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Date: March 19, 2021
Witness(es): Various

PACIFIC GAS AND ELECTRIC COMPANY

APPLICATION FOR CALIFORNIA PUBLIC UTILITIES COMMISSION APPROVAL UNDER PUBLIC UTILITIES CODE SECTION 851 TO SELL THE SAN FRANCISCO GENERAL OFFICE COMPLEX AND APPROVAL OF ASSOCIATED RATEMAKING

REBUTTAL TESTIMONY

PG&E®

PACIFIC GAS AND ELECTRIC COMPANY
APPLICATION FOR COMMISSION APPROVAL UNDER PUBLIC UTILITIES CODE SECTION 851 TO SELL
GENERAL OFFICE COMPLEX AND APPROVAL OF ASSOCIATED RATEMAKING
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A. Introduction and Summary

This chapter provides an overview to the accompanying chapters of testimony, including a summary of Pacific Gas and Electric Company's (PG&E) response to the testimony of the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submitted on February 26, 2021, and the developments in the San Francisco General Office Complex (SFGO) sale since PG&E filed its application on September 30, 2020. This chapter also provides an update on PG&E's proposed ratemaking process and addresses certain issues regarding PG&E's projected costs and balancing account treatment for returning the gain on sale to customers. The witnesses presenting the subsequent chapters of rebuttal testimony will, in turn, identify themselves and address the issues raised by Cal Advocates and The Utility Reform Network (TURN) relating to their respective testimony.

Q 1 Please state your name and the purpose of this rebuttal testimony.

A 1 My name is David S. Thomason. Chapter 1 testimony provides an overview to the accompanying chapters of PG&E's Rebuttal Testimony, including a summary of PG&E's response to intervenors' testimony and developments in the SFGO sale since PG&E's opening testimony in September 2020. I am also responding to ratemaking issues raised by other parties. My testimony includes a modification to the ratemaking process that was proposed in PG&E's opening testimony. My statement of qualifications as a witness in this proceeding was presented in Appendix A of PG&E's opening prepared testimony.

Q 2 What is the status of the SFGO sale process as of the date of this testimony?

A 2 As described in more detail in Chapter 3, to better align with the schedule for this Section 851 proceeding as outlined in the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo), the marketing launch for the SFGO sale was initiated in March 2021, rather than in January as was proposed in PG&E's opening testimony. PG&E launched its formal marketing campaign in the first week of March 2021. PG&E is currently engaged in a robust marketing process, led by a world-class broker, which is eliciting substantial interest from potential buyers. PG&E now expects to solicit bids in mid-to-late April and hopes to have a Purchase and Sale Agreement (PSA) executed, and a deposit committed, by the second half of June.

Q 3 Please summarize the parties' positions to which you are responding.

A 3 Intervenors' testimony addresses when and how costs should be approved for inclusion in rates, certain proposed adjustments to PG&E's estimated costs and the rate at which the unamortized balance of the gain on sale should accrue interest.

Q 4 Are there issues that no party disputes?

A 4 Yes, none of the parties dispute PG&E's overall real estate strategy to relocate PG&E's headquarters in San Francisco to the 300 Lakeside property in Oakland (Lakeside Building), which includes:

- The sale of the SFGO;
- The leaseback of a portion of the space at the SFGO while the Lakeside Building is readied for occupancy; and
- The lease of the Lakeside Building with the intent to exercise the option to purchase the Lakeside Building in 2023.

In addition, intervenors support PG&E's proposed ratemaking treatment for the SFGO gain on sale, including the formula for calculation and the proposed distribution to ratepayers over five years.[1] Intervenors also generally do not contest PG&E's proposed cost recoveries, with certain exceptions discussed in Chapters 2 and 4 of this rebuttal testimony.[2]

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[1] Cal Advocates Testimony, p. 4-1, lines 22-23, p. 4-4, lines 15-17; TURN Testimony, p. 2, lines 18-19, p. 5, lines 16-18.

[2] Other than the limited items identified in Cal Advocates' testimony that are not adopted in PG&E's rebuttal testimony, no party affirmatively asserts that any of PG&E's projected costs are unreasonable. Appendix A to this rebuttal testimony contains data request responses exchanged between the parties; *see,* TURN Responses to First Set of Data Requests of PG&E to TURN (March 9, 2021), and Cal Advocates' Data Response (March 4, 2021).

B. Revised Process for Cost Recovery

Q 5 What do intervenors recommend regarding when and how costs should be approved for inclusion in rates?

A 5 Intervenors' testimony asserts that there should be a review of PG&E's actual recorded costs in the next General Rate Case (GRC) proceeding before they are placed into rates.[3]

Q 6 Does PG&E agree with intervenors' recommendation on this topic?

A 6 No. Given that the reasonableness of the costs is thoroughly enmeshed in the reasonableness of the transactions that are the subject of review in this proceeding (transactions which provide a significant net positive value to customers), they should be evaluated by the California Public Utilities Commission (Commission) as part of this proceeding. In addition, it is customary to use forecasts for ratemaking, and PG&E has made reasonable forecasts of the costs to be incurred. Nevertheless, PG&E has proposed a revised process for cost recovery, described below, in response to intervenors' recommendations.

Q 7 In light of the uncertainty surrounding the COVID-19 pandemic, how can PG&E reasonably predict its real estate needs when normal business circumstances have resumed?

A 7 As previously described, PG&E regularly assesses its overall real estate needs. The pandemic has brought additional focus on workforce mobility factors and as a critical service provider, the safety, productivity and efficiency of PG&E employees working from home have been key considerations. The success of the PG&E workforce in adapting to the remote work model over the last year indicates that only a minimum amount of space will be necessary to lease back from the new SFGO owners upon consummation of a sale. The specific space that is still required to be leased backed relates to certain critical infrastructure and functions located at the SFGO. The reduction in leaseback space will reduce the costs of transitioning between the SFGO and the Lakeside Building. When the leaseback assumptions are finalized, PG&E will incorporate the financial

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[3] TURN Testimony, p. 1, line 25 to p. 2, line 4, p. 7, line 17 to p. 8, line 7; Cal Advocates Testimony, p. 4-6, line 7 to p. 4-7, line 9.

impact in the cost-benefit analysis to be updated as part of the supplemental testimony.

Q 8 Are there any other cost estimates that are potentially in flux?

A 8 PG&E is near the final stages of evaluating the benefits and costs of additional seismic improvements to the Lakeside Building, which might impact the $892 million purchase price. Through its risk assessment, PG&E recently identified this seismic work as an opportunity to further mitigate risk and to do so safely and efficiently within the construction schedule for the building renovation that will take place prior to occupancy of the Lakeside Building in Q1-2022.

Q 9 How will PG&E address the potential changes that you just outlined?

A 9 PG&E will provide an update on these issues and its cost estimates in its supplemental testimony estimated to be provided in June. In addition, in light of these areas of potential uncertainty, PG&E has developed a revised proposal that will allow for further review of the actual costs, while not imposing the inefficiency and inappropriate segmentation of issues that would result from incorporating these cost reviews into the GRC.

Q 10 What is PG&E's revised proposed process for cost recovery?

A 10 PG&E proposes that the Commission's approval of cost recovery for certain of the items discussed in its testimony be subject to Commission review and approval. PG&E proposes to submit a Tier 3 advice letter within 60 days of the date that PG&E closes on its purchase of the Lakeside Building. This advice letter would likely be presented to the Commission in the second quarter of 2023. The subjects of this advice letter would be as follows:

- Lakeside Building purchase price (including related seismic improvements and capital expenditures);
- Lakeside Building lease costs and related operating expenses for 2021–2023;
- SFGO leaseback costs;
- Moving expenses; and
- 2020 GRC capital and expense for the SFGO.

This advice letter will provide updated forecasts or, where available, actual costs incurred. The advice letter will explain any material differences between the costs reflected therein and the estimates provided in PG&E's testimony in this proceeding.

PG&E believes this proposal provides the appropriate balance between intervenors' desire for further review of these costs, on the one hand, and the appropriateness of having these costs evaluated as part of a single proceeding that evaluates the reasonableness of this heavily interrelated set of transactions.

Q 11 Does PG&E's revised proposal (i.e., to submit a subsequent Tier 3 advice letter in 2023) modify what it is requesting in the final Commission decision in this proceeding? If so, how?

A 11 Yes. As will be set forth more fully in PG&E's opening brief filed in May,[4] PG&E requests that the final Commission decision (currently estimated for late August) include the following:

- Authorization of the sale of the SFGO, under the terms set forth in the PSA (and a finding that all Section 851 requirements are satisfied);
- Approval of PG&E's proposed ratemaking treatment, including distribution to ratepayers of the net gain on sale over a five-year period, and balancing accounts for SFGO and Lakeside Building headquarters costs and moving expenses;
- Findings of prudence/reasonableness as to:
  - PG&E's headquarters real estate strategy, particularly the SFGO sale, SFGO interim leaseback, Lakeside Building lease and option to purchase, and anticipated exercise of that purchase option; and the movement of PG&E's headquarters to Oakland in 2022–23;
  - The contracted lease rate for the SFGO leaseback terms and the estimated SFGO leaseback costs;
  - The terms of the Lakeside Building Lease and Purchase Option agreement, including the Lakeside Building lease rate and purchase price;
  - The estimated Lakeside Building lease costs, and operations and maintenance costs; and

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[4] Under the Scoping Memo, the parties' concurrent opening briefs are due on May 7, 2021 and reply briefs are due on May 21, 2021. Scoping Memo p. 3.

– Estimated moving costs.

- Approval of the proposed post-sale regulatory process, described in the prior answer above, for recovery of certain costs.

Within 30 days of the closing of the sale of the SFGO, PG&E would submit a Tier 1 advice letter that reflects the actual closing costs (which should be fairly close to the estimated costs), and the resulting final calculation of the net gain on sale, which amount under the Commission Decision would be approved for distribution to customers over a five-year period as described in PG&E's testimony, and would adjust the 2022 revenue requirement for the decrease in the SFGO rate base and depreciation expense.[5]

C. Intervenors' Recommendations Relating to Costs

Q 12 What are intervenors' positions on the cost issues?

A 12 Cal Advocates proposes adjustments to several elements of the cost-benefit analysis, and further recommends that the Commission disallow (a) the portion of the Lakeside Building purchase price attributable to the current owner-developer's development costs, carrying fees and other transaction costs, and (b) $62.66 million in tenant improvement costs for the Lakeside Building. Cal Advocates also recommends that the Commission disallow recovery of $100 million in costs related to the letters of credit if PG&E declines to exercise the purchase option and does not have an investment grade credit rating.

Q 13 Does PG&E agree with these recommendations?

A 13 PG&E accepts most of Cal Advocates' proposed adjustments to PG&E's cost-benefit analysis, subject to certain corrections and clarifications, as described in PG&E's accompanying Chapters 2 and 4 rebuttal testimony. However, PG&E disagrees with Cal Advocates' proposed adjustment to remove $62.66 million in tenant improvement costs for the Lakeside Building, because as explained in Chapter 2, Cal Advocates' proposal is inconsistent with the Lakeside Building Lease and Purchase Option Agreement, in which PG&E agreed to pay a specified purchase price

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5 All other SFGO costs that were in the 2020 GRC will go into the 2023 advice letter submission.

($892 million) that includes a reimbursement of the landlord/seller for the landlord/seller's cost to construct the tenant and building improvements requested by PG&E. In addition, PG&E disagrees with Cal Advocates' proposal to disallow a $171 million portion of the Lakeside Building purchase price that compensates the seller for its carrying costs, development fees, and other transaction-related costs.[6] Further, PG&E disagrees with Cal Advocates' proposal to disallow recovery of $100 million in costs related to the letters of credit in the unlikely event that PG&E declines to exercise the purchase option for the Lakeside Building and does not have an investment grade rating.

Q 14 On what basis does PG&E disagree with Cal Advocates' recommendations?

