Application: 21-06-021
(U 39 M)
Exhibit No.: (PG&E-9)
Date: June 30, 2021
Witness(es): Various

PACIFIC GAS AND ELECTRIC COMPANY

2023 GENERAL RATE CASE

PREPARED TESTIMONY

EXHIBIT (PG&E-9)

ADMINISTRATIVE AND GENERAL

PACIFIC GAS AND ELECTRIC COMPANY
2023 GENERAL RATE CASE
EXHIBIT (PG&E-9)
ADMINISTRATIVE AND GENERAL

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CHAPTER 1

INTRODUCTION

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INTRODUCTION

A. Introduction

This chapter provides an overview of Pacific Gas and Electric Company's (PG&E or the Company) Administrative and General (A&G) exhibit for PG&E's 2023 General Rate Case (GRC). A&G expenses support and benefit all of PG&E's lines of business (LOB). The California Public Utilities Commission (CPUC or Commission) has described A&G costs as follows:

> A&G expenses are of a general nature and are not directly chargeable to any specific utility function. They include general office labor and supply expenses and items such as insurance, casualty payments, consultant fees, employee benefits, regulatory expenses, association dues, and stock and bond expenses.[1]

A&G is comprised of the Corporate Services organizations that provide companywide support and are essential to the operational LOBs' ability to deliver on their operational goals. For example, the Corporate Services organizations disseminate important information to customers and their local and state representatives regarding all manner of programs, services, safety initiatives, and emergency communications. They also allow PG&E to work effectively with its regulators and be responsive to its requests for information. In addition, A&G consists of services—such as those provided by the Company's Law, Finance, Human Resources (HR), and Risk and Audit departments—that are critical to any business the size and complexity of PG&E.

This exhibit addresses the following types of A&G costs:

1. <u>Corporate Services Department Costs</u>: Department costs are for support services necessary for day-to-day operations;[2]
2. <u>Companywide A&G Expenses</u>: These costs include insurance premiums, settlements and judgments, healthcare benefits, fees, and other similar costs; and

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[1] D.00-02-046, pp. 243-244, Section 9.2.2.1.

[2] HR is presented in Exhibit (PG&E-8).

3. Information Technology (IT) Project Costs: Where applicable, the chapters within this exhibit address costs associated with IT projects.

B. Summary of Forecast

Department Costs – $154.2 million[3]

PG&E requests that the Commission adopt its 2023 department cost forecast for A&G organizations of $154.2 million,[4] which is $9.1 million (approximately 5 percent) lower than 2020 recorded adjusted costs of $163.2 million.[5] The decrease is primarily due to reductions in contract and staffing costs, offset by an increase for labor escalation.[6] Figure 1-1 below summarizes the key changes of department costs from the 2020 recorded adjusted to the 2023 forecast.

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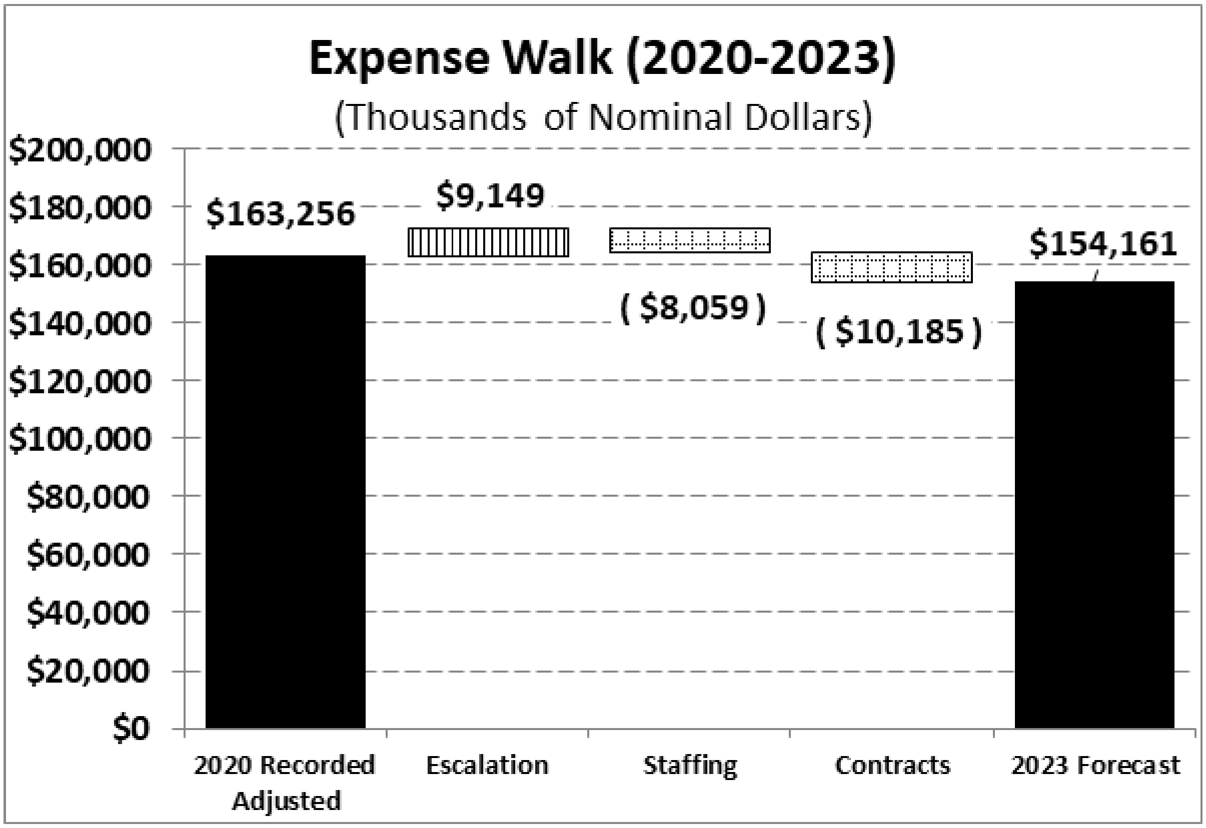
3 See Tables 1-2 and 1-3.

4 See Tables 1-2 and 1-3.

5 See Tables 1-2 and 1-3.

6 The increase of $11.9 million in labor escalation is calculated using the labor escalation factors described in Exhibit (PG&E-8), Ch. 4, and is applied to 2020 recorded adjusted labor.

FIGURE 1-1
DEPARTMENT COSTS
EXPENSE WALK
(2020-2023)
(THOUSANDS OF NOMINAL DOLLARS)



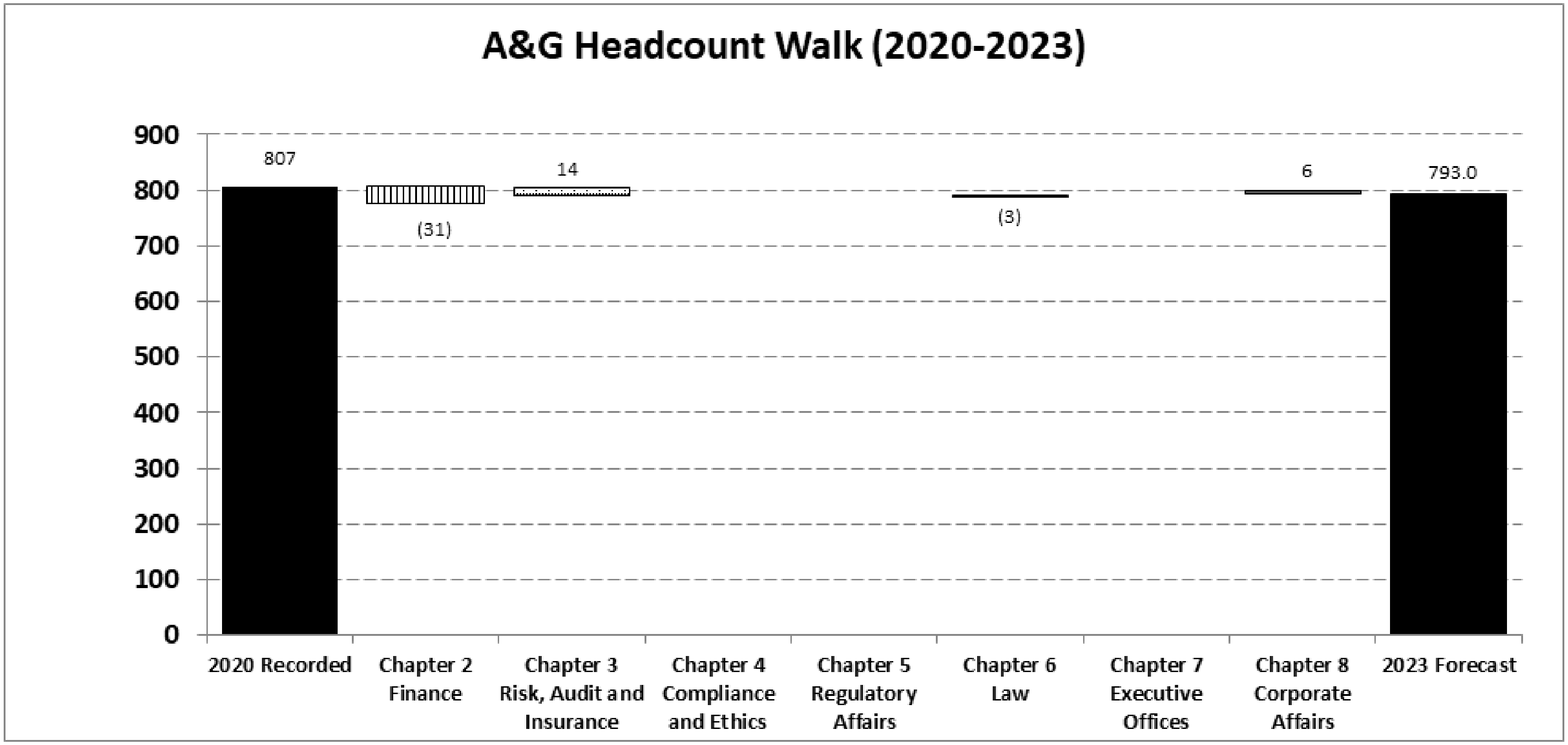
Among other things, PG&E's A&G forecast includes labor costs, which are included in Federal Energy Regulatory Commission (FERC) Account 920. Pursuant to CPUC Resolution E-4963 (December 14, 2018), PG&E has excluded from its 2023 forecast the salary and benefits of the utility's Securities and Exchange Commission (SEC) Rule 240.3b-7 officers. PG&E has also voluntarily excluded from its 2023 forecast the salary and benefits of the PG&E Corporation's SEC Rule 240.3b-7 officers although not required by the Resolution. See Exhibit (PG&E-8), Chapter 4 for further discussion of officer compensation costs. To the extent such costs were included in the forecast for employee benefits, adjustments were made by plan to remove costs associated with these officers.[7]

7 Exhibit (PG&E-8) HR, Ch. 4 Compensation for additional information.

As shown in Figure 1-1 above, contract reductions represent the largest area of cost decreases among A&G organizations. The overall $10.2 million contract costs decrease is approximately 6 percent from the 2020 recorded adjusted costs. With the exception of PG&E's Executive Offices and the Corporate Affairs organization,[8] the reductions are forecasted in the Finance, Risk Audit and Insurance, Compliance and Ethics and Law organizations. In addition to contract costs, PG&E also forecasts reductions in staffing in 2023. Figure 1-2 below shows the headcount changes by A&G organization.

8 The Corporate Affairs organization is forecasting an increase in contract costs primarily to support Commission-mandated work.

FIGURE 1-2
FULL-TIME EQUIVALENT (FTE) EMPLOYEES



(PG&E-9)

Most A&G organizations' headcount is remaining flat or decreasing. Collectively, the A&G organizations are forecasting a total headcount reduction of 13 FTEs for 2023, which represents approximately 1.5 percent of the total A&G workforce compared to 2020 levels. This will result in a total decrease of approximately $8 million (or 5 percent) to the A&G forecast compared to 2020 recorded adjusted costs.

The headcount reductions are occurring in the Finance and Law organizations with reductions of 31 FTEs and 3 FTEs, respectively.[1] Finance headcount reductions are planned to occur naturally through attrition and Law reductions by not filling some existing vacancies. Only the Corporate Affairs and Risk, Audit and Insurance organizations forecast the addition of new employees. Corporate Affairs plans to add 6 FTEs to support Commission-mandated Climate Vulnerability Assessment work, and to support the Local Government Relations function.[2] Risk, Audit and Insurance plans to fill 14 existing FTE vacancies to support key functions across the organization including Market and Credit Risk Management, Internal Audit, Sarbanes Oxley compliance, Third Party Risk Management and Insurance. Information about the headcount forecast changes is provided in those organizations' respective chapters in this exhibit.[3]

Companywide A&G Expenses – $959.6 million[4]

PG&E's 2023 forecast is $36.9 million (approximately 4 percent) lower than 2020 recorded adjusted costs of $996.5 million.[5] The 2020 recorded costs include approximately $360 million of one-time costs that are not expected to recur in 2023.[6] The 2023 forecast reflects approximately a 51 percent increase compared to the 2020 recorded adjusted when accounting for the removal of the non-recurring items. A primary driver of the corporate items forecast is the

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1 See Exhibit (PG&E-9), Ch. 2 for discussion of the Finance Organization headcount decrease; See Exhibit (PG&E-9), Ch. 6 for discussion of the Law Organization headcount decrease.

2 See Exhibit (PG&E-9), Ch. 8 for discussion of these FTEs.

3 See Exhibit (PG&E-9), Ch. 3 for discussion of these FTEs.

4 See Table 1-4.

5 See Table 1-4.

6 These relate primarily to accelerated expense recognition of future insurance premiums and the purchase of additional Directors and Officers liability insurance in 2020.

continuing high market cost of wildfire liability insurance along with cost increases for various other insurance types. PG&E's wildfire insurance forecast is based on the cost of its most recent renewal from April 2021, which is the most recent cost data available. Consistent with previous Commission guidance, PG&E has included only 50 percent of the forecast cost of Directors and Officers insurance in its 2023 forecast. Insurance is discussed in Exhibit (PG&E-9), Chapter 3. Other corporate items include Bank Fees;[7] Settlements, Judgments and Claims;[8] and Director Fees and Expenses.[9] The A&G Corporate Items are shown in Table 1-1 below.

<u>IT Projects</u>

PG&E's 2023 forecast expense is $1.6 million, which is $0.5 million (approximately 25 percent) lower than 2020 recorded costs of $2.1 million. The reduction is primarily due to a decrease in the Finance and Regulatory Affairs department IT costs. Capital IT forecast cost amounts are: $0.1 million in 2021, $3.0 million in 2022, $2.5 million in 2023, $2.5 million in 2024, $2.5 million in 2025 and $2.5 million in 2026.[10]

These forecasts consist of IT projects designed to support the Corporate Services organizations. Table 1-5 provides IT expense from 2016 through 2023 and Table 1-6 provides IT and other capital expenditures from 2016 through 2026.

C. Forecasting Process

As described in Exhibit (PG&E-2), Chapter 3, PG&E's enterprise-wide planning and budgeting process (known as the Operating Rhythm) sets the foundation for PG&E's 2023 GRC planning process. The Operating Rhythm is the successor planning and budgeting process to the Integrated Planning Process that was followed to prepare PG&E's 2020 GRC forecast. PG&E adjusts the forecast developed through the Operating Rhythm process by removing below-the-line activities (i.e., items that are not included in the revenue

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7 See Exhibit (PG&E-9), Ch. 2.

8 See Exhibit (PG&E-9), Ch. 6.

9 See Exhibit (PG&E-9), Ch. 7.

10 See Tables 1-5 and 1-6.

requirement for cost recovery), capitalizing costs, and removing non-utility affiliate activities.[11]

D. Risk Assessment Mitigation Phase

As described in Exhibit (PG&E-2), Chapter 3, PG&E submitted its second Risk Assessment and Mitigation Phase (RAMP) report in 2020, which incorporated 12 risk models that use both quantitative and qualitative inputs to model baseline risk and mitigated risk. In the RAMP report, PG&E presented its top safety risks for which it expects to seek cost recovery for its related controls and mitigations in the GRC or other rate proceedings. Cross-cutting factors are drivers and/or consequences that may impact multiple event-based risks, and are incorporated into the analysis of risk events. Exhibit (PG&E-9) includes one cross-cutting factor (Climate Change) identified in the 2020 RAMP report. This is discussed in the Corporate Affairs testimony. An example of a 2020 RAMP risk impacted by Climate Change is wildfires.

E. Compliance With 2020 GRC Settlement: Section 5.2

Section 5.2[12] of the 2020 GRC Settlement Agreement requires PG&E to make an additional showing in its 2023 GRC testimony for work that was previously requested and authorized based on representations that the work was needed to provide safe and reliable service. In the 2020 GRC and the 2019 Gas Transmission and Storage, the A&G organizations did not request or receive authorized funding for any work (1) identified as safety, reliability, or maintenance-related in the 2020 Risk Spending Accountability Report or (2) based on representations in testimony and work papers that the work was needed to provide safe and reliable service.

F. Structure of the Exhibit

Table 1-1 below shows the types of costs and other information provided in the A&G exhibit on a chapter-by-chapter basis.

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[11] Exhibit (PG&E-9), Ch. 9 for further information about these adjustments.

[12] A.18-12-009, In the 2020 GRC settlement agreement, (December 20, 2019), p. 36, Section 5.2, approved by the CPUC in D.20-12-005, the settling parties agreed that PG&E will continue to make a deferred work showing consistent with the format of the showing in PG&E’s 2020 GRC testimony. The six principles of deferred work continued in the 2020 GRC that were agreed to in the 2017 GRC settlement are listed in the 2017 GRC settlement agreement, (August 3, 2016), p. 1-29 to p. 1-30, Section 3.2.8.4, see A.15-09-001.

TABLE 1-1
SUMMARY OF TYPES OF COSTS

Line No.	Chapter	Department Cost	Companywide Expense	IT	RAMP
1	1	Introduction	N/A	N/A	N/A
2	2	Finance	Bank/Trustee Fees	x	N/A
3	3	Risk, Audit, and Insurance	Liability and Property Insurance	x	N/A
4	4	Compliance and Ethics	N/A	x	N/A
5	5	Regulatory Affairs	N/A	x	N/A
6	6	Law Organization	Third Party Claims; Litigation, Settlement, and Judgments	x	N/A
7	7	PG&E Corporation, PG&E Executive Offices, Corporate Secretary	Director Fees and Expenses	N/A	N/A
8	8	Corporate Affairs	N/A	N/A	x
9	9	A&G Ratemaking Adjustments	N/A	N/A	N/A

G. Cost Tables

The forecasts for Exhibit (PG&E-9) costs are shown in Tables 1-2 through 1-6 below. The testimony and workpapers (WP) for each organization contain additional detail regarding its forecast.

TABLE 1-2
SUMMARY OF DEPARTMENT EXPENSES
CORPORATES SERVICES ORGANIZATIONS
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	Chapter 2: Finance	$63,508	$64,625	$63,510	$54,707	$60,554	$53,006	$54,734	$54,456	WP 1-9, line 28
2	Chapter 3: Risk, Audit, and Insurance	9,476	8,633	9,729	9,499	12,220	12,498	12,853	13,220	WP 1-9, line 56
3	Chapter 4: Compliance and Ethics	5,695	6,580	6,767	6,257	7,241	7,853	8,069	8,298	WP 1-9, line 13
4	Chapter 5: Regulatory Affairs	18,072	15,744	14,751	14,259	15,889	16,570	17,056	17,558	WP 1-9, line 49
5	Chapter 6: Law	53,211	50,650	51,281	47,470	49,131	46,248	46,738	46,666	WP 1-9, line 35
6	Chapter 7: Executive Offices and Corporate Secretary	8,536	7,823	7,369	4,874	11,203	4,971	5,022	5,064	WP 1-9, line 42
7	Chapter 8: Corporate Affairs	12,958	7,859	6,753	6,026	7,018	7,854	7,976	8,898	WP 1-9, line 20
8	Total	$171,456	$161,916	$160,160	$143,092	$163,256	$149,000	$152,449	$154,160	WP 1-9, line 6

TABLE 1-3
SUMMARY OF DEPARTMENT EXPENSES BY FERC ACCOUNT
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	920 – A&G Salaries	$95,739	$94,767	$90,505	$88,649	$93,123	$95,246	$97,134	$100,400	WP 1-9, line 1
2	921 – Office Supplies and Ex.	6,809	4,395	5,695	5,204	5,030	5,091	5,114	5,138	WP 1-9, line 2
3	923 – Outside Service Employees-Utility	46,454	42,838	46,058	36,491	49,586	34,651	35,878	33,993	WP 1-9, line 3
4	923 – Outside Service Employees-Corp	8,852	8,306	8,523	3,220	4,308	3,241	3,259	3,265	WP 1-9, line 4
5	Business Finance – OS	13,602	11,609	9,379	9,527	11,210	10,772	11,064	11,365	WP 1-9, line 5
6	Total	$171,456	$161,916	$160,160	$143,092	$163,256	$149,000	$152,449	$154,160	WP 1-9, line 6

TABLE 1-4
SUMMARY OF COMPANYWIDE A&G EXPENSE ITEMS IN THIS EXHIBIT
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	Chapter 2: Bank Fees	$4,359	$5,006	$4,504	$22,959	$8,809	$12,807	$13,619	$10,749	WP 2-74, line 5
2	Chapter 3: Liability Insurance	64,044	164,941	451,993	134,021	98,781	155,847	158,592	161,760	WP 3-29, line 2
	Chapter 3: Wildfire Liability Insurance	–	–	–	–	768,596	726,622	707,499	707,499	WP 3-29, line 3
3	Chapter 3: D&O Liability Insurance	2,118	1,710	3,425	24,494	26,997	6,191	6,315	6,441	WP 3-29, line 1
4	Chapter 3: Property Insurance	21,449	20,694	15,048	20,451	11,673	22,504	29,047	28,632	WP 3-29, line 4, 5
5	Chapter 3: Corporate Insurance	712	710	890	5,615	10,131	2,661	2,698	2,744	WP 3-29, line 6
6	Chapter 6: Settlements and Judgments	27,051	11,170	29,097	405	59,565	25,059	25,059	25,059	WP 6-29, line 1
7	Chapter 6: Third-Party Claims	12,839	21,391	16,438	9,096	10,267	14,298	14,298	14,298	WP 6-29, line 2
8	Chapter 7: Director Fees	1,974	1,881	1,952	2,618	1,671	2,054	2,369	2,440	WP 7-38, line 1
9	Total	$134,546	$227,503	$543,347	$219,659	$996,490	$968,043	$959,496	$959,622	

TABLE 1-5
IT EXPENSE
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	Chapter 2: Finance	$4,799	$1,494	$867	$836	$819	$468	$468	$468	WP 2-78, line 2
2	Chapter 3: Risk, Audit, and Insurance	22	644	(7)	–	–	107	207	104	WP 3-33, line 2
3	Chapter 4: Compliance and Ethics	26	280	311	125	107	175	225	225	WP 4-28, line 2
4	Chapter 5: Regulatory Affairs	1,032	1,458	1,080	327	763	279	429	429	WP 5-46, line 2
5	Chapter 6: Law	415	151	233	238	449	314	314	314	WP 6-34, line 2
6	Chapter 7: Executive Offices and Corporate Secretary	–	–	–	–	–	–	–	–	
7	Total	$6,295	$4,027	$2,484	$1,526	$2,138	$1,343	$1,643	$1,540	

TABLE 1-6
IT AND OTHER CAPITAL EXPENDITURES
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	2024	2025	2026	WP Reference
1	Chapter 2: Finance	$3,484	$1,102	$2,511	$1,314	$45	–	–	–	–	–	–	WP 2-80, line 2
2	Chapter 3: Risk, Audit, and Insurance	2,155	694	20	(6)	–	–	$1,000	$500	$500	$500	$500	WP 3-35, line 2
3	Chapter 4: Compliance and Ethics	–	1,314	1,120	494	1	–	500	500	500	500	500	WP 4-30, line 2
4	Chapter 5: Regulatory Affairs	9,906	3,600	1,605	684	1,279	100	1,500	1,500	1,500	1,500	1,500	WP 5-48, line 2
5	Chapter 6: Law	489	–	–	–	–	–	–	–	–	–	–	WP 6-36, line 2
6	Chapter 7: Executive Offices and Corporate Secretary	–	–	–	–	–	–	–	–	–	–	–	
7	Total	$16,054	$6,709	$5,256	$2,486	$1,325	$100	$3,000	$2,500	$2,500	$2,500	$2,500	

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 2

FINANCE ORGANIZATION COSTS

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CHAPTER 2
FINANCE ORGANIZATION COSTS

A. Introduction

1. Summary of Request

Pacific Gas and Electric Company's (PG&E or the Company or the Utility) Finance organization provides the necessary financial capabilities found in any large, publicly traded company. It is responsible for functions such as raising capital, communicating with investors, providing financial forecasts, filing financial statements with the Securities and Exchange Commission (SEC) and other regulatory bodies, making necessary tax filings with federal and state authorities, and managing payment services for employees and vendors. It also works with the other organizations within the Company to plan and manage budgets and improve processes and performance. The Finance organization works to provide these services efficiently, while continually adapting to changes in the Company's business environment. The organization strives to continuously improve the efficiency and effectiveness of its processes and tools.

The Finance organization forecast for 2023 is as follows:

Department Costs – $54.5 million.[1,2] This amount is $6.1 million (11.2 percent) lower than the 2020 recorded amount of $60.6 million.[3] In 2020, the organization had 378 Full-Time Equivalent (FTE) positions. The Department's 2023 forecast includes a staffing reduction of 31 FTEs from 2020.[4] The staffing decrease will occur through natural attrition and by not backfilling for other vacancies. PG&E also forecasts an overall decrease in

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1 See Table 2-1, line 8.

2 Pursuant to CPUC Resolution E-4963 (Issued Dec. 14, 2018), PG&E has excluded from its 2023 forecast the salary and benefits of the utility's SEC Rule 240.3b-7 officers. PG&E has also voluntarily excluded from its 2023 forecast to the salary and benefits of the PG&E Corporation's SEC Rule 240.3b-7 officers although not required by the Resolution. See Exhibit (PG&E-8), Ch. 4 for further discussion of officer compensation costs.

3 See Table 2-1, line 8.

4 Exhibit (PG&E-9), WP 2-8, line 16.

contract costs and fees driven by reductions for Controller contracts and outside services. These decreases are partially offset by an increase for labor escalation.[5]

Bank Fees – The 2023 forecast for bank fees is $10.7 million.[6] This is an increase of $1.9 million (22 percent) compared to 2020, which is driven primarily by an increase in letter of credit fees associated with real estate transactions, as well as upfront and other fees associated with the Accounts Receivable facility put in place in late 2020.

Information Technology (IT) Projects – Finance forecasts $0.5 million[7] in ongoing maintenance work that supports the core financial systems of PG&E.

2. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

- Section B – Department Costs;
- Section C – Companywide Expenses;
- Section D – IT Projects;
- Section E – Description of Corporate Risk: Liquidity Risk; and
- Section F – Cost Tables.

B. Department Costs

1. Summary of Forecast

Activities for the department are described in Section B.2. Figure 2-1 shows the drivers of changes in department costs, from 2020 recorded adjusted costs to the 2023 forecast. These drivers are discussed in Section B.3 2023 Forecast Drivers.

