this proceeding."[2] "Each electric utility could file one or more applications to recover the costs recorded in its Fire Hazard Prevention Memorandum Account. The number and timing of those applications is at the discretion of each electric IOU," or the review could

[1] D.09-08-029 at 2.

[2] D.12-01-032 at 152.

be part of the utilities next GRC.[3] The Commission has authorized PG&E to track and record costs to implement the regulations adopted in its decision to enhance fire safety in the high fire-threat districts.[4] The Fire Hazard Prevention Memorandum Account was originally thought to be a short-lived memorandum account, with future spending forecast for recovery in GRCs.[5] PG&E states the costs recorded in this account include costs associated with enhanced vegetation management work in Tier 2 (elevated risk) and Tier 3 (extreme risk) High Fire-Threat Districts.

2.2. Fire Risk Mitigation Memorandum Account and Wildfire Mitigation Plan Memorandum Account

The Wildfire Mitigation Plan Memorandum Account and the Fire Risk Mitigation Memorandum Account both arose from legislation enacted in 2018.[6] The purpose of the Wildfire Mitigation Plan Memorandum Account is to record incremental costs incurred to implement an approved wildfire mitigation plan that are not otherwise recovered as part of PG&E's approved revenue requirement. D.19-05-037 authorized PG&E to track costs incurred to implement its wildfire mitigation plan in the Wildfire Mitigation Plan Memorandum Account.[7]

The purpose of the Fire Risk Mitigation Memorandum Account is to record incremental costs of fire risk mitigation work not otherwise recovered as

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[3] D.12-01-032 at 153.

[4] D.17-12-024, Ordering Paragraph (OP) 9.

[5] *Id.* (PG&E has proposed closing the FHPMA in its 2018 GRC filing, A.18-12-009).

[6] *See,* Public Utilities (Pub. Util.) Code § 8386.4. (*See also*, Assembly Bill (AB) 1054 (Ch. 79, Stats. 2019) amending Senate Bill (SB) 901 (Ch. 626, Stats. 2018).)

[7] D.19-05-037, OP 21.

part of PG&E's approved revenue requirement. The Fire Risk Mitigation Memorandum Account records costs such as expense and capital expenditures for advanced system hardening and resiliency; expanded automation and protection; improved wildfire detection; enhanced event response capacity; and enhanced vegetation management activities not sought under other accounts. The Energy Division approved PG&E's Advice Letter 5419-E request to open a Fire Risk Mitigation Memorandum Account effective January 1, 2019.[8] In the Fire Risk Mitigation Memorandum Account, PG&E is authorized to "track costs incurred for fire risk mitigation that are not otherwise covered in the electrical corporation's revenue requirements."[9]

2.3. Catastrophic Event Memorandum Account

The Catastrophic Event Memorandum Account is used to record costs for: "(1) [r]estoring utility services to customers, (2) [r]epairing, replacing, or restoring damaged utility facilities, [and] (3) [c]omplying with governmental agency orders in connection with events declared disasters by competent state or federal authorities."[10] PG&E seeks cost recovery for the costs associated with three 2017 fires (Tubbs, La Porte, and Cherokee) as well as 2019 costs for various catastrophic events (*i.e.,* January/February storms, the Ridgecrest earthquake, additional costs from the 2018 Carr Fire, the 2019 October Wind Event, and the Bethel, Camino, and Glencove fires).[11]

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[8] Letter from Energy Division to PG&E Approving Advice Letter 5419-E, dated March 12, 2019.

[9] Pub. Util. Code § 8386.4(b)(1).

[10] Pub. Util. Code § 454.9(a).

[11] PG&E Prepared Testimony at 1-9.

While there are precedent actions by the Commission, the Catastrophic Event Memorandum Account process formally began with Commission Resolution E-3238 (adopted July 24, 1991) and was codified as Pub. Util. Code § 454.9.

2.4. Land Conservation Plan Implementation Account

Commission Resolution E-4072 (May 3, 2007) authorized PG&E to pursue an application to recover the costs recorded in the Land Conservation Plan Implementation Account to process applications before the CPUC or the Federal Energy Regulatory Commission (FERC) for transactions necessary to implement the Land Conservation Plan approved in D.03-12-035. The costs recorded in this account date back to 2011.

2.5. Residential Rate Reform Memorandum Account

The application also includes a $3.7 million refund due to overcollections in the Residential Rate Reform Memorandum Account. The Residential Rate Reform Memorandum Account (RRRMA) recorded PG&E's costs incurred in response to the Residential Rate Reform Order Instituting Rulemaking during the 2017-2019 GRC cycle. Per the 2017 GRC decision, PG&E was authorized to collect $19.3 million annually, subject to refund, for costs recorded to the RRRMA.[12] This application describes the spending in the RRRMA and accounts for the proposed refund to customers.

2.6. Summary of Requested Cost Recovery and Rate Impact

PG&E identified a total of $1,280,657,000 in associated revenue requirement for the Fire Hazard Prevention Memorandum Account

[12] *See* D.17-05-013, Authorizing PG&E's General Rate Case Revenue Requirement for 2017-2019.

($293,269,000), Fire Risk Mitigation Memorandum Account/Wildfire Mitigation Plan Memorandum Account ($739,874,000), Catastrophic Event Memorandum Account ($251,175,000), Land Conservation Plan Implementation Account ($77,000), and RRRMA (negative $3,738,000) recorded in the accounts covered by this application.

If approved, PG&E states that the additional $868 million in revenue requirement would result in the typical electric customer seeing an approximately $7.64 per month increase over currently effective rates. The typical residential gas customer would see an approximately $0.10 per month increase in monthly bills.

3. Settlement Agreement

On September 21, 2021, PG&E, the Public Advocates Office, and the Federal Executive Agencies (Settling Parties) jointly filed a Motion for Adoption of Settlement Agreement. The proposed settlement agreement would resolve all issues within the scope of the proceeding.

Prior to the filing of the instant application, PG&E requested authorization in A.20-02-003 to recover, on an interim basis, a portion of the revenue requirement requested in A.20-09-019. The Commission issued D.20-10-026 authorizing PG&E to recover, on an interim basis, no more than $447,034,500 in revenue, over a 17-month amortization period, with interest from December 2020 through the end of April 2022.

The proposed settlement would allow PG&E to recover approximately $1.038 billion in revenue requirement for approved capital and expenses as follows:

1. The interim 2020 Wildfire Mitigation and Catastrophic Event Revenue Requirement of $447,034,500 approved in D.20-10-026 will continue until fully collected; and

2. An additional revenue requirement of $590,865,000 over a 23-month amortization period following the conclusion of the 17-month amortization period for the Interim 2020 Wildfire Mitigation and Catastrophic Event Revenue Requirement.

The Final 2020 Wildfire Mitigation and Catastrophic Event Revenue Requirement of approximately $1.038 billion reflects recovery of 81 percent of the $1,280,657,000 revenue requirement proposed in A.20-09-019.

The Settling Parties state that the various elements and sections of this Settlement Agreement are closely interrelated and should not be altered, "as the Settling Parties intend that the Settlement Agreement be treated as a package of elements that balances and aligns the interests of each Settling Party."[13] The Settling Parties recommend the Commission approve the Settlement Agreement without modification.

On October 28, 2021, TURN, Del Monte, and Wild Tree (Objecting Parties) filed comments opposing adoption of the proposed settlement agreement.

Rule 12.1(d) of the Commission's Rules of Practice and Procedure states that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. Three parties to this proceeding filed the Joint Motion for Approval of Settlement Agreement. Proponents of a settlement agreement have the burden of demonstrating that the proposed settlement meets the requirements of Rule 12.1 and should be approved by the Commission.[14]

[13] Settlement Agreement at 1.

[14] D.12-10-019 at 14-15; D.09-11-008 at 6.

Parties to the Settlement Agreement do not specify cost reductions associated with each of the memorandum accounts but do agree on total revenue requirement.[15] Although the parties represented distinct interests, the Settlement Agreement fails to clarify the extent to which disputed costs are reasonable. The Settlement Agreement lacks a discussion of which activities will account for the corresponding reduction(s). The Settling Parties state in the Motion for Adoption of the Settlement Agreement that the Settlement Agreement "is the product of concessions and trade-offs among the Settling Parties." Those not party to the settlement raise concerns about what appears to be an arbitrary final number following an opaque process of reductions to the accounts.

Wild Tree characterizes the Settlement as "allow[ing] PG&E to collect a completely random amount for which the Proposed Settling Parties have provided no evidence or argument[.]"[16] Del Monte contends that the proposed Settlement fails to "adequately represent all issues relevant to the public interest" as it is only a compromise between the positions of PG&E and the Public Advocates Office.[17] TURN argues that "the total revenue forgone by PG&E under the settlement is insufficient, given the strength of the record as developed thus far in support of far higher disallowances."[18]

The Joint Parties argue that "a settlement is not unreasonable merely because it does not fully adopt a party's position, as the Objecting Parties appear to suggest."[19]

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[15] *See* Joint Summary Table, filed September 22, 2021 in response to ALJ Ruling.

[16] Wild Tree Comments on Settlement Agreement at 4.

[17] Del Monte Comments on the Settlement Agreement at 10.

[18] TURN Comments on Settlement, at 2-3.

[19] Joint Parties Reply Comments on Settlement Agreement.

A settlement is not unreasonable because it does not adopt a party's position, but the concerns of the Objecting Parties identify the failure of the Settlement Agreement to address many of the concerns raised by their positions. The Settlement Agreement's lack of granularity on how to apply reductions impedes our ability to assess whether the Settlement Agreement is reasonable in light of the whole record. This is problematic not only to the Objecting Parties, but also to the Commission as it reviews this and future requests to determine incrementality. Had the Settlement Agreement provided a sufficient level of detail and granularity to ensure the Commission's ability to track settled amounts into future revenue requirements and evaluate future incrementality requests, we may have reached a different conclusion about the Settlement Agreement.

Many of the costs and activities for which PG&E seeks cost recovery in this proceeding may be recurring costs. For example, wildfire mitigation and the restoration of service following disasters are activities for which PG&E will continue to accrue expenses. Without a determination of the reasonableness of the costs or the prudency of the activities PG&E engaged in, PG&E and the parties to this proceeding will not be offered the benefit of the Commission's determination of reasonableness to inform future activities. The adoption of a Settlement, which avoids the need to render a judgment on the merits of the arguments presented, will only postpone any determination of which requests are just and reasonable, leaving ratepayers vulnerable to shouldering costs that may have otherwise been reduced or rejected.

The Settling Parties offer several reasons why the Commission should adopt the Settlement Agreement. The Settling Parties argue that the Settlement Agreement is 1) reasonable in light of the whole record and

2) "reflects a reasonable balance of the various interests affected in this proceeding in light of the whole record."[20] We do not agree with either assertion. The Settlement Agreement does not reflect a reasonable balance of the various interests; it is not an all-party settlement. Rather, the Settlement is opposed by TURN, Thomas Del Monte, and the Wild Tree Foundation, as discussed above. Further, as TURN points out, we have a substantial record on which to base a decision without the need to approve the Settlement Agreement. Therefore, we do not find that the Settlement Agreement adequately balances the various interests affected by this proceeding and the Settling Parties do not meet the burden of demonstrating the Settlement is reasonable under this criterion.

The Settling Parties next make the argument that the Settlement Agreement is consistent with the law. We do not make any findings to the contrary.

Finally, the Settling Parties argue that the Settlement Agreement is in the public interest because the "proposed 81% recovery substantially reduces that burden" and "the proposed settlement also resolves disputed issues… without further litigation, which conserves the Commission's and Settling Parties' time and resources, which in turn benefits customers."[21] This decision evaluates the issues on their merits based on the record of the proceeding. The recovery authorized in this decision by resolving the issues on their merits is less than the 81 percent presented in the Settlement Agreement and is therefore less burdensome to customers than what is presented in the Settlement Agreement, while still reflecting a determination of what costs are reasonable. Furthermore,

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[20] Joint Motion for Approval of Settlement Agreement at 11.

[21] Joint Motion for Approval of Settlement Agreement at 11.

while the Commission will always have many important and competing matters before it for action, we refuse to devalue the importance of issues such as this, involving a significant increase in rates and the safety of Californians directly affected by the prudency of PG&E's activities. Because all aspects of this proceeding, other than the filing of reply briefs, had occurred prior to the filing of the Settlement Agreement, very little conservation of resources has occurred as a result of the Settlement Agreement.

Accordingly, the justifications provided by the Settling Parties do not persuade us that the Settlement Agreement is in the public interest. Based on the concerns raised by the Objecting Parties, we do not find that the Settlement Agreement is reasonable in light of the whole record, nor does it balance the positions of the various parties. Finally, the Settlement Agreement is not in the public interest as resolving the issues on their merits will result in a significantly lower authorization and burden on customers and provide for additional ratemaking transparency as compared to the Settlement Agreement, and still allows PG&E a reasonable recovery.

Although the Settlement Agreement includes a protocol for the Settling Parties to hold a subsequent settlement conference if the Settlement Agreement is rejected,[22] this procedure does not include the Objecting Parties, and would not on its face address the issues we have identified with the Settlement Agreement. We agree with TURN that we have a substantial record on which to base a decision and thus we find that reply briefs are not needed for the Commission to determine the issues on the merits. Therefore, the Motion for Adoption of the

[22] Settlement Agreement at 10.

Settlement Agreement is denied. The Commission will determine the issues based on their merits.

Because we do not adopt the Settlement Agreement, we describe positions of parties in subsequent sections of this decision based on their testimony and briefs, rather than positions on the Settlement Agreement.