A 14 PG&E should be permitted to recover all of the purchase price because the overall price is reasonable and well-supported. It conceptually does not make sense to evaluate various subcomponents that lie behind a counterparty's overall sale price. By analogy, one would evaluate the reasonableness of the purchase price of a car based on the overall price in the context of the market, not whether the seller's component parts were reasonable costs that aggregated to that total. These issues are discussed in greater detail in PG&E's accompanying Chapters 2 and 4 rebuttal testimony.

D. Proposed Interest Rate for the Unamortized Balance of the Gain on Sale

Q 15 What is PG&E's proposed treatment of the SFGO gain on sale?

A 15 As described in its opening testimony, PG&E proposes to distribute 100 percent of the SFGO net gain on sale to ratepayers over five years, with the unamortized gain to be placed in a balancing account where it will accrue interest at the Federal Reserve's three-month commercial paper rate.

Q 16 What is intervenors' position on PG&E's proposed treatment of the SFGO gain on sale?

A 16 Intervenors accept PG&E's proposed distribution timeline but propose that the unamortized gain effectively bear PG&E's authorized rate of return on

6 The seller's carrying costs include financing costs while its property is being developed. This is similar to the Allowance for Funds Used During Construction that a utility earns on its projects under development.

rate base instead. Intervenors cite no applicable financial or ratemaking principle supporting this result.[7]

Q 17 Why is PG&E's proposed treatment of the SFGO gain on sale appropriate?

A 17 PG&E's headquarters strategy involves a series of interrelated transactions, of which the SFGO sale is only one. Given the mutually dependent nature of the transactions, it is appropriate for the associated revenues and expenses to be placed in a balancing account bearing a common rate of return. Intervenors' proposal to single out the SFGO gain on sale as the only item bearing an increased rate of return would undermine this result. If the Commission were to accept intervenors' argument, PG&E would be required to pay an increased rate of return on the gain flowing from the headquarters transactions, while the associated costs—which are part and parcel of the same transactions—would accrue interest at the Federal Reserve's commercial paper rate. This imbalance would be unfair and contrary to the logic of balancing account treatment where over-collections and under-collections are treated the same way. Because PG&E's proposed unified treatment of the unamortized gain on sale and costs from the interrelated transactions comports with both logic and Commission precedent, it is appropriate.

Q 18 What will be the effect if the Commission approves PG&E's proposed treatment of the SFGO gain on sale?

A 18 If the Commission approves PG&E's proposal, PG&E will distribute to ratepayers a portion of the unamortized gain on sale every year until it has been completely distributed after five years. Use of the commercial paper rate to calculate interest in this context is consistent with Commission precedent regarding funds owed between utilities and ratepayers.[8] Indeed, PG&E elsewhere "routinely runs large balancing account undercollections where it earns only the short-term interest rate."[9] The Commission has concluded that "it is more appropriate to treat customer deposits as

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7 Cal Advocates Testimony, p. 4-5, line 19 to p. 4-6, line 6; TURN Testimony, p. 3, line 3 to p. 5, line 18.

8 See Decision (D.) 91269 (Jan. 29, 1980); see also Appendix A, PG&E Response to Public Advocates Office Data Request 8, Question 3(c).

9 D.14-08-032, p. 630.

financing these undercollections first, financed at short term interest rates, rather than applying these deposits against rate base earning the full rate of return."[10]

Q 19 What is the basis of TURN's objection to PG&E's proposal?

A 19 TURN claims that the gain on sale balancing account is not a "typical balancing account" because in the typical account, the net amount due to PG&E or ratepayers is not certain until the end of the account's ratemaking life.[11] But it is not clear why such uncertainty is required for, or relevant to, balancing treatment. Indeed, the Commission has already applied the commercial paper rate to both delayed GRC revenue collections[12] and customer refunds not subject to further adjustments.[13]

Q 20 Does PG&E agree with TURN's suggestion? Why or why not?

A 20 No. PG&E disagrees with TURN's proposed treatment of the interest on the unamortized gain on sale because when determining the interest rate to be applied to undistributed funds in a balancing account, it is advisable to evaluate not the certainty of the final balance, but instead how the funds will be used. For example, if PG&E invested the SFGO sale proceeds in rate base, it would be appropriate to pay interest on the funds using PG&E's

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10 *Id.* (recognizing that "balancing accounts and customer deposits should both earn the short term debt rate").

11 TURN Testimony, p. 5, lines 3-4.

12 In its 2020 PG&E GRC decision, the Commission authorized a 2020 revenue increase of $585 million to be collected in rates through December 2022. D.20-12-005, App'x C. The undercollected amount is not uncertain and earns a balancing account rate of return. See *id.*, p. 8; see also D.19-11-004, pp. 3–4 (applying commercial paper rate to memorandum account recording difference in current and final 2020 GRC revenue requirements). As another example of application of the commercial paper rate, PG&E has requested recovery of delayed revenues dating back to 2015 as part of the gas transmission and storage (GT&S) audit addressed in A.20-07-020. PG&E plans to record the delayed revenues from 2015 through 2021 in the Gas Transmission and Storage Memorandum Account (GTSMA) and amortize the balance over three years beginning in April 2021. A.20-07-020, PG&E Prepared Testimony p. 2-1, lines 22-24, p. 2-2, lines 3-6. Thus, for the nine years from 2015 through 2024, the unamortized delayed revenues will remain in the GTSMA where they will earn a balancing account rate of return instead of the rate base rate of return.

13 See, e.g., Resolution W-5106, p. 19, Ordering Paragraph 3 (Dec. 15, 2016) (ordering utility to refund overcollected amounts plus interest at commercial paper rate over three years); D.05-09-007, p. 15 (stating that applying commercial paper rate to customer refunds "is entirely consistent with [the Commission's] treatment of all balancing and memorandum accounts").

authorized rate of return; PG&E would earn that return and then pass its earnings on to customers. But unlike a rate base investment, which entails a permanent and growing source of funding, the SFGO gain on sale is a temporary and declining source of funds. The sale proceeds are therefore more akin to short-term debt,[14] which incurs interest at the commercial paper rate.

Q 21 Are PG&E's proposed uses for the unamortized SFGO gain on sale reasonable?

A 21 Yes. Because the SFGO sale proceeds are akin to a short-term debt obligation, PG&E plans to use the undistributed gain for purposes that the Commission deems appropriate for such funds, like balancing and memorandum account undercollections, wildfire mitigation costs not recovered through the GRC, and other assets such as nuclear fuel and greenhouse gas compliance instruments, which are also assumed to be financed with short-term debt.[15] Table 1-1 below shows how PG&E's undercollections have ballooned in the last two years as unrecovered costs of wildfire mitigation efforts have accumulated while awaiting approval to be included in rates. Given the magnitude of PG&E's undercollected balances, it is reasonable for PG&E to use the undistributed gain on sale as a financing source for these undercollections.

TABLE 1-1
PG&E UNDERCOLLECTIONS: 2016–2020
(BILLIONS OF DOLLARS)

Line No.	2016	2017	2018	2019	2020
1	$.52	$.65	$.72	$2.12	$3.30

[14] See Appendix A, PG&E Response to Public Advocates Office Data Request 8, Question 4(a).

[15] See *id.*; see also D.14-08-032, pp. 617-20, 630 (applying commercial paper rate of return to both customer deposits and nuclear fuel carrying costs).

Q 22 What is the basis of Cal Advocates' objection to PG&E's proposed treatment of the SFGO gain on sale?

A 22 Cal Advocates asserts that the unamortized SFGO gain on sale should be classified as working cash "not supplied by shareholders" and applied to decrease rate base in the 2023 GRC.[16]

Q 23 Does PG&E agree with Cal Advocates' suggestion? Why or why not?

A 23 No, PG&E disagrees with Cal Advocates' proposed treatment of the gain on sale for three reasons. First, the mechanics of this suggestion are unworkable. The amount of working cash used in the GRC revenue requirements calculation remains essentially constant over the GRC cycle. In contrast, the SFGO gain on sale will be amortized over five years, with the associated interest decreasing accordingly. These variable amounts cannot be accurately reflected in the 2023 GRC working cash allowance.

Second, the gain on sale is not comparable to the working cash items that Cal Advocates discusses. Cal Advocates points out that the Commission standard on the working cash allowance in rate base, SP U-16, states that it compensates investors for funds that they permanently commit to the business,[17] but Cal Advocates also claims that the sources of non-shareholder funds, which reduce overall working cash, need not be permanent to be included in working cash calculations.[18] Cal Advocates cites no authority to support its statement. Instead, it relies on "accrued vacation and sick leave" as an example of non-permanent funds that are nevertheless included in the working cash calculation.[19] It claims that accrued leave is not a permanent source of cash because it is paid out as employees use it, but this argument fails to recognize that as employees deplete their accrued leave, they also continually accrue more. Thus, the inclusion of accrued leave—a permanent, self-replenishing source of cash—in working cash calculations does not support the same treatment for the SFGO gain on sale.

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16 Cal Advocates Testimony, p. 4-5, line 5 to p. 4-6, line 2.

17 *Id.* p. 4-5, lines 6-10.

18 *Id.*

19 *Id.*

Third and finally, the fact that PG&E will pay interest on the unamortized gain on sale further supports its exclusion from working cash. The Commission has already refused to include interest-bearing obligations as a reduction to working cash in the context of customer deposits.[20] In so doing, the Commission recognized that PG&E had “a legal obligation to refund customer deposits recorded as an interest bearing liability on the balance sheet, the same as other debt obligations.”[21] The intervenor’s proposal to “treat[] customer deposits as a form of equity” that reduced rate base thus “deviate[d] from Commission SP U-16 which excludes interest bearing customer deposits from working cash, and only includes non-interest-bearing customer deposits.”[22] So too here. The unamortized SFGO gain on sale is comparable to short-term debt such as an interest-bearing customer deposit. It should therefore be both excluded from working cash calculations and subject to the commercial paper rate.[23]

E. Transfer Tax/Transaction Costs

Q 24 Does PG&E have any further information about the City and County of San Francisco Transfer Tax that is imposed on the sale of commercial real estate that was identified as a Transaction Cost?

A 24 Yes. The Transfer Tax was increased to 6 percent of the consideration, or value, effective on January 1, 2021 as the result of the passage of Proposition I in November 2020. The transfer tax must be paid in order to effectuate the transfer of title to a new owner and close on the sale of the SFGO. The tax must be paid, even if there is a dispute, and the resolution of such dispute, if successful would be handled with a tax refund. PG&E has evaluated a potential position that the transfer tax is excused under 11 U.S. Code Section 1146, as being under or pursuant to a plan of reorganization. However, neither the Plan nor the Bankruptcy Court confirmation order referred to the SFGO sale, and the transaction was not

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20 D.14-08-032, pp. 626-27.

21 *Id.*, p. 627.

22 *Id.*

23 *Id.*, pp. 626-27, 630.

essential to emergence under the Plan. PG&E currently does not plan to pursue potential litigation to seek an exemption from the tax.

Q 25 Does this affect the Transaction Costs previously submitted by PG&E?

A 25 Yes. At the time PG&E submitted the original cost-benefit analysis in Chapter 4 of its Prepared Testimony, the outcome of the tax increase was not known. PG&E will incorporate the updated Transfer Tax of 6 percent in the estimated Transaction Costs.

F. Environmental and Social Justice

Q 26 What is the purpose of this section of testimony?

A 26 As set forth in the Scoping Memo, the issues to be determined in this proceeding include:

> …[w]hether the proposed sale of the San Francisco General Office Complex impacts environmental and social justice communities, including the extent to which the proposed sale impacts any of the nine goals of the Commission's Environmental and Social Justice Action Plan.[24]

This testimony is designed to assist the Commission as it considers this issue.

Q 27 What is an environmental and social justice community?

A 27 The Commission's Environmental and Social Justice Action Plan (the Plan) describes environmental and social justice communities as those where residents are:

> …predominantly communities of color or low-income; underrepresented in the policy setting or decision-making process; subject to a disproportionate impact from one or more environmental hazards; and likely to experience disparate implementation of environmental regulations and socio-economic investments in their communities.[25]

The Plan provides further guidance that environmental and social justice communities include, but are not limited to, disadvantaged communities located in the top 25 percent of communities identified by California Environmental Protection Agency's (CalEPA) CalEnviroScreen, all tribal lands, low-income households (meaning households with household

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[24] Scoping Memo pp. 2–3 (Dec. 15, 2020). PG&E submitted its opening testimony before the Scoping Memo was issued.

