

ALJ/KWZ/jnf

PROPOSED DECISION Agenda ID #21554 (Rev. 2)

Ratesetting
6/8/2023 Item #8

Decision **PROPOSED DECISION OF ALJ WATTS-ZAGHA**
(Mailed 4/28/2023)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company for Recovery of Recorded
Expenditures Related to Wildfire
Mitigation, Catastrophic Events, and
Other Recorded Costs. (U39M.)

Application 22-12-009

DECISION GRANTING INTERIM RATE RECOVERY

TABLE OF CONTENTS

Title	Page
DECISION GRANTING INTERIM RATE RECOVERY.....	1
Summary	2
1. Background	2
2. Application and Motion Overview	3
3. Standard of Review.....	9
4. Positions of the Parties	11
4.1. PG&E	11
4.2. Joint Intervenors	12
5. Issues	14
6. Interim Cost Recovery as Proposed is Warranted	14
6.1. PG&E's Request Meets Commission Standard	15
6.2. PG&E's Requested Amount of Interim Cost Recovery is Reasonable.....	22
7. Summary of Public Comment	26
8. Conclusion.....	26
9. Comments on Proposed Decision.....	26
10. Assignment of Proceeding	27
Findings of Fact.....	27
Conclusions of Law	27
ORDER	29

DECISION GRANTING INTERIM RATE RECOVERY

Summary

This decision grants the request of Pacific Gas and Electric Company (PG&E) for interim rate relief, pending a final decision on what permanent cost increase, if any, is reasonable based on the evidence. PG&E is authorized to recover a maximum of \$1.104 billion in interim rates according to the process set forth herein. PG&E is required to refund, with interest, any excess amount it collects in comparison to the Commission's final determination on the amount reasonably incurred. Nothing in this decision shall be construed to relieve PG&E of the burden of proving that all costs it seeks to recover in this proceeding are just and reasonable.

This proceeding remains open.

1. Background

Pacific Gas and Electric Company (PG&E) filed Application (A.) 22-12-009 on December 15, 2022, seeking to recover \$1.328 billion in revenue requirement that PG&E incurred primarily in 2021 for wildfire mitigation activities and to respond to catastrophic events. Also on December 15, 2022, PG&E filed its Motion for Wildfire Mitigation and Catastrophic Events (WMCE) Interim Rates (Motion).

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Direct Access Customer Coalition (DACC), and The Utility Reform Network (TURN) filed protests to the application. Cal Advocates and TURN objected to interim rate recovery in responses to PG&E's Motion filed January 17, 2023 and January 18, 2023, respectively.¹

¹ Motions of TURN and Cal Advocates to late file responses to PG&E's Motion were granted by Administrative Law Judge Ruling on January 13, 2023.

On January 30, 2023, PG&E replied to the filed protests and also replied to the responses of TURN, Cal Advocates and DACC² to PG&E's Motion.

On March 21, 2023, the assigned Administrative Law Judge (ALJ) issued a Ruling Seeking Comment on Questions Regarding PG&E's Motion (Ruling), requiring responses to be filed and served no later than April 7, 2023. A prehearing conference (PHC) was held on March 27, 2023. At the PHC, the ALJ partially granted the oral motion by TURN to extend the due date for responses to the Ruling. On April 10, 2023, PG&E and jointly TURN, Cal Advocates and DACC (collectively, Joint Intervenor) filed responses to the Ruling.

On April 4, 2023, the assigned Commissioner issued the Scoping Memo and Ruling. The procedural schedule established in the Scoping Memo anticipates a resolution of the application by spring 2024.

2. Application and Motion Overview

Decision (D.) 20-12-005, PG&E's Test Year 2020 General Rate Case (GRC), authorized the review framework for the majority of costs sought for recovery in this application. In D.20-12-005, the Commission approved the establishment of the Wildfire Mitigation Balancing Account and the continuation of the Vegetation Management Balancing Account with modifications, in which PG&E has recorded \$916 million requested for recovery, as follows:

- \$101.5 million associated with costs recorded in the Wildfire Mitigation Balancing Account (WMBA); and
- \$814.7 million associated with costs recorded in the Vegetation Management Balancing Account (VMBA).

² DACC included in its protest to the application an objection to PG&E's proposal for interim rate recovery. PG&E's application is premised on interim rate recovery as proposed, making the objection in DACC's response procedurally acceptable.

The remainder that PG&E seeks for recovery is \$447 million, recorded in the memorandum accounts as follows:

- \$327.1 million in costs recorded in the Catastrophic Event Memorandum Account (CEMA), authorized by Resolution E-3238 as codified in Section 454.9(a) and Resolution ESRB-4;
- \$11.3 million in costs recorded in the COVID-19 Pandemic Protections Memorandum Account (CPPMA) as authorized by Resolutions M-4842 and M-4849;
- \$8.3 million of costs recorded in the California Consumer Privacy Act Memorandum Account (CCPAMA) as authorized by D.19-09-026;
- \$2.2 million of costs recorded in the Emergency Consumer Protections Memorandum Account (ECPMA) as authorized by D.18-08-004;
- \$8.5 million recorded in the Disconnections Memorandum Account (DMA) as authorized by D.20-06-003; and
- \$87.2 million in expenses and \$2.9 million in capital costs recorded in the Microgrids Memorandum Account (MGMA) as authorized by D.20-06-017.

Additionally, PG&E seeks authorization to refund \$4.7 million to customers associated with changes in the Transmission Revenue Requirement Reclassification Memorandum Account.

Concurrently with A.22-12-009, PG&E filed the Motion requesting authorization to collect 85 percent of the revenue requirement associated with the recorded costs, equating to \$1.104 billion (including interest) or \$1.07 billion (excluding interest). PG&E proposes the interim costs be collected over a 12-month period through Electric Distribution³ rates only beginning in June 2023. PG&E proposes that the remaining 15 percent of the requested amount

³ PG&E Motion at 14 specifies the account for the collection of interim rates as the Distribution Revenue Adjustment Mechanism.