4. Ratemaking

This section addresses issues e and f of Section 1.1 above. Item e seeks to determine the amortization period whilst item f looks at cost functionalization, or the allocation of costs across different utility functions, such as electric distribution, transmission, and so on. The issues from Section 1.1 above are reproduced below for ease of reference:

e. Whether the Commission should grant PG&E's proposal to recover the authorized revenue requirements over a 12-month or 24-month period, or some other time period.

f. Whether the Commission should grant PG&E's proposed functionalization of the costs at issue in the Application.

PG&E provides its preference for recovery periods in its Application, depending on whether and to what extent any interim relief was granted. Since PG&E received partial interim rate relief, its preferred scenario as proposed in its Application is a 12-month recovery period.[23] Other parties have not contested PG&E's preference for a 12-month recovery period. When considering a recovery period, we take into account the impact any increase will have on customer rates. Given the substantial amount of revenue to be recovered, we adopt a 24-month recovery period to soften the impact on customer rates.

[23] *See* Application at 9.

Regarding the functionalization of costs, PG&E recommends that the rates set to recover costs approved in this proceeding be determined in the same manner as rates set to recover other Electric Distribution, Power Generation, Gas distribution, and Gas Transmission costs, using the current Commission adopted methodologies for revenue allocation and rate design. PG&E noted that revenue allocation and rate design were being considered in Phase II of PG&E's 2020 GRC. The decision adopting revenue allocation in PG&E's GRC Phase II for A.19-11-019, D.21-11-016, was adopted on November 18, 2021. PG&E recommends that the Commission's decision regarding cost recovery in this proceeding is consistent with the Commission's final decision on revenue allocation in the GRC Phase II proceeding (A.19-11-019).[24]

TURN recommends that "the outcome in A.19-11-019 should establish the allocation for the electric utility costs as of January 1, 2022, when PG&E expects rate recovery of the WCME [*sic*] revenue requirements to begin."[25] TURN states that because PG&E agrees that the question of cost recovery be made consistent with the CPUC's final decision on revenue allocation in the GRC Phase II, the allocation issue no longer appears to be in dispute between the parties.

The Federal Executive Agencies states that it supports PG&E's position regarding cost allocation or, if the settlement on rate allocation is adopted in Phase II of PG&E's GRC (A.19-11-019), then that allocation should be substituted for the allocation presented in PG&E's direct testimony in this docket.[26]

There does not appear to be controversy among the parties to this proceeding regarding revenue allocation. For purposes of consistency and ease of

[24] PG&E Opening Brief at 96-97.

[25] TURN Opening Brief at 57. Here WCME means Wildfire Mitigation and Catastrophic Events.

[26] Federal Executive Agencies Opening Brief at 1-2.

evaluating rate impact, the revenue allocation for costs authorized in this proceeding will be consistent with what was adopted in D.21-11-016.

5. Incrementality

Incrementality is discussed first because much of the controversy in this proceeding hinges on whether recorded costs in the memorandum accounts are incremental. The issue will be addressed once and applied consistently with this discussion in the following sections. The dispute between PG&E and the consumer intervenors, TURN and Public Advocates Office, on incrementality is based on a disparate understanding of what constitutes an incremental cost. Although the question of incrementality is raised on numerous items throughout, the essence of the disagreement boils down to what constitutes an incremental cost.

Incremental is defined as "of, relating to, using, or rising by increments."[27] An increment is defined as:

1. The process of increasing in number, size, quantity, or extent.
2. Something added or gained: *a force swelled by increments from allied armies*.
3. A slight, often barely perceptible augmentation.
4. One of a series of regular additions or contributions.[28]

The dictionary definition of "increment," and, by reference, "incremental," includes the concept of the expansion of something existing by a related addition. For purposes of this decision, the authorized funding and activities established in a GRC covering the same time period establish the existing

[27] Collins English Dictionary – Complete and Unabridged, 12th Edition 2014.

[28] American Heritage® Dictionary of the English Language, Fifth Edition. Italics in original, mathematics definition omitted.

baseline by which to determine whether a cost or activity are incremental. GRC decisions establish an authorized revenue requirement by reviewing the utility's expected work activities in various categories and the related costs of both capital and expense to achieve that level of expected activity. In many GRCs, revenue requirements are adjusted if the Commission finds that the forecasted costs are too high or too low for the activity based on historical costs per unit of activity. Revenue requirements are also adjusted when the Commission finds that the activity level proposed is too low to meet the utility's obligation to serve or too high to be realistically completed based on historical accomplishments and workforce capacity. Thus, the adopted revenue requirement carries a dual expectation of what the utility will need to spend but also the activities that will be accomplished by the approved revenue requirement. This dual objective of the revenue requirement to both constrain spending and to promote specific utility activity is important in evaluating what is incremental for purposes of this proceeding.

Whenever any new work is undertaken, there is an associated cost. The cost is incremental if, in addition to completing the planned work that underlies the authorized GRC costs, the utility had to procure additional resources, be they in labor or materials, to complete the new activity in addition to completing the expected scope of work in a related work category.[29] The existence and completion of a new activity by itself does not prove the cost was incremental. If a new activity is completed by redirecting existing resources to different

[29] This is consistent with our finding in Southern California Edison Company's CEMA proceeding that was resolved by D.21-08-024 that "[a]lthough SCE's total O&M spending may have been under what was approved for recovery in rates, Commission precedent as well as the language in Res. E-3238 and Res. ESRB-4 suggest that the proper comparison is to vegetation management costs." (At 13-15.)

activities within a related work category, no incremental cost was incurred, despite the activity itself being "incremental."

PG&E argues that a cost is incremental and should be authorized for cost recovery if the activity that incurred the cost was not forecast in its GRC.[30] The Public Advocates Office and TURN argue that the cost for a specific activity that was not forecast in PG&E's GRC is incremental if the activity required resources in addition to what PG&E was already authorized as part of its GRC request.[31]

The Commission must find that costs in a memorandum account, such as CEMA, are incremental. As the Commission stated recently,

> The CEMA is well established at the Commission since its introduction in 1991 in Resolution E-3238 as the method for tracking and resolving recovery of costs associated with catastrophic events that are incremental to costs already authorized in rates. … Costs recorded in the CEMA must be related to a catastrophic event and be incremental to GRC costs. (Res. E-3238 at pp. 2-3; Pub. Util. Code, § 454.9.) ... In addition, CEMA costs are recoverable only upon an ultimate Commission determination of their reasonableness and incrementality, and a final Commission approval. (Pub. Util. Code, § 454.9, subd. (b); Res. E-3238 at pp. 2-3, 6 (Ordering Paragraph 3).) D.22-05-010, at 4, 11.

Other decisions speak to determinations by this Commission and utilities that straight time costs are not incremental in nature. For example, D.05-08-037 notes that "SDG&E made the assumption that all "straight-time" cost of employee labor was not an incremental cost: it was essentially already included in rates, available to restore service, and therefore was not includable in the

[30] *See* PG&E Opening Brief at 84.

[31] The Public Advocates Office discusses incrementality when addressing straight-time labor and overhead costs. (*See* for example, Public Advocates Office Opening Brief at 58.) (*See* also TURN Opening Brief at 55.)

Wildfire Account. We agree with SDG&E that this is a reasonable convention for catastrophic event cost recovery. SDG&E identifies $726,000 of "time-and-a-half" and $5,581,000 of "double-time" labor costs as both incremental and allocable to California-jurisdictional gas and electric service, because these costs were incurred solely due to the Wildfires."[32]

Using costs recorded in a memorandum or balancing account to offset forecast variances for unrelated budget categories would undermine the purpose of allowing utilities to establish memorandum and balancing accounts. Balancing and memorandum accounts are authorized so that a utility does not need to neglect the completion of its forecasted activities due to reprioritization or redirecting of resources. Any additional cost to complete an incremental activity—in addition to a forecasted activity—will be captured in the corresponding balancing or memorandum account. Therefore, in assessing the incrementality of PG&E's request, we examine whether PG&E has demonstrated and met its burden of proof that it completed the originally forecasted activity from which its resources or workforce were redirected or reprioritized. If PG&E cannot demonstrate that it backfilled labor for any redirected resources at the time of its filing, PG&E will not be able to demonstrate that it incurred an incremental cost.

The majority of the disagreements regarding incrementality in this proceeding focus on straight-time labor and overhead costs. As discussed below, PG&E's argument focuses on the incurrence of a cost, not the incrementality of it.

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[32] D.05-08-037 at 27.

5.1. Straight-Time Labor

Straight-time labor costs are what an employer would incur for its workforce excluding overtime pay or paid time off. In other words, this is the cost for the workforce working its regular number of hours.

PG&E argues that the costs recorded in the memorandum accounts are incremental because it forecasts based on activity and the activities it seeks cost recovery for are tied to work orders for activities that were not funded through existing rates or any other cost recovery mechanism. The Public Advocates Office and TURN argue that if PG&E managed to avoid hiring additional staff to respond to new activities by deprioritizing existing work and redirecting its workforce to more urgent items, then no incremental cost was incurred.

Assuming the deprioritized work remains to be completed and the time and resources available to perform any amount of work during a GRC cycle is finite, that should result in an excess of future work, for which PG&E will undoubtedly forecast accordingly in future GRC cycles. If the work was of an urgent nature and PG&E did not want to hire additional staff, overtime costs would have been incurred. Overtime costs are not being challenged here. Rather, the Public Advocates Office and TURN contend that PG&E is already being compensated for its existing workforce, regardless of how it chooses to deploy it.

When determining whether PG&E has met its burden for the Commission to grant its request for incremental costs, we examine whether PG&E has demonstrated that, when labor or resources were redirected to avoid hiring additional staff, it completed the originally forecasted activity, by either backfilling with contractors, or by utilizing the same workforce. Until such time as PG&E has performed both the originally forecasted activity and the incremental activity, no incremental cost has been incurred. We also consider whether PG&E has shown that, when an activity had a corresponding category that was authorized as part of its GRC, PG&E completed the initial activity in that category to its fullest extent before we consider costs associated with additional or incremental activities. An activity cannot be considered incremental if the volume of the activity that was forecasted in a GRC, and thus served as the basis of its authorized revenue requirement, has not yet been completed.

Based on the record of this proceeding, we find that PG&E has failed to demonstrate that it has backfilled for the activities from which its workforce was redeployed—indeed, it is unclear what activities the workforce was redeployed from—and it has failed to demonstrate that if the workforce was redeployed from a related category of activity, that the activity from which they were redeployed was also completed and it did not underspend in that category. Without a clear showing from PG&E as described, the Commission cannot find PG&E's request to recover straight-time labor costs as incremental costs to be reasonable and therefore we disallow PG&E cost recovery for straight-time labor.

5.2. Overhead Costs

Overhead costs, in contrast to operating expenses, refer to the ongoing expenses of operating a business. These costs are generally more fixed and not specifically attributable to any one activity. Rather, the same overhead cost supports numerous activities and purposes.

When making a request for overhead costs, PG&E must provide sufficiently detailed information explaining how it arrived at the cost attributable to overhead for any specific activity. Without an adequate showing that the additional overhead costs are incremental and would not have been incurred in the absence of the activity for which it is being claimed, the costs cannot be deemed reasonable for recovery.

6. Fire Hazard Prevention Memorandum Account

PG&E's Fire Hazard Prevention Memorandum Account costs consist of approximately $40 million in costs for vegetation management and Fire Prevention Plan activities, in addition to $295 million for PG&E's Accelerated Wildfire Risk Reduction (AWRR) program, which PG&E describes as "a short-term, urgent vegetation management program conducted in HFTDs in 2018, primarily in Tier 3 areas."

6.1. Accelerated Wildfire Risk Reduction Overall Methodology

PG&E states that the $295 million in costs for its AWRR program mitigated wildfire risk by trimming and treating trees and vegetation to create clearance above and around distribution conductors, primarily in Tier 3 HFTD areas. PG&E argues that this work was conducted pursuant to the requirements of D.17-12-024 and the activities involved "the mitigation of hazardous trees with the potential to strike PG&E facilities in accordance with GO 95, Rule 35, and PRC [Public Resources Code Section] 42943, and the use of Light Detection and Ranging (LiDAR) to gather data in HFTD"[33] that PG&E argues provided a long-term benefit to PG&E's vegetation management practices in HFTDs.

TURN argues that the AWRR resulted in significantly higher costs compared to other vegetation management programs before and after it. Specifically, TURN argues that PG&E "excessively removed entire trees without evaluating whether those trees posed any risk to utility equipment, and PG&E provided no justification for this expansion in tree work."[34] TURN notes that

[33] PG&E Opening Brief at 15.

[34] TURN Opening Brief at 10.

PG&E's practice of indiscriminately removing any tree within 12 feet of the outer conductor of PG&E's electrical poles in HFTDs is a deviation from PG&E's prior Inspection and Tree Work activities, which included evaluating the condition of trees, pruning areas directly above and around the power lines, and removing dead or dying trees that posed a threat to power lines.[35]

The Commission encourages wildfire mitigation efforts by utilities in light of the increasingly visible impacts of climate change and more frequent and widespread drought. When conducting mitigation efforts, a utility must not engage in indiscriminate or injudicious use of ratepayer funds as such a practice is wasteful and costly, both in dollar amounts and in the opportunity cost of the negligent use of funds and or inefficient targeting of mitigation activities. In this case, PG&E's expansion of tree work without considerable evaluation of the risk posed by the tree or the condition of the tree was not prudent and in fact was more costly than had it acted more deliberately. A reduction in recovery is warranted. We find TURN's argument persuasive that PG&E should have continued its evaluation of the risk of vegetation prior to carrying out its pruning, rather than taking a one-size-fits-all approach and removing any vegetation, regardless of the threat it posed, within a specified distance from power lines. If ratepayers will face increased costs, it must be because a specific activity resulted in a measurably better outcome in mitigating wildfire risk. In this case, PG&E fails to demonstrate that the higher costs associated with its campaign of removing all trees and vegetation within twelve feet of the outer conductor of PG&E's poles resulted in commensurately reducing wildfire ignition risk.