[25] Environmental and Social Justice Action Plan, p. 9 (Feb. 21, 2019).

incomes below 80 percent of the area median income), and low-income census tracts (meaning census tracts with household incomes less than 80 percent of the area or state median income).[26]

Q 28 Do intervenors raise any concerns regarding the impact of the proposed SFGO sale on environmental and social justice communities?

A 28 No. Intervenors do not raise any concerns regarding the impact of the proposed SFGO sale on environmental and social justice communities.

Q 29 What is PG&E's view on whether the proposed sale of the SFGO impacts environmental and social justice communities?

A 29 The proposed sale of the SFGO will not have a negative impact on any of the nine goals of the Commission's Environmental and Social Justice Action Plan,[27] and will not otherwise have a negative impact on environmental and social justice communities.

The community in which the SFGO is located is not a disadvantaged community in the overall top 25th percentile of communities identified by CalEPA's CalEnviroScreen 3.0 or Draft CalEnviroScreen 4.0,[28] is not in the top 25th percentile of communities for poverty according to

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26 *Id.,* pp. 9-10.

27 The Environmental and Social Justice Action Plan is available on the Commission's website at: https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/UtilitiesIndustries/Energy/EnergyPrograms/Infrastructure/DC/Env%20and%20Social%20Justice%20ActionPlan_%202019-02-21.docx.pdf (as of Mar. 18, 2021). The Environmental and Social Justice Action Plan sets forth the following nine goals: Goal 1: Consistently integrate equity and access considerations throughout CPUC proceedings and other efforts. Goal 2: Increase investment in clean energy resources to benefit [Environmental and Social Justice (ESJ)] communities, especially to improve local air quality and public health. Goal 3: Strive to improve access to high-quality water, communications, and transportation services for ESJ communities. Goal 4: Increase climate resiliency in ESJ communities. Goal 5: Enhance outreach and public participation opportunities for ESJ communities to meaningfully participate in the CPUC's decision-making process and benefit from CPUC programs. Goal 6: Enhance enforcement to ensure safety and consumer protection for ESJ communities. Goal 7: Promote economic and workforce development opportunities in ESJ communities. Goal 8: Improve training and staff development related to ESJ issues within the CPUC's jurisdiction. Goal 9: Monitor the CPUC's ESJ efforts to evaluate how they are achieving their objectives. See Environmental and Social Justice Action Plan, pp. 6–8.

28 CalEnviroScreen 3.0 is available at: https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-30. Draft CalEnviroScreen 4.0 is available at https://oehha.ca.gov/calenviroscreen/report/draft-calenviroscreen-40 (as of Mar. 18, 2021).

CalEnviroScreen 3.0 or Draft CalEnviroScreen 4.0,[29] and is not a low-income community identified by the California Air Resources Board (CARB) for purposes of Assembly Bill (AB) 1550.[30] The community in which the Lakeside Building is located is not a disadvantaged community in the overall top 25th percentile of communities identified by CalEnviroScreen 3.0 or Draft CalEnviroScreen 4.0,[31] but it is in the top 25th percentile of communities for poverty according to Draft CalEnviroScreen 4.0[32] and is a low-income community identified by CARB for purposes of AB 1550.[33] The relocation of PG&E's headquarters to the Lakeside Building will have positive impacts on the low-income community nearby.

Q 30 Could you please expand on how the relocation of PG&E's headquarters to the Lakeside Building will impact the local community?

A 30 The relocation of PG&E's headquarters to the Lakeside Building will not have a negative impact on local air quality, public health, climate resiliency, safety, consumer protection, economic and workplace development opportunities, or access to high-quality water, communications, and transportation services, because PG&E is moving its corporate

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29 Hyperlink at: https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-30; https://oehha.ca.gov/calenviroscreen/report/draft-calenviroscreen-40 (as of Mar. 18, 2021). CalEnviroScreen's poverty indicator measures the percentage of people in the census tract living below twice the federal poverty level, and then generates a percentile score for the census tract based on its place in the distribution of all census tracts. See CalEnviroScreen 3.0 Report, pp. 138–140 (Jan. 2017), available at https://oehha.ca.gov/media/downloads/calenviroscreen/report/ces3report.pdf.

30 Hyperlink at: https://ww3.arb.ca.gov/cc/capandtrade/auctionproceeds/communityinvestments.htm (as of Mar. 18, 2021). CARB defines low-income communities as census tracts that are either at or below 80 percent of the statewide median income, or at or below the threshold designated as low-income by the California Department of Housing and Community Development's 2016 State Income Limits. *Id.*

31 Hyperlink at: https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-30; https://oehha.ca.gov/calenviroscreen/report/draft-calenviroscreen-40 (as of Mar. 18, 2021).

32 Hyperlink at: https://oehha.ca.gov/calenviroscreen/report/draft-calenviroscreen-40 (as of Mar. 18, 2021).

33 Hyperlink at: https://ww3.arb.ca.gov/cc/capandtrade/auctionproceeds/communityinvestments.htm (as of Mar. 18, 2021).

headquarters into an existing building that has been a corporate headquarters since the 1960s. In addition, PG&E's new headquarters at the Lakeside Building will benefit the local economy, including by providing employment opportunities in connection with the building renovations and by bringing additional economic activity to the local community and local businesses. PG&E's headquarters will be a positive, long-term addition to the community.

G. Clarifications and Updates Regarding Regulatory Process

Q 31 What do you envision as the timing and process for the remainder of this proceeding?

A 31 PG&E would like to proceed as set forth in the proposed Alternative 2 schedule in the Scoping Memo, which under the current marketing and sale timeline is estimated to lead to a final Commission decision in August, and closing of the sale of the SFGO at about the end of August or early September. As discussed in PG&E's opening testimony, the ability to offer buyers a fairly short time period from when they commit financing to when they can close will maximize the value that PG&E can obtain. This will directly benefit PG&E's customers, who will be receiving 100 percent of the net gain on sale.

Q 32 Is there any other clarification you would like to offer at this time relating to the Commission's review in this proceeding?

A 32 Yes, although I think it is already clear, I want to state expressly that PG&E will remain, upon closing of the SFGO sale, the employer of the personnel who have been officed at the SFGO. Thus, there is no "successor employer" (the term used to trigger certain potential requirements under Section 854.2).

H. Overview of Remainder of Rebuttal Testimony

Q 33 Could you please provide an overview of the remaining chapters of rebuttal testimony?

A 33 The other chapters of rebuttal testimony are as follows:

- Chapter 2 – Further discussion of PG&E's forecasts, including further explanation of their reasonableness; further explanation of why the portion of the Lakeside Building purchase price that compensates the seller for its carrying costs, development fees, and other transaction-related costs is reasonable; and addressing other issues raised by parties.
- Chapter 3 – An update on PG&E's marketing process, particularly developments to date, participation levels, and anticipated timing of major future events.
- Chapter 4 – An updated cost-benefit calculation based on (a) correcting errors identified during the discovery phase, (b) incorporating certain Cal Advocates suggestions, and (c) some minor updates/refinements in forecasted costs.

Q 34 Does this conclude your rebuttal testimony?

A 34 Yes, it does.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 2

HEADQUARTERS TRANSACTIONS – DESCRIPTIONS AND TERMS

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CHAPTER 2
HEADQUARTERS TRANSACTIONS – DESCRIPTIONS AND TERMS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 2
HEADQUARTERS TRANSACTIONS – DESCRIPTIONS AND TERMS

A. Introduction and Summary

This chapter provides Pacific Gas and Electric Company's (PG&E) response to the following recommendations Public Advocates Office at the California Public Utilities Commission (Cal Advocates) of the California Public Utilities Commission (CPUC or Commission).

and The Utility Reform Network:

- Cal Advocates' recommendation to disallow $62.66 million related to Tenant Improvement costs from the Lakeside Purchase Price;
- Cal Advocates' recommendation to disallow $171 million in the seller's development fees, carry costs, and other transaction-related expenses from the Lakeside Purchase Price; and
- Cal Advocates' recommendation that ratepayers should not bear the $100 million letter of credit penalty if PG&E does not exercise the Purchase Option.

Q 1 Please state your name and title.

A 1 Our names are Tara Agid and Michael Welch. Ms. Agid currently is the Senior Director of PG&E's Corporate Real Estate Strategy and Services Department, and Mr. Welch is currently the Managing Director of Integra Realty Resources in Houston, Texas. Our statements of qualifications as witnesses in this proceeding were presented in Appendix A of PG&E's opening Prepared Testimony. Ms. Agid is sponsoring Sections B, C, E, and F of this rebuttal testimony, and Ms. Agid and Mr. Welch are co-sponsoring Sections A and D of this testimony.

B. Description of Components of Purchase Price

Q 2 What are the various components of the $892 million Lakeside Building purchase price?

A 2 As explained in PG&E's opening testimony, the $892 million purchase price includes the following amounts:

- $420 million for PG&E's allocated portion of the building acquisition cost;
- $141 million in Base Building and Landlord Improvements;

- $160 million in PG&E-specific Tenant Improvements (or $230 per square foot); and
- $171 million in carry costs, development fees, and other transaction-related expenses.[1]

The reasonableness of the $892 million total purchase price is supported by unrebutted expert testimony.

C. PG&E's Response to the Proposed Exclusion of $62.66 million Related to Tenant Improvement Costs From the Lakeside Purchase Price

Q 3 What is Cal Advocates' position on this issue?

A 3 Cal Advocates recommends that the Commission disallow $62.66 million related to tenant improvements from PG&E's recovery of the $892 million purchase cost of the Lakeside Building in rates because it identifies these as costs "that the landlord has already agreed to fund."[2]

Q 4 Does PG&E agree with this recommendation? Why or why not?

A 4 No. PG&E disagrees with Cal Advocates' recommendation because it reflects a misunderstanding of the terms of the Lakeside Building agreements. PG&E is paying the full purchase price (not some lesser amount) in exchange for a "build-to-suit" building that includes the $62.66 million in tenant improvements identified by Cal Advocates, as well as other renovations. The seller "funded" the tenant improvements by advancing the costs for them up front, but PG&E is still responsible for reimbursing the seller for the improvements as a component of the total $892 million purchase price. There is no double recovery (from ratepayers and landlord/seller) of any amount with respect to the Lakeside Building purchase price, and there is no basis to disallow the portion of the purchase price that funds PG&E's build-out of the property to suit its needs.

Cal Advocates relies on a statement from PG&E's opening testimony that "Landlord will contribute a tenant improvement allowance equal to $90 per RSF [rentable square feet]," and also relies on a table in Exhibit E in

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1 PG&E Testimony, p. 2-22, lines 33-34, p. 2-23, lines 1-7.

2 Cal Advocates Testimony, p. 3-3, lines 8-24.

Chapter 2 Attachment A – Lakeside Building Agreements,[3] but these do not support Cal Advocates' position. This testimony and table relate to the lease rate for the Lakeside Building, not the Purchase Option. PG&E's testimony explained that if PG&E declines to exercise the Purchase Option and instead proceeds under the long-term lease, the landlord will include tenant improvements equal to $90 per square foot (totaling $62.66 million) as part of the base lease rate, and if PG&E elects to increase the amount of tenant improvements above $90 per square foot (up to $230 per square foot), the base rent will be increased by an amortization of such additional amount.[4] This testimony simply explains the economics of how the landlord will recover the costs of the tenant improvements under the long-term lease scenario; it provides no justification for removing $62.66 million from PG&E's cost recovery of the Lakeside Building purchase price under the purchase scenario.[5]

D. PG&E's Response to the Proposed Exclusion of $171 million in Development Fees, Carry Costs, and Other Transaction-Related Expenses From the Lakeside Purchase Price

Q 5 What is Cal Advocates' position on this issue?