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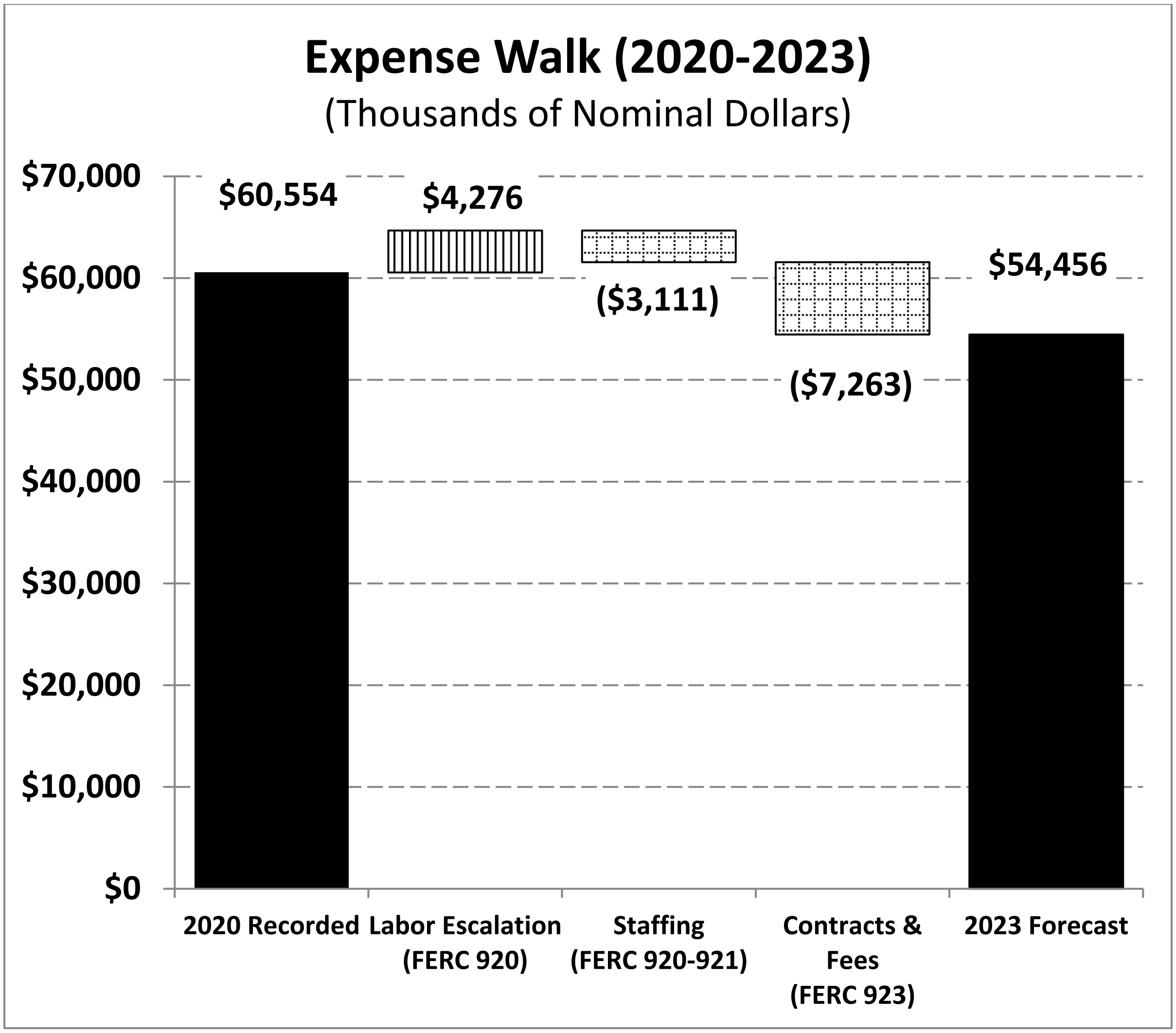
5 See Section B.3.c. for a discussion of contracts and fees.

6 See Table 2-3, line 5.

7 See Table 2-4, line 1.

FIGURE 2-1
EXPENSE WALK (2020-2023)
(THOUSANDS OF NOMINAL DOLLARS)



2. Organization Descriptions

a. EVP and Chief Financial Officer (CFO)

1) Department Overview

The PG&E Corporation Executive Vice President (EVP) and CFO's office has overall responsibility for PG&E's financial functions.

2) Functions of Department

The PG&E Corporation EVP and CFO's responsibilities include the following:

- Advising the Board of Directors on the full range of strategic and financial options for the Company and PG&E Corporation;
- Working with the lines of business (LOB) to develop budgets and forecasts for necessary work;
- Overseeing the short-term and long-term financial outlook of the Company and PG&E Corporation;
- Overseeing SEC filings, other regulatory filings, and tax filings;
- Communicating financial expectations and performance to investors, the financial community and employees;
- Overseeing financial transactions including cash management, debt, and equity issuances, and payments to vendors and employees;
- Promoting continuous improvement within the Finance organization; and
- Overseeing the operations of the Office of Vice President (VP) and Chief Audit Officer.[8]

The EVP and CFO's office also includes his assistant and a chief of staff that report directly to the EVP and CFO. The chief of staff is responsible for providing the analytics, metrics monitoring, and process improvement initiative support for the Finance organization. At the end of 2020, the EVP's office consisted of two FTEs.[9]

The EVP and CFO currently remain at PG&E Corporation. The analysis provided in Exhibit (PG&E-9), Chapter 9, Administrative and General (A&G) Ratemaking Adjustments, was used to determine the portion of time spent on Company and non-Company matters.

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8 Exhibit (PG&E-9), Ch. 3, Risk and Audit Department Costs and Insurance Expense for the costs and activities associated with the VP and Chief Audit Officer's organization.

9 Exhibit (PG&E-9), WP 2-8, line 5.

b. Business Finance

1) Department Overview

PG&E's Business Finance Department is responsible for budgeting, financial planning, and forecasting activities for all PG&E organizations. Business Finance also communicates that information internally, directs financial support for strategy analyses and provides technical leadership on projects focused on improving utility performance in specific operational areas. PG&E's Business Finance Department is responsible for monitoring and reporting the financial and operational performance of the LOBs, providing economic analysis and project governance services, providing project leadership and support for improving utility performance and enabling decision support and technology support for the Company's financial applications and systems.

The Business Finance Department is composed of Business Finance Services and Finance Process & Systems (FPS).

At the end of 2020, the Business Finance Department consisted of 143 FTEs.[10]

2) Functions of Department

a) Business Finance Directors

The Business Finance Directors report to the VP and are responsible for:

- Overseeing the Planning Process to establish the Company's and LOBs' multi-year operational and financial plans
- Working with the LOBs to evaluate, set, and adjust financial performance targets for operations and projects;
- Governing and reporting of financial performance of LOBs;
- Supporting continuous improvement and process improvement within the LOBs and across the Company; and

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[10] Exhibit (PG&E-9), WP 2-8, lines 1-2.

- Partnering with the Strategy and Policy organization to provide financial oversight and rigor to strategic decisions.

b) Business Finance Services

- Business Finance Services is responsible for the financial planning, forecasting, and reporting of every LOB within PG&E. The Business Finance Services enables effective financial management. The costs for Electric, Gas, Energy Supply and Customer Care specific business services have been recorded and are forecast in Federal Energy Regulatory Commission (FERC) operating accounts, while the remainder of the costs have been recorded and are forecast in the A&G FERC accounts.[11] Business Finance Services consists of two subsections: Operational Services and Corporate Services.
- **Operational Services:** Operational Services provides business planning and business decision support services to PG&E's operations organizations: Electric Operations; Gas Operations; Customer Care; Energy Supply (Power Generation and Nuclear Generation); Shared Services; and IT. Specifically, Operational Services ensures that senior management in the operations' organizations receive accurate views of financial information; manages the budgeting and forecasting process with the operations organizations; reports on financial and operations performance; and ensures that costs are accurately recorded.
- **Corporate Services:** Corporate Services supports Finance and Risk, Human Resources, General Counsel, Strategy and Policy, Safety and Health, Compliance and Ethics, Office of the Chairman, and the Utility President. Corporate Services provides the same types of business and financial

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11 For more information on the forecasts in FERC operating accounts, see Exhibit (PG&E-9), WP 2-3 and WP 2-37 through WP 2-45. As with A&G and company-wide expense, a portion of these costs are not recovered in PG&E's GRC.

services that Operational Services (described above) provides to PG&E's operating organizations. These services ensure effective financial management of PG&E's Corporate Service organizations.

c) **Finance Process and Systems**

FPS provides the operational support (OS) to enable efficient financial processes and systems to access accurate financial information. FPS oversees and manages all IT projects within the Finance organization and is also responsible for the Finance Technology Roadmap (i.e., long-term IT plans for financial applications and systems). FPS ensures the integrity of the financial applications, maximizes internal cost management, and effectively manages Finance IT projects.

FPS consists of two sections: Cost Model Governance & Support and Financial Application Support.

- **Cost Model Governance and Support:** Cost Model Governance & Support provides cost model advice and support to business partners and ensures that the Company complies with cost accounting policies. In addition, the section reviews and posts field journal entries and budget transfers; manages overheads and various cost allocation rules; and approves and/or changes master data such as cost centers and Major Work Categories (MWC).
- **Financial Application Services:** Financial Application Services manages PG&E's major financial applications such as SAP (general ledger, accounts payable, treasury, cost accounting, project system), PowerPlant (asset management, tax provisioning, capital forecasting), Concur (expense reimbursement), SAP Reporting (all areas) and SAP Business Planning and Consolidations (cost center planning, order planning, consolidations). The section partners with the IT organization to ensure that the finance systems are stable and available to end users as scheduled.

c. Controller

1) Department Overview

PG&E's Controller's Department has the primary responsibility for financial accounting, external financial reporting, and enterprise forecasting and monitoring. The Controller's Department is composed of the VP's office and four sections: Capital Accounting; Corporate Accounting; Financial Forecasting and Revenue Requirements; and Tax.

At the end of 2020, the Controller's Department consisted of 123 FTEs.[12]

2) Functions of Department

a) VP, Controller, and Utility CFO

The responsibilities of the VP-Controller-CFO's office include oversight of all parts of the Controller's Department and management of the Utility CFO responsibilities. The VP-Controller-CFO's specific responsibilities include:

- Overseeing PG&E's financial and regulatory accounting and reporting in accordance with Generally Accepted Accounting Principles and other regulatory requirements as promulgated by the California Public Utilities Commission (CPUC or Commission), FERC, and other regulatory bodies;
- Establishing and implementing PG&E's accounting policies;
- Working closely with external auditors on matters involving PG&E;
- Monitoring monthly financial performance for the enterprise; and
- Providing financial forecasts for the enterprise.

b) Capital Accounting

Capital Accounting is responsible for providing timely accounting of PG&E's fixed assets, establishing the

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12 Exhibit (PG&E-9), WP 2-8, line 3.

capitalization policies for PG&E and providing capital recovery analysis for regulatory filings. The Capital Accounting section is composed of the senior director's office and three subsections: Capital Accounting; Capital Advice; and Capital Recovery.

- **Capital Accounting:** Capital Accounting closes the books monthly for plant, accumulated depreciation, and other capital-related items; calculates Allowance for Funds Used During Construction (AFUDC); records and analyzes depreciation and asset retirement obligations; and accounts for property sales and assists in preparing regulatory filings for approval of such sales.
- **Capital Advice:** Capital Advice informs business partners on the accounting implications of alternative transactions, determines the appropriate accounting treatment of complex issues, and supports the LOBs with the application of Company accounting policies and procedures.
- **Capital Recovery:** Capital Recovery analyzes AFUDC, cost of removal, depreciation, and decommissioning. Additionally, Capital Recovery performs revenue requirement calculations and regulatory analyses for rate base and depreciation for the GRC, Gas Transmission and Storage Rate Case, the Transmission Owner Rate Case (filed with FERC), and separately-funded projects.

c) Corporate Accounting

Corporate Accounting maintains the financial records for PG&E. This section prepares external financial reports and provides research, analyses, and advice on the accounting impacts of regulatory developments, significant business transactions, and implementation of PG&E's accounting policies. The Corporate Accounting section is composed of the senior director's office and two subsections: Corporate Accounting; Accounting Advice and External Reporting.

- **Corporate Accounting:** The Corporate Accounting section is responsible for the monthly close and reporting activities.

Specifically, the section records and reconciles customer-related and revenue-related accounts, analyzes revenue-related transactions for appropriate accounting treatment, and reconciles over 50 bank accounts. The section also analyzes and reconciles various employee benefits (including equity-based compensation and pension and post-retirement benefits accounts); records and reconciles all intercompany-related transactions; files the annual Significant Utility Affiliate Transactions Report with the CPUC; and records and reconciles energy-related cost accounts, balancing accounts, and regulatory asset and liability accounts.

- **Accounting Advice and External Reporting:** Accounting Advice and External Reporting prepares external financial reports and provides analyses and advice on the accounting impacts of regulatory developments, significant business transactions, and new accounting policies. The section also develops guidance on new accounting pronouncements and financial reporting disclosures, facilitates subsequent review and concurrence from independent auditors, develops the overall financial accounting policy, prepares the Utility's financial reports filed with the SEC, the FERC, and the CPUC (e.g., 77-M), and prepares employee benefit plan financial statements and related regulatory filings.

d) Financial Forecasting and Revenue Requirements

Financial Forecasting and Revenue Requirements plans and forecasts the Company's overall financial performance at the enterprise level and calculates revenue requirements for major rate cases. Additionally, the team manages the Utility's capital structure and identifies the Utility's financing needs. In addition, they provide a financing plan to the Treasury Department for use in ensuring the Company has access to liquidity to support its operations and energy procurement programs.

Financial Forecasting and Revenue Requirements is comprised of the director's office and three subsections: Financial Forecasting and Modeling; Financial Analysis and Reporting; and Revenue Requirements and Cost Analysis.

- **Financial Forecasting and Modeling:** Financial Forecasting and Modeling section provides long-term financial forecasts for the Board of Directors, senior management, regulatory filings, and credit rating agencies. In addition, it monitors the Company's capital structure and develops monthly forecasts and variance analyses of operating interest expense, holding company earnings, and shares outstanding.
- **Financial Analysis and Reporting:** Financial Analysis and Reporting provides enterprise-level analysis and reporting for financial performance, oversight and management of corporate item costs and revenues, and manages the enterprise annual budget. In addition, the section develops year-over-year and long-term budgets and forecasts for each corporate revenue and expense item, supports monthly and quarterly close activities, and provides analytic support to senior management and Investor Relations.
- **Revenue Requirements and Cost Analysis:** This group supports regulatory filings by providing regulatory analysis and Results of Operations (RO) modeling. Responsibilities include providing revenue requirement calculation and analysis using the RO model, developing cost recovery mechanisms, and supporting regulatory proceedings.

e) Tax Department

The Tax section is responsible for all federal and state income tax matters and all property and sales/use tax matters. The section monitors and analyzes PG&E's taxes with the objective of keeping taxes as low as possible for its customers. Additionally, the Tax section is responsible for compliance with federal and state income tax laws.

The Tax Section is composed of the VP's office and four subsections: Tax Accounting; Tax Compliance; Tax Audit and Regulatory Support; and Client Service Initiatives.

- **Tax Accounting:** Tax Accounting is responsible for calculating current, deferred, and forecasted income taxes included in the Company's financial statements, SEC Forms 10Q and 10K, and FERC Form 1. The section is also responsible for analyzing tax issues attributable to the implementation of new and constantly changing accounting standards. Changes in accounting standards could cause changes in tax accounting methods that, in most cases, require permission from the Commissioner of the Internal Revenue Service (IRS).
- **Tax Compliance:** Tax Compliance prepares all annual and quarterly federal and state income tax filings, in compliance with federal and state income tax laws. In addition, the section also prepares and submits property tax filings with the Board of Equalization (BOE). Tax Compliance performs asset valuations and property appraisals for actual and proposed purchase, sale, or retirements of the Company's assets.
- **Tax Audit and Regulatory Support:** Tax Audit and Regulatory Support interacts extensively with the IRS, BOE, and Franchise Tax Board and, if necessary, represents PG&E from the initial examination, through the appeals process and in tax litigation. Additionally, this section develops the Company's income tax estimates and related testimony for CPUC and FERC ratemaking proceedings. This section also responds to tax regulatory inquiries and provides tax analysis and advice on regulatory matters.
- **Client Services Initiatives:** Client Services Initiatives provides income tax research and planning advice on proposed PG&E transactions and for analysis of new tax legislation.

d. Investor Relations

PG&E's Investor Relations Department structures and facilitates PG&E's communication with investors regarding financial performance and future expectations, including information about key milestones, regulatory decisions or proposed decisions, operational risks and other issues. Investor Relations' functions provide substantial benefit to the Company and its customers as they are critical for access to capital markets that enable the Company to obtain funding for infrastructure investments.

Investor Relations is composed of the Senior Director's office and the Investor Relations Department. The Investor Relations section is responsible for ensuring PG&E complies with the SEC rules and regulations pertaining to communication with investors. In addition, the Investor Relations section helps ensure PG&E has access to financial markets required to support investment in the electric and gas infrastructure necessary to ensure safe and reliable service.

At the end of 2020, PG&E's Investor Relations Department consisted of three FTEs.[13]

e. Treasury

1) Department Overview

PG&E's Treasury Department is responsible for optimizing PG&E's capital structure, executing all financing transactions, all payment services functions and ensuring sufficient liquidity to support the business, corporate, and strategic objectives. Treasury communicates with fixed-income investors, bankers, and rating agencies regarding PG&E's financial performance and future expectations, including financing needs.

Treasury functions are critical for the issuance and management of bank credit facilities and financial securities, which enables the Company to support ongoing operational activities and obtain funding for infrastructure investments. In addition, Treasury is

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[13] Exhibit (PG&E-9), WP 2-8, line 6.

responsible for the management of retirement, disability, and other benefits trust assets.

The Treasury Department is composed of the VP's office and five sections: Banking and Money Management; Investments and Benefit Finance; Payment Services; Strategic Analysis; and Economic and Project Analysis.

At the end of 2020, PG&E's Treasury Department consisted of 57 FTEs.[14]

2) Functions of Department

a) VP Treasury

The responsibilities of the VP Treasury's office include management and supervision of all treasury functions. Specifically, the VP and Treasurer's office ensures that:

- Financing is properly evaluated and executed to meet capital requirements, new and existing debt is managed, short-term borrowings and investments are executed to manage liquidity, and necessary bank services are provided to Utility departments;
- Trusts related to employee benefits at both the Utility and PG&E Corporation are properly managed;
- Accounts payable and payroll functions are executed accurately;
- Financial analysis of key strategic activities are executed; and
- Project managers evaluating financial viability of projects and initiatives are supported.

b) Banking and Money Management

The Banking and Money Management section executes financing transactions necessary for investments in infrastructure to serve PG&E's customers. In addition, by minimizing interest expense and financial transaction costs,

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14 Exhibit (PG&E-9), WP 2-8, line 7.

Banking and Money Management helps manage some of PG&E's costs. Banking and Money Management is responsible for:

- Setting enterprise-wide corporate finance policies such as dividend, capital structure, and liquidity;
- Establishing and maintaining effective relationships with banks, rating agencies, and fixed-income investors;
- Implementing and executing financing transactions to meet PG&E's capital requirements;
- Managing PG&E's new and existing debt, preferred stock, and common equity to minimize the long-term cost of capital while maintaining access to capital markets;
- Managing PG&E's cash flows to ensure sufficient liquidity to meet all corporate obligations;
- Managing short-term borrowing (Commercial Paper Program) and short-term investments; and
- Assisting other PG&E departments in implementing necessary bank services, such as electronic account reconciliation, check fraud detection and prevention, and alternative customer payment options.

c) Investments and Benefit Finance

The Investments and Benefit Finance section is responsible for ensuring appropriate funding and investment management of all external trust assets maintained by PG&E, and its holding company, PG&E Corporation, including PG&E's Retirement Plan, Post-Retirement Benefits Other Than Pensions medical and life insurance plans, as well as its Long-Term Disability (LTD) plan. Contributions and costs related to the LTD plan are discussed further and requested in Exhibit (PG&E-7), Chapter 1A. Contributions and costs related to all other trust accounts are discussed further and requested in Exhibit (PG&E-8), Chapter 4.

Investments and Benefit Finance serves as staff to the PG&E Corporation Employee Benefit Committee for assets related to Employee Benefit programs and as staff to the PG&E Nuclear Facilities Decommissioning Master Trust Committee for assets held for decommissioning PG&E's nuclear power plants. For these committees, Investments and Benefit Finance makes recommendations pertaining to all aspects of investment management, including investment policy and asset allocation, as well as asset class and investment management structure. In addition, Investments and Benefit Finance monitors quarterly investment performance and reviews funded status.

A small portion of the employee benefit assets managed by the Investments and Benefit Finance section are associated with PG&E Corporation employees. PG&E Corporation does not have its own investments and benefit finance organization. Using an allocation based on employee headcount, PG&E has allocated 0.03 percent of the section costs to PG&E Corporation. The allocation percentage was calculated by taking the total number of PG&E Corporation employees as a percentage of total Company employees.

d) Payment Services

Payment Services provides timely and accurate payments to employees, vendors, and other third parties. Payment Services also maintains compliance with employment tax reporting and payment requirements, administers employee expense reimbursements, and maintains records associated with Company credit cards and Purchasing Cards.

Payment Services is composed of two subsections: Accounts Payable and Payroll.

- **Accounts Payable:** Accounts Payable makes timely and accurate payments to vendors and employees and retains, organizes, and manages source documents as required by PG&E's procedures, government agencies, and regulators. The section processes all invoices and employee expense reimbursement checks. In addition, Accounts Payable administers the Corporate Credit Card Program and the

Petty Cash Program, reconciles Accounts Payable-related General Ledger accounts, provides tax withholding and reporting as required, and maintains all Accounts Payable-related master files and control tables.

- **Payroll:** The Payroll Department's primary function is to pay all employees and pensioners correctly, on time, and in compliance with bargained contracts, laws, ordinances, regulations, or mandated requirements. In addition, Payroll is responsible for disbursement of payroll taxes, overseeing garnishments and the production of periodic filings, and reporting requirements such as payroll tax filings, W-2s for employees, and 1099-Rs for pensioners.

e) Strategic Analysis

Strategic Analysis performs Utility and Corporation strategic analyses, focusing primarily on the financial aspects of key strategy activities. Strategic Analysis' workload includes specific projects for Utility clients. Additionally, Strategic Analysis partners with the Corporate Strategy organization, consolidates information, and prepares analytics and recommendations that enable informed decision making by PG&E senior management as well as the Board of Directors.

f) Economic and Project Analysis

Economic and Project Analysis provides economic and financial advice and analysis to support project managers in evaluating PG&E projects and initiatives; performs valuations of assets and liabilities; evaluates the impact of financing decisions and other financial impacts; analyzes recovery of the cost of capital, discount rates, capital structure, debt equivalency, incentive earnings, and credit capability.

f. Finance and Planning

1) Department Overview

Finance and Planning coordinates the Company's financial planning processes, including the timing and methods to complete detailed financial plans for the organization. The department is responsible for all versions of plan, budget, and target data in SAP.

At the end of 2020, the Finance and Planning Department consisted of 50 FTEs.[15]

2) Functions of Department

a) Enterprise Planning & Reporting

Enterprise Planning and Reporting facilitates PG&E's annual budgeting process. The section provides guidelines, requirements, and support for annual financial and operational targets for the Company through the 5-year Integrated Planning Process, specifically Sessions 1 and 2, and manages monthly financial and operations reviews with senior management.

b) Enterprise Project Management

Enterprise Project Management supports senior management in PG&E's project approval and tracking process; develops and implements project governance, quality improvements to project management, financial controls and budget planning policies and procedures for PG&E projects; and provides business case facilitation, training, tools and support for PG&E projects.

c) Enterprise Continuous Improvement

Enterprise Continuous Improvement focuses on improving utility performance in specific operational areas. Specifically, the section supports continuous improvement and process improvement within the LOBs and across the Company. The department also focuses on improving safety, human performance, quality, and efficiency.

3. 2023 Forecast Drivers

Figure 2-1 above shows the Finance Organization cost drivers for the 2023 forecast. Each of the drivers is discussed below:

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15 Exhibit (PG&E-9), WP 2-8, line 4. Excludes vacancies.

a. Labor Escalation

PG&E forecasts annual labor escalation of $1.3 million based on the escalation factors provided in Exhibit (PG&E-8), Chapter 4.

b. Staffing (FERC 920 and 921)

The Finance Organization has continued to support the needs of the enterprise while reducing its headcount over time. For 2023, PG&E forecasts a total staffing level in the Finance Organization of 347 FTEs,[16] which is a reduction of 31 FTEs (8 percent) compared to 2020. The staffing decrease will occur through natural attrition and by not backfilling for other vacancies. The FTE reductions are primarily attributable to an on-going drive for continuous process improvements. The 2023 forecast headcount of 347 FTEs represents a 15 percent total reduction in the size of the organization since 2017.

c. Contracts and Fees (FERC 923)

PG&E forecasts a $7.6 million reduction in 2023. Finance uses consultants to provide a variety of support services to the organization such as audits, payroll services, actuarial analysis, and other financial services. The forecast reduction is primarily attributable to non-recurring consulting work performed in 2020, which is not planned for 2023.

C. Companywide Expense

1. Bank Fees

Utility bank fees represent the fees charged for depository, disbursement, custody, and trustee-related services. Utility bank fees also include all fees associated with the Utility's working capital facilities. These costs are included in the estimate of bank fees recorded to FERC Account 930. For 2023, PG&E's forecast for Bank Fees is $10.7 million, which represents a 22 percent increase compared to 2020 recorded costs.[17] PG&E's forecast of bank fees for 2023 is based on actual expenses in 2020 adjusted for any planned capital structure changes and

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[16] Exhibit (PG&E-9), WP 2-8, line 8.

[17] See Table 2-3, line 5. Also, Exhibit (PG&E-9), WP 2-77 for additional information about forecast methodology and assumptions.

anticipated changes in contract terms. The increase compared to 2020 is primarily driven by an increase in Letter of Credit fees related to Letters of Credit supporting real estate transactions as well as upfront and other fees associated with the Accounts Receivable facility put in place in late 2020.

D. IT Projects

The Finance Organization forecasts $468 thousand in expense costs in 2023 to perform ongoing maintenance of its current systems for software upgrades and manufacturer obsolescence. These costs are summarized in Table 2-4.

These costs are forecasted in MWC JV (Maintain Applications and Infrastructure) and include costs for ongoing maintenance, operations, and repair for PG&E's applications, systems, and infrastructure, primarily to the SAP financial system. As part of the normal course of business, PG&E must upgrade and enhance its SAP financial system to maintain functionality and security. SAP is one of PG&E's most critical platforms and touches virtually all aspects of the Company's financial operations.

E. Corporate Risk: Liquidity Management

Liquidity risk is one of PG&E's top financial risks and is on the Corporate Risk Register. As such, PG&E describes the nature of the risk and its mitigation efforts in this section. There is no separate forecast for this item.

Liquidity risk is defined as the inability to meet financial obligations as they come due. The consequences of a significant liquidity event include operational impacts such as vendors curtailing deliveries of key supplies needed to maintain safe and reliable service, or financial impacts such as acceleration of payments, higher cost financing, or financial distress. Key drivers of liquidity risk include catastrophic events leading to extraordinary claims against PG&E, margin activity related to energy procurement contracts, customer billing and collection, credit ratings, compliance with financial agreements, and access to capital markets. In addition, the Utility's substantial capital investment program requires significant ongoing financing in the capital and bank loan markets, which magnifies the potential impact of a liquidity risk event.