[35] TURN Opening Brief at 13.

TURN argues that the tree removal conducted as part of the AWRR was done imprudently and resulted in significantly higher costs than the tree removal conducted in the successor Enhanced Vegetation Management (EVM) program. TURN compares the recorded cost difference in Inspection and Tree Work per mile between the two programs as $196,000 and recommends disallowing that amount for the 621 miles of work completed as part of the AWRR. This results in TURN recommending the Commission disallow at least $122 million in costs ($196,000 unit difference x 621 miles) based on the program's tree removal work, arguing that ratepayers should not pay for work that provided little to no reduction in wildfire risk. We find this reduction methodology to be reasonable and disallow the recommended $122 million accordingly. We detail additional specific disallowances in the following sections.

6.2. Inspections and Tree Work for AWRR

As part of its AWRR, PG&E states that it conducted inspections to create greater radial clearances around conductors and removed vegetation above and beneath conductors to achieve ground to sky clearance at a distance that would maintain mitigation benefits.[36] The activities here include the inspection of trees and removal of those "with the potential to strike PG&E facilities."[37]

The Public Advocates Office recommends a $4.4 million reduction for PG&E's costs for Inspections and Tree Work as part of its AWRR, arguing that PG&E is seeking cost recovery for internal labor associated with PG&E's existing employees straight time, paid time-off, and overhead costs that were already included in PG&E's 2017 GRC authorized amounts.[38] The Public Advocates

[36] PG&E Opening Brief at 15.

[37] PG&E Opening Brief at 15.

[38] Public Advocates Office Opening Brief at 11.

Office recommends the Commission reduce PG&E's $187.1 million request by $4.4 million to $182.7 million. The recommended reductions are discussed in greater detail below.

6.2.1. Inspections and Tree Work Incremental Cost Request

The Public Advocates Office recommends the Commission disallow internal labor costs of $727,469 for 2018 and 2019. The Public Advocates Office argues that "PG&E did not provide documentation confirming that it is not requesting duplicate costs for straight time labor and paid time-off for its existing employees that were reassigned to work on wildfire mitigation activities."[39] The Public Advocates Office further contends that, in response to a request for line-item detail for the recorded costs associated with the programs and activities recorded as incremental costs in its Fire Hazard Prevention Memorandum Account for paid time-off, PG&E failed to provide "documents that justify the inclusion of the paid time-off costs as reasonable and incremental costs recoverable for FHPMA [Fire Hazard Prevention Memorandum Account]."[40]

The costs here are disallowed for the reasons discussed in Section 5.1 on the incrementality of straight-time labor.

6.2.2. Adjustments to Overhead Included in PG&E's Line Item - Other

The Public Advocates Office recommends a $3.8 million adjustment to overhead expenses for Benefits, Payroll Taxes, Building Services, IT Device, Minor Material, Fleet, Payroll Tax, and Supervision Management & Support. The

[39] Public Advocates Office Opening Brief at 12.

[40] Ibid., at 13.

Public Advocates Office argues that the cost for these categories is already embedded in rates as they support PG&E's existing operations.

The costs here are disallowed for the reasons discussed in Section 5.2 on the incrementality of overhead costs.

6.3. Electric Distribution: AWRR and EVM – Other Support

PG&E requests a total of $45.4 million for Other Support costs for its AWRR activities. The $45.4 million of Other Support costs consists of costs for contract, external labor, internal labor, "other," and materials associated with work PG&E performed in HFTD areas.

The Public Advocates Office recommends a $4.2 million reduction to the $45.4 million PG&E requests as incremental costs incurred for Other Support in the Fire Hazard Prevention Memorandum Account. The Public Advocates Office argues that these costs should be disallowed because "PG&E failed to provide essential information showing what Other Support costs were incurred… reflect[ing] an unwillingness or inability to support its contentions."[41] The recommended reductions are discussed in greater detail below.

6.3.1. Other Support Costs – Labor Internal Adjustment

The Public Advocates Office recommends a $624,788 adjustment to Labor Internal for Paid Time Off and Straight Time, arguing that labor costs for paid time off and straight time labor are already embedded in existing rates.[42] The dispute here reflects the disparate positions of PG&E and the Public Advocates regarding incrementality as discussed above in Section 5.1, and will

[41] Public Advocates Office Opening Brief at 17.

[42] *Ibid.*

not be repeated in this section. The costs for straight-time labor are not approved for the reasons stated in Section 5.1.

6.3.2. Other Support Costs – Other Adjustment

The Public Advocates Office recommends an adjustment of $2.7 million related to other costs, under PG&E's Other Support Costs category, arguing that PG&E failed to fully document its incremental fund request and failed to demonstrate that the activities performed have a direct link to wildfire mitigation work.[43]

PG&E responds to the Public Advocates Office's argument, arguing that the $2.7 million includes administrative and IT costs. PG&E further argues that that the Commission should adopt PG&E's actual recorded costs "because the costs were incurred for work that supported wildfire mitigation activities."[44]

If PG&E is making a request for cost recovery for wildfire mitigation efforts, it must provide a sufficiently granular level of detail that demonstrates the activity incurs an additional cost to the utility, particularly if the same personnel or resources are being used for the activity. Without such a showing, the Commission cannot make a finding that the costs incurred are incremental to what the utility has already been authorized through existing rates. Administrative and IT costs must be shown to be incremental as PG&E would have incurred administrative and IT costs for its forecasted activities, as well. We disallow these costs for the reasons discussed in greater detail in Section 5.2 on the incrementality of overhead costs.

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[43] *Ibid.* at 18.

6.3.3. Other Support Costs – Materials Adjustment

The Public Advocates Office recommends PG&E's Other Support category be adjusted by $798,276 as a result of reductions in the following two-line items: Materials Not Otherwise Classified ($700,846) and Material Burden ($97,430). The Public Advocates Office argues that, when asked to explain what type of expenses were recorded in the two aforementioned categories, "PG&E would not or could not explain what types of expenses were recorded in these two-line items or justify the costs as incremental."[45]

PG&E responds to the Public Advocates Office, arguing that the $700,846 for materials not otherwise classified directly supported and facilitated the execution of vegetation management work to mitigate wildfire risk. PG&E explains that the materials not yet classified refers to base camps and micro sites that offered meals, working space, secured parking and essentials for crews and management mitigating wildfire risk.[46] PG&E adequately explains what constitutes "Material Not Otherwise Classified," but makes no explanation regarding "Material Burden." We disallow the latter ($97,430) for PG&E's failure to meet its burden.

6.4. 2019 Safety Costs

PG&E requests $8.87 million in 2019 safety costs it recorded to its Fire Hazard Prevention Memorandum Account. These activities include safety oversight of the contractors performing tree work.[47]

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[45] *Ibid.* at 19.

[46] PG&E Opening Brief at 17.

[47] *Ex.* PGE-001, at 2-77 lines 4-8.

The Public Advocates Office recommends a $5.35 million adjustment to PG&E's request of $8.87 million for 2019 Safety, arguing that PG&E misattributed safety costs.[48] PG&E responds, stating that the $5.4 million in question was inadvertently misattributed to AWRR Safety instead of AWRR Inspections and Tree Work. PG&E corrected this error in its errata and notes that its total request for AWRR was unaffected.

The Public Advocates Office does not question the reasonableness of the requested costs other than identifying that it was improperly categorized—an issue that has since been corrected. Because the Public Advocates Office raises no concerns regarding the costs themselves, we do not find the Public Advocates Office's recommendation to reduce the costs persuasive.

7. Fire Risk Mitigation Memorandum Account and Wildfire Mitigation Plan Memorandum Account

7.1. Enhanced Vegetation Management Program

PG&E requests $443.9 million for its Enhanced Vegetation Management (EVM) program in HFTDs. PG&E created the EVM Program in December 2018 as "an expansion of, and more sustainable replacement for, our short-term and urgent AWRR work."[49]

7.1.1. Work Conducted in Lower Risk Areas

TURN states its support for the scope of the work conducted in the EVM, "especially in contrast with the broad and non-risk-based scope of the AWRR," however argues that "PG&E's actual 2019 implementation was flawed because

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[48] *See* Public Advocates Office Opening Brief at 21.

[49] *Ex.* PGE-001, at 2-79, lines 15-18.

out of the 2,498 miles completed, almost 60 percent were in the bottom five percent of risk in PG&E's HFTD areas."[50] TURN cites to the Federal Monitor's finding that "PG&E completed its 2019 EVM work in low-risk portions of its high-fire threat districts in order to meet its 2019 EVM targets, instead of prioritizing wildfire risk reduction according to its risk model."[51] TURN further contends that, as noted in D.19-05-036, HFTDs cover over 44 percent of the land area in the state and therefore the HFTD designation alone may be of insufficient granularity to adequately prioritize the highest risk areas for mitigation efforts. TURN argues that PG&E "chose to focus on relatively lower-risk areas likely to achieve its mileage targets rather than the most risk reduction possible."[52] TURN recommends that the Commission disallow cost recovery for work PG&E performed on the lowest five percent of the HFTDs, which comprise the most miles of EVM work performed. This would amount to a $260 million reduction in authorized recovery.[53]

PG&E argues the full amount requested should be authorized for recovery because the work completed was exclusively in HFTDs and that the work mitigated wildfire risk.[54] PG&E states that the risk model that determined relative risk within a HFTD was "designed as one input among many for the prioritization of PG&E's wildfire mitigation work" and it was "never intended to measure absolute risk associated with a given area of PG&E's HFTDs."[55]

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[50] TURN Opening Brief at 15.

[51] *Ibid.* at 17.

[52] *Ibid.* at 19.

[53] *See* TURN Opening Brief at 21.

[54] PG&E Opening Brief at 43.

[55] *Ibid.* at 44.

According to PG&E, the other factors that fed into its prioritization of wildfire mitigation work included "commitments that had been made… as a result of inspections… in 2018" or feedback provided by local workforces.[56] PG&E also lists permitting issues, customer preferences, and stakeholder feedback as factors affecting wildfire mitigation work prioritization.

PG&E is correct that all the work it performed in this category is in a HFTD—that is not in dispute. However, because more than half of PG&E's service territory falls under HFTD designation,[57] the relative risk within that designation is important. Without it, the designation is insufficiently granular to evaluate the relative impact of PG&E's mitigation work. In order to maximize immediate benefits from risk mitigation efforts, utility work must focus on the areas which are considered to be of the highest risk, even within a HFTD area. Because only a finite amount of mitigation work may be completed in any given year due to time, capital, and resource constraints, if the highest areas of risk within PG&E's HFTDs are not prioritized, the work that will result in the highest risk mitigation impact could be delayed for years with ratepayers bearing the cost for the work, but not receiving the maximum possible benefit from the risk reduction work undertaken by the utility.

PG&E's argument that all of its work was conducted in an area considered to be a HFTD implies that its work is conducted without regard to differentiation between Tier 2 and Tier 3 work. When asked whether elevated risk, categorized

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[56] *Ibid.*

[57] *See Ex.* PGE-001 at 1-13.

as a Tier 2 HFTD,[58] is the same as extreme risk, categorized as Tier 3 HFTD, PG&E's witness testified "All is wildfire risk."[59]

The Federal Monitor's finding that PG&E completed a majority of its 2019 miles in lower risk areas in its HFTDs is especially concerning. Wildfire mitigation activities are not to be conducted with the goal of simply meeting a target number of miles within a calendar year. The wildfire mitigation activities are to be undertaken strategically and the Commission will not rubber stamp activities that check the boxes but do not provide the maximum possible benefit. Vegetation management in a relatively higher risk area is of greater value in reducing ignition risk than vegetation management in a relatively lower risk area.

The Commission's intent here is not to indicate that work conducted in Tier 2 areas is not valuable, but to emphasize that for a utility to focus the majority of the work in an area with lower relative risk, when an area with higher relative risk could benefit from the mitigation efforts, is neither prudent nor undertaken with appropriate prioritization. PG&E's EVM work was disproportionately skewed towards its lower relative risk areas. PG&E completed 58 percent of its 2019 EVM miles in areas that fall into the lowest five percent of relative risk. Not only that, but approximately 80 percent of the miles were in the bottom 20 percent of relative risk areas. Neglecting the higher risk areas can lead to costly and deadly wildfires and is neither a prudent practice nor a reasonable use of ratepayer funds. Therefore, we find TURN's

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[58] The Commission identified Tier 1 as "areas with zero to moderate wildfire risk," Tier 2 as "areas with elevated wildfire risk," and Tier 3 as "areas with extreme wildfire risk." (*See* D.17-01-009 at 24.)

[59] (*See* 1 RT 30, line 26 (PG&E/Cullings).)

recommendation of disallowing the costs associated with work performed in the lowest five percent of relative risk area in PG&E's HFTD, in the amount of $260 million, to be a reasonable reduction.

7.1.2. Safety EVM

The Public Advocates Office recommends a $5.6 million reduction to the $31.1 million PG&E requests for Safety Enhanced Vegetation Management costs, arguing that PG&E overstated its costs by that amount.

PG&E argues that it corrected the mistake in errata served on March 2, 2021 and the error does not impact PG&E's overall revenue request.[60]

PG&E's errata reflecting this correction was served well in advance of when the Public Advocates Office presented its argument for disallowance in its Opening Brief. The Public Advocates Office chose to base its disallowance recommendation on an outdated version of PG&E's request, despite being aware of the correction. The recommendation does not challenge the reasonableness of the cost as reflected in the proper categorization. We do not find the Public Advocates Office's recommendation persuasive, as it does not reflect the most recently available information and challenges the cost on a technicality that has since been rectified.