A 5 Cal Advocates recommends that the Commission exclude $171 million of costs related to the seller's development fees, carry costs, and other transaction-related expenses that are included in the Lakeside Building purchase price because it states that they are not clearly identified and supported.[6]

Q 6 Please state whether PG&E agrees or disagrees with Cal Advocates' recommendation, and why.

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3 Cal Advocates Testimony, p. 3-3, lines 11-16; (citing Exhibit E in Chapter 2, Attachment A – Lakeside Building Agreements, p. 2-AtchA 136).

4 See PG&E Testimony, p. 2-15; see also, PG&E Testimony, Chapter 2, Attachment A, pp. 121-123 (Exhibit D-1 to Lakeside Lease Agreement).

5 The Commission does not need to evaluate in this proceeding the ratemaking treatment for tenant improvements in the scenario where PG&E does not exercise its purchase option, because as indicated in Chapter 1 of this rebuttal testimony, PG&E will file a new application regarding ratemaking treatment of the Lakeside Building lease costs in the event that it does not exercise the purchase option.

6 Cal Advocates Testimony, p. 1-6, line 33 to p. 1-7, line 2, p. 3-5, line 17 to p, 3-6, line 10.

A 6 PG&E disagrees with Cal Advocates' recommendation. The seller's incurrence of these costs is both reasonable and customary and, as stated in Chapter 2 of PG&E's Prepared Testimony, served on September 30, 2020, these items are not a separate additional cost to the transaction, but instead, are included in the overall $892 million purchase price and are a necessary component of the transaction.[7] The Purchase and Sale Agreement does not allow for PG&E to purchase the Lakeside Building for $171 million less than the agreed upon price; rather the sales price was $892 million regardless of whether the seller/developer's costs in this category were higher or lower.

Cal Advocates provides the following descriptions of development fees and carry costs, based on five online sources:

> Development fees are typically earned by a person or entity for managing the development process for another principal.[8] They are generally about 3-5% of the total cost of the project.[9] Carry costs, or holding costs, are associated with owning a piece of real estate during a rehab which may include mortgage payments, insurance, utilities, and security.[10]

The descriptions provided by Cal Advocates are accurate, but Cal Advocates' analysis fails to take into account all of the cost components. Cal Advocates indicates that 3 to 5 percent of the total cost of the project would be appropriate for developer fees. However, there is no discussion of the percentage cost for the carry costs it noted as customary. Mortgage payments, insurance, utilities and security can easily add an additional 2 to 5 percent, and the developer would also be responsible for real estate taxes owed on the property prior to execution of the lease or sale of the property. In addition, Cal Advocates' analysis fails to consider other transaction fees and the developer's profit. Notably, Cal Advocates makes

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7 PG&E's Testimony, p. 2-20, line 4 to p. 2-26, line 5.

8 https://www.crepedia.com/dictionary/definitions/development-fee/ (as of Mar. 17, 2021).

9 https://www.crowdstreet.com/resources/investing/sponsor-fees/ (as of Mar. 17, 2021); https://www.biggerpockets.com/blog/real-estate-developer-fees (as of Mar. 17, 2021); https://www.wallstreetoasis.com/forums/real-estate-developer-fee (as of Mar. 17, 2021).

10 https://www.thinkrealty.com/glossary-item/carrying-costs/ (as of Mar. 17, 2021).

no assertion that developer fees, carry costs, and other transaction costs are not usual and customary.

Q 7 Are the development fees, carry costs, and other transaction-related expenses for the Lakeside Building reasonable?

A 7 Yes. The $171 million cost represents 19 percent of the $892 million purchase price. Cal Advocates rightfully acknowledges 3 to 5 percent for development fees; however, it does not indicate the additional percentage fees for carry costs. Applying a conservative estimate of 4 to 6 percent for the additional carry costs would equate to a combined 7 to 11 percent for these two categories of identified costs (development fees and carry costs). Relative to the 19 percent represented by the $171 million, the remaining 8 to 12 percent could represent a potential return on investment that any developer would expect for a transaction of this magnitude and complexity, coupled with the risk associated with consummation of a transaction and time value of money over the holding period from 2020 to 2023. The $171 million is not in addition to the $892 million purchase price; it is a logical component of the sales price. In most transactions, a property has an asking price that is marketed and, after negotiations between buyer and seller, an ultimate sales price is agreed upon and a transaction occurs. In that scenario, all costs expended by the seller, as well as those anticipated to facilitate the transaction, are included in the asking, and ultimately realized, price for the property.

Q 8 What risks has TMG Partners (TMG) agreed to take on as the developer for this transaction?

A 8 In addition to the considerable upfront investment related to the purchase of the building and the costs to renovate the Lakeside Building, as of now, TMG is uncertain as to whether or not it will remain as an owner of the property, with PG&E as a long-term tenant, or if PG&E will exercise its Purchase Option, allowing the developer to extract its invested capital. Those uncertainties contribute to the risk profile to the developer and would certainly be recognized in the overall purchase price.

Q 9 In its Application, PG&E stated that the Lakeside transaction is a unique opportunity for PG&E customers. Please elaborate.

A 9 The Lakeside transaction is somewhat unique in that PG&E is participating with the developer in the design and construction of the necessary retrofitting of the Lakeside Building for PG&E's tenancy/ownership. The owner of the Lakeside Building, TMG, is assuming significant transaction risk, as it is required to front extensive capital for both the property acquisition and for significant PG&E-specific tenant finishes. At the time the transaction was negotiated, PG&E was in bankruptcy and, therefore, PG&E's independent funding of the transaction may have proved difficult or impossible.

TMG agreed to front many of the costs associated with acquisition and renovation, and as the future landlord or potential seller, TMG would expect (and the market would recognize) a recapture of development fees, carry costs, transaction fees and profit. As stated previously, in most transactions, a potential purchaser of a property would be completely unaware of the components of these costs as they would be negotiating a turnkey purchase price. In this transaction, PG&E has been afforded, and has reported, significant transparency as to the separate components of the overall sales price. This visibility is only possible because of the unique structure of the purchase agreement. PG&E is having a building purchased, financed, and retrofitted for its specific use and PG&E is allowed to occupy the space at a future date. PG&E's inclusion of the purchase price component breakdown is atypical but provides increased visibility and transparency.

E. PG&E's Response to the Proposed Prohibition of PG&E's Recovery of the Letter of Credit Penalty

Q 10 What is Cal Advocates' recommendation regarding the letter of credit penalty?

A 10 Cal Advocates recommends that PG&E be prohibited from recovering the $100 million letter of credit cost incurred if PG&E does not exercise the Purchase Agreement and does not have an investment grade rating.[11]

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[11] Cal Advocates Testimony, p. 1-7, lines 9-11, p. 3-7, line 16 to p. 3-8, line 5.

Q 11 Does PG&E agree with Cal Advocates' recommendation?

A 11 No, PG&E does not agree, because the specific circumstances under which the decision not to exercise the Purchase Option would be made are not known at this time. PG&E should be permitted to recover the $100 million cost if PG&E is not investment grade and decides to not exercise the Purchase Option.

Q 12 Is PG&E requesting a finding from the Commission in this Application to recover the letter of credit costs?

A 12 No, PG&E is not seeking approval at this time for the incremental $100 million letter of credit drawdown associated with a scenario that includes not exercising the Purchase Option. At this time, such an outcome is perceived to be remote. It should be noted that the arrangement negotiated for the two letters of credit permitted PG&E to avoid significant cash outlays related to the Lakeside Building at the time the transaction was executed, while PG&E was still in Chapter 11.

Q 13 Should PG&E decide to not exercise the Purchase Option, what future regulatory action does PG&E propose?

A 13 If the Purchase Option is not exercised, PG&E will file an application at the Commission to explain the rationale for the decision, and to evaluate the merits of the underlying economic analysis supporting the decision and the reasonableness of recovering the $100 million letter of credit drawdown over and above the Purchase Option drawdown of $50 million (assuming PG&E is investment grade). However, PG&E believes it is inappropriate to preclude any such recovery at this time.

F. Purchase Option Exercise Period

Q 14 Does PG&E have updated assumptions about the timing of the Purchase Option Exercise Period?

A 14 Yes. TMG's closing date for its purchase of the building was in October 2020, and PG&E executed the Lease Agreement in October 2020. Under the contract terms, the Purchase Option begins 24 months from October 2020 and extends to nine months thereafter, assuming the subdivision process proceeds within that time frame. For purposes of the cost-benefit analysis, PG&E has updated the assumption related to the timing of exercising the Purchase Option from August 2023 to February 2023, which is the midpoint of the Purchase Option period.

Q 15 Does this conclude your Rebuttal Testimony?

A 15 Yes, it does.

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
SALE PROCESS FOR THE PROPOSED
SAN FRANCISCO GENERAL OFFICE SALE

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
SALE PROCESS FOR THE PROPOSED SAN FRANCISCO GENERAL OFFICE SALE

A. Introduction

This chapter discusses revisions to the Marketing and Sale timeline for the San Francisco General Office (SFGO) Complex, since the September 30, 2020, testimony and an update on the marketing status.

Q 1 Please state your name and title.

A 1 Our names are Tara Agid and Kyle Kovac. Our statements of qualifications as witnesses in this proceeding were presented in Appendix A of Pacific Gas and Electric Company's (PG&E) opening Prepared Testimony.

B. SFGO Marketing and Sale Timeline

Q 2 Are there any revisions to the SFGO Marketing and Sale Timeline that was presented in Chapter 3, Table 3-2, of PG&E's opening testimony?

A 2 Yes, the timeline presented in Table 3-2 was prepared prior to the release of the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo). Therefore, in order to align the marketing and sale timeline with the parameters outlined in the December 15, 2020, Scoping Memo, PG&E has provided an updated Table 3-2. PG&E appreciates the support from the California Public Utilities Commission (CPUC or Commission) and cooperation from the intervenors to facilitate a timely and predictable regulatory approval process to ensure that the highest number and quality of prospective buyers participate in the SFGO sale process.

In light of the proceeding schedule in the Scoping Memo, PG&E postponed the start of Phase 2 – Full Scale Marketing of the SFGO property. The start date was adjusted to early March 2021 to ensure an efficient process and limit time between marketing, buyer selection, Commission approval, and closing. The Alternative 2 decision schedule provided in the Scoping Memo and the confirmed 10-day period for applications for rehearing[1] informed PG&E's revisions to Table 3-2, Estimated SFGO Marketing and Sale Timeline from Chapter 3 of PG&E's opening testimony to the following, which remains subject to change, pending actual circumstances that may impact the timing of activities described in each phase:

TABLE 3-2
ESTIMATED SFGO MARKETING AND SALE TIMELINE (UPDATED)

Line No.	Phase	Description	Start	End
1	Phase 1	Pre-Marketing	August 2020	February 2020
2	Phase 2	Full-Scale Marketing	March 2021	April 2021
3	Phase 3	Call for Offers	April 2021	May 2021
4	Phase 4	Purchase and Sale Agreement (PSA), Due Diligence & Deposit	May 2021	June 2021
5	Phase 5	Close of Escrow	August 2021	September 2021

Q 3 Can you provide a status update on the progress of the Marketing and Sale Process?

A 3 Yes, PG&E, in conjunction with C.B. Richard Ellis (CBRE), has completed Phase 1 identified in Table 3-2 and is actively executing Phase 2, Full-Scale Marketing. As of the time of the submission of this Rebuttal Testimony, 137 potential bidders for the SFGO property have executed non-disclosure agreements and have begun to access the CBRE transaction data room. The bidders represent a wide range of domestic and foreign commercial real estate investors who are active in the market for properties of the size and prominence of the SFGO property. As of the date of this testimony, CBRE and PG&E have hosted property site visits for 17 parties and are actively engaged in discussions with potential buyers on a wide range of diligence related questions.

PG&E will begin the crucial Phase 3 of the marketing process immediately after Phase 2. Based on the proposed Alternative 2 schedule in the CPUC Scoping Memo, and as discussed during the February 23, 2021 Status Conference, PG&E estimates providing supplemental testimony

1 The 10-day period for applications for rehearing was decided in Administrative Law Judge Kline's ruling of February 5, 2021.

following the receipt of the potential buyer’s nonrefundable deposit, estimated in the second half of June 2021, which will include a signed PSA and updated financial analysis. Based on the Scoping Memo’s recommended sequence and timing, this would support a transaction closing in September 2021.