To manage liquidity risk, each month the Utility monitors forward-looking liquidity risk metrics to ensure adequate liquidity even in the event of unexpected, unfavorable variances in cash flows. The Utility has access to significant liquidity through revolving credit facilities, which are a common resource for large companies and enable streamlined access to funds on a same-day basis. The Utility can supplement these facilities with additional liquidity through incremental financing when or if needed, subject to debt authorization limits approved by the Commission. In a more extreme situation, the Utility could implement more significant liquidity risk management measures including cash conservation or non-traditional forms of financing. In addition to the detective controls reviewed each month, the Utility has controls to monitor compliance with financial agreements and market conditions.

Current areas of focus for liquidity risk management include delayed cost recovery including coronavirus-related under-collections, managing debt maturities related to PG&E's rate neutral securitization application, and improving credit ratings over time.

F. Cost Tables

The Finance organization's recorded adjusted costs for 2020, forecast costs for expense for 2021 through 2023, and capital expenditures for 2021 through 2023 are shown in Tables 2-1 through 2-4.

TABLE 2-1
SUMMARY OF DEPARTMENT EXPENSE
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	CFO Immediate Office	$1,310	$1,385	$1,331	$534	$443	$368	$378	$388	WP 2-3 line 48
2	Business Finance	9,156	7,375	6,314	6,266	5,404	5,518	5,685	5,858	WP 2-3 line 35
3	Controller	24,193	22,761	22,064	20,857	26,458	19,606	20,428	19,215	WP 2-3 line 28
4	Investor Relations	873	822	1,007	1,268	970	778	795	813	WP 2-4 line 55
5	Treasury	8,647	8,488	9,298	7,853	8,155	8,032	8,235	8,444	WP 2-4 line 62
6	Finance and Planning	5,727	12,185	14,116	8,401	7,916	7,932	8,149	8,374	WP 2-3 line13
7	Business Finance – OS	13,602	11,609	9,379	9,527	11,210	10,772	11,064	11,365	WP 2-3 line 21
8	Total	$63,508	$64,625	$63,510	$54,707	$60,554	$53,006	$54,734	$54,456	WP 2-3 line 6

TABLE 2-2
SUMMARY OF DEPARTMENT EXPENSE BY FERC ACCOUNT
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	<u>Organization View</u>									
2	920 – Admin & Gen Salaries	$38,263	$39,990	$37,177	$35,664	$35,153	$33,801	$34,842	$35,916	WP 2-3 line 1
3	921 – Office Supplies & Ex	1,190	710	1,034	1,389	1,039	1,283	1,285	1,286	WP 2-3 line 2
4	923 – Outside Svc Employ – Utility	7,572	9,396	12,417	6,861	10,854	5,691	6,085	4,431	WP 2-3 line 3
5	923 – Outside Svc Employ – Corp	2,881	2,920	3,502	1,265	2,298	1,458	1,458	1,458	WP 2-3 line 4
6	OS	13,602	11,609	9,379	9,527	11,210	10,772	11,064	11,365	WP 2-3 line 5
7	Total	$63,508	$64,625	$63,510	$54,707	$60,554	$53,006	$54,734	$54,456	WP 2-3 line 6

TABLE 2-3
COMPANY WIDE EXPENSES – BANK FEES
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	Bank Service Fees	$1,464	$1,621	$1,283	$3,065	$1,637	$1,300	$1,303	$1,307	WP 2-91 line 1
2	Trustee Fees	171	174	186	20	201	40	20	20	WP 2-91 line 2
3	LOC Fees	94	92	107	800	1,444	3,639	3,648	1,750	WP 2-91 line 3
4	Bank Credit Fees	2,630	3,119	2,928	19,074	5,527	7,828	8,649	7,672	WP 2-91 line 4
5	Total	$4,359	$5,006	$4,504	$22,959	$8,809	$12,807	$13,619	$10,749	WP 2-91 line 5

TABLE 2-4
EXPENSES BY MWC
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	WP Reference
1	JV	Maintain IT Apps & Infra	$4,799	$1,494	$867	$836	$819	$468	$468	$468	WP 2-78 line 1
2	Total		$4,799	$1,494	$867	$836	$819	$468	$468	$468	WP 2-78 line 2

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 3

RISK, AUDIT, AND INSURANCE DEPARTMENTS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
RISK, AUDIT, AND INSURANCE DEPARTMENTS

A. Introduction

Pacific Gas and Electric Company's (PG&E, the Company or the Utility) Risk and Audit organization is responsible for overseeing PG&E's Market and Credit Risk Management (M&CRM), Internal Audit (IA), Insurance and Loss Control, Sarbanes Oxley (SOX) compliance, and Third Party Risk Management (TPRM) and other functions that help the Company manage its key risks.

In the 2020 General Rate Case (GRC), the Risk, Audit, and Insurance chapter included the responsibilities of the Chief Risk Officer (CRO) and the Enterprise and Operational Risk Management (EORM) department. In 2020, to further strengthen PG&E's enterprise-wide risk mitigation and operational safety capabilities, PG&E split the duties of CRO into two distinct roles: CRO and Chief Audit Officer. As a result, for the 2023 GRC, the EORM department was separated from Risk, Audit, and Insurance. EORM's 2023 policy testimony is in Exhibit (PG&E-2), Chapter 1 and its costs are forecast in Exhibit (PG&E-7) Chapter 11.

The forecasted costs of the Risk, Audit and Insurance departments are shown in Tables 3-1 through 3-13. PG&E requests that the California Public Utilities Commission (CPUC or Commission) adopt its forecast for 2023 as follows:

<u>Department Costs</u> – $13.2 million in expense in 2023.[1] This is $1 million (approximately 8.2 percent) higher than the 2020 recorded adjusted amount of $12.2 million.[2] The increase is driven primarily by labor escalation, staffing, and is partially offset by lower staff augmentation and consulting service costs.

<u>Companywide Insurance Expenses</u> – $907.1 million in expense in 2023.[3] This represents a decrease of approximately 1 percent compared to 2020

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1 See Table 3-9, line 3 and Table 3-10, line 5.

2 See Table 3-9, line 3 and Table 3-10, line 5.

3 See Table 3-11, line 19. PG&E requests an additional $75 million for each year 2024-2026 for wildfire liability insurance as part of its Post Test-Year Ratemaking proposal (See Exhibit 11, Ch. 2).

recorded costs.[4] The 2020 recorded costs include approximately $360 million of one-time costs that are not expected to recur in 2023.[5] The 2023 forecast reflects approximately a 63 percent increase compared to the 2020 recorded, adjusted when accounting for the removal of the non-recurring items. As described below, PG&E's forecast is based on the cost of its most recent renewal from April 2021, which is the most recent cost data available.

In Decision (D.) 20-12-005, the Commission authorized a new Risk Transfer Balancing Account (RTBA) for general liability insurance costs and authorized the use of self-insurance. PG&E requests authority to continue the RTBA for the 2023 GRC period. Additionally, PG&E proposes to designate a portion of the wildfire insurance liability insurance revenue requirement for the use of self-insurance to reduce reliance on the limited insurance market. As required by D.20-12-005, PG&E reports on the status of the self-insurance for the 2020 GRC period in Section C.4.

Information Technology (IT) Project Costs – $104 thousand in expense for 2023.[6] PG&E also requests that the Commission adopt its capital expenditure forecast of $1.0 million for 2022, $0.5 million per year in 2023, 2024, 2025, and 2026 for IT projects.[7] The IT projects support M&CRM's technology initiatives.[8] Tables 3-12 and 3-13 include forecasts for each year 2021-2023 for expense and 2021-2026 for capital, respectively.

B. Department Costs

1. Summary of Forecast

A description of the M&CRM, IA, Insurance and Loss Control, SOX, and TPRM organization's activities is provided in Section B.2. Figure 3-1 shows the primary drivers for overall department costs, from 2020 recorded adjusted costs to the 2023 forecast. The cost drivers for the 2023 forecast are discussed in Section B.3.

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4 See Table 3-11, lines 19-20.

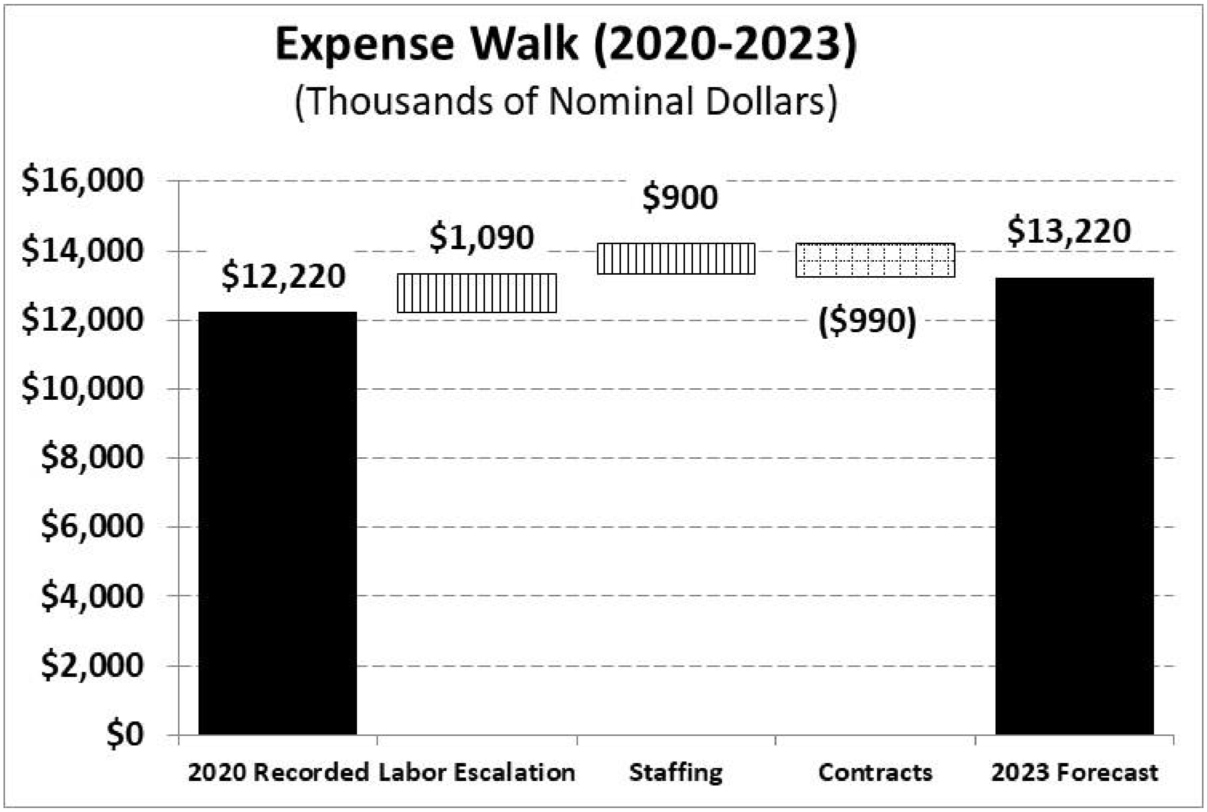
5 These relate primarily to accelerated expense recognition of future premiums and the purchase of additional Directors and Officers liability insurance in 2020.

6 See Table 3-12, line 2.

7 See Table 3-13, line 2.

8 See Section D for discussion.

FIGURE 3-1
WALK OF DEPARTMENT EXPENSE COSTS
(THOUSANDS OF NOMINAL DOLLARS)



2. Organization Description

The M&CRM, IA, Insurance and Loss Control, SOX, and TPRM organization[9] is comprised of the following sections:

a. The Vice President and Chief Audit Officer

- **Department Overview:** The Vice President (VP) and Chief Audit Officer provides oversight, management, and administrative functions for the M&CRM, IA, Insurance, and SOX and TPRM organizations.
- **Department Function:** The VP and Chief Audit Officer directs the departments that report to the VP and Chief Audit Officer to support

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[9] In 2020, the Risk, Audit, and Insurance chapter included the responsibilities of the Chief Risk Officer and the Enterprise Risk and Operation Management department. For the 2023 General Rate Case (GRC), the responsibilities of the Chief Risk Officer and the Enterprise Risk and Operation Management department can be found in Exhibit (PG&E-2), Ch. 1.

the lines of business' (LOB) risk management efforts and provides independent risk oversight over PG&E's energy procurement function. The VP and Chief Audit Officer serves on enterprise-wide governance committees (such as the Public Safety Risk Council, Risk Policy Committee/Utility Risk Management Committee and Wildfire Governance Steering Committee), on LOB Risk and Compliance Committees, and reports to the Audit Committee, and Safety and Nuclear Oversight Committees of the Board of Directors. The VP and Chief Audit Officer's Immediate Office had 2 Full-Time Equivalents (FTE) at the end of 2020—the VP and Chief Audit Officer and an Administrative Assistant, who also supports two other Directors within the team.

b. Market and Credit Risk Management (M&CRM)

- **Department Overview:** M&CRM measures and monitors market, liquidity, and credit risk.
- **Department Function:** The M&CRM Department provides the Utility critical services such as modeling and analysis, transaction monitoring, and market and credit risk management of financial and compliance risks of the multi-billion-dollar natural gas, nuclear fuel, and electric procurement and sales functions. These risks include volatile natural gas and electric markets, unauthorized trading, counterparty defaults, and emerging markets. In addition, M&CRM creates, analyzes, and manages energy procurement systems and controls to ensure compliance with regulatory decisions and mandates, and meet internal governance requirements.

  M&CRM processes and systems which address financial and compliance risks include counterparty credit exposure measures, energy commodity risk measures and metrics, transaction valuations, and price forecasts. Systems also include a commodity trading and risk management application environment with an automated control framework to manage trader limits, product controls, term and transaction value limits, procurement strategies, and associated controls and reporting.

M&CRM uses several metrics to monitor energy commodity-related risks for the Company, including counterparty exposure, market risk and associated time-based risk metrics including To-Expiration-Value-at-Risk (TeVaR), financial Liquidity-at-Risk, and collateral management and concentration risk. In addition, M&CRM supports the Sourcing organization with credit analysis and guidance on credit processes. M&CRM had 26 FTEs at the end of 2020, including one vacancy.[10]

c. Internal Audit

- **Department Overview:** IA provides independent, objective assurance over the adequacy of processes and controls to manage business risk and provides control advisory services.
- **Department Function:** IA is responsible for all internal audit services and follows a standardized, disciplined approach to help management evaluate and improve the effectiveness of risk management, control, and governance processes. IA's workplan focus' on the Utility's key operational (including safety), financial, IT, fraud and contract compliance, and compliance processes and controls to manage risks associated with the process under review. To meet its objectives and deliver cost-effective audit services, IA develops a risk-based audit plan that focuses on the Company's most significant business risks. IA also provides control advisory (CA) services to support the LOBs in defining all objectives to be achieved in a process, identifying the risks inherent to that process, and implementing controls commensurate with those risks.

The responsibilities assigned to IA are consistent with Institute of Internal Auditors standards. IA regularly discusses its work and coordinates efforts with the Company's external auditors (currently Deloitte & Touche LLP) to avoid duplication and overlap of audit efforts. IA reports its performance through a combination of metrics such as number of audits, number of control advisories, status of

[10] Exhibit (PG&E-9), WP 3-6.

open issues, and an aging of open issues. IA had 34 FTEs at the end of 2020 which included seven vacancies.[11]

d. Insurance and Loss Control

- **Department Overview:** The Insurance department manages and minimizes PG&E's financial exposure to major risks of loss through the procurement insurance.
- **Department Function:** The Insurance Department procures the necessary financial risk transfer products on behalf of the Company to protect against the potential risk of financial loss from PG&E's business operations, assets, and the delivery of electric and natural gas services. The department has two functions: (1) Insurance and (2) Loss Control.
  - **Insurance:** The Insurance Department is responsible for procuring and maintaining financial risk transfer products for the following first and third-party risks: Wildfire Liability, General Liability, Non-Nuclear Property, Nuclear Liability, Nuclear Property, Directors and Officers (D&O) Liability, Fiduciary Liability, Cyber Liability, Aviation and other smaller programs.

    Lastly, the Insurance Department supports third-party contracting by setting and reviewing insurance requirements in vendor contracts to provide financial protection for PG&E, securing surety bonds for LOBs, and supplying proof of insurance documents.
  - **Loss Control:** Loss Control consults with LOBs to reduce the frequency and severity of potential losses, helps improve operations and risk reduction efforts by inspecting PG&E facilities and conducting loss control surveys, and provides risk engineering support for large capital projects. This function also manages PG&E's pressure vessel permitting and compliance program, which involves working with LOBs and state certified

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[11] Exhibit (PG&E-9), WP 3-6. The headcount and vacancies shown for Internal Audit on WP 3-6 include those for Internal Audit, Insurance and Loss Control, SOX Compliance and TPRM discussed in the next sections.

inspectors to inspect the utility's pressure vessels and maintain current operating permits as required by law.

Insurance had 5 FTEs at the end of 2020 including one vacancy.[12]

e. SOX Compliance

- **Department Overview:** SOX Compliance oversees compliance with the SOX Act requirements;
- **Department Function**: The SOX team is responsible for monitoring and reporting on effectiveness of the PG&E Corporation's and the Utility's internal control over financial reporting related to Sections 302 and 404 of the SOX Act and providing technical guidance and advice to the LOBs with respect to changes in the Company's systems, processes, and controls impacting SOX Act compliance. The SOX team regularly discusses its work and coordinates SOX compliance efforts with the Company's external Auditors to ensure effective use of resources. The SOX compliance team had 8 FTEs at the end of 2020 which includes two vacancies.[13]

f. TPRM

- **Department Overview**: TPRM is responsible for establishing third-party registration and contract risk assessments requirements and for monitoring compliance with those requirements.
- **Department Function**: TPRM is responsible for third-party registration and contract risk screening process design, implementation, oversight, training, and reporting to demonstrate compliance with PG&E's non-delegable duty to assess and mitigate risks associated with services provided by third-party entities. TPRM has 6 FTEs which includes three vacancies.[14]

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12 *Ibid.*

13 *Ibid.*

14 *Ibid.*

3. 2023 Forecast Drivers

M&CRM, Audit, and Insurance has three main drivers affecting the 2023 forecast: (1) Labor Escalation; (2) Staffing; and (3) Contracts. The details of these drivers are discussed below.

a. Labor Escalation

For 2023, PG&E forecasts an increase of $1.1 million driven by annual labor escalation. The forecast labor escalation rates can be found in Exhibit (PG&E-8), Chapter 4, Compensation: Short-Term Incentive Plan (STIP), Non-Qualified Retirement and Labor Escalation.

b. Staffing

PG&E forecasts a net staffing-related increase of $900 thousand for 2023. In 2020, the total staffing level in the M&CRM, Audit, SOX, TPRM and Insurance organization was 81 FTEs, which included 14 vacancies. PG&E's 2023 forecast includes $900 thousand, which is approximately half of the total cost of filling the existing vacancies. PG&E will absorb the additional cost within its operating budget for 2023. For 2023, PG&E intends to fill the 14 vacancies as follows:

- **Internal Audit:** IA will fill seven total vacant positions to provide increased coverage over fraud, contract compliance, IT, Wildfire Risk and Vegetation Management, and Operations. Three of the seven positions have already been filled in the first half of 2021. The remaining four vacancies include: (1) two new fraud positions created in 2020, but which have not yet been filled, (2) one fraud position that became vacant in 2020, and (3) one operational related position that became vacant in 2019.[15]
- **TPRM:** TPRM will fill three vacancies that will support new vendor registration and supply chain contract risk screening, and the evaluation of the design and effectiveness of company's contractor oversight controls. One of these positions was filled the first quarter of 2021. PG&E is in the process of hiring a second position as of

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[15] Exhibit (PG&E-9), WP 3-41 – for additional information about these positions. See also, WP 3-85 for the job descriptions for these FTEs (the job posting for Internal Auditor, Senior (Operational) is being revised and is not included).

the time of this filing. This employee will perform work previously done by a contractor, resulting in a decrease in the staff augmentation costs.[16]

- **SOX Compliance:** Sox Compliance will fill two vacancies. One of these open positions was filled in the first quarter of 2021. The other will replace a position filled by a contractor in 2020, resulting in a decrease in the forecast staff augmentation costs.[17] These employees will strengthen the team's ability to evaluate the design and operating effectiveness of internal control over financial reporting and will support the LOBs in the design and implementation of new controls to reduce the risk of financial reporting errors.[18]
- **Insurance:** One vacancy to support the procurement and maintenance of financial risk transfer products.[19]
- **M&CRM:** One vacancy to perform credit-related duties and to assist with the development, test and deployment of risk management systems and models.[20]

c. Contracts

For 2023, PG&E forecasts a reduction in contracts of $1.0 million due to lower staff augmentation and consulting service expenses Approximately, $200 thousand of the reduction is attributable to PG&E's filling vacant FTE positions in SOX Compliance and TPRM for work performed by contractors in 2020.[21]

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[16] Exhibit (PG&E-9), WP 3-46 – for additional information about these positions. See also, WP 3-94 for the job descriptions for these FTEs (the job posting for Program Manager, Principal is being developed and is not included.).

[17] Exhibit (PG&E-3), WP 3-13 – Schedule D3 Historical and Forecast Year over Year Walk.

[18] Exhibit (PG&E-9), WP 3-49 – for additional information about these positions. See also, WP 3-96 for the job descriptions for these FTEs.

[19] Exhibit (PG&E-9), WP 3-49 – for additional information about this position. See also, WP 3-102 for the job description for this FTE.

[20] Exhibit (PG&E-9), WP 3-49 – for additional information about this position. See also, WP 3-100 for the job description for this FTE.

[21] Exhibit (PG&E-3), WP 3-13 – Schedule D3 Historical and Forecast Year over Year Walk.

C. Insurance Companywide Expense

PG&E maintains first-party property insurance to limit financial exposure for unforeseeable losses of its assets due to catastrophes such as fires, earthquakes, floods, or catastrophic operational losses. The Company also maintains liability insurance to protect against third-party claims. It is a reasonable business practice to procure and maintain financial protection for the Utility's risks through insurance and other risk transfer products.[22]

PG&E requests that the Commission adopt its insurance forecast of approximately $907.1 million and authorize continuation of the RTBA as described in this section.

The remainder of this section is organized as follows:

- Section C.1. – Describes how PG&E manages costs of insurance and develops capacity options;
- Section C.2. – Summarizes PG&E's 2023 Insurance Forecast;
- Section C.3. – Describes the various components of PG&E's property and liability insurance program and their associated forecasts. This includes a discussion of the RTBA and PG&E's request to continue the account for the 2023 GRC period. It also includes two proposals for the continued use of self-insurance in PG&E's 2023 insurance program, one of which would adopt a separate revenue requirement specifically for self-insurance. This section also reports on PG&E's use of self-insurance in the 2020 GRC period as required by the 2020 GRC settlement.[23]

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[22] The Commission noted the same in its decision in PG&E's 2014 GRC. (See, e.g., D.14-08-032, p. 550 ("Procuring excess liability insurance is a reasonable business practice;") p. 713, Findings of Fact 260 ("Ratepayer funding of insurance premiums offers a reasonable way to limit risks of large, unforeseeable loss of utility property due to natural catastrophes.").

[23] A.18-12-009, Joint Motion of the Public Advocates Office, The Utility Reform Network (TURN), Small Business Utility Advocates (SBUA), Center for Accessible Technology, The National Diversity Coalition, of California Utility Employees, California City County Street Light Association, The Office of the Safety Advocate and PG&E for Approval of Settlement Agreement (Dec. 20, 2019), Attachment 1, (Settlement Agreement) p. 28, Section 2.8.3.3.

1. PG&E Works to Find Capacity and Manage the Cost of its Insurance Program

As discussed in more detail in Section C.3.b.1, the significant increase in wildfire risk combined with the application of inverse condemnation to the California Investor-Owned Utilities (IOU) have exponentially increased the IOUs' potential liability for claims arising from wildfires. The general liability insurance market has responded with increased premiums and reductions in available insurance capacity for products covering wildfire risk, thereby reducing the amount of risk transfer PG&E can achieve through these products.[24]

PG&E works diligently to manage the cost of insurance and find available capacity where possible including: (1) working with expert insurance brokers to place coverage for the Company; (2) maintaining high deductibles to reduce premiums; (3) working to incorporate self-insurance into its program structure; and (4) exploring alternative market-based products that may offer better pricing and additional capacity compared to traditional insurance.

a. PG&E Works With Expert Insurance Brokers to Fill its Insurance Needs

One of the primary ways PG&E finds available capacity and manages the costs of its insurance program is by working with large insurance brokers as well as specialty broker who are experts in placing insurance for energy companies. As part of the renewal process, PG&E's brokers extensively survey numerous market participants to assess virtually all potential coverage opportunities available. The brokers have access to global markets to assist with developing insurance capacity options, to increase competition among prospective counterparties, and to negotiate price and policy terms from offers received. By working with these brokers, PG&E ensures that the price and terms of the insurance products it purchases are consistent with market conditions.

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[24] See Section C.3. for additional discussion of premiums and capacity.

b. PG&E Maintains Large Deductibles for Commercial Insurance Products

Another tool PG&E uses to manage the cost of insurance premiums is maintaining large deductibles across its insurance programs. For example, PG&E currently maintains liability insurance deductibles of $10 million (non-wildfire) and $60 million (wildfire), and a non-nuclear property deductible of $50 million. Insurance coverage begins only when losses exceed the deductible. Retaining risk through large deductibles can be an effective method for reducing insurance premium costs as it lessens the financial exposure of insurance providers to loss events, which is a consideration in the pricing of insurance.

c. PG&E Is Working to Incorporate Self-Insurance Into Its Program

As the price of wildfire liability insurance in the commercial market continues to increase, the level of effective financial risk transfer achieved by purchasing commercial policies continues to decrease. PG&E is seeking to address this issue by incorporating self-insurance into its program structure. PG&E discusses this in more detail in Section 3.b.1.c.ii below.

d. PG&E Evaluates Other Market-Based Alternative Insurance Products That May Offer Better Pricing and Additional Capacity

In addition to traditional insurance and self-insurance described above, PG&E researches other sources of potential insurance capacity, such as:

1) Captives

A captive is a licensed insurance company created by a company, or group of companies, to cover unique risks specific to the operations of the forming companies that are difficult to place directly into the traditional insurance market (e.g., wildfire risk). Through the captive, these risks can be covered by funds invested in the captive, placement of the risk into markets that are not commonly accessible due to the licensing status of the captive (e.g., reinsurance and capital markets), or a combination of both. The benefits of using a captive include but are not limited to: (1) an ability to fund one's own risk in lieu of purchasing high-cost policies offered by insurance carriers; (2) the opportunity to market the risk to a wider audience and thereby increase the competitiveness of quotes; and (3) the pursuit of additional capacity that is unavailable in the absence of a captive.[25] In 2017, PG&E established a captive (PG&E only) to pursue additional sources of wildfire liability capacity. The creation of the captive allowed PG&E to directly access the reinsurance markets resulting in the procurement of approximately $100 million in wildfire property damage liability protection at more cost-effective pricing than offers of comparable insurance in the traditional markets. The Company has continued to use the captive in subsequent insurance renewals, including its April 2021 wildfire liability renewal in which approximately $31.8 million in wildfire property damage liability reinsurance was secured.

2) Catastrophe (CAT) Bonds

A CAT bond is another tool to transfer financial risk to external counterparties. Specifically, CAT bonds transfer risk to capital markets, rather than to insurance companies. Although historically used for large catastrophic risks such as earthquakes, hurricanes, floods and other weather driven events, PG&E successfully placed a CAT bond in 2018 as an alternative source of coverage to address third-party liability claims for wildfire-caused property damages. This effort was the first in the CAT bond market and similar efforts have been used by other utilities since the creation of this product.[26] PG&E continues to explore the use of CAT bonds in the company's liability renewals, as well as other programs where there

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25 Insurance companies purchase reinsurance and financial protection in the capital markets to safeguard against large catastrophic losses. Direct access and negotiations on price with these same markets allows potential savings in costs that would otherwise be negotiated by insurance companies and passed onto customers, like PG&E, through traditional insurance products.