7.1.3. Adjustments to Other EVM Costs Associated with Inspection and Tree Work, Wood Management, and Other Support

Among the activities PG&E conducted as part of its EVM program are inspection and tree work and wood management. PG&E states that trees were inspected for the potential to strike PG&E facilities and removed accordingly. PG&E describes wood management as the removal of wood for customers, free

[60] PG&E Opening Brief at 43.

of charge.[61] PG&E describes Other Support as activities such as base camp siting and development for tree workers and preinspectors in the field.[62]

The Public Advocates Office recommends a reduction of $35.899 million to PG&E's $356.032 million request for EVM activities, as discussed below.

7.1.3.1. PG&E Personnel Expenses – 2019

The Public Advocates Office recommends a $4.6 million reduction in the $5.8 million PG&E requests in personnel expenses for Inspection and Tree Work Wood Management, and Other Support as part of EVM, arguing that costs associated with personnel hired in 2020 are outside the scope of this proceeding and existing personnel hired between 2017 and 2018 are considered straight time labor costs, which are recovered through PG&E's GRC.[63]

PG&E does not specifically dispute the contention that 2020 charges be excluded.[64] PG&E's argument relies on the same position it takes on what constitutes an incremental cost, as presented in Section 5.1 above.

For the reasons discussed in Section 5.1, we find the Public Advocates Office's recommendation for the disallowance of straight time labor costs to be reasonable. The costs associated with hiring of personnel in 2020 is also disallowed as being beyond the scope of this proceeding and we therefore reduce the authorized recovery by the recommended amount of $4.6 million.

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[61] *Ex.* PGE-001 at 2-76.

[62] *Ex.* PGE-001 at 2-80.

[63] The Public Advocates Office Opening Brief at 76.

[64] *See* PG&E Rebuttal Testimony, 8-18 to 8-20.

7.1.3.2. PG&E's $27.3 Million Request Without Invoice

The Public Advocates Office recommends that the Commission disallow $27.3 million of PG&E's request for EVM expenses, arguing that PG&E "could not provide finalized vendor invoices or any comparable supporting workpapers to confirm that work was performed and the actual cost of the work."[65] This recommendation comes after the ALJ directed the parties to come up with a mutually agreeable solution to the question of invoices during evidentiary hearings.[66] PG&E's attorney stated that "talking offline with Cal Advocates is going to be the more productive way to handle this" and that "I think we have a better understanding now of Ms. Phan's concern… [a]nd with that better understanding, I think we can get to the bottom of her concerns and satisfy them."[67]

PG&E argues that the recovery should be authorized because it "has provided evidence showing the reversal of the accrual and a summary of the invoices paid which establish the fact that PG&E incurred costs greater than the accrual."[68] PG&E goes on to state that it "provided Cal Advocates with 106 invoices relating to the $101 million in actual 2019 EVM costs paid in 2020, which total more than the value of the disputed accrual."[69] PG&E moved to have its response to the Public Advocates Office's data request submitted into the record as PG&E-PA-JS-005 on July 22, 2021. This motion was granted on

[65] *See* Public Advocates Office Opening Brief at 80.

[66] *See* 2 RT 273:1-6.

[67] *See* 2 RT 274-275.

[68] PG&E Opening Brief at 41.

[69] PG&E Opening Brief at 42.

December 6, 2021, and the record now reflects the response provided to the Public Advocates Office. PG&E provided the Public Advocates Office with the 106 invoices. Even without the direct provision of the invoices, the Public Advocates Office was aware of the pending motion to move the exhibit containing the invoices into the record prior to the time of filing its Opening Brief.

The Public Advocates Office does not comment on the additional invoices provided by PG&E in its opening brief. Upon review of the invoices included as part of Exhibit PGE-PA-JS-05, we find that the Public Advocates Office's contention is no longer substantiated. PG&E has provided adequate documentation of the costs incurred and we are not persuaded by the Public Advocates Office's argument for a disallowance.

7.1.3.3. Overhead Expenses

The Public Advocates Office recommends the Commission deny PG&E $4.0 million in expenses identified as Overheads as part of its EVM, arguing that PG&E has already recovered these costs through authorized revenues.[70] Specifically, the Public Advocates Office contends that overhead costs are "not directly attributed to any business activity" and since "PG&E confirmed that in 2019 the company used existing assets to perform all EVM activities the associated Overhead expenses are not incremental EVM costs."[71]

These costs are disallowed for the same reasons discussed above in Section 5.1 on Incrementality.

[70] *See* Public Advocates Office Opening Brief at 80.

[71] Public Advocates Opening Brief at 80-81.

7.2. System Hardening

7.2.1. In-Progress Projects

The Public Advocates Office recommends that PG&E's request for cost recovery as part of its System Hardening Program be reduced by $52.235 million to account for projects PG&E did not complete in 2019. The Public Advocates Office argues that because the projects are still in progress, it cannot verify that the associated costs are reasonable and justified and therefore the requested recovery should not be granted in this proceeding.[72]

PG&E argues that "the projects for which PG&E seeks recovery were complete for all but accounting purposes in 2019" and that "[a]ll of the in-progress System Hardening Projects mitigated wildfire risk in PG&E's HFTDs."[73] PG&E further states that "the System Hardening program does not consider a project complete until it has cleared all of the program's quality assurance checks."[74]

We do not find cost recovery for projects listed as "in-progress" at the time of filing to be reasonable when evaluating the reasonableness of costs booked to a memorandum account. Unlike forecasting of capital additions in a general rate case, review of the costs booked in memorandum accounts is not a forecasting exercise, but rather a review of actual costs incurred for the activities booked in the memorandum account. Projects designated as "in-progress," regardless of the reason for the designation, may not have complete information regarding total associated costs, functionality, effectiveness, or efficiency to allow us to determine their reasonableness.

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[72] *See* Public Advocates Office Opening Brief at 45.

[73] PG&E Opening Brief at 35.

[74] PG&E Opening Brief at 35-36.

From an efficiency and tracking standpoint, we find that projects that are part of incremental funding requests that are tracked in memorandum accounts should be evaluated upon completion so that all costs associated with the project are considered as part of the same request. If PG&E erroneously categorized these projects as in-progress when they were indeed fully operational and of use, PG&E should endeavor to avoid similar mistakes in future filings. For the reasons stated, the Commission finds the Public Advocates Office's recommendation that these costs not be authorized in this proceeding reasonable and reduces PG&E's authorized request by $52.235 million. PG&E may pursue cost recovery of these projects in future requests upon full completion of the work.

7.2.2. System Hardening Work in 2019

PG&E's system hardening work entails eliminating overhead distribution lines in HFTD areas or replacing them with equipment that is less likely to start a fire and more likely to survive one. PG&E's hardening methods include replacing bare overhead conductor with covered conductor and installing stronger poles, undergrounding lines, or eliminating overhead assets. As part of its system hardening work, PG&E also replaced non-exempt fuses and cutouts with exempt equipment that is "non-expulsion" (does not generate arcs or spark during normal operation).[75]

TURN recommends that the Commission should disallow $160 million of the $218 million in capital expenditures PG&E requested for 2019 System Hardening. TURN argues that PG&E performed work that "provided very little

[75] Ex. PGE-001 at 2-18.

wildfire risk reduction based on analyses fully known at the time."[76] Specifically, TURN contends PG&E:

1. Spent almost $44 million on 31 miles of overhead and underground system hardening projects on circuits located in the bottom 5 percent of wildfire risk areas as quantified by PG&E in its 2018-2019 risk modeling of the 25,000 miles of HFTD circuits; and
2. Spent almost $116 million as part of overhead system hardening projects on the replacement of assets that represent less than 5 percent of ignition risk based on PG&E's ignition data from 2015-2018.[77]

TURN's recommendations are discussed in greater detail below.

7.2.2.2. Overhead and Underground System Hardening

TURN argues that because covered conductor installation is time-consuming and expensive, electrical utilities "must focus covered conductor deployment on the highest risk circuits."[78] TURN notes that despite PG&E's plan to prioritize circuits targeted for wildfire risk reduction measures using an asset risk-based approach, PG&E focused 30 percent of its system hardening work in the bottom five percent of relative risk in a HFTD area and the majority (73 of the 113 miles) in the bottom 50 percent of the risk tranche. [79] TURN recommends the Commission disallow the cost of the work performed by PG&E on the 31 miles completed in the bottom five percent of the relative risk within a HFTD, which amounts to a $44 million reduction in capital expenditures.[80]

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[76] TURN Opening Brief at 22.

[77] *Ibid.*

[78] TURN Opening Brief at 23.

[79] TURN Opening Brief at 23-24.

[80] TURN Opening Brief at 25.

PG&E argues that the full request be approved because its "System Hardening work mitigated wildfire risk in HFTD areas identified by the Commission as being at 'elevated' or 'extreme' risk from utility associated wildfires."[81] PG&E further contends that the risk model is only one of many factors PG&E used when selecting work as part of its System Hardening program. Other factors that PG&E notes include permitting and planning.[82] PG&E states in testimony that "[t]hese projects were initially part of another program and identified for construction in 2019."[83]

PG&E is correct that all of the work it performed in this category is in a HFTD—that is not in dispute. However, as discussed above, given that such a large amount (more than 50 percent) of PG&E's territory is considered to be at elevated risk for wildfires, in order to maximize immediate benefits from mitigation efforts, utility work needs to focus on the areas which are considered to be of the highest risk, even within a HFTD area. PG&E must prioritize the majority of its mitigation work on the areas that carry the highest risk of ignition that could lead to wildfire. Because only a limited number of miles may be completed in any given year, if the highest areas of risk within the HFTDs are not addressed first, the work could be delayed for years with ratepayers bearing the cost for the work, but not receiving the maximum potential benefit from risk reduction work undertaken by the utility.

As we discussed in Section 7.1.1 when examining PG&E's EVM work in lower risk areas, PG&E focusing the majority of its work in an area that is not of the highest risk is neither prudent nor undertaken with appropriate

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[81] PG&E Opening Brief at 36.

[82] PG&E Opening Brief at 37.

[83] *Ex.* PGE-02 at 2-24 (Cullings).

prioritization. Furthermore, PG&E's testimony that the project was part of another program raises questions about the incremental nature of the work performed. If the work was already to be completed based on routinely planned maintenance, it should not be considered an incremental cost eligible for cost recovery in this memorandum account. Routinely planned activities are forecast and receive funding as part of a utility's GRC. For the reasons stated, we do not find PG&E's activities conducted in the lowest five percent of relative risk to be a prudent approach when prioritizing its system hardening with the intent to mitigate wildfire risk and reduce the requested amount by $44 million accordingly.

7.2.2.3. Replacement of Useful Assets

TURN argues that PG&E imprudently spent the majority of overhead system hardening costs on replacing useful assets not necessary to support covered conductor or to reduce wildfire risk. In addition to installing covered conductor, PG&E replaced other assets including fuses, line reclosers, lightning arrestors, voltage regulators, capacitor banks, transformers, and switches. TURN argues that these other assets are on average responsible for less than six percent of annual ignitions.[84] TURN contends that PG&E's average cost of $1.9 million per mile of overhead system hardening in 2019 was driven in large part by PG&E's replacement of "all assets on a given circuit regardless of the risk reduction attained, and 'regardless of whether the assets were failing or deteriorating.'"[85] TURN recommends a $116 million disallowance to PG&E's $205 million request for 110 miles of overhead system hardening in 2019, arguing

[84] TURN Opening Brief at 32-33.

[85] TURN Opening Brief at 29-30.

that PG&E would have spent that much less "if it had only installed covered conductor and replaced all the poles and crossarms necessary to support the heavier conductor, without replacing other assets."[86]

PG&E argues that it conducted the replacement of assets "associated with other wildfire mitigation programs specified in PG&E's Wildfire Mitigation Plan (WMP)."[87] PG&E also argues that "the replacement of non-exempt equipment such as fuses and reclosers is consistent with CAL FIRE guidance regarding wildfire mitigation."[88]

It is unclear what CAL FIRE guidance PG&E is basing its decisions on, or where that information can be found. PG&E testifies that it replaced "non-exempt fuses with California Department of Forestry and Fire Protection exempt fuses, consistent with the Non-exempt Equipment Replacement Program."[89] It is unclear, from the record established in this proceeding, what this program is and PG&E does not provide any citation to its provisions, goal, or the requirements of the program. The same can be said about the Supervisory Control and Data Acquisition Automated Recloser Program and the Non-exempt Surge Arrestor Replacement Program that PG&E cites to in its testimony. PG&E does not explain what these programs are designed to accomplish, when and why they were established, or whether these programs were formed pursuant to any Commission order or statutory requirement.

In addition, the inclusion of a proposal or activity in a WMP is not to be construed as a guarantee of the prudency or reasonableness of the activity or the

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[86] TURN Opening Brief at 29-30.

[87] Ex. PGE-002 at 2-26.

[88] PG&E Opening Brief at 38.

[89] PG&E Ex-02, 2-26.

costs associated with the activity.[90] For example, should a utility discover after the approval of the WMP that a proposed activity is no longer the best or most efficient course of action, it should utilize the appropriate processes for modifying its WMP accordingly and take the most efficient and prudent action based on the most up to date information available to it.

TURN raises legitimate concerns regarding the cost differential between PG&E's covered conductor installation and SCE's analogous—if not identical—work. TURN contends that SCE has performed hundreds of miles of covered conductor installation, at a cost of approximately $0.50 million per mile, or almost one-fourth of PG&E's unit cost.[91] It is unclear what specific advantage the replacement of the assets listed have on system hardening, particularly the assets which TURN identified that have not contributed significantly to wildfire ignitions.

We find that PG&E has not adequately explained its rationale for the replacement of other useful assets at the time of covered conductor deployment, nor has PG&E refuted TURN's arguments with data that demonstrates replacement of these assets at the time of covered conductor installation is more economical in the long run. For example, PG&E could have demonstrated that the assets were responsible for a significant number of ignitions, were at or near the end of their useful life, or it could have provided an analysis demonstrating a labor cost advantage of replacing these assets when deploying covered conductor installation instead of revisiting that area in the future for the

[90] D.19-05-036 at 38.