(\$224.4 million) be collected over the subsequent 12 months from June 2024 through May 2025, with the exception of the capital revenue requirement that would extend through 2026.⁴

In applications requesting revenue increases exceeding one percent of systemwide revenues currently authorized, utilities are required by Rule 3.2(a)(3) of the Commission's Rules of Practice and Procedure (Rules) to show, by customer class, how the request will increase presently effective rates. Additionally, as required by the Commission's second Affordability decision,⁵ utilities are required to show the corresponding bill impacts and affordability impacts for the residential customer class. Finally, the second Affordability decision requires bill and affordability impacts be shown through extra lenses for the most disadvantaged residential customers; those at the lower end (20th percentile) of the income distribution, those earning minimum wage, and those in areas facing grave economic challenges.

PG&E presented rate, bill, and affordability impacts in its application assuming interim cost recovery. In response to the Ruling, PG&E presented a comparison of rate impacts with and without interim cost recovery.⁶ Without interim cost recovery, PG&E estimates residential electric customer rates will increase 6.0 percent⁷ in the first year of collection, and with interim cost recovery,

⁴ PG&E Response to Ruling at 13 and Application at 13 – 14, stating remaining 15 percent of the requested amount is proposed to be collected through Distribution Revenue Adjustment Mechanism, Portfolio Allocation Balancing Account, Core Fixed Cost Account, and Noncore Customer Class Charge account mechanisms through the Annual Electric True-Up and Annual Gas True-Up.

⁵ D.22-08-023.

⁶ PG&E Response to Ruling at Attachment 3b Rate Impact Scenarios for 2022 WMCE.

⁷ PG&E Response to Ruling at Attachment 3b Rate Impact Scenarios for 2022 WMCE, Table 2a.

5.1 percent.⁸ PG&E does not propose to collect gas revenues through interim cost recovery.⁹

At present rates before any increase, PG&E residential electric bills average about \$180 per month (in more extreme climate zones) and \$111 per month (in the milder climate zones). With interim cost recovery,¹⁰ a typical residential customer¹¹ will pay an electric bill \$8.67 higher than the electric bill is at present rates,¹² in the first year.¹³ Affordability is generally¹⁴ defined as a customer's ability to pay their bill, and generally calculates the bill as a percentage of

⁸ PG&E Response to Ruling at Attachment 3b Rate Impact Scenarios for 2022 WMCE, Table 1a.

⁹ Exhibit C to A.22-12-009; also see PG&E Response to Ruling at Attachment 3b Rate Impact Scenarios for 2022 WMCE at Page 4, 7.

¹⁰ PG&E's corresponding bill and affordability impacts are presented only for an assumption of interim rate recovery.

¹¹ A typical residential electric customer is a residential electric customer buying bundled electric service at the \$/kWh rate displayed in Table 1 of Exhibit B to A.22-12-009 and not enrolled in the low-income discount rate. The name of the low-income discount rate program is California Alternate Rates for Energy (CARE).

PG&E does not define typical usage. However, PG&E presents average bill by climate zone, for residential electric CARE and non-CARE customers in Exhibit E to A.22-12-009. For example, non-CARE customers with average electric usage would see an electric bill increase of about \$9 (in the more extreme climate zones Territory P and R) and by \$5.54 (in the milder Territory T). CARE customers with average electric usage would see an electric bill increase of \$6.50 (in the more extreme climate zones Territory P and R) and by \$3.84 (in the milder Territory T).

¹² As shown in Exhibit B to A.22-12-009, the present rate for a bundled residential customer is \$0.29321 per kilowatt hour (kWh); interim rate recovery would increase the rate by 5.1 percent to \$0.30830 per kWh.

¹³ A.22-12-019 at 14. For bills by defined customer groups, see Exhibit E to A.22-12-009. For example, in the more extreme climate zones Territory R and P, the residential average electric bill would increase by about \$9.00, and in the milder climate zone Territory Z, by \$3.42.

¹⁴ D.20-07-032, Conclusion of Law (CoL) 6 specifically defines affordability "as the degree to which a representative household is able to pay for an essential utility service charge, given its socioeconomic status."

income-after-housing.¹⁵ At present rates currently, before any increase, PG&E customers' electric essential use bills¹⁶ represent as much as 3.5 percent¹⁷ and as little as 1.1 percent¹⁸ of income-after-housing.¹⁹ With interim rate recovery, the higher bills would decrease affordability by no more than 0.2 percent.²⁰

¹⁵ PG&E is required by the Commission's Affordability decisions to put significant rate requests in context of their customers' ability-to-pay. To do so, the Commission adopted affordability metrics calculating impacts for customers at the low end (20th percentile) and middle (50th percentile) of the income scale, for 256 geographies in California and different climate zones. The Affordability Ratio 20 (AR20) represents the ability-to-pay for customers at the 20th percentile (the low end) of the income distribution relative to their locality, calculated as the essential use bill relative to the customers' income-after-housing, where housing costs include other utility essential use bills. The Affordability Ratio 50 (AR50) represents the ability-to-pay for customers at the 50th percentile (the middle) of the income distribution relative to their locality, calculated as the essential use bill relative to the customers' income-after-housing, where housing costs include other utility essential use bills. See D.20-07-032, D.22-08-023 and all affordability information available at <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability> on the Commission website.

¹⁶ As shown in Exhibit E to A.22-12-009, at present rates before any increase, PG&E residential (non-CARE) electric **essential use** bills range from \$123 per month (in more extreme climate zones) and \$69 per month (in the milder climate zones). This non-CARE electric essential use bill would increase by about \$6 (in the more extreme climate zones Territory P and R) and by \$3.47 (in the milder Territory T).