26 In calendar year 2020, Sempra Energy and the Los Angeles Department of Water and Power each placed wildfire related CAT Bonds into the capital markets.

may be a financial benefit (e.g., earthquake coverage in PG&E's property program).

3) Parametric Insurance

Parametric insurance is a risk transfer tool that passes financial risk to external counterparties based on a set of pre-defined terms on payout patterns and covered events. This is different from traditional insurance which is designed to provide coverage for loss events up to the policy limit so long as the loss events take place during the coverage term of the policy. As an illustrative example, an earthquake parametric may be established to provide property insurance protection only when an earthquake of a certain magnitude occurs, with different payout sizes (e.g., 80 percent of the loss) depending on the location of damaged assets, by distance, to the epicenter of the earthquake. Under traditional property insurance, coverage for the same earthquake would be based on whether or not the earthquake occurred during the term of the policy period. PG&E plans to explore the use of parametric products in its insurance renewals, particularly in programs where securing sufficient amounts of financial protection is proving difficult.

Each of these financial risk transfer options are in addition to PG&E's traditional approach to securing insurance coverage. The Company will continue to approach new markets to gauge their interest in participating in PG&E's insurance programs and to strengthen relationships with incumbent insurance providers to encourage ongoing participation. Combined, these efforts are intended to increase optionality and create a more competitive market for insurance products covering California utility risks.

2. Summary of Forecast

PG&E requests that the Commission adopt the following forecast for insurance premiums and other financial risk transfer instruments:

TABLE 3-1
2023 INSURANCE FORECAST
(MILLIONS OF NOMINAL DOLLARS)

Line No.	Insurance Type	2023 Forecast	Testimony Reference	Cost Table Reference
1	Property Insurance			
2	Non-Nuclear Property	$26.0	C.3.a.1.	Table 3-11, line 6
3	Nuclear Property	0.1	C.3.a.2.	Table 3-11, line 5
4	Other Property	2.6	C.3.a.3.	Table 3-11, line 7
5	Liability Insurance			
6	General Liability including: Wildfire Liability, Non-Wildfire Liability and Other Liability	$869.3	C.3.b.1.	Table 3-11, line 13
7	Directors and Officers	6.4	C.3.b.2.	Table 3-11, line 14
8	PG&E Corporation Allocation	2.7	C.3.c.	Table 3-11, line 18
9	Total	$907.1		Table 3-11, line 19

PG&E forecasts a total insurance expense of approximately $907.1 million for 2023, which is approximately 1 percent less than 2020 recorded costs.[27] The 2020 recorded costs include approximately $360 million of one-time costs that are not expected to recur in 2023.[28] The 2023 forecast reflects approximately a 63 percent increase compared to the 2020 recorded, adjusted when accounting for the removal of the non-recurring items.

A primary driver of the insurance forecast is the continuing high market cost of wildfire liability insurance.[29] That said, the 2020 recorded costs are not the best indicator of the actual pricing available at that time compared to the pricing actually obtained at the 2020 annual renewal. Portions of the 2020 recorded costs reflect multi-year policies PG&E bought in 2018 at pricing that was no longer available in 2020. As described below, PG&E's forecast for wildfire liability insurance is based on the cost of its most recent renewal from April 2021, which is the most recent cost data available.

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27 See Table 3-11, line 20. Please note, PG&E requests an additional $75 million for each year 2024-2026 for wildfire liability insurance as part of its Post Test-Year Ratemaking proposal (see Exhibit 11, Ch. 2).

28 These relate primarily to accelerated expense recognition of future premiums and the purchase of additional Directors and Officers liability insurance in 2020.

29 See Section C for discussion.

As discussed further in this section, additional cost drivers are reasons for these costs are: (1) an increase in D&O liability premium costs due to tightening market conditions; (2) an increase in aviation insurance costs resulting from the purchase of additional aircraft and specialty equipment for pipeline and powerline inspections by PG&E coupled with a challenging insurance market; (3) an increase in non-nuclear property insurance costs due to a hardening market, separate coverage purchased for PG&E's corporate headquarters and increasing insured asset values; and (4) a decrease for nuclear property costs primarily due to distributions from an industry mutual insurance company and a reduction in property insurance limits carried on the nuclear assets at Humboldt Bay Power Plant (HBPP). The insurance forecasts in Table 3-1 do not include excise taxes which are addressed in Exhibit (PG&E-10), Chapter 9. This is consistent with the presentation of insurance premium forecasts in PG&E's 2020 GRC testimony.

PG&E also requests authority to continue the two-way RTBA. As discussed below, General Liability insurance for both wildfire and non-wildfire perils continue to be difficult to forecast accurately. PG&E also proposes to designate a portion of the revenue requirement for wildfire liability insurance specifically for self-insurance. If adopted, the self-insurance revenue requirement would also be managed through the RTBA.

3. PG&E's Insurance Forecast

PG&E's insurance forecast includes: (1) Property Insurance costs; and (2) Liability Insurance costs; and (3) an allocation of a portion of these costs to PG&E Corporation. Each is discussed below.

a. Property Insurance

PG&E's Property Insurance program consists of: (1) Non-Nuclear Property Insurance; (2) Nuclear Property Insurance; and (3) Other Property Insurance.

1) Non-Nuclear Property Insurance

PG&E forecasts $26.0 million for non-nuclear property insurance premiums in 2023, which is a 22 percent increase compared to 2020.[30] The forecast is based on PG&E's 2020 renewal cost which has been escalated by a factor of five percent each year through the 2023 Test Year. The five percent escalation is conservative when compared to average price increases expected in the markets during the same period.[31] This program provides coverage for the cost of repair and replacement of damaged PG&E property from perils such as storms, earthquakes, terrorism, and fires at PG&E's non-nuclear facilities.

The property insurance market constricted following calendar year 2017 in which natural catastrophic activity reached historical levels for property insurers. There was an estimated $161 billion in global insured losses that year, due in large part to damages sustained in connection to Hurricanes Harvey, Irma and Maria.[32] The insurance markets have continued to experience elevated levels of global insured losses in subsequent years, including calendar year 2020 which is estimated to be the fifth-costliest year for public and private entities collectively[33] due to a record-setting Atlantic hurricane season, insured losses arising out of the *derecho* (e.g., combination of windstorms and thunderstorms) in the Midwest in August 2020, and the impact of the 2020 wildfire season on the Western United States. During 2018-2020, there have also been several large global property losses specific to the utility sector involving power generation equipment failure.[34] The markets have responded to this insurance industry loss experience by increasing premiums and reducing the amount of available capacity for purchasers of first-party property insurance. Additionally, the property insurance markets now view wildfires as a "peak peril" and have been adjusting premium costs to strengthen their financial

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30 See Table 3-11, line 6.

31 Exhibit (PG&E-3), WP 3-53 – Property Market Dynamics – Aon, Q1 2021 Update.

32 *Ibid*.

33 *Ibid*.

34 Exhibit (PG&E-9), WP 3-65 – Summary of Industry Property Losses 2018-2020.

position in anticipation of future claim costs.[35] PG&E has experienced difficulty in procuring comparable amounts of financial protection as it carried in the past, and within previous forecasted amounts, as a result of these market conditions. PG&E plans to secure coverage amounts consistent with limits carried in the past if market conditions improve during the 2023 GRC period.

As part of PG&E's 2020 property insurance renewal, PG&E purchased a separate insurance policy for the General Office Complex (GOC) for the first time. PG&E's decision to purchase the coverage was based on the following factors:

- The planned sale of this asset by PG&E;
- Procurement of a distinct set of policy limits and coverage for that location given that its risks differ from the remainder of the utility's asset portfolio; and
- The cost to repair or rebuild that asset, as measured by its insured value, in the event of a large catastrophic loss (e.g., earthquake) has the potential to impact the amount of remaining insurance available for subsequent losses at other PG&E locations.[36]

PG&E has entered a lease, with an option to purchase, its new headquarters in Oakland. If PG&E exercises the right to purchase the building, it will procure a separate policy for the Oakland site for the same reasons that it acquired a standalone policy for the current GOC, including the new location's proximity to the Hayward earthquake fault. The estimated cost to procure a comparable policy for the new headquarters is included in the forecast. The

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[35] A "peak peril" is an industry term to refer to events capable of causing large financial losses for the insurance industry as a whole (including the potential insolvency of carriers). Historically, this term has been used to describe earthquake and hurricane risks. The markets have adjusted this view to also include wildfires.

[36] There is a finite amount of insurance under PG&E's property program for certain risks, such as earthquakes. Given the proximity of the GOC to the San Andreas fault, and its estimated asset value in excess of $1 billion, one large event (including interrelated aftershocks and fires that may follow) has historically had the potential to impair or exhaust the policy limits available under the program for earthquake losses at other locations.

forecast also anticipates increases to the total insured values of PG&E's assets, which serve as a basis in pricing property insurance to account for general inflation.

2) Nuclear Property Insurance

PG&E forecasts nuclear property premium costs of $110 thousand. This program provides coverage for the cost of repair and replacement of first-party nuclear property from loss perils (such as floods, earthquakes and fires), decontamination and stabilization following a catastrophic nuclear event, and reimbursement for business interruption expenses (replacement power costs) at a damaged facility in the event a plant is shut down. Given the risks specific to the nuclear energy industry, the insurance programs for Diablo Canyon Power Plant (DCPP) and HBPP are separate from other PG&E insurance programs and generally excluded in non-nuclear insurance products. PG&E will need to continue the purchase of nuclear property insurance for DCPP despite the planned retirement of that location in 2025 due in large part to the presence of nuclear fuel that will continue to be stored on the premises during the decommissioning process. The 2023 forecast includes the anticipated premium cost to continue the purchase of coverage for DCPP following the plant's retirement from service.

PG&E purchases nuclear property insurance from two industry mutuals: (1) Nuclear Electric Insurance Limited (NEIL); and (2) European Mutual Association for Nuclear Insurance (EMANI). NEIL was established in the early 1970s by nuclear power plant owners. NEIL sometimes pays distributions to its members based on an annual assessment of its financial condition and ability to pay losses. These distributions are not guaranteed as they are based largely on unpredictable events such as whether the nuclear property industry will experience a large property loss, or series of losses, in the future. PG&E has not historically relied on potential NEIL distributions as a factor in its nuclear property forecast. Given the financial position of NEIL however, if the industry continues to see relative low loss activity, PG&E anticipates future distributions and has accounted for them in its forecast.[37] PG&E has historically received approximately 2.5 percent of NEIL's total distribution in recent years. The distribution forecast in Table 3-11 is based on NEIL's targeted annual distributions in 2022 multiplied by the same 2.5 percent factor. NEIL does not currently have a guidance forecast for potential distributions in calendar year 2023.

In January 2020, PG&E submitted a request to the Nuclear Regulatory Commission (NRC) seeking approval to reduce the amount of property insurance required to be carried at HBPP to $50 million. NRC approved this request in March 2020. The reduction in limits is designed to align coverage with the reduction in risk and financial exposure to future losses at HBPP due to its current decommissioning status. The estimated premium cost savings from this program change is approximately $66 thousand annually.

Table 3-2 illustrates the recent history of NEIL's distributions to PG&E, which reduce PG&E's forecast.

TABLE 3-2
NEIL DISTRIBUTIONS
(THOUSANDS OF DOLLARS)

Line No.	Year	DCPP and HBPP
1	2014	$2,509
2	2015	$2,497
3	2016	$2,490
4	2017	$2,493
5	2018	$10,806
6	2019	$7,000
7	2020	$16,937

3) Other Property Insurance

PG&E forecasts $2.6 million for Other Property insurance, which is approximately 20 percent more than 2020 recorded costs.[38] The

37 See Table 3-11, lines 4-5.

38 See Table 3-11, line 7.

primary cost driver in this program is the premium cost of property insurance (referred to as “hull” insurance) for helicopters and specialty equipment attached to the Company’s airplane fleet for pipeline and powerline inspections (cameras, navigational and infrared asset scanning equipment) purchased by PG&E since its last GRC filing. In its 2020 renewal, the utility paid an estimated total of $1.04 million in property insurance costs attributed to these assets, more than ninety percent of which relates to property insurance on PG&E’s helicopters. This compares to an estimated spend of approximately $31 thousand that PG&E paid for “hull” coverage in the renewal leading into the 2020 GRC period. These procurements have occurred in the midst of a tightening aviation insurance market due to industry losses arising from events such as the grounding of Boeing 737 Max passenger airlines between March 2019 to November 2020 (the policies may provide “layup” coverage which reimburses policyholders when aircraft is not in use over a certain time period), and an increase in the number of fatal aviation accidents in recent years.[39]

b. Liability Insurance

PG&E’s Liability Insurance program consists of: (1) General Liability Insurance; and (2) D&O Liability Insurance.

1) General Liability Insurance

PG&E forecasts approximately $869.3 million in General Liability insurance. This includes: (1) $156 million for Non-Wildfire Liability insurance; (2) $707 million for Wildfire Liability insurance; and (3) $6.2 million in Other Liability insurance products, including, fiduciary liability, business travel, surety bonds, nuclear liability insurance, and applicable broker fees.[40]

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39 Exhibit (PG&E-9), WP 3-66 – General Aviation Insurance Overview – Marsh, Q1 2021.

40 See Table 3-11, line 12. Please note, PG&E requests an additional $75 million for each year 2024-2026 for wildfire liability insurance as part of its Post Test-Year Ratemaking proposal (see Exhibit 11, Ch. 2).

Table 3-3 shows the actual amount paid by PG&E in the 2020 renewals for Non-Wildfire and Other Liability insurance, which is the most recent cost data available. PG&E's most recent renewal for Wildfire Liability insurance took place in April 2021, which PG&E used as the basis of its 2023 forecast for that item. As such, Table 3-3 shows 2021 renewal information for Wildfire Liability insurance. Table 3-3 also includes the amount of coverage PG&E acquired in the renewals of each program. Table 3-4 shows PG&E's 2023 premium and coverage forecast for these same insurance procurements.

TABLE 3-3
2020/2021 LIABILITY INSURANCE PREMIUMS AND COVERAGE
(MILLIONS OF NOMINAL DOLLARS)

Line No.		2020 Renewal (Non-Wildfire)	2021 Renewal (Wildfire)	2020 Renewal (Other Liability)
1	Premium	$148	$707	$6.6
2	Coverage	$720	$900	$650

TABLE 3-4
2023 GENERAL LIABILITY INSURANCE PREMIUM AND COVERAGE FORECAST
(MILLIONS OF NOMINAL DOLLARS)

Line No.		2023 Forecast (Non-Wildfire)	2023 Forecast (Wildfire)	2023 Forecast (Other Liability)
1	Premium	$156	$707	$6.2
2	Coverage	$720	$1,000	$650

a) Structure of PG&E's General Liability Program

PG&E's General Liability insurance forecast represents its best estimate based on information currently available.[41] One notable difference between PG&E's current liability insurance program and its earlier programs is that PG&E now purchases the majority of its wildfire liability insurance in

[41] Nevertheless, accurate forecasting can be difficult in the current environment and therefore has requested approval to continue the two-way RTBA for these costs to mitigate against any such uncertainty. (See discussion in Section C.4.a. below.)

separate policies from those that cover other non-wildfire liability perils. This change is due in large part to the significant increase in wildfire risk and exposure for utilities and their insurers in recent years.

Wildfire liability insurance covers a broad range of claims made by plaintiffs with respect to wildfires involving PG&E's facilities. PG&E previously had far less wildfire liability exposure, which had traditionally been considered a greater risk for the Southern California utilities based on their service area characteristics.[42] As such, insurance coverage for both wildfire liability and other perils was typically offered to PG&E at the same price and in the same blended policy. Because of the recent, significant increase in size of wildfires and the magnitude of the damage they cause, the cost of wildfire coverage has increased dramatically. Additionally, there has been a significant decrease in the number of insurers offering wildfire coverage to California IOUs.

As a result, PG&E now procures most of its wildfire coverage separately from coverage for other perils, essentially creating two different insurance towers—one for wildfire and one for non-wildfire. The structure of PG&E's 2023 forecast for general liability insurance reflects this separation of risk in the policies now procured.

b) Non-Wildfire Liability Insurance Forecast

The 2023 forecast is based on PG&E's 2020 renewal cost which has been escalated by a factor of 2 percent to calendar

[42] For example, in a 2012 decision regarding regulations to reduce fire hazards, the Commission imposed more stringent electric distribution inspection requirements on utilities located in Southern California, explaining: "We also conclude that patrol inspections every two years, and detailed inspections every ten years, is sufficient for CIP facilities located in the high fire-threat areas of Northern California. There is no history of catastrophic power-line fires in Northern California, and Northern California does not experience Santa Ana winds that contribute significantly to the risk of catastrophic power-line fires in Southern California. Therefore, because the overall risk of power-line fires is lower in Northern California, we can safely reduce the frequency (and associated cost) of inspections." D.12-01-032, p. 74; see also p. 166, Findings of Fact (FOF) 8.

year 2023 to track with general inflation. Non-wildfire liability insurance covers the broad range of general liability risks across PG&E's business. As discussed above, PG&E now procures a separate insurance tower covering its non-wildfire liability exposures. The forecast is the Company's best estimate of future renewal costs for this new program.

As shown in Table 3-3 above, PG&E paid $148 million for non-wildfire liability insurance in 2020 for approximately $700 million in coverage. PG&E plans to target the same coverage level for the 2023 GRC period. As discussed in more detail below in Section 3.b.1.d.i, the costs of non-wildfire liability insurance are difficult to forecast accurately. As such, PG&E requests authority to continue to manage these costs through the two-way RTBA.

c) Wildfire Liability Insurance Forecast

PG&E and the other California IOUs have continued to see increases in the cost of wildfire liability insurance offered in the commercial marketplace. The price of insurance is affected by a number of factors including, continued exposure to wildfire risk given the Company's service area characteristics, California's application of inverse condemnation law to the IOUs and PG&E-specific considerations (e.g., percentage of service territory in elevated fire risk areas, percentage of PG&E electric lines in elevated risk areas,[43] concentration of properties within these risk areas, the frequency and severity of claims). Additionally, the number of market participants and the total amount of coverage available in the market continues to decrease. As a result, the difficulty of managing the company's risks through the commercial insurance market alone continues to be extremely challenging as does the prospect of accurately forecasting the costs to do so. For these reasons, PG&E

[43] The insurance markets perceive wildfire risk as primarily an electric operations exposure. The majority of wildfire ignitions for which insurance claims have ultimately been paid out in recent years were related to PG&E's electrical facilities.

requests authority to continue to manage its wildfire insurance program through the two-way RTBA authorized by the Commission in the 2020 GRC.

The decision to purchase wildfire liability insurance in the current market is primarily based on: (1) the Assembly Bill (AB) 1054 requirement that IOUs be responsible for the first $1 billion in claim costs before the Wildfire Fund may be accessed;[44] and (2) Insurance is generally seen as a capital management tool by investors when loss events occur and therefore, there is an expectation that insurance be procured as a prudent business practice by the investment community. To maximize the value from the policies procured, PG&E and its brokers have negotiated no-claim bonuses and the removal of unfavorable terms, such as loss-sharing provisions, to the extent possible. PG&E has also elected not to pursue the purchase of separate punitive damages coverage (e.g., "puni-wraps") which has added to premium costs in prior renewals.[45]

Due to the high cost of wildfire insurance in the commercial market, PG&E will seek to reduce its dependence on the commercial market and decrease customer costs by implementing a program of self-insurance. PG&E has two proposals for self-insurance below.

This remainder of this section is organized as follows:

i) PG&E's 2023 forecast for wildfire liability insurance; and
ii) PG&E's proposal for self-insurance and how it differs from a proposal in PG&E's 2020 GRC.

i) Summary of the Forecast

PG&E forecasts $707 million for wildfire liability insurance in 2023. In its Post Test-Year Ratemaking

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44 Pub. Util. Code § 3280 (f).

45 There is one exception which is the single multi-year policy in which the premium cost is the same with or without the inclusion of the additional punitive wrap coverage. The coverage terms were therefore left unchanged at the time of the insurance renewal.

(PTYR) exhibit, PG&E also proposes an annual attrition adjustment of $75 million for each year 2024 through 2026 as compared to the 2023 forecast.[46] Each forecast is summarized below.

A) 2023 GRC Forecast

PG&E's 2023 forecasts of $707 million for wildfire liability insurance is based on the amount it paid for its April 2021 renewal. A summary of the 2023 forecast is shown in Table 3-5 below.

In February 2021, PG&E began marketing its wildfire liability insurance program to traditional insurance carriers, capital markets, reinsurance providers, and collateralized reinsurance providers. PG&E approached more than 73 different markets, including some counterparties through different channels (e.g., the program was marketed to the traditional insurance and reinsurance divisions of the same carrier independently to increase optionality). The Utility received offers from 16 remaining markets, which included premium quotes ranging from a rate-on-line (ROL) of 41 percent to 75 percent (equivalent to $0.41 to $0.75 per dollar of coverage).[47]

PG&E secured $900 million of coverage as of April 2021. This amount includes $300 million in wildfire liability insurance procured in April 2021 at a cost of $207 million, and the annual renewal of $600 million in wildfire liability insurance obtained through a single multi-year policy in August 2020 at a cost of $501 million. The multi-year policy provides $1.8 billion

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46 The $75 million attrition adjustment is based on the procurement of an additional $100 million in wildfire insurance to fill the tower to $1 billion, at a ROL of 75 percent as determined by market pricing recently experienced by PG&E.

47 PG&E was only able to procure approximately $31.8 million in wildfire liability protection at the 41 percent ROL in its 2021 renewal.

in total coverage ($600 million per year over its three-year policy term) through August 1, 2023.

TABLE 3-5
2023 LIABILITY INSURANCE FORECAST SUMMARY
(MILLIONS OF NOMINAL DOLLARS)

Line No.		Multi-Year Coverage Remaining from 2020 Renewal	Additional Single-Year Coverage from 2021 Renewal	Total Coverage and Premium as of April 2021	2023 Forecast
1	Premium	$501	$207	$707	$707
2	Coverage	$600	$300	$900	$900

B) Post Test-Year Attrition Adjustment (Exhibit 11, Chapter 2)

In addition to the forecast shown in Table 3-5 above, PG&E proposes a $75 million increase compared to the 2023 forecast for each year 2024 through 2026 as part of its PTYR proposal.[48] The summary of the attrition proposal is shown in Table 3-6 below.

As shown in Table 3-5, PG&E was able to secure the $900 million of wildfire liability previously discussed and that is the subject of PG&E's forecast for approximately $707 million in premium cost. This coverage was approximately 11 percent less than PG&E's $1 billion coverage target to meet the requirements of AB 1054 to cover the first $1 billion in losses to access the Wildfire Fund.[49] The purpose of the attrition year adjustment is to add approximately 11 percent to the 2023 forecast to address the cost of additional coverage to approach the $1 billion target consistent with the AB 1054 structure. As discussed in

48 See Exhibit 11, Ch. 2.

49 See Table 3-2.

Exhibit 11, Chapter 2, PG&E has included the additional amount in its attrition proposal in part to reduce the initial impact on rates in 2023 and will use the additional funding for self-insurance.[50]

TABLE 3-6
SUMMARY OF POST TEST-YEAR ATTRITION PROPOSAL FOR WILDFIRE LIABILITY INSURANCE
SEE EXHIBIT 11, CHAPTER 2
(MILLIONS OF NOMINAL DOLLARS)

Line No.		Total Coverage and Premium as of April 2021	2023 Forecast	PTYR Attrition Proposal for each year 2024-2026	Total Annual Cost and Coverage for 2024-2026 (2023 Forecast + Annual Attrition Adjustment)
1	Premium	$707	$707	$75	$782
2	Coverage	$900	$900	$75	$975

ii) Use of Self-Insurance in PG&E's Wildfire Liability Insurance Program

In the 2020 GRC, the Commission authorized a limited amount of customer funding for self-insurance.[51] The Commission noted that the proposal adopted in the 2020 GRC was "reasonable and allow[s] PG&E to invest unspent amounts authorized for General Liability insurance when competitively-priced insurance available in the market is limited."[52]

Self-insurance offers potential benefits that warrant continued consideration for inclusion and expansion within PG&E's program. For the reasons discussed in this section, PG&E believes it is reasonable to set a target of procuring

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[50] See Exhibit 11, Ch. 2 and p. 3-11 above.

[51] A.18-12-009, Joint Motion of the Public Advocates Office, TURN, SBUA Center for Accessible Technology, The National Diversity Coalition, of California Utility Employees, California City County Street Light Association, The Office of the Safety Advocate and Pacific Gas and Electric Company for Approval of Settlement Agreement (Dec. 20, 2019), Attachment 1, (Settlement Agreement) p. 28, Section 2.8.3.3.

[52] D.20-12-005, p. 404, Conclusions of Law (COL) 85.

up to $1 billion in self-insurance for wildfire claims over time in accordance with the AB 1054 eligibility requirements for the Wildfire Fund.

Self-insurance provides potential cost savings benefits that traditional commercial insurance does not. With commercial policies, the premium is paid whether the coverage is used or not. In contrast, to the extent self-insurance is not used in a given year it remains available for use in future years. There is the potential for the size of the fund to increase over time, thereby reducing the amount of coverage PG&E needs to purchase from the commercial market in later years. As such, self-insurance has the potential to reduce customer costs down the road.

Self-insurance may also provide cash flow and time value of money benefits to customers. Payments from a self-insurance fund would not be due until claims are ultimately settled, which can occur sometimes three to four years after an event. In contrast, premiums for a commercial policy applicable to the same event need to be paid at the time the policy is bound.

In this section, PG&E: (A) reports on the use of self-insurance in 2020 GRC period as required by the 2020 GRC settlement; and (B) makes two proposals for the continued use of self-insurance in PG&E's insurance program for the 2023 GRC period.

A) Report on Self-Insurance for the 2020 GRC Period

In the 2020 GRC, the Commission adopted a multi-party settlement authorizing limited customer funding for self-insurance as part of the Company's insurance program.[53] The settlement stated, in relevant part:

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53 *Id*.

> Customers shall fund self-insurance through the Risk Transfer Balancing Account (RTBA) only to the extent that: (1) PG&E has not spent the total forecast amount on other products on an annual basis; and (2) the amount of self-insurance does not exceed $1 billion in the aggregate for the 2020 GRC period (2020-2022). The RTBA is discussed in Section 2.8.3.2.

Should PG&E self-insure above either of those amounts, PG&E would record the additional amounts in the Wildfire Expense Memorandum Account (WEMA) and would be required to obtain Commission approval to recover the additional amounts through the WEMA process. In the next GRC, PG&E will report on the status of the self-insurance fund and make a proposal addressing if the fund should continue and if there are any unused funds that should be returned.[54]

PG&E provides this status report in accordance with Section 2.8.3.3. of the settlement. PG&E was not able to incorporate self-insurance as contemplated in the settlement because there was no funding remaining in the adopted forecast after the purchase of commercial policies. As such, there are no funds in the self-insurance fund that require disposition in this GRC.

PG&E's 2020 GRC forecast was based on the cost of its 2018 insurance renewal in which PG&E spent approximately $300 million on General Liability insurance. Ultimately the settlement agreement included a total General Liability insurance forecast of approximately $300 million, approximately $246 million of which was allocated the GRC.[55] As discussed above, because of the continued increase in wildfire insurance pricing and the reduced capacity offered in

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[54] D.20-12-005, p. 250.