[91] *See* TURN Opening Brief at 29.

replacement of those assets. Without any information such as this, PG&E has failed to demonstrate that the asset replacement was prudent.

PG&E has not met its burden of proof to justify the Commission authorizing a full recovery of its request.

To determine the extent of the disallowance, the Commission considers PG&E's arguments on why its costs exceed those of SCE's covered conductor installation. PG&E provides two reasons for the difference in cost. First, PG&E argues that SCE completed an extensive pole loading program in the past, whilst PG&E has not yet done so. Second, PG&E argues that the terrain in its service territory has "substantially more trees compared to SCE's, and thus PG&E must use larger poles and higher standards than SCE to protect against tree strikes." PG&E also argues it has higher tree density in its territory.[92] PG&E's cost per mile of $1.9 million is almost four times as high as SCE's per mile cost of $0.50 million. We find PG&E's arguments pointing to differences between the two territories to explain some of the variance in cost, but not all. Therefore, we reduce PG&E's authorized recovery by 50 percent of its request, or $102.5 million, which would authorize a per mile cost of approximately $0.950 million.

7.3. Wildfire Safety Inspection Program Distribution Line System Replacements

PG&E requests recovery of $211 million in capital expenditures for distribution overhead replacements resulting from its enhanced inspection program in HFTDs. PG&E states that it implemented enhanced inspections of distribution equipment in HFTD areas to identify and address equipment issues

[92] *Ex.* PGE-002 at 2-27 and 2-28.

that present a wildfire risk as part of PG&E's approved WMP.[93] PG&E calls this its Wildfire Safety Inspection Program (WSIP) and argues that WSIP work was critical to its overall wildfire mitigation strategy because it addressed equipment issues that warranted prompt correction from a wildfire safety perspective. PG&E's work included inspection, repair, and replacement work to its distribution infrastructure in HFTDs, including the removal of idle facilities and de-energized equipment.

TURN argues that the work PG&E conducted pursuant to its WSIP inspections should have been done as part of its historic compliance inspections and that "by replacing many assets on an accelerated schedule, PG&E incurred a significant premium due to higher contractor rates."[94] TURN argues that PG&E's authorized recovery should be reduced by the increased premium, which amounts to $84.5 million because it "was imprudently incurred due to past deficiencies."[95]

The Public Advocates Office similarly argues that the $84.5 million premium could have been avoided. Specifically, the Public Advocates Office contends that "if PG&E had not deferred these types of previously authorized capital projects (beginning at least as far back as its TY 2003 GRC), it would not have faced the predicament where [it was] compelled to hire external workers based on a 72-hour work week."[96]

PG&E argues that neither party disputes that the work it performed was necessary. In response to the Public Advocates Office, PG&E argues that their

[93] PG&E Opening Brief at 20-21.

[94] TURN Opening Brief at 41.

[95] TURN Opening Brief at 41.

[96] Public Advocates Office Opening Brief at 40.

recommendation ignores the fact that its HFTD distribution replacement costs derive from its new critical wildfire mitigation efforts under PG&E's WMP and are not a continuance of policies in place over the past two decades. PG&E states that in the past it may have categorized infrastructure as "needs to be revisited in five years," whereas under the WSIP it may be categorized as "needs to be rectified immediately." PG&E argues that it is unreasonable to hold it responsible for standards that may have been prudent in the past, when wildfire risk has changed "rapidly and significantly" in the last 10 to 20 years.[97]

PG&E maintains that the WSIP was "a new program built from the ground up to target wildfire risk that would not be addressed in a routine GO 165 inspection" as it has "enhanced standards and more detailed checklist and documentation criteria that distinguished it from the routine maintenance program."[98] PG&E states that WSIP inspections had "enhanced standards and more detailed checklist and documentation criteria that distinguished it from the routine maintenance program."[99] As PG&E states, "[t]he primary difference between these two programs is the acceptable duration for a current degraded condition to remain in the field without replacement."[100] Regarding the difference between WSIP and PG&E's historic compliance inspections and maintenance, PG&E's witness testified:

> I think the key difference is things that we would have found in GO 165 that we would have made a [correction to in a] year, we changed and was something more

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[97] 2 RT 230-233.

[98] PG&E Opening Brief at 26.

[99] PG&E Opening Brief at 26

[100] Ex. PG&E-002, 2-18, Lines 7-9.

> immediate because when you added that fire risk in, it changed the priority of the work.[101]

In other words, prior to WSIP, PG&E only tagged assets that it needed to replace within 12 months of inspection. PG&E's WSIP called for the tagging of assets for replacement if that asset could degrade within five years. PG&E's witness notes that this accounts for the increase in the volume of work done to replace assets in 2019.[102] If PG&E is now conducting inspections and maintenance pursuant to a stricter standard and a shorter replacement horizon, it is to be expected that it would have a higher volume of work to perform initially after the standards have changed as it will have to catch up on bringing its service territory into compliance with the new, stricter standard. We are not persuaded by the intervenors' arguments on disallowing or reducing PG&E's request on this matter and authorize the full amount of $211 million.

7.4. Substation System Mitigations

The Public Advocates Office recommends a $4.799 million reduction to PG&E's request of $9.416 million for Substation Animal Abatement and Emergency Replacement. These mitigation efforts seek to install or retrofit equipment that reduces the likelihood of animals coming into contact with PG&E's electrical equipment. The Public Advocates Office argues that several of the projects PG&E requests cost recovery for in its Wildfire Mitigation Plan Memorandum Account have not been completed yet, rendering a reasonableness determination difficult until actual project completion.[103]

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[101] 1 RT 112:17-24.

[102] 1 RT 124-125.

[103] Public Advocates Office Opening Brief at 43-44.

PG&E argues that the projects are currently in service, and were classified as "in-progress" in testimony "because minor operational activities, like post-operational documentation remained outstanding."[104] PG&E's workpapers do indicate numerous projects for which it is seeking cost recovery had a 2019 Status of "In Progress."[105]

As explained earlier, projects that were classified as "in progress" at the time of filing its testimony create plausible reason for denying discovery requests. Although that may not have been the case here, it is clear that the "in progress" designation until at least the time of rebuttal testimony, when additional information was provided, has deterred efforts to evaluate these costs or to conduct discovery on the part of the intervenors. If PG&E erroneously categorized these projects as in-progress when they were indeed fully operational and of use, PG&E should endeavor to avoid similar mistakes in future filings. The recovery of costs for projects that have been presented as "in-progress" by the utility at the time of filing will not be authorized in this application but may be sought in a future proceeding. PG&E's requested funds are reduced by the recommended $4.799 million accordingly.

7.5. Public Safety Power Shutoffs

PG&E requests recovery of $213 million for Public Safety Power Shutoffs (PSPS), which includes $34.2 million for the PSPS program and $178.8 million to execute PSPS events on June 8-9, September 23-24, September 25-26, October 5-6, October 9-12, October 23-25, October 26-29, October 29-November 1, and November 20-21, 2019. PG&E acknowledges that its PSPS events resulted in

104 PG&E Opening Brief at 30.

105 *See* Ex. PGE-006, at WP2-19-Cullings.

customer hardships, but contends that its costs were reasonable for the purpose of preventing ignitions.

7.5.1. Disallowances for Specific Events

Wild Tree Foundation recommends the Commission disallow the recovery of any PSPS costs associated with the October and November 2019 PSPS events. Wild Tree argues that PG&E failed to balance harm when utilizing PSPS and did not effectively utilize PSPS as a measure of last resort.

The Public Advocates Office recommends the Commission disallow $74.2 million of PG&E's $178.8 million PSPS events request, arguing that PG&E's PSPS events were poorly executed and resulted in significant disruption to the public and caused safety issues. Of the nine PSPS events PG&E identified, the Public Advocates Office recommends reductions to costs claimed for four of them: October 9-12, October 23-25, October 26-29, and October 29-November 1.[106] The Public Advocates Office states that it analyzed the reports PG&E submitted to the Commission on the PSPS events and its analysis demonstrates that "PG&E performed activities associated with customer notification [for its other PSPS events] better than it performed these activities for the four PSPS events that Cal Advocates recommends adjustments."[107] The Public Advocates Office recommends a 50 percent reduction in authorized costs for PG&E's poorly executed PSPS events, noting that its recommended adjustments reflects [a reduction to reflect removal of] costs for customer notification activities that PG&E failed to execute and for PG&E's cost recovery associated with charitable contributions. It is unclear based on the information provided how the Public

[106] Public Advocates Office Opening Brief at 67.

[107] Public Advocates Office Opening Brief at 67.

Advocates Office determined that a 50 percent reduction for the October PSPS events is appropriate.

TURN recommends a minimum reduction of $37 million from PG&E's request to recover $213 million related to its implementation of PSPS events in 2019. TURN's recommendations concern PG&E's management of PSPS events on October 9, October 23, and October 26-29, 2019, which TURN collectively refers to as the October PSPS Events. TURN contends that PG&E has not adequately demonstrated that its management of these events was consistent with the prudent management standard. TURN argues that the only data point provided as justification for the PSPS events was the maximum wind gusts experienced on each day in PG&E's entire service territory, rather than the granular forecast information relied on by the utility to call the PSPS for each specific circuit that was de-energized.

TURN contends that based on its analysis of wind speeds, one of the prerequisites for initiating a PSPS event, several of the October PSPS events did not meet the qualifying threshold and were therefore imprudently initiated. TURN explains its determination on whether a circuit was appropriately de-energized as follows:

> TURN compared the <u>maximum</u> sustained wind and gust speeds experienced while circuits were shut down to the National Weather Service (NWS) Red Flag Warning criteria for sustained winds (20 mpg) and Advisory criteria for gusts (46 mph, the lowest end of the range) for each circuit that was de-energized in October PSPS events… If weather on a given circuit met or exceeded *either* of the threshold criteria—sustained wind or gust—we count it as having met a "high wind" threshold; on the other hand, if a circuit did not exceed either the "sustained" or "gust" criterion, it was deemed [to] not have met a reasonable high wind threshold, and should

> not have been reasonably de-energized according to this analysis.[108]

TURN's analysis indicates that approximately 26 percent of the customers who lost power due to PSPS events in October did not experience high wind conditions that would have necessitated PSPS events. TURN proposes that of the approximately $148 million, PG&E's authorized recovery be reduced by a corresponding 25 percent, or $37 million.

We disagree with the Wild Tree Foundation's recommendation that costs associated with all PSPS events conducted in October and November be disallowed and consider such an approach to be overly broad. In considering proposals for disallowances, the Commission considers the basis of a specific recommended reduction. We are not persuaded by the Public Advocates Office's recommendation that a 50 percent reduction is reasonable without understanding how the reduction figure was determined.

PG&E argues that TURN's recommendation is based on actual windspeeds, rather than forecasted wind speeds and is therefore irrelevant under the prudent manager standard, "which is concerned only with reasonableness as determined from the facts known to PG&E at the time the PSPS costs were incurred."[109]

We agree that PG&E cannot know with certainty whether forecasted wind speeds will materialize and that under the prudent manager standard, we may only determine the reasonableness of PG&E's actions based on the information known to PG&E at the time. The intervenors' arguments for disallowance do not contest the costs incurred, but rather challenge the necessity of the PSPS events

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[108] Ex. TURN-01 at 30, lines 2-12.

[109] *Ex.* PGE-002 at 2-56.

that PG&E conducted. PG&E argues that it has already been held accountable for shortcomings in executing the October 2019 PSPS events, which were the subject of the November 12, 2019 Order to Show Cause, issued by the Commission in proceeding R.18-12-005, which considered the execution of the PSPS events and ways in which to minimize the impact of future PSPS events. The Commission imposed a $106 million penalty in the Presiding Officer's Decision in order to "deter future violations and demand accountability for PG&E's flawed implementation of the Fall 2019 PSPS events."[110] The Commission also considered the fall 2019 PSPS events in Investigation (I.) 19-11-013, which served "as the forum for the Commission to consider instances when an electric corporation's actions related to a PSPS event resulted in violations of any statutes or Commission rules and regulations."[111] Therefore, the prudency of the Fall 2019 PSPS events has been litigated in the two aforementioned proceedings and PG&E has been held accountable for the shortcomings in its execution of the October 2019 PSPS events. We do not find that any of the proposed disallowances contest the costs incurred, but instead that they focus on the necessity of the events—something that the Commission has already addressed elsewhere. We also do not find any of the proposed reduction methodologies to be reasonable under the prudent management standard. We therefore approve the full amount of $178.8 million.

7.5.2. 2019 PSPS Outreach Initiatives

The Public Advocates Office recommends a $4.945 million reduction to PG&E's request of $9.89 million for PSPS outreach initiatives. The Public

[110] *See* D.21-09-016.

[111] I.19-11-013 at 2.

Advocates Office argues this reduction is warranted because PG&E ratepayers did not receive the full benefits from the outreach initiatives due to inefficient and poorly planned PSPS operations and inadequate notifications.

PG&E argues that the outreach conducted concerned all of PG&E's mitigations and therefore it was unable to provide an estimate for PSPS-related outreach alone.[112] PG&E also contends that it provided hundreds of pages of invoices that describe the activities in meticulous detail.[113] PG&E also argues that there is "no causal nexus between the P[roject] M[anagement] O[ffice]'s PSPS-related outreach and the notification delays customers experienced during the October 2019 PSPS events."[114]

Because PG&E's outreach initiatives were not tied to any specific event and consisted of education and outreach about mitigation efforts at-large, we do not find the Public Advocates Office's argument persuasive. We authorize the requested $9.89 million for PSPS outreach initiatives.