¹⁷ As shown Exhibit E of A.22-12-009, 3.5 percent is the AR50 metric for Non-CARE electric customers in PG&E's Territory P. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents 3.5% of income-after-housing,

¹⁸ As shown in Exhibit E of A.22-12-009, 1.1 percent is the AR50 metric for Non-CARE electric customers in PG&E's Territory T. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$68.70. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$68.70 represents 1.1% of income-after-housing,

¹⁹ Income-after-housing is calculated by reducing from income the costs of housing, including the costs of paying other utility bills.

²⁰ As shown Exhibit E of A.22-12-009, 3.5 percent is the AR50 metric for Non-CARE electric customers in Territory P. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents

Footnote continued on next page.

With regard to disadvantaged residential customer bills, in more severe climate zones²¹ the electric essential use bill is about \$118 at present rates before any increase. This bill represents around 12 percent of their income-after-housing. For these households, the higher bill represents an affordability decrease of 0.6 percent (12 + 0.6) of their income-after-housing.²² For households earning minimum wage anywhere PG&E serves, the electric essential use bill

3.5% of these customers' income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$119.16, a bill increase of \$5.73, or 5.0%. When calculated as a percentage of these customers' dollar amount of income-after-housing, the increased bill of \$119.16 represents 3.7% of these customers' income-after-housing,

As also shown, 1.1 percent is the AR50 metric for Non-CARE electric customers in Territory T. The Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$68.70. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$68.70 represents 1.1% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$72.17, a bill increase of \$3.47, or 5.0%. When calculated as a percentage of amount of income-after-housing, \$72.17 represents 1.2% of income-after-housing.

²¹ PG&E Territories P and R.

²² As shown in Exhibit E of A.22-12-009, 11.8 percent is the AR20 metric for Non-CARE electric customers in Territory P at present rates. As shown, the Non-CARE electric customers in Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents 11.8% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$119.16, a bill increase of \$5.73, or 5.0%. \$119.16 represents 12.4% of these customers' income-after-housing, an increase to AR20 of 0.6%. The same analysis can be performed in order to observe the impact of Non-CARE AR20 for Territory R.

As also shown, 12.4 percent is the AR20 metric for Non-CARE electric customers in Territory R at present rates. The Non-CARE electric customers in Territory R pay monthly electric essential use bills at present rates of \$123.02. When calculated as a percentage of these customers' amount of income-after-housing, \$123.02 represents 12.8% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$129.23, a bill increase of \$6.21, or 5.0%. \$129.23 represents 13.5% of these customers' income-after-housing, increasing the AR20 by 0.6%.

increase equates to an additional 12 – 24 minutes of work per month.²³ And finally, nearly 300,000 PG&E customers live in neighborhoods facing grave economic challenges, labeled “Areas of Affordability Concern.”²⁴ Of these, the 60,000 households at the low end of the income distribution scale already might pay essential use bills representing over 17 percent of their income-after-housing each month, assuming they receive the CARE discount.²⁵ For these households, the higher bill represents just over 18 percent of their income-after-housing, effectively less than a one percent change in the bite to their budget.

3. Standard of Review

The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable.²⁶ In ratemaking applications, the burden of proof is on the applicant utility.²⁷

²³ As shown in Exhibit E of A.22-12-009, the Non-CARE electric Hours at Minimum Wage presently range from 4.6 hours (in Territory T) to 8.3 hours (in Territory W). The higher bill would increase the hours required to pay the higher bill between 0.2 hours (12 minutes) and 0.4 hours (24 minutes).

²⁴ The PG&E Areas of Affordability Concern are Chico, Oroville and Paradise in Butte County, east central and southwest Fresno, northeast and southeast Bakersfield in Kern County, and south Stockton in San Joaquin County.

²⁵ Without the CARE discount, these customers’ essential use bills equate to 27 percent of their income-after-housing each month.

²⁶ Public Utilities Code (Pub. Util. Code) Section 451. Application of Pacific Gas and Electric Company (2000) D.00-02-046, at 36, 2000 Cal. PUC LEXIS 239 (“no public utility shall change any rate ... except upon a showing before the Commission, and a finding by the Commission that the new rate is justified”).

²⁷ Application of Pacific Gas and Electric Company (2000) D.00-02-046, at 36, 2000 Cal. PUC LEXIS 239, citing *Re Pacific Bell* (1987) 27 CPUC 2d 1, 21, D.87-12-067. *See also* *Re Energy Cost Adjustment Clauses* (1980) 4 CPUC 2d 693, 701; D.92496, *Re Southern California Edison Company* (1983) 11 CPUC 2d 474, 475; D.83-05-036 (“Of course the burden of proof is on the utility applicant to establish the reasonableness We expect a substantial affirmative showing by each utility with percipient witnesses in support of all elements of its application.”).

The California Supreme Court explained²⁸ the Commission's power to grant rate increases prior to a final Commission determination on whether the costs were just and reasonable in *Toward Utility Rate Normalization v. Public Utilities Commission (TURN v. PUC)*, 44 Cal.3d 870 (1988). In *TURN v. PUC*, the Court characterized the Commission's grant of interim relief consistent with Public Utilities Code²⁹ Section 451, *inter alia*, "if the facts warrant such summary relief,"³⁰ and described such facts as a situation "in which fairness to both the utility and the public required immediate action."³¹

In subsequent determinations, the Commission has applied as relevant factors fairness to both the utility and public;³² the public interest;³³ reducing the potential for rate shock;³⁴ intergenerational equity; and preserving the financial integrity of a utility,³⁵ minimizing costs incurred by ratepayers, and ensuring rate stability.³⁶

²⁸ *TURN v. PUC* at 785 "The commission's power to grant interim rate increases was recognized by this court in *City of Los Angeles v. Public Utilities Commission* (1972) 7 Cal.3d 331.

²⁹ All Section references in this decision are to the Public Utilities Code, unless otherwise specified.

³⁰ *TURN v. PUC* (1988) 44 Cal.3d at 878.

³¹ *Id.* at 879.