[55] A.18-12-009, Settlement Agreement, pp. 27-28, Section 2.8.3.1.

the market, PG&E spent approximately $828 million for its 2020 General Liability renewal, approximately $681 million of which was related to wildfire coverage. The majority of the premium for the wildfire coverage represents the annual cost of a multi-year policy that will be effective through 2023. As described above, PG&E purchased additional, single-year coverage in 2021 at a cost of $207 million. Because of these market conditions, PG&E was required to spend amounts above the adopted forecast to obtain a reasonable level of liability coverage. Even with this level of spend in 2020 and 2021, PG&E was unable to procure its target $1 billion in wildfire coverage.

B) Two Alternative Proposals for the Continued Use of Self-Insurance for the 2023 Period

While PG&E was unable to make use of the self-insurance authority provided in the 2020 GRC for the reasons discussed above, PG&E continues to support the inclusion of self-insurance in its liability insurance program. Below, PG&E makes two proposals for the continued use of self-insurance in the 2023 GRC.

For both alternatives, PG&E proposes that self-insurance will be funded exclusively through CPUC-jurisdictional, retail rates for the 2023 GRC period. There is currently a settlement in place with respect to the FERC formula rate for PG&E through the end of 2023. PG&E will attempt to pursue recovery of self-insurance costs for wholesale customers through the FERC process over the course of the 2023 GRC period. To the extent PG&E is successful, the costs recovered will be credited back to retail customers through the RTBA.

Additionally, consistent with the authority granted in the 2020 GRC, under either proposal, PG&E would report on the status of available self-insurance in the 2027 GRC and make a proposal regarding its use going forward.

(i) Adopt a Separate Self-Insurance Revenue Requirement (PG&E's Recommended Approach)

PG&E recommends that the Commission authorize a separate revenue requirement specifically for self-insurance as follows:

1. The $707 million wildfire liability revenue requirement would be bifurcated into two parts: (1) a $250 million revenue requirement to be used only for self-insurance; and (2) a separate $457 million revenue requirement for procurement of additional wildfire insurance up to an amount that would secure a total of $1 billion in wildfire coverage for the year including self-insurance.
2. PG&E would also direct the additional $75 million proposed in its Post Test-Year (PTY) attrition adjustment for each year 2024 through 2026 for self-insurance.[56]

A summary of the self-insurance funding sources is provided in Table 3-7 below.

[56] See Exhibit 11, Ch. 2 for PG&E's Post Test-Year attrition proposal on insurance.

TABLE 3-7
SUMMARY OF SELF INSURANCE PROPOSAL
(MILLIONS OF NOMINAL DOLLARS)

Line No.		Bifurcating the $707 M 2023 GRC Forecast	Attrition Proposal for 2024-2026	Total Funding Dedicated to Self-Insurance for 2023	Total Funding Dedicated to Self-Insurance for each year 2024-2026
1	Self-Insurance Only RRQ	$250	$75	$250	$325
2	Market Insurance or Self Insurance RRQ	$457[(a)]	–	–	–

(a) Unspent amounts from this source can be used for self-insurance in addition to the funding dedicated solely for self-insurance shown above.

The self-insurance proposal would operate subject to the following principles:

1. The $250 million revenue requirement will be collected annually and used only for self-insurance.
2. The $457 million revenue requirement will be collected annually. PG&E is authorized to use it to procure additional wildfire liability necessary to reach $1 billion in total coverage (commercial coverage plus self-insurance). This revenue requirement is subject to two-way RTBA treatment. PG&E is authorized to recover its actual costs of procuring the additional coverage necessary to meet the $1 billion target even if they exceed the $457 million forecast. If there are unspent funds remaining from this revenue requirement, PG&E would direct them to self-insurance in addition to the dedicated self-insurance amounts discussed above.
3. All revenue requirements including PG&E's attrition proposal on insurance would be managed through the RTBA. PG&E would be authorized to collect them to the extent

necessary to procure $1 billion in total wildfire insurance (a combination of market-based insurance and self-insurance) for the year. At that point, PG&E would stop collecting the revenue requirements and refund any unspent funds to customers through the RTBA.

4. PG&E proposes to obtain self-insurance through its captive to cover its wildfire liability risks.[57] To the extent that doing so results in interest proceeds net of fees and costs associated with utilization of the captive, PG&E will either credit those proceeds to customers through the RTBA and or will apply the proceeds towards the purchase of additional self-insurance, which would then be considered available self-insurance counted to the $1 billion target.
5. As with commercial policies, PG&E would notify the captive of potential claims against the policy. The value of potential claims noticed shall no longer be considered to be available for general use and will not be counted towards the calculation of PG&E's total insurance for purposes of determining whether it has met the $1 billion coverage target.
6. Self-insurance may be used to cover any uninsured liabilities related to wildfire claims.
7. With respect to ratemaking and cost recovery issues, self-insurance through the captive would operate just as a market-based policy would in that it would be available for use to pay claims and costs as needed and would not be subject

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[57] Please see Section C.1.d.1 on the use of captives.

to any additional regulatory process or after-the-fact reasonableness or prudency review.

This proposal has several advantages for the Company and its customers compared to the status quo. First, it has the distinct advantage of ensuring that self-insurance will be incorporated into PG&E's program each year without jeopardizing PG&E's ability to procure the remaining coverage necessary to cover the $1 billion portion of utility responsibility under the AB 1054 wildfire fund. Additionally, immediately upon implementation, this approach would begin reducing the amount of insurance coverage PG&E would need to procure in the commercial market. For example, if adopted, PG&E would need to target only $750 million in wildfire liability insurance from the market in year one as it would already have $250 million in self-insurance coverage. Should the self-insurance not be needed to pay for claims in year one, it would remain available for use in future years, thereby further reducing the amount of insurance PG&E would need to target in the commercial market to $500 million in year two of implementation and so forth. As noted above, as the amount of insurance required from the commercial market decreases, PG&E would be authorized to direct unspent funding within the $457 million revenue requirement to additional self-insurance or otherwise return it to customers through the RTBA.

While PG&E acknowledges that there may be some uncertainties about how a novel proposal like this would play out over time, the potential opportunity to decrease the company's reliance on commercial market pricing and terms over time, thereby increasing value for customers makes this a proposal worth adopting on a trial basis for the 2023 GRC period. PG&E believes this proposal strikes the right balance of ensuring sufficient customer funding for a reasonable business expense like insurance, while minimizing risk to customers by capping the total amount of customer-funded self-insurance to $1 billion in the aggregate for the 2023 GRC and requiring PG&E to report on the status of available self-insurance funds in the 2027 GRC.

PG&E performed a cost-benefit analysis of the potential use of self-insurance under this proposal to bifurcate the revenue requirement for wildfire liability coverage.[58] The analysis considers the inclusion of $250 million of self-insurance into the Company's wildfire liability insurance program, along with the purchase of $750 million in traditional insurance, and evaluates how the program would perform under seventeen hypothetical loss scenarios. The analysis also contemplates factors such as the estimated cash flow timing between premium payments and receipt of insurance proceeds by PG&E, and the estimated timing of claim payments to claimants. The analysis shows that in all scenarios, with the exception of one,[59] it is more beneficial for PG&E to include self-insurance in its wildfire liability insurance

58 See WP 3-105 – PG&E Self-Insurance Analysis Worksheet.

59 The single scenario in which the benefit of self-insurance did not outweigh the cost in the analysis is a low probability scenario that assumes PG&E experiences losses greater than $1.2 billion in the aggregate in each year of the 2023 GRC period.

program than to rely solely on the purchase of coverage in the retail markets.

(ii) Continue Self-Insurance Authority From 2020 GRC

As an alternative to PG&E's recommendation, PG&E requests that at a minimum, the Commission authorize the use of self-insurance for the 2023 on the same terms as applied for the 2020 GRC as described in Section 2.8.3.3 of the 2020 GRC settlement, as follows:

> Customers shall fund self-insurance through the Risk Transfer Balancing Account (RTBA) only to the extent that: (1) PG&E has not spent the total forecast amount on other products on an annual basis; and (2) the amount of self-insurance does not exceed $1 billion in the aggregate for the 2023 GRC period (2023-2026).
>
> Should PG&E self-insure above either of those amounts, PG&E would record the additional amounts in the Wildfire Expense Memorandum Account (WEMA) and would be required to obtain Commission approval to recover the additional amounts through the WEMA process. In the next GRC, PG&E will report on the status of the self-insurance fund and make a proposal addressing if the fund should continue and if there are any unused funds that should be returned.

While a benefit of this approach is that is allows for the inclusion of self-insurance in PG&E's program in theory, it has some notable drawbacks as well. One lesson learned with respect to the way self-insurance was authorized in the 2020 GRC, was that despite best intentions, it actually created an unintended conflict because of the way it was structured. Notwithstanding the increasing cost of wildfire insurance in the commercial market, it still typically provides some level of risk transfer. For example, even if a policy cost 75 cents for every dollar of coverage, the coverage amount provided usually exceeds the premium paid. While self-insurance certainly has the potential to provide cost savings benefits over time, it is more expensive than market-based insurance early on, in that it initially costs one dollar of premium for every one dollar of coverage. As such, choosing to purchase self-insurance with a limited pot of money (i.e., where authority do to so is limited to the adopted forecast amount) will almost certainly result in the utility procuring a lower level of total coverage to manage its wildfire risk in the short term compared to spending that money in the commercial market. As described above, even with authority to collect actual cost incurred through the two-way RTBA, PG&E was unable to procure its target $1 billion in wildfire coverage for 2020 as contemplated by the Wildfire Fund eligibility requirements of AB 1054. Against that backdrop, it could increase the difficulty of managing that situation even further if a utility would have to choose to further reduce the amount of total coverage it could procure to avail itself of the opportunity to add customer-funded self-insurance to its program.

d) Request for Authority to Continue the Risk-Transfer Balancing Account With Modifications

In the 2020 GRC, the Commission authorized creation of the two-way RTBA to manage the uncertain costs associated with General Liability insurance that were not easily forecast. In doing so, the Commission stated:

> Regarding the establishment of the RTBA, we agree that insurance costs for General Liability coverage has been

> difficult to predict in recent times because of market conditions and the recent wildfires in California. A two-way balancing account will also allow PG&E to address uncertainty in a timely manner and at the same time ensure that there is adequate insurance coverage.[60]

The terms of the RTBA provided that:

> PG&E shall establish a two-way RTBA to recover the costs of PG&E's excess liability insurance coverage exceeding its adopted forecast for coverage of up to $1.4 billion. PG&E may file a Tier 2 advice letter for coverage beyond $1.4 billion, consistent with Cal Advocates' proposal.[61]

PG&E requests authority to continue the RTBA for the 2023 GRC period with modifications as described in this section. This section is organized as follows:

- Section i describes the continuing need for the RTBA given the difficulty to accurately forecast the costs of liability insurance.
- Section ii describes PG&E's proposal to continue the RTBA, which would apply to costs for wildfire liability insurance, non-wildfire liability insurance (non-nuclear), self-insurance and related taxes and fees associated with the purchase of insurance.[62]

i) General Liability Insurance Costs Are Significant and Continue Difficult to Forecast Accurately

Costs of General Liability insurance for both non-wildfire and wildfire perils remain volatile and difficult to forecast accurately.

As described in Section C.3.b.1.b of this chapter, PG&E's August 2020 renewal was the first time that the Utility purchased separate liability policies for the non-wildfire peril. Given that this is a new program change for PG&E, it is uncertain how program costs will change

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60 D.20-12-005, p. 254, p. 403, Conclusions of Law (COL), 83.

61 A.18-12-009, Settlement Agreement, p. 28, Section 2.8.3.2.

62 The forecast for excise taxes is included in Exhibit (PG&E-10), Ch. 9.

over time. Additionally, non-wildfire liability is subject to an insurance market factor called “social inflation”, which refers to the condition whereby claim costs rise faster than general inflation due to societal trends. The insurance markets have experienced a rise in claims costs due to societal factors such as an increase in the number of “nuclear” verdicts rendered in jury trials, increases in healthcare costs which impacts the cost of bodily injury claims, increases in the number of automobile liability claims as a result of distracted driving, and increases in workers’ compensation claim costs attributed to COVID-19 covered losses. It is difficult to predict how these and other societal factors may impact future non-wildfire liability premium costs.

With respect to PG&E’s wildfire insurance forecast, many factors affect the price of coverage which make accurate forecasting difficult. It is important to note that insurance is a global market that pools different types of risks and each year is subject to unpredictable events, often beyond the control of the Utility, that have led to swings in capacity and cost. Additionally, continuing wildfire risk is also causing insurance carriers to reconsider their exposure to California wildfire risks and to further reduce available capacity.[63]

These factors create challenges in developing an accurate risk transfer forecast in today’s market. In its 2020 GRC, PG&E described the circumstances of the 2017 GRC as an illustrative example. As PG&E described, in D.17-05-013, the Commission adopted a forecast of approximately $52 million annually for liability and other

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63 Exhibit (PG&E-9), WP 3-63.

miscellaneous insurance for the 2017-2019 period.[64] The cost of PG&E's 2017 and 2018 liability insurance renewals were $124 million and $360 million respectively—significantly higher than the forecast amount. More recent data points to the same trend. In the 2020 GRC, PG&E forecast $360 million based on its most recent renewal at the time from 2018. In its most recent liability insurance procurements, PG&E has paid approximately $828 million for coverage.

Another significant driver that makes accurate forecasting of total program costs difficult is the amount of wildfire liability coverage available for purchase. PG&E targets $1 billion in wildfire liability insurance in large part to eligibility requirements of the Wildfire Fund established under AB 1054 which requires the IOUs to be responsible for covering at least the first $1 billion in wildfire costs in order to access the fund.

While PG&E targets this level of coverage, it has not always been available in the market. In the April 2021 renewal period for example, which is the primary basis for the 2023 insurance forecast, PG&E targeted $1 billion of wildfire coverage, but was able to obtain only procure $900 million. While this represents a 109 percent increase in the amount of wildfire coverage carried in 2019, it remains shy of the utility's responsibility prior to being able to access the AB 1054 Wildfire Fund. Obviously, the total coverage purchased directly affects the total program cost.

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64 A.15-09-001, Joint Motion of Office of Ratepayer Advocates, TURN Alliance for Nuclear Responsibility, Center for Accessible Technology, Coalition of California Utility Employees, Collaborative Approaches to Utility Safety Enforcement, Consumer Federation of California, Environmental Defense Fund, Marin Clean Energy, Merced Irrigation District, Modesto Irrigation District, National Diversity Coalition, SBUA, South San Joaquin Irrigation District, and Pacific Gas and Electric Company for Adoption of Settlement Agreement (Aug. 3, 2016), Appendix A, p. 10, line 51.

PG&E plans to continue to target $1 billion in wildfire liability insurance for the 2023 GRC period.

ii) Request to Continue the RTBA

For the reasons discussed above, it is appropriate to continue the RTBA to manage the cost of: wildfire liability insurance, non-wildfire liability insurance, self-insurance and related taxes and fees associated with the purchase of insurance. Table 3-8 below summarizes each cost to be managed through the RTBA. PG&E discusses each below.

TABLE 3-8
SUMMARY OF INSURANCE COSTS SUBJECT TO RTBA
(MILLIONS OF NOMINAL DOLLARS)

Line No.		Amount	Cost Recovery	Reference
1	2023 Forecast: Wildfire Liability	$707 total ($250 self-insurance; $457 other wildfire coverage if PG&E's self-insurance proposal is adopted.)	Up to $1 billion in coverage through the RTBA; Coverage over $1 billion through Tier 2 Advice Letter	Ex. 9, Ch. 3, Section C.3.b.1.b
2	2023 Forecast: Non-Wildfire Liability	$156	Up to $700 million in coverage through the RTBA; Coverage over $700 million through Tier 2 Advice Letter	Ex. 9, Ch. 3, Section C.3.b.1.c
3	2024-2026 PTY Attrition Proposal on Insurance	$75	Through the RTBA	Ex. 11, Ch.2, Section C.3.b.1.c.i
4	Excise Tax	$33.4	Through RTBA and Tier 2 AL as noted above for the underlying coverage type and amount	Ex. 10, Ch. 9

- Wildfire and Non-Wildfire Liability: Two Coverage Caps – The RTBA will authorize cost recovery without triggering additional Commission review for the following: (1) $1 billion of wildfire coverage; and (2) an additional $700 million of non-wildfire liability coverage. Should PG&E procure insurance coverage in excess of those non-wildfire or wildfire caps, PG&E may file a Tier 2 advice letter to seek recovery of the costs of the additional coverage. The amount of coverage will be calculated as follows:

- Policies that provide no wildfire liability coverage will be counted as non-wildfire coverage;
- Policies that provide only wildfire coverage will be counted as wildfire coverage;
- Policies that provide combined coverage for both non-wildfire and wildfire perils will be counted as wildfire coverage; and
- Available self-insurance will be counted as wildfire coverage. The value of potential claims noticed against a self-insurance policy shall not be counted towards the $1 billion target.

- Application to Self-Insurance – The RTBA will apply to any self-insurance revenue requirement authorized by the Commission such that if lesser amounts of self-insurance are needed in a given period to meet PG&E's $1 billion wildfire coverage target, PG&E has a mechanism to return excess self-insurance funding to customers.
- Excise Tax – Excise taxes are assessed on the purchase of most insurance and are tied to the cost of the coverage.[65] Excise taxes associated with the cost of wildfire and non-wildfire liability (non-nuclear) coverage should be managed through the RTBA along with the cost of underlying coverage discussed above.

2) Other Liability Insurance

PG&E forecasts $6.2 million for Other Liability insurance, which is approximately 7 percent less than 2020 recorded costs.[66] The

[65] The forecast for excise taxes is included in Exhibit (PG&E-10), Ch. 9.

[66] See Table 3-11, line 12. Please note, PG&E incurred higher one-time fiduciary liability costs in 2020 due to the Company's bankruptcy (separate coverage needed to be purchased covering potential liabilities for both the pre-emerged company, and the new company upon bankruptcy exit).

primary cost drivers behind this forecast are costs related to the Company's surety bond program, and fiduciary liability insurance premium costs.

Surety bonds are commonly used as a form of guarantee when work is performed for others under a contract or permit. In the event the work is not completed in accordance with the agreed terms and conditions, the surety bond may be called upon to correct deficiencies.[67] The Company has experienced an increase in surety bond requests from external parties following the Company's bankruptcy proceeding. PG&E has also utilized the surety bond program as a means to replace letters of credit used on certain projects to fulfill a similar performance guarantee. The forecast accounts for expected surety bond costs during the 2023 GRC period.

Fiduciary liability insurance is intended to cover liabilities associated with the management of employee benefit plans, including employer provided retirement programs. The Company has experienced an increase in premium costs for this product in recent renewals due to market concerns over the level of PG&E stock held within the Company's various retirement programs. The markets perceive this as a potential exposure for "stock drop" litigation due to the current price of the Company's stock in relation to historic levels. PG&E also increased the level of insurance purchased in this program in its 2020 renewal to align the limits with the levels carried by its peers. The forecast includes the anticipated cost to continue the procurement and maintenance of PG&E's fiduciary liability program in the context of the conditions discussed herein.

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67 When a claim is made against a surety bond, the surety (e.g., carrier) will step in and assist with the completion of work, including the financing of project costs if needed through surety bond proceeds (which is subject to repayment by the defaulting party).

3) Directors and Officers Liability Insurance

PG&E forecasts $17.6 million for its 2023 D&O Liability Program, which is a 9 percent increase compared to 2020 premium costs of approximately $16.2 million.

PG&E requires this insurance to attract qualified Directors, Officers, and trustees who would otherwise be unlikely to accept these positions without such coverage because of the litigation risk.[68] For that reason, the cost of D&O insurance is a reasonable cost of providing utility service.

D&O provides coverage for claims alleging wrongful acts, such as breach of fiduciary duty by Board of Director members or Officers. During the 2020 renewal, PG&E saw a 300 percent increase in premiums from 2018 costs to $16.2 million. The premium cost increase is due in large part to a hardening of the D&O liability insurance market as a result of the following:

- Increased claim frequency from "event-driven" class-action lawsuits;[69]
- Increased claim frequency from recent court decisions permitting claimants to pursue recoveries in multiple legal venues;[70]
- Growth in the number of plaintiff firms bringing suits against publicly traded companies;
- Global insurance market losses attributed to opioid litigation in the United States; and
- Increase in the number of insurers exiting the market

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68 The coverage is also designed to protect personal assets of individuals in these positions which may be exposed in the absence of insurance.

69 Event-driven lawsuits refers to litigation following negative press from an event, activity or response to social trends (e.g., COVID-19 response, Board Diversity, cyber-attack #MeToo, etc.). This differs from traditional Directors and Officers claims which focuses on accounting practices, merger and acquisition decisions, and securities fraud allegations.

70 Securities class action lawsuits were historically held in federal court. Some allegations may also be pursued in California courts (Cyan decision).

The hardening of the D&O liability market has resulted in higher premium costs, reductions in available capacity, and more restrictive coverage terms. Other drivers of premium costs include the existence of securities class action and derivative lawsuits brought after recent wildfire events, and the amount of coverage PG&E purchases which accounts for future litigation risk by shareholders. PG&E forecasts a total D&O cost of $17.5 million for 2023.

PG&E has historically sought recovery of the total amount of D&O insurance costs in the GRC. In recent GRCs, including PG&E's 2020 GRC, the Commission authorized recovery of only 50 percent of D&O insurance costs.[71] In accordance with that Commission guidance, PG&E seeks recovery of $8.8 million, which is 50 percent of the total forecast cost for D&O insurance for 2023. The PG&E Utility portion of that is $6.4 million.[72] The PG&E Corporation portion of these costs is approximately $2.3 million and is included within the total "PG&E Corporate Allocation" costs discussed in the next section.

c. PG&E Corporation Allocation

PG&E Corporation forecasts $2.7 million in costs for 2023.[73] These represent the Corporation's allocation of costs for coverage provided under many of the same policies identified in the property and liability discussions above. PG&E Corporation is also insured under those programs. Because nearly all of the Corporation's work is for the benefit of the Utility, PG&E's forecast appropriately includes the Corporation's share of insurance costs. The decrease in cost compared to 2020 recorded adjusted is primarily due to the allocation of one-time Directors and Officers Liability costs incurred by PG&E in relation to its bankruptcy proceeding that are not expected to recur in 2023.

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71 D.14-08-032, p. 552.

72 See Table 3-11, line 18. The PG&E Corporation portion of the D&O forecast is approximately $700 thousand, which is included in the $2.7 million Corporate Allocation forecast discussed in Section C.3.c. below, and referenced in Table 3-7, line 18.

73 See Table 3-11, line 18.

D. Information Technology Projects

1. M&CRM

PG&E spends more than $4 billion annually to procure natural gas and power on behalf of approximately 16 million customers. Most of these expenditures flow through the energy trading and risk management system. Accurate, compliant, efficient, and timely execution and tracking of these procurement activities is necessary to manage customer costs and help mitigate price and credit risks associated with these expenditures.

For M&CRM to provide the critical operational services and benefits to customers (as described earlier in this chapter), M&CRM forecasts the continued need for IT projects to address basic maintenance and upgrade cycles, and to mitigate the risks associated with participation in and management of activity in the energy commodity markets. Like most companies in the energy commodity markets, the Utility increasingly runs complex, sophisticated IT systems. There are not many choices for ready-to-deploy systems to replace risk management and trade capture systems. As such, the Utility must continue to invest in its IT systems to accommodate the demands of industry reform and regulation, and state regulatory policies and mandates.

PG&E forecasts $0.1 million in expense for 2023, and capital costs of $1 million in 2022 and $0.5 million annually from 2023-2026.[74] This work is a continuation of program spend reflected in the 2020 GRC (including $1 million for anticipated 2022 capital spend), and seen as an ongoing need covering multiple GRC applications, similar to the enterprise transaction and risk management applications within the Utility. The focus of the work for 2023 and beyond is to upgrade IT applications that M&CRM uses for its control, reporting, risk-management functions. One application PG&E will update is the Procurement Portfolio Planner (PPP). The PPP is a Monte Carlo simulation model developed in house to provide an accurate representation of the bundled electric portfolio at the Utility, to forecast generation and procurement costs for the Utility’s portfolio, to provide probabilistic distributions of volumes and costs, and to conduct analysis to

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74 See WP 3-33 through 3-37.

support the procurement business. PPP forecasts net open portfolio positions and calculates risk metrics and mark to market for regulatory and financial compliance reporting, such as TeVaR. PG&E also plans to update other critical applications as necessary developed and managed by M&CRM which may include those for measuring Liquidity at Risk, Potential Future Exposure and Loss Given Default credit calculations, hedge compliance for the Bundled Electric portfolio, and the Core Procurement Incentive Mechanism model for Core Gas Supply.[75]

E. Cost Tables

[75] See WP 3-38.

TABLE 3-9
SUMMARY OF DEPARTMENT EXPENSE
HISTORICAL AND FORECAST
(THOUSANDS OF DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	Internal Audit	$6,102	$5,590	$5,930	$5,758	$7,589	$8,265	$8,497	$8,736	WP 3-3, line 11
2	Market and Credit Risk	3,373	3,044	3,799	3,741	4,631	4,232	4,356	4,484	WP 3-3, line 17
3	Total	$9,476	$8,633	$9,729	$9,499	$12,220	$12,498	$12,853	$13,220	WP 3-3, line 5

TABLE 3-10
SUMMARY OF DEPARTMENT EXPENSE BY FEDERAL ENERGY REGULATORY COMMISSION ACCOUNT
(THOUSANDS OF DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	920 – Admin & Gen Salaries	$8,805	$8,169	$9,012	$8,599	$10,357	$11,624	$11,979	$12,346	WP 3-3, line 1
2	921 – Office Supplies & Ex	569	429	437	612	822	384	384	384	WP 3-3, line 2
3	923 – Outside Svc Employ – Utility	895	31	269	279	1,041	481	481	481	WP 3-3, line 3
4	923 – Outside Svc Employ – Corp	12	4	11	9	–	9	9	9	WP 3-3, line 4
5	Total	$9,476	$8,633	$9,729	$9,499	$12,220	$12,498	$12,853	$13,220	WP 3-3, line 5

TABLE 3-11
SUMMARY OF COMPANYWIDE A&G EXPENSE ITEMS
INSURANCE
HISTORICAL AND FORECAST
(THOUSANDS OF DOLLARS)

Line No.	Description	2020 Recorded Adjusted	2023 Forecast	Workpaper Reference
1	**Utility**			
2	Utility Property (FERC 924)			
3	Nuclear	$5,500	$5,610	
4	Nuclear Distribution From NEIL	$5,342	(5,500)	
5	Total Nuclear	(16,937)	$110	WP 3-29, line 5
6	Non-Nuclear	($11,595)	$25,968	
7	Other (e.g., Crime, Business Travel, Aircraft Hull)	$21,234	$2,554	
8	Total Non-Nuclear and Other	$2,130	$28,522	WP 3-29, line 4
9	Total Property	$23,364	$28,632	
10	Utility Liability (FERC 925)	$11,769		
11	General Liability (Wildfire and Non-Wildfire)		$863,082	
12	Other Liability (e.g., Nuclear Liability, Surety Bonds, Fiduciary, Broker Fees, Cyber)	$860,730	$6,177	
13	Total Excess and Other	$6,647	$869,259	WP 3-29, line 2
14	Directors and Officers	$867,377	6,441	WP 3-29, line 1
15	Total Liability	$26,997	$875,700	
16	Total Utility	$894,374	$904,332	
17	**PG&E Corporation**			
18	PG&E Corporation Allocation (FERC 923)	$10,130	$2,744	WP 3-29, line 6
19	Total Expense	$916,273	$907,076	WP 3-29, line 7
20	Percent Increase	–	(1.00%)	

TABLE 3-12
IT EXPENSES
HISTORICAL AND FORECAST
(THOUSANDS OF DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023-26	Workpaper Reference
1	JV	Maintain IT App & Infra	$22	$644	$(7)	–	$3	$107	$207	$104	WP 3-33, line 1
2		Total	$22	$644	$(7)	$22	$3	$107	$207	$104	WP 3-33, line 2

TABLE 3-13
IT CAPITAL EXPENDITURES BY MAJOR WORK CATEGORY
HISTORICAL AND FORECAST
(THOUSANDS OF DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	2021	Forecast 2022	2023	2024	2025	2026	Workpaper Reference
1	2F	ASvcs: Development	$2,155	$694	$20	$(6)	–	–	$1,000	$500	$500	$500	$500	WP 3-35, line 1
2		Total	$2,155	$694	$20	$(6)	–	–	$1,000	$500	$500	$500	$500	WP 3-35, line 2

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 4

COMPLIANCE AND ETHICS

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
COMPLIANCE AND ETHICS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
COMPLIANCE AND ETHICS

A. Introduction

1. Summary of Request

Pacific Gas and Electric Company's (PG&E, the Company or the Utility) Compliance and Ethics (C&E) Department is responsible for enhancing and promoting an effective C&E program that is designed to prevent and detect criminal conduct, and promote an organizational culture that encourages ethical conduct and a commitment to compliance with applicable laws and regulations. The C&E program is modeled after the United States (U.S.) sentencing guidelines requirements for an effective C&E program.[1]

PG&E is a large and complex organization and has designed its C&E program to engage each level of the organization—from the Lines of Business (LOB) to the corporate board—while enhancing coordination across LOBs. Specifically, PG&E has implemented a C&E program that: (1) is accountable to the Boards of Directors; (2) is supported by senior-level commitment; (3) has visibility within each LOB; (4) manages, reports and collaborates on compliance efforts across LOBs; (5) communicates these values throughout the organization and provides thoughtful training and feedback mechanisms; (6) promotes a culture where all employees are encouraged to "speak up"; (7) identifies gaps, measures results, and fosters continuous improvement throughout the Company; and (8) promotes accountability.