7.5.3. Straight Time Labor

The Public Advocates Office recommends that the Commission disallow $17.4 million in straight time labor costs, arguing that PG&E used existing employees to work on activities associated with 2019 PSPS events.[115] We disallow these costs for the same rationale discussed in Section 5.1 on Incrementality.

7.5.4. Consulting and Contract Costs

The Public Advocates Office recommends a reduction of $14.7 million to PG&E's request for recovery of $29.4 million for consulting and contracting

[112] PG&E Opening Brief at 55.

[113] *Ex.* PGE-002 Corrected, at 2-50.

[114] PG&E Opening Brief at 56.

[115] *See* Public Advocates Opening Brief at 73.

services utilized for its Community Wildfire Safety Program (CWSP) Program Management Office (PMO). The Public Advocates Office argues PG&E did not propose utilizing any contractors for the CWSP PMO in its 2019 WMP, nor did it provide reasoning for its deviation from its 2019 WMP.[116] The Public Advocates Office also contends that it is not satisfied with PG&E's reasoning for being unable to provide invoices instead of other supporting documentation for some of the costs.

PG&E explains that it was unable to provide the invoices because during its bankruptcy the federal mediator mandated that PG&E accrue these costs through a journal entry instead of creating a purchase order.[117]

PG&E adequately explains why it did not provide invoices and made a good-faith effort to provide substantiating information based on journal entries. The Commission expects utilities to execute activities in an approved WMP, however the WMP is not to be construed as restrictive so that the utility may only conduct work that was approved in a WMP. Furthermore, whether an activity was in an approved WMP or not does not render a prejudgment on the reasonableness of that activity or the costs associated with that activity. We are not persuaded by the Public Advocates Office's arguments in this instance and approve $29.4 million for consulting and contracting services.

7.5.5. General PSPS Cost of the CWSP PMO

The Public Advocates Office recommends a $4.5 million reduction to PG&E's request of approximately $9 million for general PSPS costs of the CWSP PMO, arguing that PG&E "did not demonstrate why its 2019 PSPS outreach costs

[116] Public Advocates Office Opening Brief at 51.

[117] *Ex.* PGE-002 Corrected, at 2-46.

were not utilized to prevent the failures of its 2019 PSPS events."[118] This argument appears to be duplicative of the argument in the prior section on outreach initiatives.

The costs the Public Advocates Office is contending concern PG&E's efforts to educate customers and local councilmembers about wildfire risks.[119] These activities, as mentioned in Section 7.5.2, were distinct from notifications about any specific events. Accordingly, we do not find the Public Advocates Office's argument persuasive and approve the full $9 million.

7.5.6. IT PSPS Wildfire Situational Awareness Initiative

The Public Advocates Office recommends a $450,000 reduction to PG&E's O&M expense of $890,000 related to the IT PSPS Wildfire Situational Awareness initiative, a 50 percent reduction. The Public Advocates Office argues that these costs are not reasonable because "the products utilized since 2018 under this initiative did not prevent the major PSPS outreach failures in 2019."[120]

PG&E argues that "the tools delivered as part of the initiative functioned as designed, with the primary driver of missed notifications being the quality of data inputs."[121] PG&E also contends that "these tools are iterative by design and are continuously improved based on feedback from users in the field," and that "Cal Advocates has not argued that PG&E's costs were excessive or that the tools are unnecessary."[122]

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[118] Public Advocates Office Opening Brief at 55.

[119] *Ex.* PGE-001, 2-87 and 2-88.

[120] *See* Public Advocates Office Opening Brief at 56.

[121] PG&E Opening Brief at 75.

[122] *Ibid.*

PG&E is correct—the Public Advocates Office arguments for the reduction are based on whether the tools themselves effectively prevented outreach failures, not whether the tools were necessary or operated as expected. PG&E's efforts indicate an attempt to procure and utilize tools that serve the purpose for which they were procured. Refinements and adjustments must be made over time to ensure that any shortcomings in data inputs and operations are addressed. Given the novel nature of these tools, we do not find it reasonable to disallow these costs.

7.6. Situational Awareness, Forecasting, and Support – Straight-Time Labor and Paid Time Off Costs

The Public Advocates Office recommends a $3.7 million reduction to straight-time labor and paid time off costs for PG&E's Situational Awareness, Forecasting, and Support, or IT activities on incrementality grounds. PG&E contests these costs for the same reasons discussed in Section 5.1 above.

For the reasons discussed in Section 5.1, we find the disallowance of these costs to be reasonable.

7.7. Mobile Devices to Support the IT WSIP Program

The Public Advocates Office recommends a $1,525,464 reduction, arguing that PG&E did not provide specific supporting detail to track, verify, and determine whether these purchases are reasonable, incremental, or used exclusively for wildfire mitigation activities.[123]

It is not reasonable to expect that the purchase of any technological device would be used exclusively for one purpose, especially considering tools such as laptops, iPads, iPhones, or other similar tools that can be used for a variety of

[123] Public Advocates Opening Brief at 61.

purposes. However, if PG&E cannot use existing technological devices and must procure additional devices, it must track the costs with a sufficient level of detail so that it is clear the purchases are reasonable and necessary for the new activity. Since PG&E is utilizing existing employees for new activities, it is unclear why existing devices could not be used for the new purposes. We do not find that PG&E met its burden of proving these costs are reasonable and accordingly reduce the request by the recommended $1,525,464.

7.8. Donations and Image Building Activities

The Public Advocates Office recommends a $937,500 reduction, arguing the donations and sponsorships included in its Wildfire Mitigation Plan Memorandum Account request for the CWSP PMO are image building activities and not incremental wildfire activities eligible for recording to the Wildfire Mitigation Plan Memorandum Account.[124]

PG&E does not oppose the disallowance for goodwill donations and sponsorships funded by the PMO, stating it "does not expect ratepayers to fund these activities and included these costs in error."[125]

The Commission finds that the cost for philanthropic efforts must be borne by the utility and not ratepayers and finds the recommended reduction of $937,500 reasonable.

7.9. 2019 LiDAR

The Public Advocates Office recommends a $3.732 million reduction to PG&E's request of $26.487 million for 2019 LiDAR costs. The Public Advocates Office contends that it arrived at this number by removing costs associated with

[124] Public Advocates Office Opening Brief at 63.

[125] PG&E Opening Brief at 51.

straight time labor, overhead costs, employee travel, lodging meals expense, paid time off (amounting to a $378,634 disallowance[126]) and 2018 Fire Risk Management Memorandum Account LiDAR & Hyper Flight & Data (amounting to a $3.4 million disallowance) because PG&E did not demonstrate these costs were incremental from PG&E's 2017 GRC.[127] For the Fire Risk Mitigation Memorandum Account LiDAR and Hyper Flight & Data (2018), the Public Advocates Office argues that PG&E failed to justify why 2018 costs were included in the 2019 LiDAR section.

PG&E argues that the LiDAR data collected in 2018 supported the EVM program in 2019. Specifically, PG&E argues that "the data is still being used today and is available for PG&E to use for other work planning and situational awareness activities, providing additional value to our wildfire mitigation efforts."[128] PG&E goes on to explain that "[o]ur reference in opening testimony to all of the EVM-supporting LiDAR being 2019 costs was an error."[129]

In this case, we find that the contention regarding the year the costs were booked to be valid, however there is no contention about the reasonableness of the costs or of the necessity of the activities for which the cost was incurred. We disallow $378,634 on the incrementality grounds discussed in Section 5.1, however we find the remaining $3.4 million to be reasonable for recovery.

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[126] *See Ex.* PGE-002, 2-36.

[127] Public Advocates Office Opening Brief at 22.

[128] *See Ex.* PGE-002, 2-37.

[129] *See Ex.* PGE-002, 2-37.

7.10. 2019 Distribution & Substation Replacement

The Public Advocates Office recommends a reduction of $2.190 million to PG&E's requested $7.278 million for distribution and substation replacement costs associated with defensible space clearing of vegetation and other combustible material around distribution substations within HFTD areas. Specifically, the Public Advocates Office recommends that contract costs for clearing vegetation and other combustible material around substations located adjacent to, but not within, Tier 2 and Tier 3 HFTD should not be eligible for cost recovery.[130] The Public Advocates Offices argues that PG&E did not justify why it included the additional areas.

PG&E recommends that the Commission reject the Public Advocates Office's proposed disallowance, arguing that, while analyzing Tier 2 and Tier 3 HFTD substation sites, PG&E found that electric facilities not within the HFTD areas but in close proximity (250 feet) to them shared similar risks of ignition. PG&E contends that "these observable risks prompted PG&E to… consider other contributing factors[,]" which ultimately led PG&E to conclude "that it was necessary to implement defensible space for electric facilities in close proximity to Tier 2 and Tier 3 HFTDs."[131]

It is unclear what "other contributing factors" PG&E considered and how this played into the decision to clear areas adjacent to HFTDs. While we find that in this case PG&E acted out of an abundance of caution in areas reasonably close to HFTDs, PG&E must be more specific in the future if it chooses to utilize limited resources on areas which are adjacent to HFTDs and not within them.

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[130] *See* Public Advocates Office Opening Brief at 24.

[131] *See* PG&E Opening Brief at 31.

The criteria for making such a decision must be clear and its identification or prioritization in lieu of other areas within HFTDs must be justified in order for the request to be considered reasonable for both cost recovery and booking in this account. We do not find a disallowance warranted here, but caution PG&E that while it is encouraged to proactively adjust its practices based on observations on the ground, these deviations must come with sufficiently detailed explanation and justification.

7.11. Ernst & Young Audit Adjustment

The Public Advocates Office recommends a $328,000 adjustment to PG&E's Wildfire Mitigation Plan Memorandum Account amount, arguing that PG&E's testimony has not been adjusted to reflect the $328,000 adjustment recommended by auditor Ernst & Young.[132]

PG&E argues that it made the adjustment in other chapters and there is no need for an additional adjustment.

PG&E's adjustment is reflected in Chapter 9, Table 9-1 of its opening testimony. PG&E is correct that no further adjustment is needed.

8. Catastrophic Event Memorandum Account

PG&E requests a total of $384 million for Electric Distribution, Gas Transmission, Gas Distribution, and Power Generation response to the following catastrophic events: 2017 Tubbs Fire, 2017 La Porte Fire, 2017 Cherokee Fire, 2018 Carr Fire, 2019 January-February Storms, 2019 October Wind Events, 2019 Glencove Fire, 2019 Bethel Island Fire, 2019 Camino Fire, and 2019 Ridgecrest Earthquakes.

[132] *See* Public Advocates Office Opening Brief at 46.

Parties did not propose reductions or disallowances specific to PG&E's costs related to the 2017 La Porte Fire, the 2017 Cherokee Fire, the 2018 Carr Fire, nor the 2019 Ridgecrest Earthquake, therefore these events are not discussed in a separate section below.

The Public Advocates Office recommends a $61.797 million reduction to PG&E's requested amount for Catastrophic Event Memorandum Account expenses and a $70.670 million reduction to PG&E's requested amount for capital expenditures.[133]

The Public Advocates Office's states that its evaluation of the reasonableness of PG&E's costs is based on: 1) whether the proposed recovery pertains to a catastrophic event that resulted in an official declaration of disaster by state or federal authorities; 2) whether losses incurred were covered by insurance; 3) whether PG&E's request for cost recovery is incremental to what has previously been authorized and recovered in rates; and 4) whether the amounts requested are properly recorded and supported.

The Public Advocates Office bases its recommended reduction on analysis in two categories: adjustments to straight-time labor costs and adjustments to overhead costs.

8.1. Adjustments to Straight-Time Labor Costs

PG&E states that its GRC forecasts are activity-based and are adjusted for Catastrophic Event Memorandum Account (CEMA) by removing historical recorded CEMA costs.[134] PG&E argues that because it does not include Catastrophic Event Memorandum Account costs in its GRC forecast, it is

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[133] *See* Public Advocates Opening Brief at 82.

[134] PG&E Opening Brief at 86.

appropriate for PG&E to recover reasonable CEMA straight-time labor and overhead costs in this proceeding.[135]

The Public Advocates Office argues that because PG&E used its existing workforce and did not hire additional personnel to respond to the CEMA events for which it seeks cost recovery, straight-time labor costs should be disallowed as they are already embedded in current rates based on GRC funding in the previous rate case.[136]

TURN supports the Public Advocates Office's argument that straight-time labor should be excluded from cost recovery. TURN contends that:

> 1) [E]ither PG&E staff has enough "slack time" to conduct the CEMA recovery work and also perform all of the other activities forecast in the rate case, in which case there are no actual "incremental" costs to the utility; 2) PG&E defers some work due to recovery activities to future rate case cycle and obtains additional funding in that cycle to perform the work, in which case there is again no "incremental" impact on the utility; or 3) PG&E at some point in the rate case cycle has to hire incremental labor to complete the activities that had been included in the rate case forecast. It is only in the third case that PG&E would actually incur true "incremental" costs which have not been included in rate case base revenues.[137]

Straight-time labor costs are what an employer would incur for its workforce excluding overtime pay or paid time off. In other words, this is the cost for the workforce working its regular number of hours.

PG&E managed to avoid hiring additional staff to respond to CEMA activities by deprioritizing existing work and redirecting its workforce to more

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135 *Ibid.* at 87.

136 *See Ex.* PA-08 at 7.

137 TURN Opening Brief at 56.

urgent items. Assuming the deprioritized work still needs to be done and the amount of time to perform any amount of work during a GRC cycle is finite, that should result in an excess of work, for which PG&E will no doubt forecast accordingly in future GRC cycles. If the work was of an urgent nature and PG&E did not want to hire additional staff, overtime costs would have been incurred. Overtime costs are not being challenged here. Rather, the Public Advocates Office and TURN are contending that PG&E is already being compensated for its existing workforce, regardless of how it chooses to deploy it. If an activity is not completed that was forecast, due to deprioritization in order to attend to CEMA activities, PG&E will include that and any other similarly deprioritized activities in its next GRC cycle.