³² D.02-07-031 at 13 – 14; D.20-10-016 at 22.

³³ Administrative Law Judges' Ruling Denying Southern California Edison Company's Motion for Interim Rate Relief issued May 22, 2020 in A.19-08-013.

³⁴ D.16-08-003 at 9.

³⁵ D.22-05-001, ALJs' Ruling Denying SCE's Motion for Interim Rate Recovery in A.19-08-013.

³⁶ D.88-05-074 at 14; D.20-10-016 at 22.

As noted by PG&E, TURN, DACC and Cal Advocates, recent Commission decisions on utility requests for interim rate recovery include:

- D.22-05-001 in A.21-07-017, which denied San Diego Gas & Electric Company's request for interim recovery of costs recorded in Wildfire Mitigation Plan memorandum accounts.
- D.20-010-026 in A.20-02-003, which approved PG&E's request for interim recovery of costs recorded in three memorandum accounts: the Fire Hazard Prevention, Fire Risk Mitigation, and Wildfire Mitigation Plan accounts, and denied PG&E's request for interim recovery of costs recorded in the CEMA.
- D.19-04-039 in A.18-03-015, which approved PG&E's second request for interim recovery of vegetation management costs recorded in CEMA, after denying PG&E's first request.

4. Positions of the Parties

4.1. PG&E

PG&E asserts it is in the interest of both the company and its customers to grant interim relief as proposed. PG&E claims that financial pressure is on the utility due to both the significant undercollections in these and other balancing and memorandum accounts, and the need to finance expenses and capital expenditures not included in current rates. PG&E cites an increase of capital expenditures of \$2-3 billion over the last few years and a projection to fund roughly \$50 billion in essential energy infrastructure investments between 2022 – 2026.³⁷ PG&E states that as of September 30, 2022, it carried \$5.7 billion in unrecovered costs in balancing and memorandum accounts financed by debt, of

³⁷ PG&E Motion at 18.

which approximately \$800 million was approved for recovery.³⁸ PG&E asserts that having ratepayers incur some of these costs will directly benefit ratepayers, through cost savings of paying less to finance undercollected costs, and indirectly from improved credit metrics.³⁹ Benefits will include: (1) the ability to obtain a lower interest rate from the marketplace on debt;⁴⁰ (2) the impact to credit rating agencies' assessment of PG&E's ability to obtain timely cost recovery;⁴¹ and (3) the impact to PG&E's annual cash flow operation.⁴²

4.2. Joint Intervenor

The Joint Intervenor individually⁴³ and jointly oppose interim cost recovery, asserting that interim recovery would erode the key ratepayer protection and fundamental tenet of cost-of-service ratemaking in Section 451. Joint Intervenor challenge PG&E's assertion of expensive debt financing, citing Fitch Ratings' statement characterizing PG&E with "adequate liquidity," with approximately \$2.0 billion at the end of 2022.⁴⁴

In addition, Joint Intervenor request the Commission consider the near-term impact to ratepayers who are unable to absorb an increase today, even if it means paying more interest on the undercollections later.⁴⁵

TURN asserts PG&E has inadequately supported its contention of being in a precarious position financially. TURN recommends the Commission consider

³⁸ PG&E Motion at 19; PG&E Response to Ruling at 3.

³⁹ PG&E Motion at 22 – 23.

⁴⁰ Application, Exhibit D at 8.

⁴¹ Application, Exhibit D at 9.

⁴² Application, Exhibit D at 10.

⁴³ Joint Intervenor Response to Ruling at 1, 9.

⁴⁴ Joint Intervenor Response to Ruling at 5.

⁴⁵ Joint Intervenor Response to Ruling at 7.

PG&E's \$5.7 billion undercollections figure with reference not just to the \$837 million already authorized for recovery, but also the nearly \$2 billion likely to be authorized in the 2020 and 2021 PG&E WMCE proceedings.⁴⁶ With regard to PG&E's still-to-be resolved 2023 GRC, TURN recommends the Commission take note that 2023 GRC test year revenues will be made effective January 1, 2023 despite the missed "due date" for implementing collections.⁴⁷ TURN and Joint Intervenor assert PG&E's own representations to its investors of its third and fourth quarter 2022 earnings report belie any concern over financial stability, stating PG&E's "two most recent earnings calls with the financial community give no indication that the utility will face extraordinary challenges in raising the funds necessary for its proposed spending of \$50 billion in the 2022-26 period."⁴⁸ Joint Intervenor identify several avenues by which PG&E might otherwise reduce its purported financial risk, including scaling back a costly undergrounding project, and issuing additional equity in the form of selling more shares of stock.⁴⁹

While opposing interim recovery as unsupported, Cal Advocates recommends, if the Commission were to grant any interim recovery, it do so for a lesser amount and over a longer period of 17 months, consistent with the formula the Commission approved in D.20-10-026. In D.20-10-026, the Commission granted recovery of 55 percent of the revenue requirement associated with costs

⁴⁶ The Commission issued a final decision D.23-02-017 in PG&E's 2020 WMCE A.20-09-019, with approval of \$1.037 billion in revenue requirement. An application for rehearing of that decision was filed on March 10, 2023 by party Thomas Del Monte.

⁴⁷ TURN Reply to Motion at 13.

⁴⁸ Joint Intervenor Response to Ruling at 8.

⁴⁹ Joint Intervenor Response to Ruling at 8 – 9.

recorded in the memorandum accounts with the exception of the CEMA.⁵⁰ Fifty-five percent of PG&E's request amounts to \$567.4 million.⁵¹

DACC asserts a reasonableness review should occur prior to collection of any recorded costs and that 12 months of recovery would have the opposite effect of causing, rather than alleviating, rate shock, when coupled with other rate increases in the pipeline.⁵²

5. Issues

There are two issues to be considered in determining whether interim cost recovery is appropriate:

- 1) Has PG&E shown that interim cost recovery is warranted?
- 2) If so, what amount of interim cost recovery is justified?