The forecasted costs of the C&E Department are shown in Tables 4-1 through 4-4. PG&E requests that the California Public Utilities Commission (Commission) adopt its forecast for 2023 as follows:

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1 The United States Sentencing Commission's sentencing guidelines were formally adopted in 1987. The guidelines provide a model of good corporate citizenship and apply to corporations, partnerships, labor unions, pension funds, trusts, non-profit entities, and governmental units.

- Department Costs – $8.3 million in expense in 2023.[2] This is a $1.1 million (14.6 percent) increase compared to 2020 recorded adjusted costs and is primarily attributable to labor escalation, filling existing vacancies, and a small reduction in contracts. These costs are discussed in Section B below.
- Information Technology (IT) – These projects support the increased maturity of PG&E's C&E program by enhancing the Company's management of its compliance requirements and strengthening its Guidance Document Management Program. These costs are discussed in Section C below.

1. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

- Section B – Department Costs
- Section C – IT Projects
- Section D – Cost Tables

B. Department Costs

1. Summary of Forecast

A description of the C&E Department and the activities comprising the basis for the 2020 costs are described in Section B.2. Figure 4-1 below shows the drivers of the 2023 department cost forecast compared to 2020 recorded costs. The drivers of the 2023 forecast compared to 2020 recorded adjusted costs are: (1) labor escalation; (2) staffing costs associated with filling vacant positions; and (3) contracts and fees. These forecast drivers are discussed in more detail in Section B.3.

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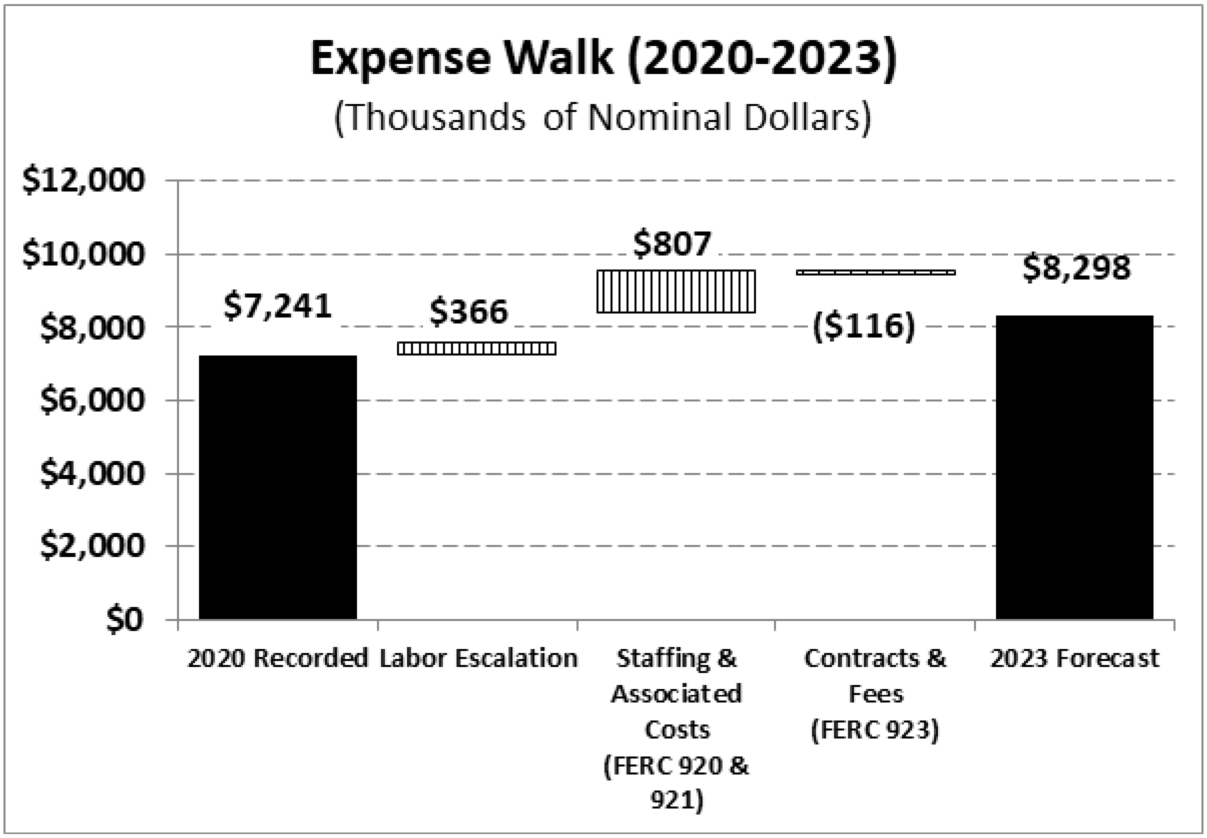
2 See Table 4-1, line 3.

FIGURE 4-1
EXPENSE WALK (2017-2020)
(THOUSANDS OF NOMINAL DOLLARS)



2. Organization Description

The C&E organization is a part of the General Counsel department which is headed by the Executive Vice President (EVP), General Counsel and Chief Ethics and Compliance Officer (CECO).The CECO reports directly to the CEO of PG&E Corporation.

C&E is led by a Vice President (VP), and the department includes five groups: (1) the Immediate Office; (2) Compliance and Ethics; (3) Corporate Compliance and Government Oversight; (4) Enterprise Records and Information Management; and (5) Enterprise Data Management, which are described below.

a. VP Immediate Office (Provider Cost Center (PCC) 20109)

The VP of C&E reports to the CECO and is further developing the C&E program structure to support the breadth and complexity of the organization’s operations. Specifically, the C&E program aims to ensure cross-functional engagement and best practices across the enterprise. The C&E VP oversees the enterprise-wide C&E program, including the programs and systems designed to prevent, detect, and mitigate non-compliance, and leads the Company's ethics and compliance training and culture-building efforts.

The VP Immediate Office is comprised of one Full-Time Equivalent (FTE): The C&E VP.[3]

b. Compliance and Ethics (PCC 12241)

The purpose of the Compliance and Ethics group is to promote and enable ethical and compliant behaviors within PG&E by providing subject matter expertise, tools, resources, and guidance on C&E matters to leaders and employees. The C&E program is an essential entity-level control for complying with the Sarbanes-Oxley Act of 2002, and to meet the standards for an effective compliance program as established under the U.S. Sentencing Guidelines.

The Compliance and Ethics group partners with the LOBs to promote consistent advancement of each LOB's C&E program across the enterprise. For example, Compliance and Ethics works collaboratively with the LOBs to implement the Company's C&E Maturity Model, which is foundational and enterprise-wide, and includes identification and implementation of U.S. Sentencing Guidelines requirements for the Company. Compliance and Ethics also partners with the LOBs to: (1) assess top compliance requirements; (2) review how the LOBs are managing those requirements; (3) develop prospective mitigation plans for managing them; (4) proactively examine potential future compliance requirements; (5) provide regular Ethics communication and training; and (6) promote ethical decision making throughout the company. In addition, Compliance and Ethics oversees the enterprise-wide Guidance Document Management Program, whose purpose is to reduce the likelihood of human error and enable employees to perform their work safely, correctly, efficiently, and in compliance with all laws, regulations, and internal Company standards.

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3 Exhibit (PG&E-9), WP 4-6.

PG&E designed an Integrated Compliance Operating Model that addresses top compliance risks at the enterprise level. This is intended to accelerate compliance maturity on a risk-prioritized basis and improve management of shared compliance responsibilities. Key compliance functions, such as North American Electric Reliability Corporation (NERC) work, may move to direct ownership by Compliance and Ethics.

PG&E also recognizes that there is a fundamental relationship between enterprise and compliance risks. As part of the Integrated Compliance Operating Model, PG&E will begin to implement an improved integrated risk and compliance approach, which includes aligning compliance risks to key safety and reliability risk events and cross-cutting factors. Additional information on this subject can be found in Exhibit (PG&E-2), Chapter 3.

The Compliance and Ethics group is comprised of four sub-groups: (1) Program Development and Operations; (2) Communications and Training; (3) Regulatory Compliance Support; and (4) the Employee Conduct Program.

The Compliance and Ethics department had 22 FTEs in 2020.

1) Program Development and Operations

Program Development and Operations (PDO) is principally responsible for developing a multi-year roadmap for the enterprise Compliance and Ethics team's work. This includes developing and tracking milestones for the program, performing benchmarking and developing leading metrics to understand LOBs' compliance performance, and providing training and workshops to promote best practices. PDO also has responsibility for enterprise compliance programs and initiatives, including the enterprise Guidance Document Management Program, Federal Contract Compliance Program, and Compliance Management Tool. PDO is also responsible for Governance, Reporting, and Metrics, which includes managing and tracking the deliverables for the Senior-Officer team, Senior-Officer Compliance, Ethics, and Audit Committee, Director-level C&E Leadership Team, and Manager/Principal-level C&E Liaisons team.

2) Communications and Training

The purpose of the Communications and Training group is to promote a culture of C&E, where employees are enabled and inspired to act with integrity, speak-up to raise concerns, and comply with all legal and regulatory requirements. The Communications and Training group is comprised of two sub-groups: (1) C&E Awareness and Outreach; and (2) Training Content and Delivery.

C&E Awareness and Outreach provides employees with tools and education on how to raise issues, ideas, and concerns; identifies and reports on cultural trends; and develops and implements a conduct-related communications program. Its key deliverables include the preparation, implementation, and management of PG&E's Code of Conduct, data analysis and action plans to strengthen and enhance the Company's Speak-Up, Listen-Up, Follow-Up culture, management of the PG&E Ethics Council, and a wide variety of communications efforts.

Training Content and Delivery designs and implements PG&E's annual C&E training, the annual Code of Conduct training, and other targeted trainings.

3) Regulatory Compliance Support

Regulatory Compliance Support is principally responsible for managing the C&E Department's interface with other LOBs regarding PG&E's C&E programs, including the C&E Maturity Model, and controls testing. The C&E Maturity Model is a foundational and enterprise-wide effort. It consists of eight elements—generally derived from the U.S. Sentencing Guidelines—that reflect best practices for managing C&E programs. It does not assess whether a program owner is in or out of compliance in any area, but, rather, identifies numerous specific criteria that the program owners and central C&E program must achieve to reach successive levels of program maturity. The C&E Maturity Model establishes a common roadmap to program maturity and enables those with more mature C&E programs to share with others how to implement those practices.

Using the model as a guide, PG&E's expectation is for each LOB to effectively manage its high- and medium-risk C&E items. The Maturity Model is a foundation of PG&E's C&E program and the work to continuously improve the Company's C&E maturity will carry on indefinitely.

4) The Employee Conduct Program

The Employee Conduct Program oversees PG&E's Compliance and Ethics Helpline, and the employee conduct investigation and reporting process. The group's key deliverables include analyzing conduct data and regularly reporting to PG&E's Boards of Directors and senior management. The group also partners with LOBs across the Company to assess and resolve allegations of employee misconduct, as well as respond to requests for guidance on C&E-related matters.

c. Corporate Compliance and Government Oversight (Monitorship and Probation; PCC 15880)

Corporate Compliance and Government Oversight leads and manages PG&E's efforts to ensure full and timely compliance with requirements and requests under the terms of PG&E's Federal Monitorship and Probation. This team is comprised of 3 FTEs. Costs for this group's activities are booked below-the-line and paid for by PG&E shareholders. They are not included in PG&E's 2023 General Rate Case (GRC) forecast.

d. Enterprise Records and Information Management (ERIM) and Enterprise Data Management (EDM)

The ERIM and EDM functions are addressed in Exhibit (PG&E-7), Chapter 7.

3. 2023 Forecast Drivers

The department forecast of $8.3 million for 2023 is approximately $1.1 million (14.6 percent) higher than the 2020 recorded adjusted amount of $7.2 million.[4] As discussed further below, the increase is primarily

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[4] See Table 4-1, line 3.

attributable to the following drivers: (1) Labor Escalation; (2) Staffing and Associated Costs; and (3) Contracts and Fees.

a. Labor Escalation

Compliance and Ethics forecasts a $ .37 million increase attributable to the cumulative impact of labor escalation from 2020 through 2023, based on the labor escalation values provided in Exhibit (PG&E-8), Chapter 4.

b. Staffing and Associated Costs (FERC 920 and 921)

PG&E forecasts a $.81 million increase in staffing costs associated with filling positions that were vacant in the organization in 2020. PG&E does not forecast adding additional headcount to the organization for 2023.

c. Contracts and Fees (FERC 923)

PG&E forecasts a $.12 million decrease in contract costs for 2023. This does not represent a material change to PG&E's use of consultants to support the organization. The C&E Department will continue to leverage outside consultant expertise in working towards the Company's maturity and to perform important functions related to program maturity going forward. These functions include the review and validation of documented evidence submitted by LOBs to demonstrate achievement of higher maturity levels. It also includes the review and validation of all LOBs' C&E program maturity to assess the Company's overall progress in achieving its maturity goals. Lastly, these functions include ongoing reviews and validations to confirm that the LOBs have not only achieved but are also maintaining maturity and are continuously improving.

C. IT Projects

PG&E forecasts $0.2 million in expense and $0.5 million capital per year from 2022-2026 to upgrade existing IT systems that support Compliance & Ethics. The organization will update MetricStream, PG&E's Compliance Management Tool which provides comprehensive and uniform risk and compliance management capabilities and is used across the enterprise[5]. The updates will increase the reach and efficiency of MetricStream, supporting the goal of continually improving compliance performance. PG&E also plans to implement an update to enable mobile access to guidance documents. The project will increase access to these key resources for PG&E field- and office-based employees and contractors who leverage mobile devices as their primary technology tools. The guidance document update will be completed prior to 2023.[6]

D. Cost Tables

The C&E organization's recorded costs for 2020 and forecast expense for 2021 through 2023 are shown in Tables 4-1 and 4-4.

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5 Exhibit (PG&E 9), WP 4-33 to WP 4-34.

6 Exhibit (PG&E 9), WP 4-35.

TABLE 4-1
SUMMARY OF DEPARTMENT EXPENSE HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	1) C&E Immediate Office	$483	$451	$470	$481	$322	$353	$368	$398	WP 4-3, line 19
2	2) C&E	5,212	$6,129	6,297	5,776	6,920	7,500	7,701	7,900	WP 4-3, line 12
3	Total	$5,695	$6,580	$6,767	$6,257	$7,242	$7,853	$8,069	$8,298	WP 4-3, line 5

TABLE 4-2
SUMMARY OF DEPARTMENT EXPENSE BY FERC ACCOUNT
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
	Organization View									
1	920 – Admin & Gen Salaries	$1,827	$2,854	$3,085	$3,483	$3,399	$4,066	$4,180	$4,309	WP 4-3, line 1
2	921 – Office Supplies & Ex	251	440	181	168	109	353	363	372	WP 4-3, line 2
3	923 – Outside Svc Employ – Utility	3,135	2,836	3,032	2,598	3,726	3,434	3,526	3,617	WP 4-3, line 3
4	923 – Outside Svc Employ – Corp	483	451	470	8	7	–	–	–	WP 4-3, line 4
5	Total	$5,695	$6,580	$6,767	$6,257	$7,241	$7,853	$8,069	$8,298	WP 4-3, line 5
6	Change from Prior Year		$885	$187	$(510)	$984	$612	$216	$229	WP 4-3, line 6

TABLE 4-3
IT EXPENSE BY MAJOR WORK CATEGORY
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	MWC	Recorded Adjusted 2016	Recorded Adjusted 2017	Recorded Adjusted 2018	Recorded Adjusted 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Workpaper Reference
1	Maintain IT Applications and Infrastructure	JV	$27	$280	$311	$125	$107	$175	$225	$225	WP 4-28, line 1
2	Total		$27	$1,594	$1,431	$619	$108	$175	$725	$725	WP 4-28, line 2

TABLE 4-4
IT CAPITAL BY MAJOR WORK CATEGORY
(THOUSANDS OF NOMINAL DOLLARS)

				Capital Expenditures												
Line No.	MWC	MAT	MAT Description	2016 Recorded Adjusted	2017 Recorded Adjusted	2018 Recorded Adjusted	2019 Recorded Adjusted	2020 Recorded Adjusted	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	Workpaper Reference
1	2F	2FA	ASvcs: Development	–	$1,314	$1,120	$494	$1	–	$500	$500	$500	$500	$500	
2		Grand Total		–	$1,314	$1,120	$494	$1	–	$500	$500	$500	$500	$500	

Note: Excludes projects greater than $3 million

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 5

REGULATORY AFFAIRS

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CHAPTER 5
REGULATORY AFFAIRS

A. Introduction

1. Scope and Purpose

Pacific Gas and Electric Company's (PG&E or the Company) Regulatory Affairs organization provides to the operating Lines of Business (LOB) expertise in state and federal regulatory matters. This includes regulatory policy development and implementation, advocacy, rate design and data analysis, and the management of a growing number of complex regulatory cases and initiatives. Since PG&E is a regulated company, the functions performed by the Regulatory Affairs organization are necessary for PG&E to serve its customers.

Working closely with the LOBs, Regulatory Affairs develops regulatory policies, prepares filings, and manages regulatory cases before state and federal regulators and other external stakeholders. These include, the California Public Utilities Commission (CPUC or Commission), Federal Energy Regulatory Commission (FERC), and California Independent System Operator (CAISO). Regulatory Affairs also manages the implementation of final decisions issued by these regulators. This implementation includes the development of processes and reports to comply with decision requirements. Regulatory Affairs also performs several support functions for proceedings, including rate design; data analyses; revenue forecasting; advice filings; tariff management; load forecasting and research; and document processing and management. To fulfill its objectives, the Regulatory Affairs organization continually adapts to changes in the business environment and focuses on improving its operational efficiency by leveraging technology and improving processes.

The Regulatory Affairs forecast for 2023 is shown in Tables 5-1 through 5-4. PG&E requests that the Commission adopt its 2023 total forecast as follows:

- Department Costs – The 2023 forecast is $17.6 million,[1] which is $1.7 million (10.5 percent) higher than the 2020 recorded amount of $15.9 million.[2] The $1.7 million increase is primarily attributable to labor escalation[3] and costs to backfill vacant positions.
- Information Technology (IT) Projects – PG&E forecasts approximately $429 thousand in expense for 2023.[4] PG&E requests that the Commission adopt its IT capital forecast as follows: $100 thousand for 2021; $1.5 million for 2022, $1.5 million for 2023, $1.5 million for 2024, $1.5 million for 2025, and $1.5 million for 2026.[5] These projects support the continued development of analytical models for rate design, marginal cost analyses, load research, and customer data analytics as discussed in Section C below. Table 5-4 includes the forecasts for capital projects for each year 2021-2026.

2. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

- Section B – Department Costs;
- Section C – Information Technology Projects; and
- Section D – Cost Tables.

B. Department Costs

1. Summary of Forecast

Activities for the department are described in Section B.2. Figure 5-1 shows the primary drivers of changes in department costs from 2020 recorded adjusted costs to the 2023 forecast. These drivers are discussed in detail in Section B.3.

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1 See Tables 5-1 and 5-2.

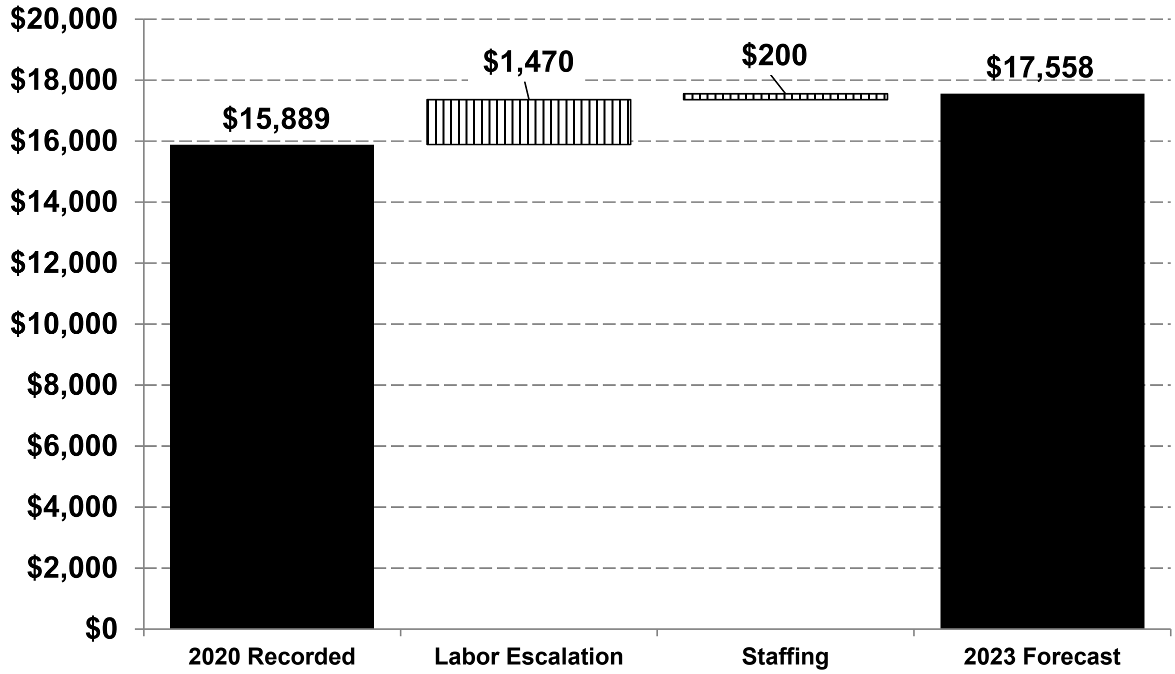
2 Exhibit (PG&E-9), WP 5-3, line 5.

3 See Exhibit (PG&E-8) – Human Resources, Ch. 4 – Compensation, STIP, Non-Qualified Retirement and Labor Escalations.

4 Exhibit (PG&E-9), WP 5-46, line 2; see also Table 5-3.

5 Exhibit (PG&E-9), WP 5-48, line 2; see also Table 5-4.

FIGURE 5-1
EXPENSE WALK (2020-2023)
(THOUSANDS OF NOMINAL DOLLARS)



2. Organization Description

The Regulatory Affairs organization costs cover labor expenses for four distinct functions:

1) Vice President's (VP) Immediate Office – The VP manages the overall development, execution, and oversight of PG&E's Regulatory Affairs activities including the functions described below. In addition, the VP's Immediate Office manages the Regulatory Operations and Analytics team described below.
2) Regulatory Relations – Manages PG&E's interactions with the CPUC, FERC, and CAISO.
3) Regulatory Proceedings – Manages PG&E's proceedings with the CPUC and FERC. This includes case management and filings.
4) Rates – Manages PG&E's electric and gas Rate Design; Revenue Forecasting, and Load Forecasting.

a. VP Immediate Office (PCC 15479)

The VP of Regulatory Affairs is responsible for the overall development, execution, oversight, and management of PG&E's Regulatory Affairs activities.

The VP works with the Company's leaders on a broad range of key issues, such as long-term electric and natural gas supply and resource planning; renewable resource procurement and development; customer service and safety and reliability initiatives; regulatory investigations; infrastructure development and expansion; demand-side management programs; conservation and green programs and initiatives; customer-focused rate design; and revenue requirements and financial impacts. Specifically, responsibilities of the VP include:

- Providing oversight for PG&E's CPUC and FERC proceedings, with the goals of solid policy development, public safety, customer satisfaction, and adequate revenue recovery;
- Representing PG&E in CAISO and FERC meetings, stakeholder processes, and the proceedings of other regulatory and legislative bodies;
- Providing guidance and regulatory expertise to Company leaders to inform key business decisions and issues;
- Leading and developing the management leadership team within the Regulatory Affairs organization; and
- Managing the regulatory functions that report to the VP, which include: (1) Regulatory Operations and Analytics; (2) Regulatory Relations; (3) Regulatory Proceedings; and (4) Rates.

1) Regulatory Operations and Analytics

The Regulatory Operations and Analytics group is made up of the following teams: Regulatory Analytics, Regulatory Operations, and Regulatory Support.

a) Regulatory Analytics

The Regulatory Analytics group provides data analysis support for numerous proceedings, compliance requirements and many internal and external groups. This support includes working closely with stakeholders to: (1) design and implement analytical databases and related systems; (2) develop reports and analyses of historical customer and hourly load data; and (3) estimation of customers bill determinants and bill impacts for proposed rate changes. This team uses several models that access customers' demographic, interval meter and billing data. This team also develops and validates models and maintains them for Regulatory Affairs and serves as liaison with IT to implement IT projects for Regulatory Affairs. The Regulatory Analytics group is primarily responsible for:

- Developing and maintaining analytical databases and related systems;
- Partnering with IT to implement IT projects;
- Developing and maintaining models;
- Developing the annual Class Load Research Study, the annual California Energy Commission (CEC) Load Data Deliverable, and the annual Static Load Profiles;
- Developing the load research statistics for the annual Electric Vehicle Load Research and Cost Studies;
- Responding to *ad hoc* data requests for load profiles and other load research statistics;
- Providing load research, bill determinants and bill impact analyses for all rate change proposals; and
- Preparing customized reports on customers demographic, interval meter and billing data to support rate case filings, rate design, and other analytical needs.

b) Regulatory Operations

The Regulatory Operations group provides cross-departmental support, including: (1) tariff management and Advice Letter (AL) support; (2) department metrics and reporting; (3) coordinating strategic and operating plan development, and (4) support of process improvement initiatives. Primary responsibilities include:

- Coordinating all AL filings;
- Facilitating the tracking of regulatory compliance items which result from regulatory decisions;
- Providing support for: Regulatory Affairs department tools, which includes the department intranet and Proceedings SharePoint sites; and
- Facilitating the Regulatory Accounting Document process and related Sarbanes-Oxley testing.

c) Regulatory Support

This group performs a variety of regulatory support activities, such as: records management, document services, case coordination and hearings support. Primary responsibilities include:

- Supporting the case management process, including case coordination from the case planning stage through case approval and implementation;
- Providing logistical and administrative support to case teams during hearings; and
- Providing support to the external regulation site, including the discovery portal.

b. Regulatory Relations (PCC 15477)

The Regulatory Relations Department manages PG&E’s interactions with the FERC and CPUC, and with other state agencies, such as the CAISO and Wildfire Safety Division (which moves from the CPUC to the California Natural Resources Agency in 2021).