For purposes of this proceeding, straight-time labor costs when deprioritizing regularly forecast activities to respond to CEMA indicates that there was either "slack time" available to direct to CEMA activities, or the originally forecast activities remain uncompleted. The former indicates PG&E was able to absorb the additional work with existing resources. The latter would indicate PG&E must still perform its regular work and funding for whatever work is displaced and not completed in this GRC cycle will be requested in the next.

Therefore, we find the argument posited by TURN and the Public Advocates Office persuasive in adjusting PG&E's cost recovery to exclude the costs for straight-time labor. PG&E's request is reduced by $11.811 million in expense and $12.430 million in capital expenditures for straight-time labor associated with its CEMA request.

8.2. Adjustments to Overhead Costs

The Public Advocates Office recommends an adjustment of $49.986 million in expense and $58.240 million in capital to PG&E's request related to overheads, burdens, and paid time off. The Public Advocates Office argues that although there are "a few variable overhead costs (*e.g.,* fuel, payroll taxes) that may increase in responding to CEMA events… a majority of overhead costs will not incrementally increase."[138]

PG&E argues that it does not "recover CEMA-straight-time labor and overhead costs through rates approved in prior GRCs" and that "the costs for CEMA activities were not previously forecast nor funded in prior GRCs or any other recovery proceeding."[139]

Although PG&E may be correct in that the funds may not have been explicitly allocated for CEMA activities, the question here is whether an incremental cost was incurred. If PG&E utilizes existing resources for additional activities, the cost is not the same as if PG&E required additional resources to perform the additional activity. The question of whether a CEMA activity was forecasted in a GRC is not relevant to whether PG&E required additional resources to carry out that activity. Simply put, the completion of an activity does not prove that an incremental cost was incurred. The activity may have been incremental to what was forecasted in a GRC, and in this case PG&E admits it does not forecast for CEMA activities, however the presence of additional responsibilities does not equate to a showing that additional costs were incurred if existing resources could be deployed to carry out the new activity. Whatever

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[138] *See* Public Advocates Office Opening Brief at. 88-89.

[139] PG&E Opening Brief at 86.

work was not completed due to deprioritization in addressing a CEMA event will remain outstanding, and PG&E will likely seek funding for it in its next GRC filing.

For the reasons discussed above and for the same rationale presented in Section 5.2 on the incrementality of overhead costs, we reduce PG&E's recovery by $49.986 million in expense and $58.240 million in capital related costs.

8.3. 2017 Tubbs Fire

PG&E requests $158.3 million for electric costs, of which $93.929 million are capital and $64.342 million are expenses, and $49 million in gas costs, of which $17.856 million are capital and $31.253 million are expenses, as part of CEMA response costs relating to the 2017 Tubbs Fire. PG&E notes "[t]hese included customer care costs, assisting agencies responding to the fire, and rebuilding facilities damaged by the fire to restore service to impacted customers."[140]

Thomas Del Monte (Del Monte) recommends the Commission deny PG&E's cost recovery request for the Tubbs Fire in its entirety, as discussed below.

8.3.1. CEMA Eligible Disaster

Del Monte argues that the Tubbs Fire is not a CEMA eligible disaster, recoverable under CEMA law. Del Monte contends that "CEMA costs are limited to costs resulting from 'damage by natural disasters such as earthquakes.'"[141] Del Monte argues that "[m]an-made disasters such as the Tubbs Fire do not meet

[140] *See* PG&E Opening Brief at 80-81.

[141] Del Monte Opening Brief at 16.

CEMA's law threshold requirement" and that "these are grounds of the Commission to reject Tubbs Fire CEMA cost recovery."[142]

It is unclear what Del Monte means by "man-made disaster." Del Monte cites to Pub. Util. Code Section 454.9 when arguing that CEMA costs are limited to natural disasters such as earthquakes, however the statutory code he references contains no such restrictive language.[143] We do not find Del Monte's argument to be persuasive.

8.3.2. Inadequate Vegetation Management

Del Monte contends that PG&E admitted that it had "improperly excluded [the area of the Tubbs Fire ignition] from required vegetation management for approximately four years but decided to do nothing to remedy its oversite [*sic*] in the subsequent year leading to the Tubbs Fire's ignition."[144] Del Monte cites to PG&E's filing in a federal docket, in which PG&E notes that "due to a mapping error, vegetation on the ground beneath the pole with fuse 773 should have been

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[142] Del Monte Opening Brief at 16.

[143] Section 454.9 states:

(a) The commission shall authorize public utilities to establish catastrophic event memorandum accounts and to record in those accounts the costs of the following:

(1) Restoring utility services to customers.

(2) Repairing, replacing, or restoring damaged utility facilities.

(3) Complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities.

(b) The costs, including capital expenditures, recorded in the accounts set forth in subdivision (a) shall be recoverable in rates following a request by the affected utility, a commission finding of their reasonableness, and approval by the commission. The commission shall hold expedited proceedings in response to utility applications to recover costs associated with catastrophic events.

[144] Del Monte Opening Brief at 10.

cleared pursuant to Public Resources Code 4292 prior to October 8, 2017, but was not."[145] PG&E's statement comes with the following footnote, produced below:

> California Public Resources Code § 4292 requires PG&E to maintain a firebreak of at least 10 feet in radius around a utility pole if it is within a State Responsibility Area and has non-exempt equipment installed; a firebreak requires removal of all flammable materials including "ground litter, duff and dead or desiccated vegetation that will allow fire to spread" at ground level. A 2013 map drawn by a contractor mistakenly indicated that the pole with fuse 773 was within a Local Responsibility Area, which does not require a ten-foot firebreak. This mistake was not corrected prior to October 8, 2017, although it was identified in 2016.[146]

Del Monte contends that "[f]ollowing vegetation management laws and correcting know [*sic*] extreme fire hazards as those present after the Tubbs Fire origin area when [*sic*] would have with near certainty avoided the Tubbs Fire and the resulting CEMA costs."[147]

Del Monte attempts to link the mapping error to a causation finding. The Commission explicitly categorized any such finding as out of the scope of this proceeding. We are not persuaded by Del Monte's argument for full cost disallowance, nor do we agree that the Tubbs Fire and resulting CEMA costs would have been avoided if PG&E had cleared vegetation as required by statute in the area surrounding Fuse 773. Imprudent vegetation management at a site adjacent to the place of a fire's origin does not cause a fire. Furthermore, we have no evidence that demonstrates the spread or severity of the fire was affected by

[145] *See Ex.* TDM-03 at 10.

[146] This is an excerpt from Exhibit ZZ, filed in Case 3:14-cr-00175-WHA and is part of the evidentiary record of this proceeding as part of TDM-03, found at 10 of the latter exhibit.

[147] Del Monte Opening Brief at 11.

the lack of proper vegetation management at the site that PG&E made a mapping error, nor do we have a means by which to quantify the impact of the mapping error on the spread or severity of the fire. In the absence of such evidence, we cannot make a finding that the mapping error resulted in an increase to any of the costs at issue. We therefore approve the full $158.3 million for recovery.

8.4. 2019 January and February Storms

Wild Tree argues that cost recovery related to work performed following the January and February storms of 2019 are not eligible for CEMA recovery because the event was recurring, known, and predicted prior to the occurrence.[148] Wild Tree further contends that the impacts of the high rainfall event were likely worsened by land that had been burned the previous fall as a result of PG&E's criminal negligence.[149]

The Commission sees no evidence to substantiate Wild Tree's claim that the storms were "recurring, known and predicted prior to the occurrence" in the record of this proceeding.[150] Furthermore, the argument that "the high rainfall event was likely worsened by land that had been burned the previous fall as a result of PG&E's negligence" is speculative, ambiguous, and unsupported by the record. We do not find Wild Tree's argument for disallowance of costs related to the January and February Storms to be persuasive.

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[148] *See* Wild Tree Foundation Opening Brief at 29.

[149] Wild Tree Foundation Opening Brief at 29.

[150] The Governor issued two State of Emergency proclamations related to the 2019 January February storms; one on February 21, 2019 and another on February 28, 2019. See Governor Newsom Declares State of Emergency in Five Counties Due to Severe Storms | California Governor

8.5. October 2019 Wind Event

Wild Tree argues that the October Wind Event is ineligible for CEMA recovery because it is not a declared disaster.[151] Wild Tree contends that "a state of emergency was called due in large part, if not entirely, as a result of PG&E unilaterally deciding to shut off power."[152] Wild Tree goes on to argue that PG&E should "not be able to recover costs to restore service that it shut down of its own accord thereby causing an emergency."[153]

Governor Newsom's October 27, 2019 declaration begins with a description of the October Wind Event as "an historic wind event… resulting in nearly statewide red flag warnings due to extremely dangerous fire weather conditions" and goes on to describe the fire weather conditions as "unprecedented due to the scale, scope, wind speed, and dry fuel conditions."[154] PG&E's de-energization due to the wind event was not responsible for the emergency declaration. Furthermore, Wild Tree appears to misunderstand PG&E's request. The costs associated with the October Wind Event are for the patrolling and inspection of facilities prior to re-energization and the replacement of damaged equipment due to the wind event.[155] These activities are necessary and acknowledged in the Governor's October 27, 2019 Proclamation:

> **WHEREAS** damage to electrical powerlines during high wind events, including tree branches falling on lines, downed power lines, line slapping and other equipment failures, have

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[151] *See* Wild Tree Opening Brief at 29.

[152] *Ibid.*

[153] *Ibid.*

[154] *See* Governor's Proclamation of State of Emergency, October 27, 2019.

[155] *See Ex.* PGE-001, 3-15 to 3-17.

> ignited the state's deadliest and most destructive wildfires[.][156]

The scale and prudency of the October PSPS events, along with the associated disallowance, are discussed in Section 7.5. We do not find the argument by Wild Tree advocating for a general denial of recovery for PG&E's request related to restoration of service following the October Wind Event to be persuasive.

8.6. Glencove, Bethel Island, and Camino Fires

PG&E seeks $200,000 for electric distribution response to the 2019 Glencove Fire,[157] $24,000 for electric distribution response to the Bethel Island Fire, and $10,000 for electric distribution for the Camino Fire, all in capital expenditures. PG&E states that as part of its restoration activities, it replaced poles, distribution conductor, and associated hardware and conductors.[158] Wild Tree challenges PG&E's eligibility for cost recovery, arguing that the October 27, 2019 proclamation of a State of Emergency that PG&E cites to was not issued for the fires.

In this case, we agree that it is not clear that the Governor's October 27, 2019 Proclamation covers these three fires. In an instance such as this, PG&E must demonstrate that the costs for which it seeks recovery are due to damage caused by the event for which the Proclamation was issued. PG&E's request to replace equipment due to fire damage is distinct from fire or other

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[156] *See* Governor's Proclamation of State of Emergency, October 27, 2019.

[157] PG&E Opening Brief at 79.

[158] *See Ex.* PGE-001, 3-17 to 3-22.

damage to its infrastructure, equipment, or facilities due to the wind events for which the State of Emergency was issued.

It is unclear what caused the damage based on PG&E's testimony. Without a showing that the damage was due to high winds, we cannot find the request to be reasonable pursuant to the requirements of Pub. Util. Code Section 454.9 or Commission Resolution E-3238, the latter of which defines a catastrophic event "as one which results in the official declaration of disaster."[159] Accordingly, PG&E's request for capital expenditures related to these three fires is denied and the total amount is reduced accordingly by $234,000.

9. Land Conservation Plan Implementation Account

PG&E requests $77,000 for recovery of costs recorded to its Land Conservation Plan Implementation Account. This amount is not disputed by any of the intervenors and the Public Advocates Office recommends that PG&E recover the full amount recorded to this account.[160]

10. Residential Rate Reform Memorandum Account

PG&E proposes a refund of $3.7 million from its Residential Rate Reform Memorandum Account. PG&E states that its GRC forecast did not include costs for these activities. Specifically, PG&E cites to the settlement agreement adopted in D.17-05-013, the decision that authorized PG&E's general rate case revenue requirement for 2017-2019, in which PG&E agreed to remove specific forecasted activities from the GRC and PG&E was authorized "to track and record costs

[159] *See* Commission Resolution E-3238, Finding 3.

[160] *See* Public Advocates Opening Brief at 105.

incurred in 2017 and beyond for residential rate reform implementation including default time-of-use through its RRRMA."[161]

The Public Advocates Office recommends that the Commission direct PG&E to refund an additional $9,061,414 for 2017 to 2019 recorded expenses of internal straight-time labor in PG&E's RRRMA and an additional refund of $7,695,294 for 2017 to 2019 recorded overhead expenses in PG&E's RRRMA. The Public Advocates Office's recommendation would result in a total refund amount of $20,494,955. The Public Advocates Office states that its examination of costs was designed to ensure incrementality and prevent recovery of costs already recovered through rates.

The Public Advocates Office's $9,061,414 addition to the refund amount is based on similar arguments previously articulated in Section 5.1 on Incrementality. PG&E's argument is also the same position that is reflected in Section 5.1, above.

We disallow the costs associated with internal labor and overhead expenses for the reasons discussed above in Section 5.1. In this instance, the disallowance will result in an increase in the amount PG&E must refund to ratepayers, from approximately $3.7 million to approximately $20.4 million, as shown in the table below.

11. Conclusion

PG&E's total request for rate recovery, including the amounts filed for interim rate recovery in A.20-02-003, amounts to $1,988,596,000. This decision authorizes PG&E a recovery amount of $1,208,909,522 in costs. The table below

[161] *See* PG&E Opening Brief at 91.

illustrates PG&E's request, as updated in its March 2, 2021 errata, and the outcome adopted by this decision.