6. Interim Cost Recovery as Proposed is Warranted

In this case, the circumstances justify granting interim cost recovery prior to a determination on whether the costs are reasonable. In doing so, the Commission departs from the general requirement to raise rates only after the costs are determined reasonable by this Commission. Nothing in this grant of interim rate relief prejudices whether the costs in the relevant accounts are just and reasonable. PG&E shall prove the reasonableness of all costs in the accounts at issue, whether or not allowed in interim rates.

Today's financial considerations faced by PG&E and its ratepayers justify commencing collection in the amount, \$1.104 billion, and over the time period, 12 months, proposed by PG&E.

⁵⁰ Cal Advocates Response to PG&E Motion at 1.

⁵¹ PG&E Response to Ruling at 14 - 15.

⁵² DACC Protest at 3.

6.1. PG&E's Request Meets Commission Standard

PG&E has adequately supported its request for interim rate recovery for the reasons discussed below.

As noted above, the Commission has made determinations on interim rate relief based on a number of factors, all consistent with the standard set in *TURN v. PUC* evaluating fairness to the utility and the public, the public being inclusive of the ratepayers as a whole. This decision finds the risk to ratepayers of funding unreasonable costs low and the benefits of cost savings high.

Granting interim rate relief will reduce direct and indirect costs to PG&E's ratepayers. The direct cost savings of commencing cost recovery sooner, and over a shorter period, are not in dispute. Parties agree that interim rate recovery presents a savings to ratepayer of approximately \$30 million.⁵³ Parties disagree over whether any indirect cost savings are likely to occur. Indirect cost savings include better financing rates due to credit ratings, perceptions of regulatory risk, and ultimately cost of capital. PG&E quantifies the savings that could theoretically occur if its credit rating on debt financing rate base were to move one notch higher in the credit rating (from the current BBB- to BBB) at \$25 million, provided the savings were applied to the portion of rate base financed by debt.⁵⁴ PG&E claims timely cost recovery is a major factor in credit ratings. TURN and Joint Intervenors assert there are no signs that PG&E's credit ratings will suffer, and that PG&E's earning statements over the last six months point to positive expectations for its credit ratings. PG&E contends that its long-term credit trajectory is precarious. As of the end of 2022, PG&E's overall credit

⁵³ Joint Intervenors Response to Ruling at 7; PG&E Response to Ruling at 12.

⁵⁴ PG&E Motion at 23 and PG&E Response to Ruling at 11.

rating remained below investment grade (Funds from Operation over total debt, or FFO/debt) at 12.4 percent.⁵⁵ PG&E agrees that its ratings outlooks for certain credit metrics by Moody's and Fitch had improved in February and March 2023, but that the potential ratings change was unknown⁵⁶ and sensitive to Commission action on undercollections.⁵⁷

The direction of short-term interest rates, timing and amount of recovery for PG&E's rate case proposal and liabilities are uncertain, as is the trajectory of PG&E's credit ratings. In order to move forward, this decision notes that interest rates have increased since PG&E submitted its application and that improving PG&E's overall credit rating will yield financing cost improvements to ratepayers, and that the ballpark estimate of more than \$50 million in savings (\$30 million + \$25 million) is worth the potential risk that ratepayers will fund more in interim rates than the Commission ultimately approves pursuant to its reasonableness review.

PG&E and Joint Intervenors disagree on the nature of risks to ratepayers and shareholders. PG&E asserts no risk to ratepayers of commencing collections prior to Commission approval of the costs as reasonable because of the refund mechanism. For the company and its shareholders, PG&E sees risk to its ability to finance its significant capital investments at a reasonable cost to ratepayers — investments that it claims are required to improve the safety and reliability of its electric system and achieve the state's decarbonization and electrification goals in the face of increasing challenges posed by climate change.⁵⁸ In contrast, TURN

⁵⁵ PG&E Response to Ruling at 11 citing PG&E 4th Quarter and Full Year 2022 earnings report.

⁵⁶ PG&E Response to Ruling at 10 citing PG&E 4th Quarter and Full Year 2022 earnings report.

⁵⁷ PG&E Response to Ruling at 11.

⁵⁸ PG&E Response to Ruling at 8.

and Joint Intervenors allege significant risk to ratepayers and little to PG&E and its shareholders. TURN and Joint Intervenors cast interim rate recovery as eroding the key ratepayer protection to pay in rates only costs found reasonable, and as harming customers who cannot afford the interim rate increase now, even if it means paying more of a rate increase in the future.

This Commission is acutely concerned with affordability, as electric costs, rates, and bills are predicted to continue to increase.⁵⁹ To evaluate the risks to ratepayers of paying less now or more later, this decision evaluates the rate impacts, to several customer classes, in addition to the residential class. This decision also evaluates the bill impacts and affordability impacts through the several extra lenses mandated by the Commission's Affordability decision, as described in this decision in Section 2 *Application and Motion Overview*.

PG&E quantified and compared estimated direct cost savings, with and without interim rate recovery, and also with the interim rate recovery proposed by Cal Advocates of 55 percent of the total requested amount over 17 months. PG&E's estimates of direct cost savings are shown in Table 1 below, together with the associated rate increases for several customer classes:

⁵⁹ 2022 Senate Bill 695 Report available at: <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2022-sb-695-report.pdf> and the 2023 Senate Bill 695 Report is expected to be available May 2023 here: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/reports-on-utility-costs> on the Commission website.