1) CPUC Relations

CPUC Relations directs the development and management of PG&E’s regulatory cases before the CPUC, supports the operating LOBs by providing regulatory expertise, and manages communications with the CPUC. The responsibilities of CPUC Relations include:

- Supporting the Company's LOBs at the CPUC by providing regulatory advice to inform and improve their operations and planning, as appropriate, to achieve their business objectives;
- Overseeing and monitoring the Company's communications with the CPUC, and serving as the primary point of contact between the CPUC and the Company; and
- Working with a wide range of stakeholders to build mutually-agreeable regulatory policies and outcomes that reduce litigation and promote broad-based and customer-focused regulatory solutions.

2) FERC and Independent System Operator Relations

FERC and Independent System Operator (ISO) Relations supports the Company's LOBs by managing the development, approval, and implementation of federal regulatory filings involving the CAISO and other policy matters before the FERC. This group works with stakeholders on national and state levels to adopt and implement market policies. In addition, the department works on renewable resource and grid integration projects to support PG&E's compliance activities.

The primary responsibilities of the FERC and ISO Relations group are:

- Identifying and providing regulatory guidance needed to support LOBs;
- Managing issue development and participating in CAISO stakeholder processes;
- Managing PG&E's participation in CAISO and FERC proceedings, including: developing policy and strategy; overseeing the regulatory process; and ensuring equitable cost and revenue allocation; and
- Managing compliance with CAISO tariffs and rate schedules.

The time and costs for the FERC and ISO Relations group associated with Electric Transmission are charged to FERC-jurisdictional electric transmission operations and maintenance expense, in proportion to time spent on electric transmission matters, which are determined and recovered in the FERC Transmission Owner (TO) rate cases. The FERC and ISO Relations group also provides regulatory support to various other departments, including: Energy Policy and Procurement, Electric Operations Asset Management, Power Generation, Customer Care, and Gas Operations. The costs related to the time spent supporting these other LOBs are properly categorized as Administrative and General (A&G) expenses, and are recovered in this GRC in accordance with the unbundling of A&G principles discussed in Exhibit (PG&E-10), Chapter 8.[6]

c. Regulatory Proceedings (PCC 10421)

The Regulatory Proceedings Department develops and manages PG&E's regulatory cases before the CPUC and FERC, including supporting LOBs in developing regulatory strategy and case showings.

1) CPUC Proceedings

The CPUC Proceedings group supports various LOBs to: develop revenue forecasts and testimony; prepare witnesses; manage discovery; and manage proceedings from filing through approval and implementation. This also includes management of PG&E's General Rate Case (GRC).

The primary responsibilities for the CPUC Proceedings group include:

- Working with LOBs to develop policy and case strategies;
- Overseeing the case management process, including: developing testimony, managing discovery, preparing rebuttal, and preparing witnesses;
- Working to identify and resolve issues as they arise; and
- Working with LOBs to identify and implement regulatory compliance items resulting from regulatory decisions.
- Examples of proceedings managed by this group include the GRC, Risk Assessment and Mitigation Phase (RAMP) of the GRC, Power Charge Indifference Adjustment (PCIA) Order

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6 Exhibit (PG&E-10), Ch. 8, Section C.

Instituting Rulemaking (OIR); Disconnections OIR, Energy Resource Recovery Account Forecast and Compliance, Climate Adaptation OIR and Wildfire Mitigation Plan.

2) FERC Electric Proceedings

This department supports the development and management of the TO rate case. The costs of this department are not included in the GRC as they are related to FERC-jurisdictional activities.

d. Rates (PCC 15465)

The Rates and Regulatory Analytics Department consists of two distinct functions: (1) Rate Design; and (2) Load Forecasting.

1) Rate Design

The Rate Design group is responsible for rate design and marginal cost estimation for PG&E, as well as implementing rate changes resulting from rate design or revenue proceedings. This team uses numerous models that access interval and customer billing data to: forecast rates, design Time-of-Use (TOU) periods, and develop new rates or rate components. The Rate Design group's primary responsibilities include:

- Designing electric and gas rates;
- Supporting rates-related cases, such as the GRC Phase 2, Rate Design Window, GT&S Cost Allocation and Rate Design Proceeding, and the Gas Cost Allocation Proceeding;
- Providing data analytics and analysis;
- Analyzing customer sales, load, rates, usage, and billing information;
- Forecasting future rate and bill impacts; and
- Estimating and forecasting marginal costs and cost of service.

2) Load Forecasting

The Load Forecasting group develops hourly, monthly, and annual electric and gas sales forecasts for PG&E's service territory, and PG&E's bundled electric and core gas customers. This team uses several models that access interval and demographic data to perform these forecasts. The Load Forecasting group's primary responsibilities include:

- Developing electric energy sales forecasts, electric demand forecasts, and electric customer forecasts for PG&E's service territory; and
- Developing gas throughput forecasts and gas customer forecasts for PG&E's service territory.

3. 2023 Forecast Drivers

The 2023 forecast is $17.6 million, which is $1.7 million (10.5 percent), higher than the 2020 recorded amount of $15.9 million. As shown in Figure 5-1 above, the major cost driver for the 2023 forecast is labor escalation and backfilling open positions offset by the elimination of a onetime charge incurred in 2020. Each is discussed in more detail below.

a. Labor Escalation

For 2023, PG&E forecasts increases of $1.5 million in labor escalation based on the labor escalation values provided in Exhibit (PG&E-8), Chapter 4.[7]

b. Staffing

For 2023, PG&E forecasts a net increase of $200 thousand in staffing costs, which includes the cost of backfilling of open positions, partially offset by a reduction for the costs of non-recurring work incurred in 2020.[8]

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[7] See Exhibit (PG&E-8), Ch. 4 for the forecast labor escalation rates.

[8] Exhibit (PG&E-9), WP 5-31, line 29.

C. IT Projects

As part of the normal course of business, the Regulatory Affairs organization has a continuing need to review and upgrade existing IT systems and models to keep up with changing regulatory requirements, evolving rate structures, and new rate schedules. In addition, as discussed above, Regulatory Affairs is responsible for several data analytics, modeling, and forecasting functions, including: (1) load forecasting; (2) load research; (3) rate data analytics, including accessing customer billing and interval meter data for discovery and regulatory requests; (4) revenue allocation; (5) rate design; (6) billing determinants estimating; and (7) bill calculating.

Although PG&E has made great strides in recent years, the technologies that are available in the “big data industry” to manage, maintain, and analyze these extremely large data continue to evolve. To perform the rate analytics that are necessary for PG&E’s rate proceedings and the increasing complexity of regulatory proceedings, the organization must build upon and integrate the data and model platform work that has already been done. In addition, Regulatory Affairs must further leverage new technologies that are available in the marketplace today to perform the complex analytics needed to support the rate structures for PG&E to and to help California’s economy transition to greenhouse gas (GHG) neutrality by 2045. These projects will help PG&E and California meet ambitious policy mandates in a transparent and affordable manner.

The Regulatory Affairs organization is planning two technology projects to enhance its analytical capabilities: (1) Cost of Service Enhancements; and (2) Gas Rate Design Enhancements. These projects support the Safety, Governance, Regulatory, and Compliance value stream as described in Exhibit (PG&E-7), Chapter 8. For these projects, PG&E forecasts a total of $429 thousand in expense for 2023, and $1.5 million in capital for each year from 2022 to 2026. Each project is discussed below.[9] In addition, PG&E forecasts $100 thousand in capital in 2021 for model validation and stabilization of the Model Platform and Data Integration project which was approved in the 2020 GRC.

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9 Exhibit (PG&E-9), WP 5-46 and WP 5-48.

1. Cost of Service Enhancements

The purpose of this project is to make cost data from PG&E's SAP financial system available to PG&E's analytics platform to enable the development of new Cost of Service models that can be used to improve downstream Revenue Allocation and Rate Design models.

PG&E forecasts approximately $429 thousand in expense in 2023, $1.5 million in capital for 2022, $1.5 million in capital for 2023, and $1.137 million in capital for 2024.[10]

2. Gas Rate Design Enhancements

The Gas Rate Design Project will enable integration of customer specific information concerning usage levels and patterns, income levels, and information regarding the type of premise (single family home, multi-family, North American Industry Classification System code for small commercial customers, etc.) with information concerning the risk-based timeline of when that gas line, services, regulators, and meters could require normal replacement. Analyzing the distribution of these joint characteristics will inform PG&E's ability to propose targeted rate designs and programs to more efficiently achieve electrification of customers served from PG&E's gas distribution system. This is compared to a status quo scenario of random electrification where PG&E must maintain the current gas distribution system in service as total gas demand declines.

PG&E forecasts no expenses for this project in 2023 and approximately $346 thousand in capital in 2024, $1.5 million in capital for 2025, and $1.5 million in capital for 2026.[11]

D. Cost Tables

Regulatory Affairs' recorded adjusted costs for 2020, forecast costs for expense for 2021 through 2023, and capital expenditures for 2021 through 2026 are shown in Tables 5-1 to 5-4.

10 See Exhibit (PG&E-9), WP 5-52 to WP 5-54 for more information about the project.

11 See Exhibit (PG&E-9), WP 5-55 to WP 5-58 for more information about the project.

TABLE 5-1
SUMMARY OF DEPARTMENT EXPENSES
REGULATORY AFFAIRS ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	Immediate Office Regulatory Affairs	$554	$2,249	$2,588	$4,344	$5,705	$6,030	$6,207	$6,389	WP 5-3, line 12
2	Regulatory Relations	2,503	2,087	2,078	1,928	1,923	2,575	2,653	2,733	WP 5-3, line 33
3	Regulatory Proceedings	6,068	4,231	5,002	3,808	4,073	3,601	3,703	3,808	WP 5-3, line 26
4	Rates and Regulatory Analytics	8,947	7,178	5,082	4,179	4,188	4,363	4,494	4,629	WP 5-3, line 19
5	Total	$18,072	$15,744	$14,751	$14,259	$15,889	$16,570	$17,056	$17,558	WP 5-3, line 5

TABLE 5-2
SUMMARY OF DEPARTMENT EXPENSES BY FERC ACCOUNT
REGULATORY AFFAIRS ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	920 – A&G Salaries	$13,808	$13,335	$13,267	$13,411	$14,233	$15,535	$16,010	$16,502	WP 5-3, line 1
2	921 – Office Supplies and Ex	712	435	472	476	1,078	341	351	362	WP 5-3, line 2
3	923 – Outside Svc Employ – Utility	3,552	1,974	1,012	373	578	695	695	695	WP 5-3, line 3
4	923 – Outside Svc Employ – Corp	–	–	–	–	–	–	–	–	WP 5-3, line 4
5	Total	$18,072	$15,744	$14,751	$14,019	$15,889	$16,570	$17,056	$17,558	WP 5-3, line 5

TABLE 5-3
REGULATORY AFFAIRS DEPARTMENT COSTS
IT EXPENSE BY MAJOR WORK CATEGORY
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	JV	Maintain IT Applications and Infrastructure	$1,032	$1.458	$1,080	$327	$763	$279	$429	$429	WP 5-46, line 1
2		Total	$1.032	$1,458	$1,080	$327	$763	$279	$429	$429	WP 5-46, line 2

TABLE 5-4
REGULATORY AFFAIRS DEPARTMENT COSTS CAPITAL
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	2024	2025	2026	Workpaper Reference
1	2F	Build IT Applications and Infrastructure	$9,906	$3,600	$1,605	$684	$1,279	$100	$1,500	$1,500	$1,500	$1,500	$1,500	WP 5-48, line 1
2		Total	$9,906	$3,600	$1,605	$684	$1,279	$100	$1,500	$1,500	$1,500	$1,500	$1,500	WP 5-48, line 2

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 6

LAW ORGANIZATION

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 6
LAW ORGANIZATION

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 6
LAW ORGANIZATION

A. Introduction

1. Summary of Request

Pacific Gas and Electric Company's (PG&E or the Company or the Utility) Law Department provides legal services. The Law Department reports to PG&E's Executive Vice President (EVP) and General Counsel. The Law Department and General Counsel's immediate office are collectively referred to in this chapter as the Law Organization. The Law Organization represents the Company in all its regulatory and legal matters and provides advice and counsel to support the safe and reliable operation of PG&E's business.

The Law Organization's forecasted costs are shown in Tables 6-1 through 6-5. PG&E requests that the California Public Utilities Commission (CPUC or Commission) adopt its 2023 total expense forecast as follows:

- Department Costs – $46.7 million.[1] Department costs include labor, materials, and outside contracts. The 2023 forecast of $46.7 million is approximately $2.5 million (5 percent) lower than the 2020 recorded adjusted amount of $49.1 million.[2] PG&E expects to manage these costs at a level below normal escalation by replacing staff who leave the department through natural attrition with lower cost resources and reducing outside services costs. These costs are discussed in Section B of this chapter.
- Settlements, Judgments and Claims – $25.1 million[3] for settlements and judgments costs and $14.3 million[4] for third-party claims payments. These amounts are based on the average of the recorded adjusted payments for the 4-year period 2017-2020. PG&E used the same

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1 See Table 6-1, line 3.

2 See Table 6-1, line 3.

3 See Table 6-3, line 1.

4 See Table 6-3, line 2.

methodology in its 2017 and 2020 General Rate Cases (GRC). These costs are discussed in Section C of this chapter.

- Information Technology (IT) Projects – The Law Department forecasts $314 thousand[5] in 2023 for minor technology enhancements. These costs are discussed in Section D of this chapter.

2. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

- Section B – Department Costs;
- Section C – Settlements, Judgments, and Claims;
- Section D – IT Projects; and
- Section E – Cost Tables.

B. Department Costs

1. Summary of Forecast

Figure 6-1 below shows the drivers for the 2023 forecast compared to 2020 recorded adjusted costs. The activities included in the 2020 costs are described in Section B.2. below. The following three drivers of the 2023 forecast change are described in Section B.3. below: (1) labor escalation; (2) staffing; and (3) outside services.

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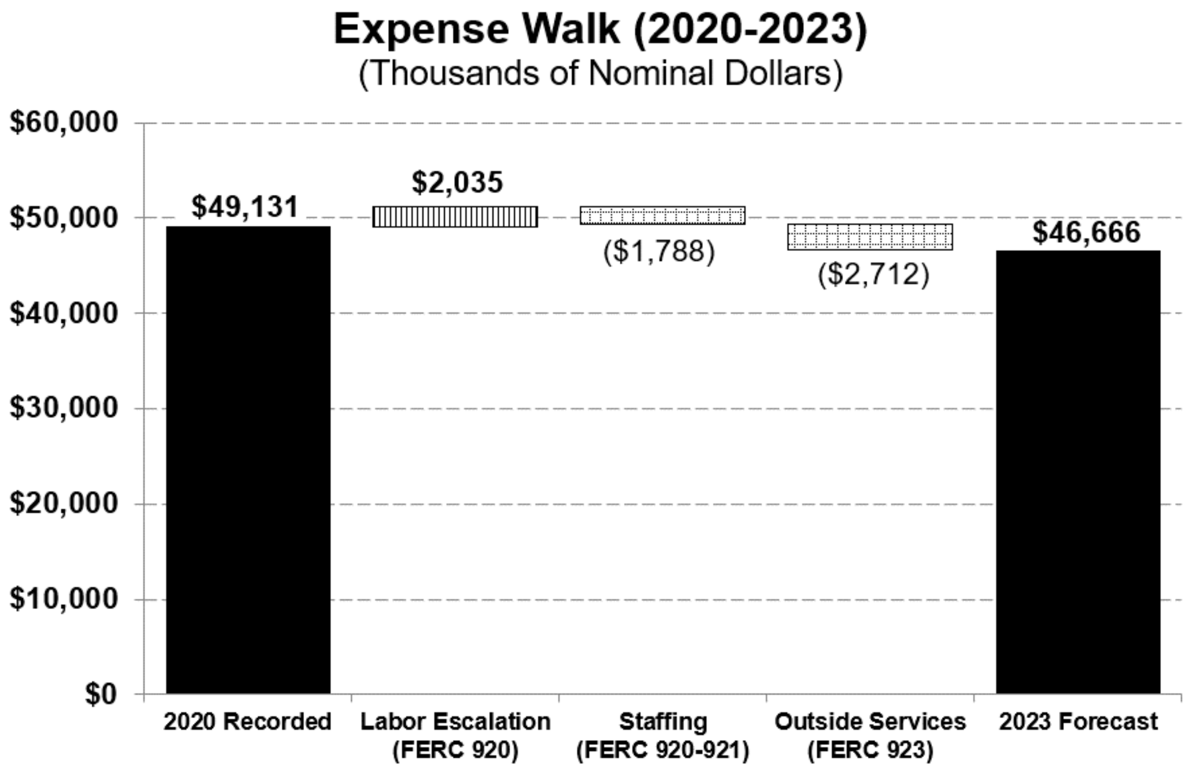
[5] See Table 6-4, line 2.

FIGURE 6-1
EXPENSE WALK OF DEPARTMENT (2020-2023)
(THOUSANDS OF NOMINAL DOLLARS)



2. Law Organization Description

a. Law Department (Provider Cost Centers (PCC) 10448 and 10451)

PG&E's Law Department seeks to provide high quality, cost-effective legal support to solve problems, meet business objectives, identify, and mitigate risks, and strengthen compliance. It is led by the General Counsel and Deputy General Counsels. Together, they manage the operations of the Law Department, and provide substantive oversight for a variety of legal matters. There are three Deputy General Counsel in the Law Organization. The Vice President (VP) Compliance and Ethics (C&E) and Deputy General Counsel leads the C&E Organization. The VP Deputy General Counsel, Corporate Secretary and Utility General Counsel leads the Corporate Secretary organization and corporate legal function. The VP and Deputy General Counsel, Operations, leads the regulatory, operations, strategy and policy, and environmental legal functions. Reporting to General Counsel and the

Deputy General Counsel are designated managing counsel who manage the legal support that the Law Department provides for the various lines of business (LOB).

The Law Department's substantive legal activities fall into three broad categories: (1) litigation and claims; (2) regulatory proceedings and compliance; and (3) corporate, contracts, and commercial services. In addition, the Law Department includes administrative support staff, who report to the Director of Legal Administration.

The specific functions of the Law Department's various groups are described in greater detail below.

1) Litigation and Claims

The Law Department provides litigation support and services to the Company in responding to lawsuits and disputes in several areas including corporate and commercial, human resources, environmental, public and employee safety, workers' compensation, and general litigation matters. This includes representing the Company in cases or matters regarding personal injury and/or property damage, real property and eminent domain disputes, commercial disputes, environmental disputes, and employment disputes. In addition, the Law Department provides affirmative litigation support and services to the Company in order for the Company to seek recovery or damages from third parties when such third parties have damaged PG&E assets, equipment, or facilities.

The Law Department also provides legal advice to the Company with respect to public and employee safety issues and claims. The department is responsible for investigating, evaluating, and resolving claims submitted by third parties for property damage, economic loss or personal injury arising out of PG&E's gas and electric service. The department also performs litigation assessments, with respect to potential third-party claims. Employees who support the claims function include: Claims Investigators, Supervisors, and associated staff.

2) Regulatory and Compliance

The Law Department provides legal support for regulatory matters and proceedings for each of the Company's LOBs. This work includes preparing filings and participating in related proceedings with the CPUC, Federal Energy Regulatory Commission (FERC), Nuclear Regulatory Commission, United States Environmental Protection Agency, and other state and federal agencies. In addition to participating in regulatory proceedings, attorneys working on regulatory matters provide advice regarding compliance with many complex regulatory requirements, including federal and state utility, energy, and environmental laws.

3) Corporate, Contracts and Commercial Services

The Law Department provides corporate legal services to the Company as well as commercial contracting services to support the Company's energy procurement, sourcing function and other business needs. The department provides legal support, advice, and counsel on commercial matters, including: (1) power purchase and sale agreements; (2) engineering, procurement, and construction contracts; and (3) various types of commercial contracts. The department also provides legal support and advice and counsel regarding: (1) public and private financing transactions; (2) compliance with securities laws applicable to public companies; and (3) employee benefits matters. Finally, the department provides legal support for corporate functions such as governance, investor relations, and compliance and risk.

4) Administrative Support

The Law Department's administrative group is responsible for providing general administrative support. This work includes:

- Paralegal services, contract administrative support, subpoena processing, and secretarial support;
- Support for the department's budget, legal and claims analytics, payments processing, office services, law library, management information services, timekeeping, document processing,

administration of qualified domestic relations orders, and various other administrative matters;

- Preparing legal notices and related compliance filings for CPUC proceedings;
- Processing thousands of invoice payments (including payments to CPUC intervenors), maintaining payroll timecards for the Law Department's employees, and processing contracts with outside vendors; and
- Overseeing office logistics and administrative matters.

b. Immediate Office of the EVP and General Counsel (PCC 20050, 10373)

The General Counsel is responsible for the overall management of PG&E's Law Department.[6] The General Counsel provides legal advice, counsel, and guidance on significant matters affecting PG&E, and oversees legal advice given by the attorneys in the Law Department. The General Counsel is an officer of PG&E Corporation, although the legal function reporting to the General Counsel primarily provides legal services to the Utility.

In 2020, the General Counsel's immediate office consisted of the General Counsel, VP and Deputy General Counsel, chief of staff, and an executive assistant. PG&E forecasts no change in staffing for this office in 2023. PG&E is not seeking cost recovery of the General Counsel labor costs in this GRC.[7]

3. 2020 Forecast Drivers

As shown in Section B.1, the $2.5 million (5 percent) net decrease in the 2023 forecast, relative to 2020 recorded adjusted costs, is attributable to the

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6 The General Counsel also oversees: Enterprise Records and Information Management, Land and Environmental Management, and Corporate Secretary.

7 Pursuant to CPUC Resolution E-4963 (Issued December 14, 2018), PG&E has excluded from its 2023 forecast the salary and benefits of the utility's SEC Rule 240.3b-7 officers. PG&E has also voluntarily excluded from its 2023 forecast to the salary and benefits of the PG&E Corporation's SEC Rule 240.3b-7 officers although not required by the Resolution. See Exhibit (PG&E-8), Ch. 4 for further discussion of officer compensation costs.

cumulative effect of three drivers: (1) labor escalation; (2) staffing; and (3) outside services. Each of these drivers is described below.

a. Labor Escalation (FERC 920)

The Law Department forecasts a $2.0 million increase, attributable to the cumulative impact of labor escalation from 2020 through 2023, based on the labor escalation values provided in Exhibit (PG&E-8), Chapter 4.

b. Staffing (FERC 920 and 921)

Account 920 consists of the salaries for Law Organization employees (not including contract or temporary employees). Account 921 consists of general expenses to support the Law Department's workforce, including: office supplies, California bar dues, Lexis/Nexis fees, and legal subscription costs. PG&E forecasts a decrease in staffing costs of approximately $1.8 million in 2023.

PG&E expects to decrease by 3 Full-Time Equivalent employees (FTE) by 2023. At the end of 2020, the law organization had 144 FTEs, which included 7 vacancies. PG&E plans to fill 4 of the existing vacancies by 2023 for a total forecast of 141 FTEs. Over the next 3 years, the law department expects to see natural attrition and retirements of more seasoned attorneys. The department plans to achieve additional cost savings and offset merit escalation by backfilling for those retirements with less expensive, more junior attorneys and staff resources where appropriate.

c. Outside Services (FERC 923)

Account 923 consists of outside service costs. These include outside law firms that provide legal services to PG&E, consultants, and vendors who support the Law Department's work. PG&E has excluded all outside legal services costs in response to catastrophic wildfire events or associated with Chapter 11 Bankruptcy.

PG&E's 2023 outside services forecast of $23 million is $2.7 million (approximately 10 percent) lower than its 2020 recorded adjusted costs.[8] The forecast decrease is primarily attributable to the Law Department's continuing efforts to reduce costs through Outside Counsel Management.

The Law Department's 2023 outside services forecast is based on the 4-year average of outside services costs from 2017-2020, which is $25.9 million.[9] PG&E uses an average forecast methodology because outside services costs can vary significantly year-to-year, depending on a number of factors, including the nature and volume of litigation in a given year. PG&E then reduced its 4-year average outside services costs by $2.8 million primarily to reflect continuing benefits of its Outside Counsel Management efforts. For 2023, the law department will focus on continuing its preferred provider program which commenced in 2018. The purpose of the preferred provider program is to narrow the outside law firms PG&E uses to provide legal services. This allows PG&E to drive lower hourly rates by increasing competition among firms, increase efficiencies by having each firm work on more matters thereby developing deeper understanding of PG&E, and create opportunities for volume discounts. PG&E will also focus on other strategies such as implementing a competitive matter bidding platform. The platform is a reverse auction that outside firms can access to bid against each other on various PG&E matters. This will help PG&E engage outside counsel to drive greater usage of Alternative Fee Arrangements that may further reduce external legal spend.

C. Settlements, Judgments, and Claims (FERC 925)

The Law Department records two types of costs in Account 925: (1) settlement and judgment costs as part of its litigation function; and (2) claims payments to third-parties that did not proceed to litigation, alleging personal injury, property damage, and economic loss as a result of PG&E's operations. PG&E maintains a self-administered, self-insured claims management program covering settlement of single incident claims up to $10 million. Starting in 2020 wildfire related events will be self-insured for claims up to $60 million.

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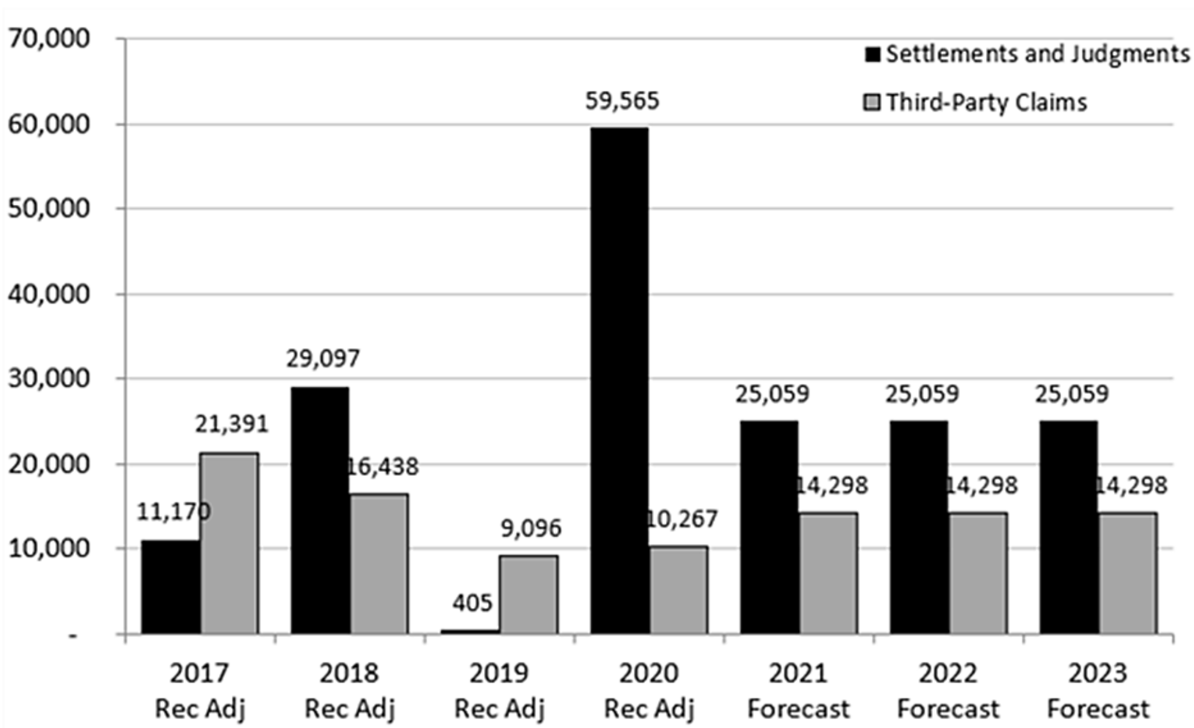
[8] Exhibit (PG&E-9), WP 6-3, line 3.