Q 4 Does this conclude your rebuttal testimony?

A 4 Yes, it does.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 4

COST BENEFIT ANALYSIS

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COST BENEFIT ANALYSIS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
COST BENEFIT ANALYSIS

A. Introduction

This chapter provides Pacific Gas and Electric Company's (PG&E) response to the recommendations by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) relating to costs. The following is a summary of PG&E's recommendations:

- The Commission should adopt Cal Advocates' adjustment for San Francisco payroll taxes to reflect PG&E's updated estimate for the actual percentage of employees remaining in San Francisco of 14.5 percent;
- The Commission should adopt, with qualifications (see Q&A 9 and 10 for qualification), Cal Advocates' proposal to remove capital costs of $27 million in 2026 related to Phase B tenant improvements;
- The Commission should reject Cal Advocates' proposal to disallow tenant improvement costs of $62.66 million from the Lakeside purchase price (see Q&A 11 and 12 for an explanation of why Cal Advocates' proposal is incorrect);
- The Commission should reject Cal Advocates' proposal to disallow the carry costs, development fees, and "other transaction related expenses" totaling $171 million from the Lakeside purchase price (see Q&A 13 and 14 for an explanation of why Cal Advocates' proposal is incorrect);
- The Commission should adopt, with qualifications, Cal Advocates' suggestion to apply a rate of inflation of 2.2 percent, which is the 4-year average of IHS Markit (formerly Global Insight) projections for Consumer Price Index-All Urban (CPI-U), in contrast to 3 percent as previously utilized by PG&E;
- The Commission should adopt, with qualification, Cal Advocates' proposal to remove the monthly amortization of operating expenses from the financial analysis for Alternative 2 before the Lakeside purchase option is executed (see Q&A for 27 through 29 for qualification); and
- The Commission should adopt, with qualification, Cal Advocates' proposal to remove the monthly amortization of additional tenant improvement costs

from the financial analysis for Alternative 3 before the Lakeside purchase option is declined by PG&E (see Q&A 30 through 32 for qualification).

- The Commission should adopt additional changes provided by PG&E (see Q&A 33 through 36 for qualification).

Q 1 Please state your name and your title.

A 1 My name is Aren Turpening, and I am the Manager of Economic Analysis at PG&E. My statement of qualifications as a witness in this proceeding was presented in Appendix A of PG&E's opening Prepared Testimony.

B. Summary of Parties' Positions

Q 2 Have there been any updates to your calculations since your September 2020 opening testimony?

A 2 Yes, there have been some revisions to our cost forecasts, partly due to changes in timing, and partly due to some revisions in the cost estimates . In addition, as described below, PG&E adopts a number of the proposals in Cal Advocates' testimony, in whole or in part. PG&E discusses the changes to the calculations in this testimony and provides revised Chapter 4 Workpapers.[1] The results of the cost-benefit analysis, however, did not change materially.

Q 3 Taking into account PG&E's consideration of Cal Advocates' suggestions and other updates, what are the results of PG&E's current analysis?

A 3 Below is a revised table, Table 4-1 Updated, which provides a summary of PG&E's current analysis.

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1 An electronic copy of the second revision of the Chapter 4 workpapers is available at: http://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=647403; *see also,* Appendix A, PG&E's response to TURN's third data request (requesting updated Chapter 4 workpapers).

TABLE 4-1
COST BENEFIT CALCULATION (UPDATED)
(MILLIONS OF DOLLARS)

Line No.	Category	Alternative 1 Status Quo	Alternative 2 Sell SFGO, Buy 300 Lakeside	Alternative 3 Sell SFGO, Lease 300 Lakeside
1	Capital Expenditures	$(500.720)	$(25.298)	$919.673
2	Operating Expenses	(313.901)	(198.579)	(19.572)
3	Leases	(102.365)	(76.520)	(1,322.828)
4	Taxes (Local and Federal)	(177.983)	(40.941)	(23.430)
5	Total Net Present Value	$(1,094.968)	$(341.337)	$(446.157)

Q 4 Does PG&E agree with the suggestions made by Cal Advocates?

A 4 PG&E agrees with and adopts a substantial portion of Cal Advocates' proposals. However, PG&E disagrees with Cal Advocates' proposed adjustments to disallow $62.66 million in tenant improvement costs and $171 million in carry costs, development fees, and other transaction-related expenses that are included in the contracted Lakeside Building purchase price, and PG&E also provides a few corrections in the calculations of some of Cal Advocates' other proposed adjustments. Table 4-2 below provides a comparison of PG&E's prior analysis, Cal Advocates' proposal, and PG&E's current, revised analysis. PG&E's and Cal Advocates' proposed adjustments represent costs related to the different alternatives. A more negative number represents a higher cost alternative. Therefore, PG&E's adjustments in its rebuttal analysis result in Alternatives 2 and 3 being higher cost than the results of Cal Advocates' proposal.

TABLE 4-2
COMPARISON TO CAL ADVOCATES – 40-YEAR NPV
(MILLIONS OF DOLLARS)

Line No.	Proposal Comparison	Alternative 1 Status Quo	Alternative 2 Sell San Francisco General Office (SFGO), Buy 300 Lakeside	Alternative 3 Sell SFGO, Lease 300 Lakeside
1	PG&E Initial Analysis, as updated on January 22, 2021	$(1,141)	$(355)	$(531)
2	Cal Advocates' Proposal	$(1,095)	$(47)	$(348)
3	PG&E Rebuttal Analysis	(1,095)	(341)	(446)
4	Net Difference from PG&E Rebuttal to Cal Advocates	–	$(294)	$(98)

Q 5 Do these adjustments change PG&E's preferred alternative?

A 5 No. The changes are relatively immaterial, and Alternative 2, in which PG&E sells the SFGO and purchases the Oakland Lakeside Building and results in a net present value of ($341 million), remains the preferred alternative over the Status Quo with a net present value of ($1,095 million) and Alternative 3 with a net present value of ($446 million). The net benefit of Alternative 2 over Alternative 1 (Status Quo) is $754 million.

Q 6 Does this align with intervenors' conclusions?

A 6 Yes, this aligns with the results produced by Cal Advocates.

C. Discussion of Cal Advocates' Proposals

Q 7 Are there any modifications PG&E would like to provide to the adjustments presented by Cal Advocates?

A 7 Yes. PG&E discusses its recommended modifications in the following sections.

Q 8 What is your general takeaway from the updated cost-benefit analysis?

A 8 The preferred alternative is expected to provide a net benefit to customers of approximately $754 million relative to Alternative 1, and a net benefit of approximately $105 million relative to Alternative 3, as shown in Table 4-3.

TABLE 4-3
NET BENEFIT OF ALTERNATIVE 2 – 40-YEAR NPV
(MILLIONS OF DOLLARS)

Line No.	Comparison of Alternative 2	Benefit
1	Net Benefit Over Alternative 1	$754
2	Net Benefit Over Alternative 3	$105

1. PG&E Agrees to Remove $27 million From Future Tenant Improvement Costs

Q 9 What is Cal Advocates' proposal on this issue?

A 9 Cal Advocates proposes to remove the $27 million in 2026 for future tenant improvements due to the uncertainty of the execution of these tenant improvements. Cal Advocates points to the fact that the current tenants need to be vacated and the landlord needs to finish the tenant improvements before PG&E would be able to occupy the space. Additionally, the current tenants have leases that have options to extend.

Q 10 What is PG&E's position?

A 10 PG&E's believes that these tenant improvements will occur when the current leases expire and are not renewed. However, PG&E agrees that there is uncertainty regarding the timing, and accordingly will remove these costs from its analysis.

2. The Proposal to Disallow $62.66 million of Tenant Improvement Costs From the Lakeside Purchase Price Is Erroneous

Q 11 What is Cal Advocates' proposal on this issue?

A 11 Cal Advocates proposes to disallow $62.66 million from the Lakeside purchase price associated with landlord-sponsored tenant improvements, stating that the tenant improvement costs are already paid by the landlord.

Q 12 Does PG&E agree with this adjustment?

A 12 No, this adjustment is based on a factually erroneous premise, as explained in the accompanying Chapter 2 testimony, and accordingly PG&E does not include this in its updated cost-benefit analysis.

3. The Proposal to Disallow $171 million of the Oakland Purchase Price Is Erroneous

Q 13 What is Cal Advocates' proposal on this issue?

A 13 Cal Advocates proposes to disallow $171 million from the Lakeside purchase price for seller's carry costs, development fees, and other transaction related expenses, because it believes that these costs are not adequately supported.

Q 14 Does PG&E agree with the adjustment?

A 14 No, PG&E disagrees with this proposed disallowance. As explained in the accompanying Chapter 2 testimony, Cal Advocates' recommendation is based on an erroneous interpretation of the evidence. These costs are part of the overall purchase price for the Lakeside Building. Since PG&E believes that the purchase price has been shown to be reasonable, PG&E does not include this adjustment in PG&E's updated cost-benefit analysis.

4. PG&E Agrees That 2.2 percent Inflation Is a Good Estimation of Inflation Over the Analysis Time Period

Q 15 What is Cal Advocates' proposal on this issue?

A 15 Cal Advocates recommends that PG&E should use a forward-looking Consumer Price Index (CPI) rate to determine the inflation of the cash flow costs for the scenario calculation. Cal Advocates suggests a 4-year average of the IHS Markit CPI rate from years 2021 through 2024 to calculate the inflation percentage for each scenario.

Q 16 Does PG&E agree with Cal Advocates' proposal?

A 16 PG&E agrees in part. PG&E agrees that CPI data could be an accurate representation of the inflation rate for the costs in this analysis. However, PG&E disagrees with the calculation provided by Cal Advocates for three reasons: (1) four years is not a sufficient timeframe to represent inflation for a 40-year time horizon, (2) when calculating an average inflation, one needs to take the Compound Annual Growth Rate of the underlying index, in this case the CPI, and (3) the Lakeside lease agreement has a contractually obligated lease escalation factor of 3.0 percent for the term of the lease.

Q 17 Could you walk through the timeframe argument?

A 17 Yes. The cost benefit analysis time horizon spans 2020 through 2060, a period of 40 years. Noting the extended time horizon for this analysis, the use of a 4-year average may not represent a reasonable estimate of inflation over the 40-year analysis period.

Q 18 What timeframe would you recommend?

A 18 The IHS Markit index CPI-U extends out to the year 2043. PG&E recommends using the full extent of the index to calculate the expected future inflation for the analysis.

Q 19 Could you describe why an average may not be appropriate for inflation rates?

A 19 Yes. Taking a simple average of inflation may result in an inaccurate prediction of the total inflation period. In this analysis, use of the Compound Annual Growth Rate to calculate the annual inflation over the study period is more appropriate.

Q 20 What is your recommendation for the calculation?

A 20 Using the underlying index figures in IHS Markit's U.S. Economic Outlook for CPI-U from years 2021 through 2043 and using the compound annual growth rate formula, the inflation rate should be 2.25 percent.[2]

Q 21 Is this result materially different from Cal Advocates' proposal?

A 21 No, this result is not materially different and the 2.2 percent that resulted from the Cal Advocates calculation could represent the average inflation in this case. Accordingly, PG&E uses the 2.2 percent rate.

Q 22 Did Cal Advocates apply its 2.2 percent inflation rate to the contracted annual lease expense of the Oakland building?

A 22 Yes. When Cal Advocates modified the original model to reflect its adjustment for inflation, Cal Advocates also modified the contractual lease increase rate for Alternative 3. PG&E inadvertently tied the Oakland lease annual increases to a general inflation rate for operations and maintenance (O&M) and other expenses. The model used the global 3 percent inflation rate as a proxy for the lease cost increase, thereby tying the two numbers together. The contract between PG&E and the Lakeside Building landlord requires a 3 percent annual lease increase, and should not have been tied to the annual inflation for the model; therefore, Alternatives 2 and 3 should maintain the 3 percent rate for the lease payments of the Lakeside Building,

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2 IHS Markit February CPI-U Forecast, see tab 'CPI-U Data' in the revised Chapter 4 workpapers.

and use 2.2 percent for the remainder of the O&M costs throughout the model.