TABLE 1: RATE IMPACTS⁶⁰

	Impact on Revenue Requirement	Electric Rate Increase First 12 Months Residential/ Small Commercial/ Medium & Large Commercial (%)	Electric Rate Increase First 12 Months Direct Access Residential/ Small Commercial/ Medium/Large Commercial (%)
1.) PG&E Proposal	~(\$30 million)	5.1/5.6/5.4	8.9/9.2/9.7/10.6
2.) Cal Advocates Alternative	~(\$16.6 million)	n/a	n/a
3.) No Interim Cost Recovery, Assume Collection Begins March 2024	n/a	6.0/6.6/6.5	10.3/10.9/11.7/12.6

For residential customers, the consideration is between a 5.1 percent increase today and a 6 percent increase tomorrow.⁶¹ The difference is less significant for residential direct access customers, more significant for commercial customers, and most significant for direct access commercial customers. The associated bill and affordability impacts were presented in Section 2 of this decision *Application and Motion Overview* and are reprinted below for ease of reference.

In terms of ability-to-pay, PG&E customers' electric essential use bills at present rates represent as much as 3.5 percent (in the more severe climate

⁶⁰ PG&E Response to Ruling at 15, and Attachment 3b (Table 1a and 2a) to PG&E Response to Ruling.

⁶¹ Attachment 3b (Table 1a and 2a) to PG&E Response to Ruling.

zones)⁶² and as little as 1.1 percent (in the milder climate zones)⁶³ of the customers' income-after-housing.⁶⁴ Interim rate recovery would change the affordability impact by no more than 0.2 percent for these residential customers, in any climate zone.⁶⁵

The affordability impact to residential customers overall is nominal. No utility calculates affordability impacts to commercial customers, yet the rate impact alone shows paying less now appears to help commercial customers more than residential customers.

⁶² As shown in Exhibit E of A.22-12-009, 3.5 percent is the AR50 metric for Non-CARE electric customers in PG&E's Territory P. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents 3.5% of income-after-housing,

⁶³ As shown in Exhibit E of A.22-12-009, 1.1 percent is the AR50 metric for Non-CARE electric customers in PG&E's Territory T. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$68.70. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$68.70 represents 1.1% of income-after-housing,

⁶⁴ Income-after-housing is calculated by reducing from income the costs of housing, including the costs of paying other utility bills.

⁶⁵ As shown in Exhibit E of A.22-12-009, 3.5 percent is the AR50 metric for Non-CARE electric customers in Territory P. As shown, the Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents 3.5% of these customers' income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$119.16, a bill increase of \$5.73, or 5.0%. When calculated as a percentage of these customers' dollar amount of income-after-housing, the increased bill of \$119.16 represents 3.7% of these customers' income-after-housing,

As also shown, 1.1 percent is the AR50 metric for Non-CARE electric customers in Territory T. The Non-CARE electric customers in PG&E's Territory P pay monthly electric essential use bills at present rates of \$68.70. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$68.70 represents 1.1% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$72.17, a bill increase of \$3.47, or 5.0%. When calculated as a percentage of amount of income-after-housing, \$72.17 represents 1.2% of income-after-housing.

Turning toward the disadvantaged customer groups, the associated bill and affordability impacts were presented in Section 2 *Application and Motion Overview* and are reprinted below for ease of reference.

For the households at the low end of the income distribution scale in more extreme climate zones, an essential use bill already represents around 12 percent of their income-after-housing each month (in PG&E territories P and R). For these households, interim cost recovery represents an additional 0.6 percent (12 + 0.6) of their income-after-housing.⁶⁶ For households earning minimum wage anywhere in PG&E's area, the essential use bill increase equates to an additional 12 – 24 minutes of work per month. And finally, nearly 300,000 PG&E customers live in neighborhoods facing grave economic challenges, labeled “Areas of Affordability Concern.”⁶⁷ Of these, the 60,000 households at the bottom of the income distribution scale already might pay essential use bills representing over 17 percent of their income-after-housing each month, assuming they receive the

⁶⁶ As shown in Exhibit E of A.22-12-009, 11.8 percent is the AR20 metric for Non-CARE electric customers in Territory P at present rates. As shown, the Non-CARE electric customers in Territory P pay monthly electric essential use bills at present rates of \$113.44. When calculated as a percentage of these customers' amount of income-after-housing, the bill of \$113.44 represents 11.8% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$119.16, a bill increase of \$5.73, or 5.0%. \$119.16 represents 12.4% of these customers' income-after-housing, an increase to AR20 of 0.6%.

As also shown, 12.4 percent is the AR20 metric for Non-CARE electric customers in Territory R at present rates. The Non-CARE electric customers in Territory R pay monthly electric essential use bills at present rates of \$123.02. When calculated as a percentage of these customers' amount of income-after-housing, \$123.02 represents 12.8% of income-after-housing. With the proposed increase, these same customers would pay monthly electric essential use bills of \$129.23, a bill increase of \$6.21, or 5.0%. \$129.23 represents 13.5% of these customers' income-after-housing, increasing the AR20 by 0.6%.

⁶⁷ The PG&E Areas of Affordability Concern are Chico, Oroville and Paradise in Butte County; east central and southwest Fresno; northeast and southeast Bakersfield in Kern County; and south Stockton in San Joaquin County.

CARE discount.⁶⁸ For these households, the higher bill represents just over 18 percent of their income-after-housing, effectively less than a one percent change in the bite of their budget.

Table 2 below displays the affordability impacts highlighted in the paragraph above and also includes the affordability impacts if those customer groups were able to enroll in CARE.

TABLE 2: AFFORDABILITY IMPACTS⁶⁹

	Affordability Ratio 20⁷⁰ CARE/Non-CARE	Households Earning Min Wage⁷¹ CARE/Non-CARE	Affordability Ratio 20 in Areas of Affordability Concern (Portions of Butte, Fresno, Kern, San Joaquin Counties) CARE/Non-CARE
PG&E Proposal, Lowest- Highest Affordability Impact by Climate Zone	(0.1-0.4%)/(0.2-0.6%)	(0.2-0.3)/(0.2-0.4) hours	(0.5-0.9%)/(0.8-1.3%)

The affordability impacts of interim cost recovery for disadvantaged customers are in the range of 0.1 to 0.9 percent. The challenge for disadvantaged

⁶⁸ Without the CARE discount, these customers' essential use bills equate to 27 percent of their income-after-housing each month.