Table Comparison of PG&E's Original Request and the Authorized Amounts Pursuant to Decision Shown in Costs			
	Memorandum Account	**PG&E Incorporating 3/2/2021 Errata**	**Proposed Decision**
		Dollars	Dollars
	O&M Expense		
1	Fire Hazard Prevention Memorandum Account	296,905,000	167,219,913
2	Fire Risk Mitigation Memorandum Account/ Wildfire Mitigation Plan Memorandum Account	714,648,000	424,771,966
3	Catastrophic Event Memorandum Account	174,433,000	112,636,000
4	Land Conservation Plan Implementation Account	77,000	77,000
5	Residential Rate Reform Memorandum Account	-3,738,000	-20,494,708
6	**Total O&M Expenses**	1,182,325,000	684,210,171
7	**Capital Expenditures**		
8	Fire Risk Management Memorandum Account/Wildfire Mitigation Plan Memorandum Account	591,655,000	386,008,351
9	Catastrophic Event Memorandum Account	209,595,000	138,691,000
10	**Total Capital Expenditures**	801,250,000	524,699,351
11	**Grand Total**	1,983,575,000	1,208,909,522

12. Comments on Proposed Decision

The proposed decision of ALJ Amin Nojan in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. TURN, PG&E, Del Monte, Cal Advocates, and Wild Tree filed comments by November 18, 2022, and TURN, PG&E, and Southern California Edison filed reply comments on December 13, 2022.

We have reviewed the comments and reply comments and find no compelling reason to make any changes to the proposed decision.

13. Assignment of Proceeding

Alice Reynolds is the assigned Commissioner and Amin Nojan is the assigned ALJ in this proceeding.

Findings of Fact

1. On September 30, 2020, PG&E filed A.20-09-019 for recovery of recorded expenditures related to wildfire mitigation and catastrophic events, as well as other recorded costs.
2. On September 21, 2021, PG&E, the Public Advocates Office, and the Federal Executive Agencies jointly filed a Motion for Approval of Settlement Agreement.
3. On October 28, 2021, TURN, Thomas Del Monte, and the Wild Tree Foundation filed comments opposing the proposed Settlement Agreement.
4. The proposed Settlement Agreement presents a compromise of the Settling Parties positions and identifies a settled cost recovery amount as a revenue requirement.
5. The proposed Settlement Agreement reflects a nineteen percent reduction in overall revenue requirement.
6. The proposed Settlement Agreement does not specify which activities, in whole or in part, are to be disallowed.
7. The Settlement Agreement does not address the concerns of the Objecting Parties (TURN, Del Monte, and Wild Tree Foundation).
8. The Settlement Agreement proposes less of a reduction to PG&E's requested recovery than if the issues were decided on their merits, as they are in this proposed decision.

9. A lengthier amortization period can soften the impact to customer rates when the revenue to be recovered is substantial.

10. Adopting the same revenue allocation mechanism in the instant proceeding as the Commission adopted in Phase II of PG&E's GRC will ensure consistency and simplify the evaluation of rate impacts.

11. Straight time labor expenses for existing employees does not constitute an incremental cost, regardless of how those employees are utilized.

12. Memorandum accounts provide an opportunity to recover unexpected costs that a utility may incur so that it does not need to neglect the completion of its forecasted activities due to reprioritization or redirecting of resources.

13. PG&E does not demonstrate that it back-filled labor for redirected employees.

14. It is unclear based on the record of this proceeding what activities PG&E redirected its employees from and whether those original activities were completed at the time of filing the instant Application.

15. Overhead costs are shared by an entity's entire operation.

16. PG&E does not demonstrate how it arrived at the incremental overhead costs it attributes to new activities.

17. The designation of an area as a HFTD is insufficiently granular for a utility to rely on when prioritizing wildfire mitigation activity.

18. Wildfire mitigation work, including vegetation management and system hardening, performed in HFTD areas with relatively lower wildfire risk do not bear the same value to ratepayers as utility work conducted in HFTD areas with relatively higher wildfire risk.

19. PG&E's AWRR program incurred significantly higher costs compared to other vegetation management programs before and after it.

20. PG&E's implementation of its expanded and accelerated vegetation management practices as part of its AWRR program reflect an indiscriminate removal of trees regardless of the risk posed to PG&E equipment.

21. Removing trees that pose no risk to electrical infrastructure or equipment is wasteful and an injudicious use of ratepayer funds.

22. PG&E explains that materials not otherwise classified refers to base camps and micro sites that offered meals, working spaces, parking, and other essentials for crews focused on mitigating wildfire risk.

23. PG&E corrected its misattribution of $8.87 million in 2019 safety costs from AWRR Safety to AWRR Inspections and Tree Work.

24. The increase in costs associated with the expansion of scope and acceleration of pace under PG&E's AWRR program resulted in no discernible benefit to ratepayers because most of the work was performed on the lowest risk sectors of PG&E's HFTDs.

25. PG&E completed a majority of its 2019 EVM miles in relatively lower risk areas in its HFTD.

26. PG&E did not conduct its 2019 EVM work by prioritizing according to its risk model.

27. High Fire Threat Districts cover over 44 percent of the land area in California and more than 50 percent of PG&E's service territory.

28. All wildfire mitigation work does not have an equal impact on risk reduction or benefit to Californians.

29. PG&E corrected the overstating of its Safety Enhanced Vegetation Management costs in the errata it served on March 2, 2021.

30. PG&E provided invoices to justify its $27.3 million request for EVM expenses.

31. Projects that are designated as in-progress at the time of the filing of this Application cannot be effectively evaluated because that designation hinders the ability of parties to conduct discovery and the ability of the Commission to complete a reasonableness review.

32. PG&E did not adequately explain its reasoning for replacing assets that may not have been failing, deteriorating, or responsible for ignition risk during its system hardening work.

33. The primary difference between PG&E's WSIP and its inspections under GO 165 is the acceptable duration for replacing an asset.

34. A new standard that implements a shorter duration for replacement of assets will result in a temporary increase in the volume of work that must be performed to bring a utility's service territory into compliance with the new standard.

35. PG&E made the decision to initiate PSPS events in October of 2019 based on the information available to it at the time.

36. The Commission has already evaluated PG&E's performance in conducting PSPS events in October of 2019 in I.19-11-013 and in the November 12, 2019 Order to Show Cause as part of proceeding R.18-12-005.

37. PG&E's education and outreach to customers about mitigation efforts at large have no causal nexus to delays customers experienced during the October 2019 PSPS events.

38. PG&E was not able to provide invoices for consulting and contracting services for its Community Wildfire Safety Program Management Office because the federal mediator mandated that PG&E accrue these costs through a journal entry during its bankruptcy.

39. PG&E provided other forms of documentation in place of invoices to substantiate the contracting and consulting costs for its Community Wildfire Safety Program Management Office.

40. PG&E's IT PSPS Wildfire Situational Awareness Initiative utilized new tools that served the purpose for which they were procured.

41. PG&E does not demonstrate why it required new mobile devices to support its IT WSIP Program.

42. The LiDAR data PG&E collected in 2018 supported PG&E'S EVM program in 2019.

43. Utility expenditures related to donations and image building are not eligible for cost recovery as part of a CEMA request.

44. PG&E cleared vegetation and other combustible material around distribution substations in areas adjacent to, but not within, Tier 2 and Tier 3 HFTDs because they posed similar risks of ignition to the areas within the Tier 2 and Tier 3 HFTDs.

45. Costs for restoration work related to the Tubbs Fire are eligible for recording to PG&E's CEMA account.

46. There is no evidence in the record of this proceeding that demonstrates PG&E's mapping error played a role in the Tubbs Fire.

47. There is no evidence to substantiate that the 2019 January and February winter storms were predictable or that the restoration costs PG&E incurred could have been avoided.

48. The Governor of California issued an Emergency Declaration for the October 2019 wind event, making it an eligible disaster for CEMA purposes.

49. There is no Proclamation of a State of Emergency issued for the Glencove, Bethel Island, or Camino fires.

50. PG&E's request for its Land Conservation Plan Implementation Account is uncontested by other parties.

Conclusions of Law

1. PG&E should be authorized to recover no more than $1,208,909,522 for its recorded expenditures related to wildfire mitigation and catastrophic events, as well as other related costs, over a 24-month period from November 2022 through the end of October 2024.
2. PG&E should be authorized to recover no more than $167,219,913 for its Fire Hazard Prevention Mitigation Account.
3. PG&E should be authorized to recover no more than $810,780,317 for its Fire Risk Management Mitigation Memorandum Account and its Wildfire Mitigation Plan Memorandum Account.
4. PG&E should be authorized to recover no more than $251,327,000 for its CEMA.
5. PG&E should be authorized to recover $77,000 for its Land Conservation Plan Implementation Account.
6. PG&E should be directed to refund $20,494,708 for its Residential Rate Reform Memorandum Account.
7. The proposed Settlement Agreement is not reasonable in light of the whole record.
8. The proposed Settlement Agreement is not in the public interest.
9. The proposed Settlement Agreement should not be adopted.
10. The Commission should deny the Joint Motion (filed September 21, 2021) for adoption of the Settlement Agreement.
11. It is in the public interest for the Commission to decide the issues based on their merits and the record of the proceeding.

12. The Commission should adopt a 24-month amortization period for PG&E's rate recovery period.

13. The Commission should adopt the same revenue allocation mechanism for the instant application as it did in Phase II of PG&E's GRC to ensure consistency and simplicity in evaluation rate impacts.

14. PG&E did not adequately demonstrate that the costs incurred for straight-time labor were incremental.

15. Straight time labor for existing employees should not be authorized as an incremental expense as those employees have already been funded in a GRC.

16. Overhead expenses should not be authorized as an incremental expense if already authorized in a GRC without a showing of how the utility arrived at the amount attributable to a specific activity.

17. PG&E did not adequately demonstrate that the costs it claims for overhead expenses were incremental.

18. PG&E was not prudent in indiscriminately removing trees as part of its AWRR and therefore should not be authorized to recover the premium in costs associated with the increase in scope and acceleration of pace associated with vegetation management under its AWRR.

19. Utilities should not solely rely on a HFTD designation to prioritize wildfire mitigation work.

20. Wildfire mitigation work, including system hardening and vegetation management, should be prioritized to address areas of highest risk within HFTDs.

21. PG&E should have focused more of its EVM activity in relatively higher risk areas within its HFTDs.

22. PG&E provided adequate documentation justifying its $27.3 million request for EVM expenses and these costs should be found to be reasonable.

23. PG&E should not be authorized recovery of projects designated as "in-progress" in its initial filings.

24. PG&E should not include "in-progress" projects for cost recovery in cost recovery proceedings unless otherwise authorized by the Commission.

25. PG&E should not be granted full cost recovery for replacing useful assets while conducting its system hardening work.

26. PG&E's actions in calling PSPS events in October of 2019 were reasonable under the prudent manager standard.

27. The Commission should approve PG&E's costs for education and outreach to its customers about its mitigation efforts.

28. PG&E met its burden of proof for substantiating contracting and consulting costs for its Community Wildfire Safety Program Management Office.

29. The Commission should approve PG&E's IT PSPS Wildfire Situational Awareness cost recovery request.

30. The Commission should not approve PG&E's IT SWIP Program cost recovery request.

31. The Commission should approve PG&E's LiDAR costs for recovery.

32. PG&E acted out of an abundance of caution when clearing combustible material around distribution substations in areas adjacent to Tier 2 and Tier 3 HFTDs when it became clear they posed a similar risk of ignition to the Tier 2 and Tier 3 HFTD areas.

33. PG&E appropriately recorded the Tubbs Fire costs to its CEMA.

34. The Commission is unable to find a connection between PG&E's mapping error and the Tubbs Fire.

35. The Commission should approve PG&E's request for cost recovery related to the 2019 January and February winter storms.

36. The Glencove, Bethel Island, and Camino Fires are not eligible CEMA events as it is not clear that the referenced State of Emergency proclamation issued by the Governor covers these fires.

37. The Commission should approve PG&E's Land Conservation Plan Implementation request in its entirety.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to recover no more than $1,208,909,522 for its recorded expenditures related to wildfire mitigation and catastrophic events, as well as other related costs, over a 24-month period from November 2022 through the end of October 2024.

2. As part of the overall amount in Ordering Paragraph 1, Pacific Gas and Electric Company is authorized to recover no more than $167,219,913 for its Fire Hazard Prevention Mitigation Account.

3. As part of the overall amount in Ordering Paragraph 1, Pacific Gas and Electric Company is authorized to recover no more than $810,780,317 for its Fire Risk Management Mitigation Memorandum Account and its Wildfire Mitigation Plan Memorandum Account.

4. As part of the overall amount in Ordering Paragraph 1, Pacific Gas and Electric Company is authorized to recover no more than $251,327,000 for its Catastrophic Event Memorandum Account.

5. As part of the overall amount in Ordering Paragraph 1, Pacific Gas and Electric Company is authorized to recover $77,000 for its Land Conservation Plan Implementation Account.

6. Pacific Gas and Electric Company is directed to refund $20,494,708 for its Residential Rate Reform Memorandum Account.

7. The Joint Motion (filed on September 21, 2021) for adoption of the Settlement Agreement is denied.

8. Pacific Gas and Electric Company shall file a Tier 2 advice letter within 60 days of this decision to provide the updated annual revenue requirements based on $684,210,171 (operations & maintenance) and $524,699,351 (capital expenditures), with appropriate exclusions for wildfire capital expenditures after July 12, 2019, as required by Pub. Util. Code § 8386.3(e). The Tier 2 Advice Letter shall specify reductions for interim rate relief authorized in Decision 20-10-026.

9. All rulings issued by the assigned Commissioner and Administrative Law Judge are affirmed; and all motions not specifically addressed herein are denied as moot.

10. Application 20-09-019 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California