5. PG&E Agrees With the Estimate That About 14.5 percent of Employees' Payroll Currently Based in San Francisco Will Remain in San Francisco

Q 23 What is Cal Advocates' proposal?

A 23 Cal Advocates proposes to adjust the percentage of PG&E's payroll in San Francisco that is not associated with the SFGO.

Q 24 Why does this matter?

A 24 San Francisco payroll taxes are based on the dollar amount of payroll located within the city of San Francisco. Considering PG&E is proposing to move a significant portion of its employees outside of San Francisco, this payroll tax cost will change, which impacts Alternatives 2 and 3.

Q 25 What did PG&E originally propose?

A 25 In its opening testimony, PG&E estimated that 10 percent of the payroll in San Francisco would remain in San Francisco, or that 90 percent of the San Francisco payroll tax would be eliminated with the move to Oakland.

Q 26 Is there an update to this number?

A 26 Yes. Based on PG&E's analysis to respond to a Cal Advocates data request, a more accurate estimate of the San Francisco payroll tax that will remain after PG&E moves its headquarters out of San Francisco is 14.5 percent.[3] PG&E uses this updated estimate, as well as the adjusted calculation as shown in Cal Advocates' March 3 Errata, which affect costs in all three alternatives.

6. PG&E Agrees That Operating Costs for the Lakeside Building Should Not Be Included Before the Purchase Date in Alternative 2

Q 27 What is Cal Advocates' proposal?

A 27 Cal Advocates recommends removing the operating costs of the Lakeside Building before PG&E has exercised the purchase option of the building in 2023.

Q 28 Does PG&E agree with this proposal?

A 28 Yes. PG&E agrees that it will not be paying operating costs before the building is purchased. In its original analysis, PG&E assumed a purchase

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[3] See Appendix A, PG&E's response to Question 10 of Cal Advocates' fifth data request.

date of the Lakeside Building in August 2023. Since filing its application, PG&E has refined this estimate and assumes the purchase option would be exercised between October 2022 and July 2023. Since the exact purchase date is unknown, for the purpose of this analysis PG&E assumes the purchase would occur in the middle of this period, mid-February. PG&E has updated its analysis to reflect these assumptions.

Q 29 How does this update the analysis?

A 29 PG&E will begin paying operating costs for the Lakeside Building once it exercises the option to purchase the building. Since PG&E now estimates that it will exercise the purchase option on February 15, 2023, PG&E will update its analysis for Alternative 2 to begin incurring operating costs on that date.

7. PG&E Agrees That Tenant Improvement Costs Should Not Be Considered Before the Date That PG&E Declines the Option to Buy the Lakeside Building in Alternative 3

Q 30 What is Cal Advocates' proposal?

A 30 Cal Advocates recommends removing the tenant improvement costs before PG&E decides not to exercise the purchase option of the Lakeside Building. This would encompass the months April through July of 2023, based on an estimate that PG&E would decide not to exercise the purchase option in August 2023. This adjustment would only affect Alternative 3.

Q 31 Does PG&E agree with the proposal?

A 31 PG&E agrees that it would not incur these tenant improvement expenses before it declines to exercise the purchase option of the Lakeside Building. However, as explained above, PG&E has updated the date it estimates it would decline to exercise the purchase option, so the timing of these costs must be modified to reflect the revised purchase (or decline to purchase) date.

Q 32 How does this update the analysis?

A 32 PG&E will begin the tenant improvement costs for the analysis of Alternative 3 in February of 2023.

D. Discussion of Other Updates to Calculations

Q 33 Have there been any other updates to PG&E's analysis?

A 33 Yes, PG&E has made updates to the transaction cost estimates, most notably, the adjustment to the transfer tax for the SFGO discussed in Chapter 1 of this rebuttal testimony.[4] These updates result in an increase to the all-in transaction cost estimate from 5 percent to 6.53 percent. In addition, PG&E has adjusted the amortization of the Tenant Improvement and seismic retrofit costs for Alternative 3.

Q 34 What changes is PG&E suggesting to the amortization of the Tenant Improvement and seismic retrofit costs for Alternative 3?

A 34 PG&E had originally forecasted a 40 year amortization for the tenant improvement costs for Alternative 3. Additionally, PG&E overestimated the amount of Tenant Improvement costs to be amortized. During discovery, PG&E discovered and corrected this amount to better reflect the actual net present value of Alternative 3.

Q 35 What are the actual costs for tenant improvement work and seismic retrofit work?

A 35 PG&E's contractual obligations for tenant improvement work for the Lakeside Building amount to $97 million. This amount should be amortized over 20 years, as opposed to the original 40 years. In addition, PG&E's contractual obligations for seismic retrofit work for the Lakeside Building amount to $30 million, and this amount should be amortized over 15 years, as opposed to the original 40 years. Both of these changes are made to conform the analysis to the actual contract to lease or purchase the Lakeside Building.

Q 36 How does this affect PG&E's preferred alternative?

A 36 These costs are less than PG&E's original proposal and the net effect is an increase in the net present value for Alternative 3. However, Alternative 2 is still the preferred alternative after this adjustment.

Q 37 Does this conclude your rebuttal testimony?

A 37 Yes, it does.

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4 See Appendix B for a revised estimate of the illustrative net proceeds and net gain on sale. This estimate will be further updated in PG&E's supplemental testimony estimated to be provided in June, when the contractual sale price is known.

PACIFIC GAS AND ELECTRIC COMPANY

APPENDIX A

DISCOVERY RESPONSES

PACIFIC GAS AND ELECTRIC COMPANY
APPLICATION FOR CALIFORNIA PUBLIC UTILITIES COMMISSION APPROVAL UNDER PUBLIC UTILITIES CODE SECTION 851 TO SELL THE SAN FRANCISCO GENERAL OFFICE COMPLEX AND APPROVAL OF ASSOCIATED RATEMAKING

APPENDIX A
DISCOVERY RESPONSES INDEX

Line No.	Party	Responding Party	Request No.	Question No.	Page No.
1	Cal Advocates	PG&E	5	10	AppA-1
2	Cal Advocates	PG&E	8	3	AppA-2
3	Cal Advocates	PG&E	8	4	AppA-3
4	PG&E	Cal Advocates	1	1-6	AppA-4
5	PG&E	TURN	1	1-5	AppA-10
6	TURN	PG&E	3	1	AppA-18

PACIFIC GAS AND ELECTRIC COMPANY
Section 851 General Office Complex
Application 20-09-018
Data Response

PG&E Data Request No.:	CalAdvocates_005-Q10		
PG&E File Name:	S851-GO-Complex_DR_CalAdvocates_005-Q10		
Request Date:	December 4, 2020	Requester DR No.:	005
Date Sent:	January 21, 2021	Requesting Party:	Public Advocates Office
PG&E Witness:	Aren Turpening	Requester:	Stacey Hunter

QUESTION 10

Referring to PG&E's workpaper "S851 GO Sale_WP_PGE_Ch04," tab "SF Tax Detail," in cell number E26, PG&E identifies 10% as the Non-GO payroll remaining in SF. Please explain in detail how PG&E calculated 10% and provide a detailed calculation in MS Excel with all formulas intact.

ANSWER 10

The 10 percent identified as the Non-GO payroll remaining in SF was an initial estimate based on the assumption that about 90% of employees in San Francisco worked in the SFGO. Subsequently, payroll data for 2018 and 2019 indicated the percent of total San Francisco payroll allocable to employees in the SFGO was 87 percent and 83 percent respectively. Data for 2020 showed about an 86 percent portion for the SFGO employees. The average of these three figures is 14.5 percent for the portion of San Francisco employees not in the SFGO. However, if PG&E were to remain in the SFGO the space would be remodeled to accommodate more employees, and the portion of the total San Francisco employees not in the SFGO likely would be lower than 14.5 percent. See Attachment 1 provided with this data response (see Excel filename, "S851-GO-Complex_DR_CalAdvocates_005-Q10Atch01.xlsx").

PACIFIC GAS AND ELECTRIC COMPANY
Section 851 General Office Complex
Application 20-09-018
Data Response

PG&E Data Request No.:	CalAdvocates_008-Q03		
PG&E File Name:	S851-GO-Complex_DR_CalAdvocates_008-Q03		
Request Date:	December 16, 2020	Requester DR No.:	008
Date Sent:	December 30, 2020	Requesting Party:	Public Advocates Office
PG&E Witness:	Bruce Smith	Requester:	Stacey Hunter

QUESTION 03

Still referring to page 6-2 of PG&E's testimony, PG&E proposes that for the time between the transaction close through the end of 2021, PG&E will credit the balancing accounts with an amount equal to the commercial paper rate times the after-tax gain on the sale. Please answer the following questions:

a. Please identify the "balancing accounts" to which PG&E is referring here. Figure 6-1 identifies only one balancing account.

b. Please identify the specific commercial paper rate that PG&E proposes to use.

c. Please explain why that specific commercial paper rate was chosen over other interest rates.

ANSWER 03

PG&E responds as follows:

A. The balancing accounts would be the General Office Sale Balancing Account (GOSBA) (Electric) and General Office Sale Balancing Account (GOSBA) (Gas). Figure 6-1 includes pro forma language for the electric preliminary statement; the gas preliminary statement would have the same provisions.

B. As described in the draft preliminary statement (items 5.f. and 5.g.), the commercial paper rate will be that "reported in the Federal Reserve Statistical Release, H.15, or its successor."

C. Use of the commercial paper rate reported by the Federal Reserve in the General Office Sale Balancing Accounts is consistent with the commercial paper rates used in other balancing accounts established by Commission decisions. See CPUC Decision 91269, January 29, 1980, at ftp://ftp2.cpuc.ca.gov/LegacyCPUCDecisionsAndResolutions/Decisions/Decisions_D86501_to_D93896_D8201001_to_D8406066/D91269_19800129_O56.pdf

PACIFIC GAS AND ELECTRIC COMPANY
Section 851 General Office Complex
Application 20-09-018
Data Response

PG&E Data Request No.:	CalAdvocates_008-Q04		
PG&E File Name:	S851-GO-Complex_DR_CalAdvocates_008-Q04		
Request Date:	December 16, 2020	Requester DR No.:	008
Date Sent:	December 31, 2020	Requesting Party:	Public Advocates Office
PG&E Witness:	David Thomason	Requester:	Stacey Hunter

QUESTION 04

Referring to pages 6-2 and 6-3, PG&E states that the annual credits (using the illustrative price, this would be $120.3 million pretax each year) will be provided through adjustments to the functional revenue requirement balancing accounts in the annual AET and AGT filings on a forecast basis. After the first year’s credit, $480.7 million remains to be distributed; after the second year’s credit, $360.4 million remains, and so on. Please answer the following questions:

a. How will these proceeds be used in the years before distribution?

b. Will ratepayers earn a return on this money? If not, will shareholders earn a return on it?

c. How will these proceeds be protected from losses such as creditor claims, wildfire damage, or poor fiscal or business management before it is distributed to ratepayers?

ANSWER 04

PG&E responds as follows:

A. Since the cash proceeds are not a permanent source of cash, PG&E considers this cash equivalent to short-term debt, and will use the cash for purposes typically assigned to short-term debt by the CPUC. PG&E expects to use this cash to finance balancing and memorandum accounts, such as wildfire mitigation costs that are not recovered through the GRC and other assets, e.g., nuclear fuel and greenhouse gas compliance instruments, which the CPUC assumes to be financed with short-term debt.

B. Yes. The ratepayers will earn the short-term rate allowed by the CPUC on the assets described in response to subpart A above – the three-month commercial paper rate.

C. The commitment to refund these proceeds to customers is a regulatory obligation and the CPUC would maintain the authority to require these refunds be included in rates even in the event of a hypothetical bankruptcy before the net gain on sale was fully distributed to ratepayers. PG&E believes that inclusion of the credit requirement in the Decision in this proceeding will further ensure that it would continue following any hypothetical bankruptcy.