⁶⁹ Application at 13 - 14, PG&E Response to Ruling at 13, Exhibit E to A.22-12-009. The affordability impacts in Table 2 correspond to the rate impacts shown in Table 1, in the row labeled "1.) PG&E proposal."

⁷⁰ Affordability Ratio 20 captures the affordability impact for representative customers at 20th Income Percentile in their locality, shown as a change in their income-after-housing.

⁷¹ Affordability Impact on Households Earning Minimum Wage is called the Hours-At-Minimum-Wage metric and is calculated as the increase in hours of work required to pay bill for baseline use for a household earning minimum wage. PG&E utilizes the statewide minimum wage of \$15/hour for the calculation.

customers is not the interim cost recovery, but the inability to pay their existing bills at current rates. Delaying or denying interim cost recovery is not a reasonable solution to assist disadvantaged customers.

6.2. PG&E's Requested Amount of Interim Cost Recovery is Reasonable

This decision also determines that the amount of 85 percent of the requested total, or \$1.1 billion, over 12 months is reasonable to recover in the interim. PG&E has met its burden to prove the full amount requested is reasonable, and consistent with Commission principles and standards. Nothing in this decision shall be construed to relieve PG&E of the burden of proving that all costs it seeks to recover in this proceeding are just and reasonable. Cal Advocates' proposed alternative to collect 55 percent, or \$567.4 million, over 17 months is not applicable to today's situation.

Parties agree on PG&E's overall financial circumstances today: PG&E's credit rating remains below investment grade,⁷² and undercollections in balancing and memorandum accounts are significant.⁷³ Cal Advocates recommends an alternative interim cost recovery schedule based on the Commission's grant of interim rates associated with PG&E's 2020 WMCE application in D.20-10-026. D.20-10-026 excluded costs recorded in CEMA from interim recovery even while approving interim recovery of costs recorded in

⁷² TURN and DAC comments on Proposed Decision at 2 – 3.

⁷³ In accordance with Commission D.22-08-023 at OP 4, all electric and gas utilities make public a quarterly update of cumulative revenues approved for collection, pending approval, or expected to be requested, itemizing the requests by Commission proceeding. PG&E's quarterly reports of revenue requests itemized by Commission proceeding are available at <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability/quarterly-revenue-request-reports> on the Commission's affordability website.

other accounts, on the basis CEMA has a statutory timeline for expedited consideration.⁷⁴

The evaluation of each need for interim cost recovery must be considered on a case-by-case basis. The relevant factors supporting interim cost recovery in this decision are distinct from the factors identified in D.20-10-026: the amount at issue, the financial conditions of the utility, the time between expenditure and collection, and the utility's part in adequately timing the request. While TURN is correct in stating that some facts may be in dispute and have yet to be tested, this decision makes clear that interim rates do not prejudice the ultimate reasonableness of the costs incurred, for which PG&E bears the burden of proof.

The deciding factor in this instant decision, cost savings, would not materialize if the Commission were to reduce the amount and/or extend the time period over which the costs are collected. Furthermore, this decision finds the statutory direction to expedite wildfire mitigation cost and CEMA proceedings supportive of commencing cost recovery in this case.

The Ruling asked parties for comment on how the law or decision-making for each of the balancing and memorandum accounts bears on the request for interim rate recovery. In response, Joint Intervenors cited no authority supporting interim rate recovery but identified D.20-10-026, in which the Commission excluded costs recorded in CEMA from interim recovery even while approving interim recovery of costs recorded in other accounts.⁷⁵ In their response to the Ruling, PG&E asserts that the Commission decisions and resolutions authorizing each balancing and memorandum account are consistent

⁷⁴ Joint Intervenors Response to Ruling at 1 – 2.

⁷⁵ Joint Intervenors Response to Ruling at 1 – 2.

with interim rate recovery “insofar as they each contemplate that PG&E will incur new and incremental expenditures - outside of PG&E’s GRC recovery - to advance critical state and Commission policies.”⁷⁶ PG&E notes that CEMA costs were included among costs approved for interim cost recovery in D.19-04-039.⁷⁷

Commencing interim cost recovery is consistent with the statutory direction to promptly fund reasonably incurred costs to mitigate wildfires and respond to catastrophes and to also ensure only reasonable costs are put into rates. The CEMA statute, Section 454.9(a) codifying the material orders of Resolution E-3238, requires the Commission to expedite CEMA applications. Section 8386.4(a) authorizes PG&E to pursue recovery of wildfire mitigation costs and Section 8386.4(b)(2) generally instructs the Commission to consider wildfire mitigation cost recovery within 12 months unless specifically making an order to extend the timeline.⁷⁸ In fact, Resolution E-3238 is more explicit than Section 451 in specifying rate increases occur only after the determination of reasonableness: “Whether such costs are ultimately recoverable in rates would await a Commission finding of their reasonableness... It is important to stress that authorizing the recording of costs associated with a disaster should not be construed as prejudgment of the appropriateness of recovery of any accounts so accumulated... The Commission will examine closely all costs recorded in a utility’s catastrophic event memorandum account before allowing their recovery in customers’ rates.”⁷⁹

⁷⁶ PG&E Response to Ruling at 2.

⁷⁷ PG&E Response to Ruling at 3.

⁷⁸ Section 8386.4.

⁷⁹ Resolution E-3238 at 2.

D.20-12-005 restructured PG&E's wildfire mitigation accounts, which had been memorandum accounts, by establishing the WMBA, a balancing account, and by modifying the VMBA, from a one-way balancing account to a two-way balancing account.⁸⁰ The Commission's shifting PG&E's wildfire mitigation costs to balancing account recovery (albeit with a limit) already allowed for concurrent collection of costs in rates. While D.20-12-005⁸¹ set up thresholds for the WMBA and VMBA (115 percent and 120 percent, respectively) at which the balancing account treatment would cease to apply (thus triggering much of this application), the Commission acknowledged it was operating in a vacuum of information about how to forecast reasonable wildfire mitigation costs. This decision is therefore consistent with D.20-12-005 requiring costs in the WMBA and VMBA to be collected while being incurred, subject later to reasonableness review and, if necessary, reconciliation.