PUBLIC ADVOCATES OFFICE
DATA RESPONSE
Pacific Gas and Electric Company, General Office Sale
A.20-09-018

Date: 4 March 2021

Origination Date: 2 March 2021

Response Due: **9 March 2021**

To: Thomas Jarman, TAJ8@pge.com
Molly Zimney, MEZ3@pge.com
Kevin Allred Kevin.Allred@mto.com

From: Stacey Hunter, Project Coordinator
Public Advocates Office
505 Van Ness Avenue, Room 4104
San Francisco, CA 94102, Stacey.Hunter@cpuc.ca.gov

Response by: Stacey Hunter and Anusha Nagesh
Phone: 415-703-1842
Email: Stacey.Hunter@cpuc.ca.gov and Anusha.Nagesh@cpuc.ca.gov

Data Request No: PG&E-Cal Advocates-001

PG&E Data Request:

1. Does Cal Advocates contend that any of PG&E's cost forecasts for (i) leasing back space in the SFGO through 2023, (ii) leasing space in the Lakeside Building, or (iii) relocating from the SFGO to the Lakeside Building are not reasonable forecasts? If so, please explain in detail all of the bases for Cal Advocates' position, separately for each such contested forecast.

Public Advocates Office Response:

1. Yes. Chapter 3 of Cal Advocates' testimony identifies operating and maintenance (O&M) expenses and tenant improvement (TI) allocation costs that were included in the Lakeside building calculations from April through July of 2023. The O&M expenses should be removed as this is a time period when PG&E does not own the Lakeside building. PG&E's claim that this is to cover utilities is inconsistent since utilities are already included in the lease cost per rentable square feet (RSF) of the lakeside lease costs as shown in PG&E's workpaper titled "S851 GO Sale_WP_PGE_Ch04_REV1" under tab "lease 300 Lakeside details" in row 7. Likewise, the allocation for TI should be removed for this time period because it is only applicable if PG&E declines the purchase option, which cannot occur before August of 2023.

PG&E Data Request:

2. Does Cal Advocates contend that any of PG&E's estimated costs for (i) leasing back space in the SFGO through 2023, (ii) leasing space in the Lakeside Building, or (iii) relocating from the SFGO to the Lakeside Building are unreasonable or imprudent costs? If so, please explain in detail all of the bases for Cal Advocates' position, separately for each such contested cost.

Public Advocates Office Response:

2. See response to Question 1 above.

PG&E Data Request:

3. At page 4-6, lines 23-24, and page 4-7, lines 1-2, of Cal Advocates' prepared testimony, Cal Advocates "recommends that the Commission order PG&E to produce a full and complete showing in its next GRC proceeding of all costs that it expects to be funded by ratepayers or added to Rate Base, with the appropriate supporting documentation." Please describe in detail what additional showing and supporting documentation Cal Advocates contends is necessary to assess the reasonableness of the costs PG&E is seeking to recover through its Application, and explain all of the bases for Cal Advocates' position that such showing and documentation is necessary.

Public Advocates Office Response:

3. Cal Advocates raised a number of issues regarding PG&E's forecasted costs such as the Lakeside purchase price, leases, tenant improvements, operating and maintenance, and other costs. These have been addressed in detail in Chapters 2 and 3 of Cal Advocates' testimony. The Commission should review/audit the actual recorded costs when available and/or revised forecasts for expenses requested in this application with supporting documents such as bills and agreements, information such as the rentable square feet occupied—e.g., number of Lakeside tenants who have or have not renewed their leases, post COVID return to work policy changes, and other related documents and information in PG&E's next GRC before allowing any costs to be funded by ratepayers or included in rate base.

PG&E Data Request:

4. Does Cal Advocates contend that any of the terms of the Lakeside Building Agreements, contained in Exhibit C to PG&E's Application, are unreasonable or imprudent? If so, please explain in detail all of the bases for Cal Advocates' position.

Public Advocates Office Response:

4. In addition to the issues pointed out in Cal Advocates various data request responses provided herewith, Cal Advocates also takes issue with one term related to the purchase option penalty. PG&E's management has the sole discretion over whether it exercises the purchase option or not. If PG&E has attained an acceptable credit rating and still declines the purchase option, ratepayers should not have to bear the additional $100 million purchase option penalty incurred at PG&E's management's sole discretion.

PG&E Data Request:

5. Does Cal Advocates contend that the contracted purchase price for the Lakeside Building is unreasonable or imprudent? If so, please explain in detail all of the bases for Cal Advocates' position.

Public Advocates Office Response:

5. Yes. Cal Advocates documented in its testimony that $62.66 million in tenant improvement costs were incorrectly included in the purchase price for the Lakeside Building because the landlord/owner is responsible for those costs under the lease and purchase agreement. Cal Advocates also contends that $171 million in undocumented and unsupported development fees, carry costs, and other transaction costs included in the purchase price should not be borne by ratepayers because Cal Advocates was unable to determine if they are reasonable and prudent.

PG&E Data Request:

6. Does Cal Advocates contend that PG&E's formula for calculating the gain on sale is in any way improper or that the estimated values for the components thereof are unreasonable or imprudent? If so, please explain in detail all of the bases for Cal Advocates' position. (You may exclude from your response the dollar value of the purely illustrative sale price used in PG&E's calculation.)

Public Advocates Office Response:

6. Not at this time. Cal Advocates does not take issue with PG&E's proposed calculation of the gain on sale. However, a review of the actual transaction costs for the sale will be needed in the future to determine if those costs are reasonable and prudent for ratepayers funding.

END OF RESPONSE

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U39M) for Approval Under Public Utilities Code Section 851 to Sell the San Francisco General Office Complex, to Distribute the Gain to Customers, and for Recovery of Associated Costs Related to the Relocation of its Corporate Headquarters to the Lakeside Building in Oakland (U 39 M)	Application No. 20-09-018 (Filed September 30, 2020)

TURN RESPONSES TO FIRST SET OF DATA REQUESTS OF PACIFIC GAS AND ELECTRIC COMPANY TO THE UTILITY REFORM NETWORK

Date Sent: March 2, 2021
Date of Responses: March 9, 2021

General Instructions

The following general instructions apply to all data requests propounded by Pacific Gas and Electric Company ("PG&E") on The Utility Reform Network ("TURN") in this proceeding.

1. Responses to this discovery request should be transmitted to PG&E as they become available, but **no later than Tuesday, March 9, 2021**.

2. Responses to these discovery requests should be transmitted via email to the following recipients of PG&E's project management team: Case Manager, Tom Jarman (thomas.jarman@pge.com); Counsel for PG&E, Molly Zimney (MEZ3@pge.com); and Counsel for PG&E, Kevin Allred (kevin.allred@mto.com).

3. As to any discovery request consisting of a number of separate subdivisions, or related parts or portions, a complete response is required to each part or portion with the same effect as if it were propounded as a separate discovery request.

4. Any objection to a discovery request should clearly indicate to which part or portion of the discovery request the objection is directed.

5. If any document, in whole or in part, covered by this request is withheld for whatever reason, please furnish a list identifying all withheld documents in the following manner: (a) a brief description of the document; (b) the date of the document; (c) the name of each author or preparer; (d) the name of each person who received the document; and (e) the reason for withholding it.

6. If, in answering any of these discovery requests, there is deemed to be any ambiguity in interpreting either the discovery request or a definition or instruction applicable thereto, promptly contact PG&E's case manager or counsel to obtain a clarification.

7. If you have any questions regarding this data request, please email the Case Manager immediately (thomas.jarman@pge.com). If Cal Advocates objects to any of the data requests, please contact the PG&E attorney, Molly Zimney (MEZ3@pge.com), as soon as possible.

Definitions

A. As used herein, the term "you," "your(s)" and "TURN" mean The Utility Reform Network and any and all of its respective present and former employees, agents, consultants, attorneys, officials, and any and all other persons acting on its behalf.

B. The terms "and" and "or" shall be construed either disjunctively or conjunctively whenever appropriate in order to bring within the scope of these discovery requests any information or documents which might otherwise be considered to be beyond their scope.

C. The singular form of a word shall be interpreted as plural, and the plural form of a word shall be interpreted as singular whenever appropriate in order to bring within the scope of these discovery requests any information or documents which might otherwise be considered to be beyond their scope.

D. The term "communications" includes all verbal and written communications of every kind, including but not limited to telephone calls, conferences, notes, correspondence, and all memoranda concerning the requested communications. Where communications are not in writing, provide copies of all memoranda and documents made relating to the requested communication and describe in full the substance of the communication to the extent that the substance is not reflected in the memoranda and documents provided.

E. The term "document" shall include, without limitation, all writings and records of every type in your possession, control, or custody, including but not limited to the following items, whether printed or reproduced by any process, including documents sent and received by electronic mail, or written or produced by hand, and whether or not claimed to be privileged or otherwise excludable from discovery: computer data files, information stored in electronic media, including on computer tapes, disks, or diskettes, tapes, inputs, outputs, and printouts; notes; letters; correspondence; communications; telegrams; memoranda; summaries and records of telephonic and telegraphic communications; summaries and records of personal conversations; diaries; appointment books; reports (including any and all draft, preliminary, intermediate, and final reports); surveys; studies (including, but not limited to, load flow, engineering, general economic, and market studies; comparisons; tabulations; budgets; workpapers; charts; plans; maps; drawings; engineering and other diagrams (including "one-line" diagrams); photographs; film; microfilm; microfiche; tape and other mechanical and electrical audio and video recordings; data compilations; log sheets; ledgers; vouchers; accounting statements; books; pamphlets; bulletins; minutes and records of meetings; transcripts; stenographic records; testimony and exhibits, including workpapers; copies, reports, and summaries of interviews and speeches; reports and summaries of investigations; opinions and reports of consultants; reports and summaries of negotiations; press releases; newspaper clippings; drafts and revisions of draft of documents; and any and all other records, written, electrical, mechanical, and otherwise. "Documents" shall also refer to copies of documents (even though the originals thereof are not in your possession, custody, or control), every copy of a document which contains handwritten or other notations or which otherwise does not duplicate the originals or any other copy, and all attachments or appendices to any documents.

F. "Identification" of a document includes stating: (a) the identity of each person who wrote, dictated, or otherwise participated in the preparation of the document; (b) the location of the document; and (c) the identity of each person having custody of or control over the document.

G. "Identification" of a person includes stating his or her full name, most recent known business address and telephone number, present position, and prior connection to or association with any party to this proceeding, including position at the time of connection to the information requested.

H. "Justify," "explain," "support," "state," and similar terms call for a full explanation of all reasoning involved, identification of all documents, information, studies and reports relied upon, used or referred to, and a summary of all facts relied upon, stating the basis therefore.

I. "Party" and "person" refer to, without limiting the generality of their meaning, every natural person, corporate entity, partnership, association (whether formally organized or ad hoc), joint venture, unit operation, cooperative, municipality, commission, governmental body, or agency.

J. “Policy” or “position” means each rule, procedure, or directive, formal or informal, written or unwritten, and each common understanding or course of conduct which was recognized as such by you.

K. “Providing copies” or similar phrases shall include the full identification of all requested documents, to the extent not already identified therein, as well as to the physical production of all such documents.

L. “Relate to,” “concern,” and similar terms and phrases shall mean consist of, refer to, reflect, comprise, discuss, underlie, comment upon, form the basis for, analyze, mention, or be connected with, in any way, the subject of these discovery requests.

M. When requested to “state the basis” for any analysis (including studies and workpapers), proposal, assertion, assumption, description, quantification, or conclusion, please describe every fact, statistic, inference, supposition, estimate, consideration, conclusion, study, and analysis known to you which you believe to support the analysis, proposal, assertion, assumption, description, quantification, or conclusion, or which you contend to be evidence of the truth or accuracy thereof.

N. “Study,” “studies,” or “report(s)” denotes any document, as defined above, which reflects or was utilized in the collection, evaluation, analysis, summarization, or characterization of information in connection with the subject referred to.

Data Request

1. At page 6, lines 14-17, of TURN’s prepared testimony, TURN notes that the costs PG&E submitted for (i) leasing back space in the SFGO through 2023, (ii) leasing space in the Lakeside Building, and (iii) relocating from the SFGO to the Lakeside Building are forecasts at this time.

    a. With respect to PG&E’s forecast of costs for leasing back space in the SFGO:

        i. Does TURN contend that PG&E’s estimated leaseback costs are not reasonable forecasts? If so, please explain in detail all of the bases for TURN’s position, separately for each such contested forecast.

Response: TURN objects to this question to the extent it suggests TURN has the burden of demonstrating that PG&E’s estimated leaseback costs are not reasonable forecasts, without an initial reasonableness demonstration by the utility. PG&E, as the applicant, has the burden of affirmatively establishing the reasonableness of all aspects of its application. This evidentiary burden is entirely the utility’s; other parties do not have the burden of proving the unreasonableness of the utility’s forecasts or requests. *See, e.g.,* D.09-03-025, p. 8; D.06-05-016, p. 7; D.01-10-031, pp. 8-9.

The cited testimony appears in the context of TURN's discussion of PG&E's request that its recorded costs be deemed *per se* reasonable, even if the recorded amount exceeds the forecasts used in the cost-benefit analysis. The sentence that follows the quote included in this question states: "Instead, PG&E seems to contend that the Commission can and should find now that the recorded amounts in the future will be reasonable, because the forecasts PG&E used in its cost-benefit analysis produced favorable results." [emphasis in original] In preparing its testimony, TURN did not analyze PG&E's estimated leaseback costs in terms of their reasonableness as forecasts. If TURN's understanding of PG&E's position is correct, whether or not the estimated leaseback costs are reasonable forecasts would appear to be irrelevant under its proposal, since PG&E would recover recorded costs without any Commission reasonableness review.

ii. Does TURN contend that PG&E's estimated leaseback costs are unreasonable or imprudent costs? If so, please explain in detail all of the bases for TURN's position, separately for each such contested cost.

Response: Please see the response to Question 1.a.i., above.

b. With respect to PG&E's forecast of costs for leasing space in the Lakeside Building:

i. Does TURN contend that PG&E's estimated costs for leasing space in the Lakeside Building are not reasonable forecasts? If so, please explain in detail all of the bases for TURN's position, separately for each such contested forecast.

Response: TURN objects to this question to the extent it suggests TURN has the burden of demonstrating that PG&E's estimated costs for leasing space in the Lakeside Building are not reasonable forecasts, without an initial reasonableness demonstration by the utility. PG&E, as the applicant, has the burden of affirmatively establishing the reasonableness of all aspects of its application. This evidentiary burden is entirely the utility's; other parties do not have the burden of proving the unreasonableness of the utility's forecasts or requests. *See, e.g.,* D.09-03-025, p. 8; D.06-05-016, p. 7; D.01-10-031, pp. 8-9.

The cited testimony appears in the context of TURN's discussion of PG&E's request that its recorded costs be deemed *per se* reasonable, even if the recorded amount exceeds the forecasts used in the cost-benefit analysis. The sentence that follows the quote included in this question states: "Instead, PG&E seems to contend that the Commission can and should find now that the recorded amounts in the future will be reasonable, because the forecasts PG&E used in its cost-benefit analysis produced favorable results." [emphasis in original] In preparing its testimony, TURN did not analyze PG&E's estimated costs for leasing space in the Lakeside Building in terms of their reasonableness as forecasts. If TURN's understanding of PG&E's position is correct, whether or not the estimated costs for leasing space in the Lakeside Building are reasonable forecasts would appear to be irrelevant under its proposal, since PG&E would recover recorded costs without any Commission reasonableness review.

ii. Does TURN contend that PG&E's estimated costs for leasing space in the Lakeside Building are unreasonable or imprudent costs? If so, please explain in detail all of the bases for TURN's position, separately for each such contested cost.

Response: Please see the response to Question 1.b.i., above.

c. With respect to PG&E's forecast of costs for relocating from the SFGO to the Lakeside Building:

i. Does TURN contend that PG&E's estimated relocation costs are not reasonable forecasts? If so, please explain in detail all of the bases for TURN's position, separately for each such contested forecast.

Response: TURN objects to this question to the extent it suggests TURN has the burden of demonstrating that PG&E's estimated relocation costs are not reasonable forecasts, without an initial reasonableness demonstration by the utility. PG&E, as the applicant, has the burden of affirmatively establishing the reasonableness of all aspects of its application. This evidentiary burden is entirely the utility's; other parties do not have the burden of proving the unreasonableness of the utility's forecasts or requests. *See, e.g.,* D.09-03-025, p. 8; D.06-05-016, p. 7; D.01-10-031, pp. 8-9.

The cited testimony appears in the context of TURN's discussion of PG&E's request that its recorded costs be deemed *per se* reasonable, even if the recorded amount exceeds the forecasts used in the cost-benefit analysis. The sentence that follows the quote included in this question states: "Instead, PG&E seems to contend that the Commission can and should find now that the <u>recorded</u> amounts in the future will be reasonable, because the forecasts PG&E used in its cost-benefit analysis produced favorable results." [emphasis in original] In preparing its testimony, TURN did not analyze PG&E's estimated relocation costs in terms of their reasonableness as forecasts. If TURN's understanding of PG&E's position is correct, whether or not the estimated relocation costs are reasonable forecasts would appear to be irrelevant under its proposal, since PG&E would recover recorded costs without any Commission reasonableness review.

ii. Does TURN contend that PG&E's estimated relocation costs are unreasonable or imprudent costs? If so, please explain in detail all of the bases for TURN's position, separately for each such contested cost.

Response: Please see the response to Question 1.c.i., above.

2. At page 6, lines 17-18, and page 7, line 1, of TURN's prepared testimony, TURN states that "PG&E has not presented testimony establishing the reasonableness of the specific forecasts it has used for illustrative purposes here." Please describe in detail all of the additional information TURN contends is necessary to assess the reasonableness of the specific forecasts PG&E has submitted, separately with respect to each forecast for which TURN contends adequate information has not been presented by PG&E, and explain all of the bases for TURN's position that such information is necessary.

Response: TURN objects to this question to the extent it suggests TURN has the burden of demonstrating that PG&E's specific forecasts are not reasonable forecasts. PG&E, as the applicant, has the burden of affirmatively establishing the reasonableness of all aspects of its application. This evidentiary burden is entirely the utility's; other parties do not have the burden of proving the unreasonableness of the utility's forecasts or requests. *See, e.g.,* D.09-03-025, p. 8; D.06-05-016, p. 7; D.01-10-031, pp. 8-9.

The sentence that follows the quote included in this question states: "Instead, PG&E seems to contend that the Commission can and should find now that the recorded amounts in the future will be reasonable, because the forecasts PG&E used in its cost-benefit analysis produced favorable results." [emphasis in original] TURN understands PG&E's cost recovery proposal here to seek recovery of the recorded costs, rather than the specific forecasts it used for illustrative purposes here. Furthermore, for the SFGO leaseback costs through 2023, the lease costs for the Lakeside Building, and all expenses of relocating from SFGO to the Lakeside Building, PG&E's cost recovery proposal here asks that the Commission deem the amounts that will be recorded in the future to be *per se* reasonable, even if the recorded amount exceeds the specific forecasts used in the cost-benefit analysis. Therefore, the reasonableness of the specific forecasts PG&E used for illustrative purposes here would seem to have little relevance here beyond the broad determination as to whether the proposed transaction should be approved, since PG&E has not proposed to use those forecasts for cost recovery purposes and, to TURN's knowledge, no party has proposed that PG&E's cost recovery of these costs occur on a forecast basis.

3. Does TURN contend that any of the terms of the Lakeside Building Agreements, contained in Exhibit C to PG&E's Application, are unreasonable or imprudent? If so, please explain in detail all of the bases for TURN's position.

Response: To date, TURN has not contended that any of the terms of the Lakeside Building Agreements are unreasonable or imprudent, or otherwise taken a position on the terms of the Lakeside Building Agreements. As stated in TURN's testimony and the response to Question 2, above, TURN contends that PG&E has failed to demonstrate the reasonableness of its proposed recovery for certain cost categories where the amounts to be recovered are based on actual costs rather than the estimated costs used for the cost-benefit analysis. The lease costs for the Lakeside Building are one such category. However, TURN's understanding is that PG&E's proposed cost recovery is not a term covered by the Lakeside Building Agreements.

4. Does TURN contend that the contracted purchase price for the Lakeside Building is unreasonable or imprudent? If so, please explain in detail all of the bases for TURN's position.

Response: To date, TURN has not contended that the contracted purchase price for the Lakeside Building is unreasonable or imprudent, or otherwise taken a position on the contracted purchase price for the Lakeside Building.

5. Does TURN contend that PG&E's formula for calculating the gain on sale is in any way improper or that the estimated values for the components thereof are unreasonable or imprudent? If so, please explain in detail all of the bases for TURN's position. (You may exclude from your response the dollar value of the purely illustrative sale price used in PG&E's calculation.)

Response: At this time TURN has not contended that PG&E's formula for calculating the gain on sale is improper for purposes of the Commission's decision on whether to authorize PG&E to sell the SFGO, and the appropriate method for distributing 100 percent of the gain on sale to ratepayers. In addition, at this time TURN has not contended that the estimated values for the components of PG&E's formula are unreasonable or imprudent for purposes of the Commission's decision on whether to authorize PG&E to sell the SFGO, and the appropriate method for distributing 100 percent of the gain on sale to ratepayers. TURN's testimony contended that some of the cost estimates (the SFGO leaseback costs through 2023, the lease costs for the Lakeside Building, and all expenses of relocating from SFGO to the Lakeside Building) have not been sufficiently demonstrated to be reasonable for ratemaking purposes. In addition, PG&E has requested that the Commission approve rate recovery of the recorded costs, even if those amounts exceed the cost estimates included in its testimony. To the extent that PG&E's formula for calculating the gain on sale assumes that PG&E will be authorized to recover, either from authorized rates or from the net benefits of this transaction, the recorded costs of these components of its calculation, TURN contends that such cost recovery should be denied at this time, and deferred until PG&E demonstrates the reasonableness of the recorded cost amounts for which it seeks recovery.

PACIFIC GAS AND ELECTRIC COMPANY
Section 851 General Office Complex
Application 20-09-018
Data Response

PG&E Data Request No.:	TURN_003-Q01		
PG&E File Name:	S851-GO-Complex_DR_TURN_003-Q01		
Request Date:	January 20, 2021	Requester DR No.:	003
Date Sent:	January 22, 2021	Requesting Party:	The Utility Reform Network
PG&E Witness:	Aren Turpening	Requester:	Katy Morsony

QUESTION 01

When available, please provide the updated version of the workpapers that support the calculations and results described in Chapter 4 of PG&E's prepared testimony, in Excel with all formulae intact. (During the January 19 meeting, PG&E and the Public Advocates Office referred to an updated or corrected version of the model underlying Chapter 4 of PG&E's prepared testimony.)

ANSWER 01

Please note that PG&E served revised Chapter 4 workpapers served on January 22, 2021. A copy is provided as Attachment 1 to this data response (see Excel filename, "S851 GO Sale_WP_PGE_Ch04_REV1.xlsm").

PACIFIC GAS AND ELECTRIC COMPANY

APPENDIX B

REVISED ESTIMATE ON THE ILLUSTRATIVE NET PROCEEDS

AND NET GAIN ON SALE

PACIFIC GAS AND ELECTRIC COMPANY
APPLICATION FOR CALIFORNIA PUBLIC UTILITIES COMMISSION APPROVAL
UNDER PUBLIC UTILITIES CODE SECTION 851 TO
SELL THE SAN FRANCISCO GENERAL OFFICE COMPLEX AND APPROVAL OF
ASSOCIATED RATEMAKING

APPENDIX B

Excel spreadsheet titled "Revised Estimate on the Illustrative Net Proceeds and Net Gain On Sale" available for download at:

http://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=647402