In authorizing interim cost recovery, this decision is consistent with Section 454.9 and Section 8386.4 to fund WMCE activities expeditiously, and to also assure only reasonable costs are recovered. PG&E points to its prior two WMCE applications to show a pattern of WMCE proceedings taking approximately two years, and also to show a pattern of the Commission finding a substantial percent of the requested amount reasonable. This decision finds it reasonable to balance statutory guidance by commencing collections for a portion of the requested amount sooner rather than later.

⁸⁰ D.20-12-005 at 119 - 120.

⁸¹ D.20-12-005 at Ordering Paragraph 1(a).

7. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the “Public Comment” tab of the online Docket Card for that proceeding on the Commission’s website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

At the time of issuance of this decision, fifty-six public comments were written on the docket card in this proceeding uniformly opposing PG&E’s request to increase rates. The commenters represent nearly 30 cities throughout PG&E’s service area. Opposition is based primarily on two assertions: that the Commission fails to hold PG&E accountable for adequate maintenance of its facilities, and that the Commission allows excessive executive compensation and excessive shareholder returns. A commenter from Roseland, California specifically opposed PG&E’s proposal to recover the majority of the costs quickly.

8. Conclusion

This decision finds interim cost recovery confers benefits of cost savings and risk minimization to the ratepayers and utility sufficient to justify departure from the Commission’s statutory duty to put costs into rates after the Commission determines the costs reasonable. Based on the totality of circumstances, commencing collection of costs through rates now is consistent with the Commission’s constitutional and statutory duty to review and approve rate increases.

9. Comments on Proposed Decision

The proposed decision of ALJ Camille Watts-Zagha 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. Comments were filed on May 18, 2023 by PG&E, Cal Advocates, and jointly TURN and DACC, and reply comments were filed on May 23, 2023 by PG&E. Changes to this decision in response to party comments are incorporated throughout. The comments and reply comments which merely reargue the points raised in earlier filings are not addressed further in this decision.

10. Assignment of Proceeding

John Reynolds is the assigned Commissioner and Camille Watts-Zagha is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. PG&E's Motion requests authorization to recover, on an interim basis, \$1.104 billion in revenue over a 12- month period commencing in June 2023.
2. Joint Intervenors oppose PG&E's Motion as unnecessary for PG&E financial stability and because it is risky to ratepayers.
3. TURN further alleges that PG&E failed to establish that interim cost recovery will materially alleviate adverse financial consequences it faces or will face.
4. All parties estimate potential revenue savings up to \$30 million if PG&E's request for interim rate recovery is granted as proposed.
5. PG&E's overall credit rating remains below investment grade.
6. Nothing in this grant of interim rate relief prejudices whether the costs in the relevant accounts are just and reasonable.

Conclusions of Law

1. The Commission has the authority to set interim rates.

2. In *TURN v. PUC*, the California Supreme Court held that the Commission could set interim rates as long as the rate is subject to refund and sufficiently justified.

3. The WMBA and VMBA are balancing accounts that permit collection of recorded costs in rates albeit up to a limit.

4. The CEMA process is based upon Resolution E-3238, which authorizes utility recovery of catastrophic event costs and spells out specific recovery request compliance requirements, and which is expressly not a balancing account.

5. The direct and indirect cost savings to ratepayers and in turn to the utility justify the exception to the general ratemaking rule to put costs into rates only after the Commission determines the costs reasonable.

6. Interim cost recovery departs from the general statutory requirement to raise rates after the costs are determined reasonable by this Commission.

7. Interim cost recovery departs from the specific Commission requirement in Resolution E-3238 to raise rates only after the costs recorded in CEMA are determined reasonable by this Commission.

8. The totality of circumstances justifies granting interim cost recovery prior to a determination on whether the costs are reasonable.

9. Granting PG&E's Motion to recover, on an interim basis, an amount of \$1.104 billion is reasonable and should be adopted.

10. The underlying operation and maintenance, and capital expenditures for these accounts, whether or not authorized for interim rate recovery by this decision, will be reviewed for reasonableness in this proceeding.

11. The amount authorized for interim rate recovery by this decision is subject to refund, with interest, depending on the final resolution of all outstanding issues in this proceeding.

12. This proceeding should remain open.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to recover, on an interim rate basis, no more than \$1.104 billion in revenue for its recorded costs in the Wildfire Mitigation Balancing Account, Vegetation Management Balancing Account, Catastrophic Event Memorandum Account, COVID-19 Pandemic Protections Memorandum Account, California Consumer Privacy Act Memorandum Account, Emergency Consumer Protections Memorandum Account, Disconnections Memorandum Account, and Microgrids Memorandum Account over a 12-month period from June 2023 through the end of May 2024. Should PG&E begin recovery after June 2023, the end of the recovery period shall be extended commensurately.

2. Pacific Gas and Electric Company (PG&E) shall refund, with interest, any excess rate recovery amount it obtained pursuant to Ordering Paragraph 1 in comparison to final decisions regarding PG&E's recovery of costs in this proceeding.

3. In any future request for reasonableness review and/or recovery of the costs in the accounts listed in Ordering Paragraph 1, Pacific Gas and Electric Company shall affirmatively identify the amount of interim relief granted by this decision for each specific account, and identify the dollar amounts already collected from ratepayers for each account.

4. Nothing in this decision shall be construed to relieve PG&E of the burden of proving that all costs it seeks to recover in this proceeding are just and reasonable.

5. Application 22-12-009 remains open.

This order is effective today.

Dated _____, at San Francisco, California.