[9] Exhibit (PG&E-9), WP 6-3, line 3.

Catastrophic coverage for certain single incident claims is typically provided by the Associated Electric and Gas Insurance Services and other insurers.

As noted in Figure 6-2, PG&E forecasts $25.1 million for settlements and judgments, and $14.3 million for third-party claims payments in 2023. This forecast is based on the average of the adjusted actual costs for the 4-year period 2017-2020, which is the same methodology that PG&E used in the 2014, 2017 and 2020 GRCs. This is shown in Figure 6-2.

FIGURE 6-2
SETTLEMENT AND THIRD-PARTY CLAIMS EXPENSES
(THOUSANDS OF NOMINAL DOLLARS)



None of the following costs were used in calculating PG&E's 2023 settlements and judgments forecast:

1) The cost of catastrophic insurance coverage is not included in this chapter and is charged against casualty insurance costs under Account 925;[10]
2) Settlements, judgments or claims that were reimbursed through insurance;

10 Exhibit (PG&E-9) Ch. 3, Section C.

3) Settlements or judgments that included punitive damages or a court finding of bad faith. This is consistent with PG&E's approach in prior GRCs and Commission guidance;[11] and

4) Settlements, judgments, or claims pertaining to catastrophic wildfire events. Costs included in PG&E's 2023 GRC forecast for settlements, judgments, and claims do include costs from other wildfires that fall within PG&E's self-insured retention discussed above.

D. IT Costs

The Law Department IT forecasts $314 thousand in 2023 for annual renewal costs for legal applications and funding for minor enhancements. The Law Department is planning the following technology investments to help improve and modernize PG&E's third party claims system as summarized in Tables 6-4 and 6-5.

PG&E's Third party claims system is planned to migrate from outdated unsupported servers to a cloud solution in 2021. To avoid risk of losing the repository of evidence supporting Litigation and all privileged investigations conducted by the Claims department involving third-party injury/fatality, property damage or business loss, a migration is necessary.

Other investments include revamping the Claims public webpage with mobile device integration. The project will require a phased approach to modernize and improve functionality of the site and build the capability for the public to submit claims through their mobile device. This effort is designed to improve the user experience for the customer through an improved interface and convenience of submitting a claim through their mobile device.

E. Cost Tables

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[11] D.14-08-032, pp. 571-572.

TABLE 6-1
SUMMARY OF DEPARTMENT EXPENSES
LAW ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

		Recorded Adjusted					Forecast			
Line No.	Description	2016	2017	2018	2019	2020	2021	2022	2023	Workpaper Reference
1	EVP General Counsel Immediate Office	$1,784	$1,313	$908	$934	$607	$736	$746	$695	WP 6-3, line 12.
2	Law	51,427	49,338	50,373	46,537	48,524	45,513	45,992	45,971	WP 6-3, line 19.
3	Total	$53,211	$50,650	$51,281	$47,470	$49,131	$46,248	$46,738	$46,666	WP 6-3, line 5.

TABLE 6-2
SUMMARY OF DEPARTMENT EXPENSES BY FERC ACCOUNT
LAW ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

		Recorded Adjusted					Forecast			
Line No.	Description	2016	2017	2018	2019	2020	2021	2022	2023	Workpaper Reference
1	920 – Administrative and General Salaries	$22,473	$21,171	$21,345	$21,637	$21,880	$21,916	$21,590	$22,089	WP 6-3, line 1
2	921 – Office Supplies and Ex	1,726	1,476	1,513	1,445	1,538	1,575	1,575	1,575	WP 6-3, line 2
3	923 – Outside Svc Employ – Utility	27,212	26,794	27,378	23,652	25,688	22,758	23,574	23,002	WP 6-3, line 3
4	923 – Outside Svc Employ – Corp (b)	1,799	1,208	1,045	736	26	–	–	–	WP 6-3, line 4
5	Total	$53,211	$50,650	$51,281	$47,470	$49,131	$46,248	$46,738	$46,666	WP 6-3, line 5

TABLE 6-3
SUMMARY OF SETTLEMENTS, JUDGMENTS, AND THIRD-PARTY CLAIMS EXPENSES
LAW ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	Litigation Settlements and Judgments	$27,051	$11,170	$29,097	$405	$59,565	$25,059	$25,059	$25,059	WP 6-29, line 1
2	Third-Party Claims (Pre-Capitalization)	12,839	21,391	16,438	9,096	10,267	14,298	14,298	14,298	WP 6-29, line 2
3	Total	$39,890	$32,562	$45,534	$9,501	$69,832	$39,357	$39,357	$39,357	WP 6-29, line 3

TABLE 6-4
LAW DEPARTMENT AND RELATED COSTS
EXPENSES BY MAJOR WORK CATEGORY (MWC)
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	JV	Maintain IT Apps and Infra	$415	$151	$232	$238	$449	$314	$314	$314	WP 6-34, line 1
2		Total	$415	$151	$232	$238	$449	$314	$314	$314	WP 6-34, line 2

TABLE 6-5
LAW DEPARTMENT AND RELATED COSTS
CAPITAL
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	MWC	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	2024	2025	Workpaper Reference
1	2F	Build IT Apps and Infra	$489	–	–	–	–	–	–	–	–	–	WP 6-36, line 1
2		Total	$489	–	–	–	–	–	–	–	–	–	WP 6-36, line 2

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 7

PG&E CORPORATION AND PG&E EXECUTIVE OFFICES; AND CORPORATE SECRETARY DEPARTMENT COSTS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 7
PG&E CORPORATION AND PG&E EXECUTIVE OFFICES; AND CORPORATE SECRETARY DEPARTMENT COSTS

A. Introduction

1. Summary of Request

This chapter presents the 2023 forecast for: (1) the Pacific Gas and Electric Company (PG&E or the Company or the Utility) Corporation Chief Executive Officer's (CEO) immediate office; (2) the Enterprise Project Management Office (PMO); (3) the Corporate Secretary Department; and (4) Board of Directors (BOD) fees and expenses.

The PG&E Corporation CEO is responsible for the executive leadership of PG&E and PG&E Corporation. Since PG&E is the sole operating subsidiary of PG&E Corporation, the activities of the Corporation CEO focus on the core business of PG&E.

The Enterprise PMO manages strategic enterprise-wide projects such as the Enhanced Oversight and Enforcement Process (EOEP), Major Commitments, and Enterprise Strategy for Data Responses. It also handles other special projects assigned to it by the Chief Operating Officer (COO) and Chief Risk Officer (CRO).

PG&E's Corporate Secretary Department supports the BOD of PG&E and PG&E Corporation and their respective committees; provides governance, reporting, shareholder, and other necessary services for PG&E and PG&E Corporation; and manages Director fees and expenses for the PG&E and PG&E Corporation BOD.

2. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

- Section B – Department Costs;
- Section C – Director Fees and Expenses; and
- Section D – Cost Tables.

B. Department Costs

1. Summary of Forecast

The forecasted costs for the Corporation CEO's immediate office, the Enterprise PMO, the Corporate Secretary Department, and Director fees and expenses are shown in Tables 7-1 through 7-3. PG&E requests that the California Public Utilities Commission (CPUC or Commission) adopt its 2023 total forecast as follows:

- Department Costs – $5.1 million: Department costs include labor, materials, and outside contracts for the Corporation CEO's immediate office, the Enterprise PMO, and the Corporate Secretary Department.[1] The 2023 forecast is $6.1 million (approximately 54.8 percent) lower than the 2020 recorded adjusted amount of $11.2 million. The decrease is primarily due to reductions in costs for the Corporation CEO's immediate office and Enterprise PMO, offset by an increase in costs for the Corporate Secretary Department related to the proxy statement and annual meeting.
- Director Fees and Expenses – $2.4 million: PG&E's 2023 forecast is approximately $769,000 (46 percent) higher than the 2020 recorded amount of approximately $1.7 million for due to in part a reduction of in person meetings due to coronavirus (COVID-19) in years 2020 and 2021 and in part to escalation for Director Expenses.

This chapter does not include a capital request. Activities for the departments are described in Section B.2. below. Figure 7-1 shows the drivers of changes in department costs, from 2020 recorded adjusted costs to the 2023 forecast. These drivers are discussed further in Section B.3.

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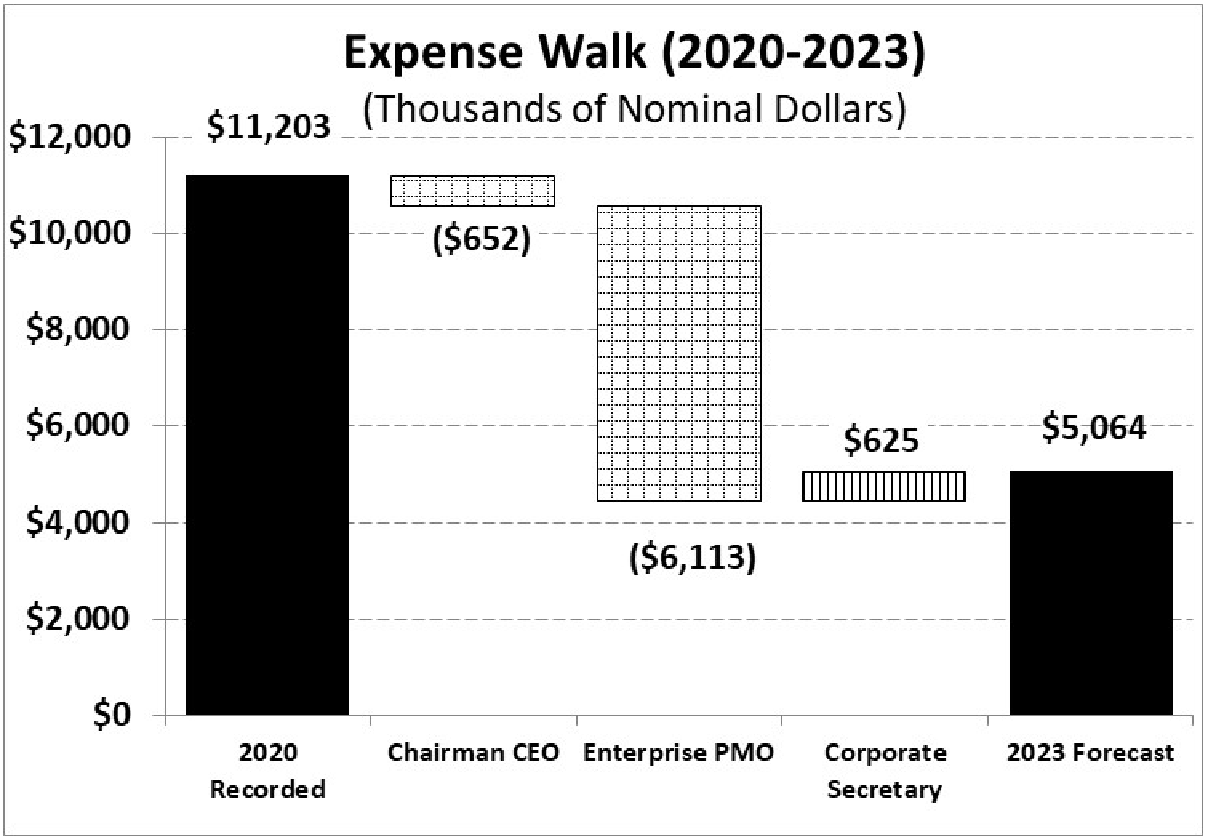
1 Pursuant to CPUC Resolution E-4963 (Issued December 14, 2018), PG&E has excluded from its 2023 forecast the salary and benefits of the utility's SEC Rule 240.3b 7 officers. PG&E has also voluntarily excluded from its 2023 forecast to the salary and benefits of the PG&E Corporation's Securities and Exchange Commission (SEC) Rule 240.3b-7 officers although not required by the Resolution. See Exhibit (PG&E-8), Ch. 4 for further discussion of officer compensation costs.

FIGURE 7-1
EXPENSE WALK 2020-2023
(THOUSANDS OF NOMINAL DOLLARS)



2. Organization Descriptions

a. Corporation CEO's Immediate Office

The Corporation CEO is responsible for the executive leadership of PG&E and PG&E Corporation. Patricia K. Poppe was appointed as the Corporation's CEO and member of the PG&E and PG&E Corporation Boards effective January 4, 2021.

Since PG&E is the sole operating subsidiary of PG&E Corporation, the activities of the Corporation CEO focus on the core business of PG&E. The position provides leadership for the strategic direction of both companies with respect to all facets of their business. In addition, this position is responsible for representing the interests of PG&E and PG&E Corporation before major external constituencies, including the financial services community, credit rating agencies, institutional investors, federal and state governmental officials, stakeholder organizations, the business community, and the public at large.

The Corporation CEO's primary focus is to provide leadership in areas that are critical to addressing PG&E's immediate challenges, and to lead the Company's efforts to position itself for long-term success. In addition, the Corporation CEO is responsible for:

- All matters related to the shareholders of PG&E's and PG&E Corporation's publicly traded stock;
- Overseeing, in consultation with PG&E Corporation's and PG&E's respective independent non-executive Chairs of the Board, matters related to the PG&E and PG&E Corporation BOD and all committees of those Boards;
- Complying with legal and regulatory corporate governance requirements for PG&E and PG&E Corporation, including requirements relating to Sarbanes-Oxley (SOX) Act Section 404, and financial disclosures to the SEC;
- Representing PG&E and PG&E Corporation before federal and state legislative and congressional committees, and in communications with the California Legislature and Governor, as well as the United States Congress and Executive Branch, and overseeing federal regulatory policy for PG&E and PG&E Corporation;
- Representing PG&E and PG&E Corporation before the investment community and the media;
- Managing issues of strategic concern to PG&E and PG&E Corporation; and
- Overseeing the functions held at PG&E Corporation.

At the end of 2020, the Corporation CEO's immediate office consisted of one full-time equivalent (FTE) employee: a Supervisor Leadership Support Services.

b. Enterprise PMO

The Enterprise PMO was set up to manage the development of a regional design under the company's Regionalization Proposal for the Utility, filed with the CPUC on June 30, 2020. The requirement stemmed from the CPUC's Decision 20-05-053, which approved PG&E's reorganization plan resolving the insolvency proceeding, and required PG&E to file an application for regional restructuring, which has the potential to improve PG&E's performance and allow PG&E to be responsive to local communities. Additionally, the Enterprise PMO manages enterprise-wide initiatives to:

- Set up and manage the governance framework for EOEP, including management of tracking and reporting; stakeholder engagement, communication, and training; and corrective action plans and continuous improvement opportunities;
- Stand up the governance framework and process for Major Commitments, including management of tracking and reporting; stakeholder engagement, communication, and training; and continuous improvement opportunities;
- Ensure that guidance documents and other tools used to support EOEP and Major Commitments are kept up-to-date and relevant, and build a strong sense of accountability into the process;
- Establish an enterprise process owner for third-party data request responses to improve information governance, unify standards, and manage the ongoing continuous improvement of the process; and
- Implement a shared tool for the tracking of third-party data requests and develop reporting capabilities of all third-party data requests and responses for trending and categorization.

In addition, the Enterprise PMO undertakes other enterprise-wide projects as directed by the COO and the CRO.

In 2020, the Enterprise PMO's immediate office consisted of eleven FTE employees: seven Principal Business Process and Data Managers; one Director; one Chief of Staff position; one Executive Assistant; and one Administrative Clerk.

c. Office of the Corporate Secretary

The Office of the Corporate Secretary is led by the Vice President (VP), Deputy General Counsel and Corporate Secretary for PG&E Corporation, and General Counsel and Corporate Secretary for PG&E (Corporate Secretary). The Office of the Corporate Secretary provides support and advice to the BOD of PG&E and PG&E Corporation, the Corporation CEO, and other members of PG&E and PG&E Corporation senior management on matters related to corporate governance. The Office of the Corporate Secretary also provides corporate governance, reporting, and shareholder services for PG&E and PG&E Corporation. Since PG&E is the sole operating subsidiary of PG&E Corporation, all functions of the Office of the Corporate Secretary are performed for the sole benefit of PG&E. If PG&E were a stand-alone publicly traded corporation, it would be required to perform these functions for itself, as any publicly-held corporation must have these functions.

The Office of the Corporate Secretary is also responsible for:

- Overseeing compliance with corporate governance policies and practices for PG&E and PG&E Corporation;
- Providing support to the BOD of PG&E and PG&E Corporation and their respective committees;
- Assuring that PG&E and PG&E Corporation remain in good legal standing and comply with governance requirements contained in applicable federal and state securities and corporate laws, including governance requirements of the SOX Act, stock exchange rules, SEC rules, and other legal or regulatory requirements pertaining to PG&E or PG&E Corporation debt and equity securities;
- Preparing and filing SEC and Federal Energy Regulatory Commission (FERC) reports for Directors and Officers of PG&E and PG&E Corporation;
- Providing shareholder service functions and management of the transfer agent contract for PG&E preferred stock and PG&E Corporation common stock;
- Managing arrangements for PG&E and PG&E Corporation annual shareholder meetings;
- Managing the preparation of PG&E and PG&E Corporation proxy statements and related materials;
- Preparing documentation for PG&E and PG&E Corporation securities issuances, redemptions, and maturities; and

- Providing advice on authority of Officers and employees of PG&E and PG&E Corporation to sign documents and take other actions, and providing attestations for contracts and other documents signed by Officers and employees.

In 2020, the Corporate Secretary's Office consisted of five FTE employees: two Principals, one Analyst and two Administrative Support positions.

3. 2023 Forecast Drivers

Below is a discussion of the 2023 forecast drivers shown in Figure 7-1.

a. Corporation CEO's Immediate Office

The Corporation CEO's immediate office forecasts $1 million for 2023, which is a decrease of approximately $0.7 million compared to 2020 recorded costs.[2] The decrease is primarily due to one-time contract costs for executive recruiting not continuing in 2021 and beyond.[3]

b. Enterprise PMO

Enterprise PMO forecasts $1.0 million for 2023, which is a decrease of approximately $6.1 million compared to 2020 recorded adjusted costs.[4] The decrease is primarily due to: (1) contract costs incurred in 2020 for consulting services to support the company's regionalization filing with the CPUC that will not be required in 2023; and (2) a reduction of 9 FTEs who temporarily supported the initial work of the Enterprise PMO, but who will not be required on a permanent basis to support its ongoing operations in 2023 and beyond. The 2023 forecast reflects two permanent FTEs to support ongoing operations: one Chief of Staff and one Executive Administrative position.

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[2] See fns 1 and 2, *supra,* (PG&E is not seeking recovery of the CEO's compensation in this General Rate Case (GRC).); see also Exhibit (PG&E-9), WP 7-11, line 45.

[3] Exhibit (PG&E-9), WP 7-11.

[4] Exhibit (PG&E-9), WP 7-20.

c. Office of the Corporate Secretary

The Office of the Corporate Secretary forecasts $3.1 million for 2023, which is an increase of approximately $0.6 million (25.6 percent) compared to 2020 recorded costs.[5] PG&E expects an increase related to materials and contract costs for the PG&E Corporation and PG&E Proxy Statement and Annual Meeting, which did not take place in 2020.

C. Director Fees and Expenses

1. Description of Activities

The PG&E Corporation BOD currently consists of fifteen Directors. The PG&E BOD currently consists of sixteen Directors—the same fifteen Directors that serve on the PG&E Corporation Board and PG&E's Executive VP, Operations and COO. Of PG&E's sixteen Directors, fourteen are outside (i.e., non-employee) Directors, one is an Officer of PG&E Corporation (the Corporation CEO), and one is an Officer of PG&E (COO).

Each outside Director of PG&E or PG&E Corporation receives quarterly retainers for his or her service on the Board. In addition, the Directors who serve as the non-executive Chairs of the Board of the Corporation and the Utility receive an additional retainer, as do the Directors who serve as Chair of a Board committee.

Under the Director compensation policies of PG&E and PG&E Corporation, outside Directors who serve on both the PG&E and PG&E Corporation BOD and corresponding committees receive their Director compensation from PG&E Corporation. They do not receive additional compensation from PG&E for concurrent service on the PG&E Board or its committees.

In addition, travel and other expenses are incurred by, or on behalf of, outside Directors when they attend or participate in Board meetings, Board committee meetings, shareholder meetings, and other activities undertaken on behalf of PG&E or PG&E Corporation. If outside Directors incur out-of-pocket travel or other expenses for these activities, PG&E or PG&E Corporation reimburses them for their reasonably incurred expenses.

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[5] Exhibit (PG&E-9), WP 7-20.

If PG&E Corporation did not exist and PG&E were a stand-alone publicly-traded company, the PG&E BOD would have to perform all the functions currently performed by the PG&E and PG&E Corporation Boards. If that were the case, all the Director fees and expenses currently paid by PG&E Corporation would otherwise be incurred directly by PG&E. PG&E receives a cost-savings benefit of sharing Board members with PG&E Corporation.

2. Analysis of Forecast and Recorded Costs

PG&E requests that the Commission adopt its 2023 total forecast of $2.4 million for PG&E Corporation's Director fees and expenses. This is an increase of approximately $769,000 (46 percent) compared to the 2020 recorded amount,[6] which is due to a reduction of in person meetings due to COVID-19 in years 2020 and 2021 and escalation as described below.

a. Retainer Fees

As noted above, a quarterly retainer fee is paid to each non-employee Director who serves on the PG&E and/or PG&E Corporation Boards, and additional retainer fees are paid to those Directors who serve as the non-executive Chair of the Board or Chair of a Board committee. Retainer fees for directors who are not committee or Board chairs were $120,000 for 2020. PG&E forecasts no change in fees for 2023.[7]

b. Director Expenses

PG&E and PG&E Corporation pay for non-employee Directors' travel and other expenses related to attendance at, or participation in, Board, Board committee, or shareholder meetings, as well as other PG&E or PG&E Corporation activities. These expenses are either paid directly by PG&E or PG&E Corporation on behalf of a Director or are reimbursed to the Director if the Director personally incurred the expense. For this GRC, reasonable expenses for: Director

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6 Exhibit (PG&E-9), WP 7-38, line 6.

7 Exhibit (PG&E-9), WP 7-42. Please note, the Results of Operation (RO) data includes slightly higher costs for Retainer Fees than is stated here. PG&E will adjust the RO accordingly at the next available opportunity.

transportation (air and ground), lodging, Director education, and one PG&E facility tour per year are included in the 2023 forecast. PG&E forecasts a $18,000 annual increase in Director expenses,[8] largely due to 3 percent escalation.[9] In addition to escalation, travel expenses in 2020 were lower than forecast for 2023 due to a lack of in person meetings in 2020.

D. Cost Tables

The recorded adjusted costs for 2020 and the forecast costs for expense for 2021 through 2023 for the departments covered in this chapter are shown in Tables 7-1 and 7-2. PG&E's Director Fees and Expenses are shown in Table 7-3.

8 Exhibit (PG&E-9), WP 7-41.

9 Escalation factors provided in Exhibit (PG&E 8), Ch. 4.

TABLE 7-1
SUMMARY OF DEPARTMENT EXPENSES
CEO ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	Forecast 2020	2021	2022	2023	WP Reference
1	Chairman, CEO and President's Office	$3,731	$2,959	$2,306	$722	$1,652	$1,000	$1,000	$1,000	WP 7-3, line 12
2	Enterprise PMO	1,688	1,635	1,949	1,651	7,113	1,000	1,000	1,000	WP 7-3, line 26
3	Corporate Secretary	3,116	3,230	3,114	2,501	2,439	2,971	3,022	3,064	WP 7-3, line 19
4	Total	$8,536	$7,823	$7,369	$4,847	$11,203	$4,971	$5,022	$5,064	WP 7-3, line 5

TABLE 7-2
SUMMARY OF DEPARTMENT EXPENSES BY FERC ACCOUNT
CEO ORGANIZATION
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	Forecast 2020	2021	2022	2023	WP Reference
1	920-Admin & Gen Salaries	$3,328	$2,940	$2,649	$1,482	$2,752	$2,539	$2,590	$2,632	WP 7-3, line 1
2	921-Office Supplies & Ex	1,450	1,078	1,418	575	184	623	623	623	WP 7-3, line 2
3	923-Outside Svc Employ-Utility	1,100	1,031	996	2,095	6,616	809	809	809	WP 7-3, line 3
4	923-Outside Svc Employ-Corp	2,659	2,775	2,306	722	1,652	1,000	1,000	1,000	WP 7-3, line 4
5	Total	$8,536	$7,823	$7,369	$4,874	$11,203	$4,971	$5,022	$5,064	WP 7-3, line 5

TABLE 7-3
SUMMARY OF COMPANYWIDE EXPENSE
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

		Recorded Adjusted				Forecast				WP Reference
Line No.	Description	2016	2017	2018	2019	2020	2021	2022	2023	
1	Director Fees and Expenses	$1,974	$1,881	$1,952	$2,618	$1,671	$2,054	$2,369	$2,440	WP 7-38, line 1
2	Total	$1,974	$1,881	$1,952	$2,618	$1,671	$2,054	$2,369	$2,440	WP 7-38, line 2

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 8

CORPORATE AFFAIRS COSTS

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CORPORATE AFFAIRS COSTS

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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 8
CORPORATE AFFAIRS COSTS

A. Introduction

1. Summary of Request

Pacific Gas and Electric Company's (PG&E or the Company or the Utility) Corporate Affairs department (Corporate Affairs) is responsible for communicating with community leaders and public officials at all levels of government.[1,2]

Corporate Affairs provides critical information during emergencies, communicates public safety information, and keeps community stakeholders and government officials apprised of key changes to PG&E's operations in their local communities, including those relating to public safety and service options. Corporate Affairs is also responsible for building and maintaining successful working relationships with government officials and community stakeholders, advising on key matters related to the delivery of safe, reliable, affordable, and clean gas and electric service.

Corporate Affairs works to develop strategies to align and adapt the Utility with current and future changes in policy and customer preferences to minimize costs while delivering products and services that meet customers' needs and prioritize the focus on safety.

The Corporate Affairs forecast is shown in Tables 8-1 and 8-2 in Section D. PG&E requests that the California Public Utilities Commission (CPUC or Commission) adopt its 2023 total forecast as follows:

- Department Costs – The 2023 forecast is $8.9 million, which is $1.9 million (24 percent) higher than the 2020 recorded adjusted amount of $7.0 million.[3] The $1.9 million increase is primarily attributable to the following drivers: (1) labor escalation; (2) staffing costs to support the

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[1] The remaining costs and activities of Corporate Affairs are presented in Exhibit (PG&E-9), Ch. 5, Regulatory Affairs.

[2] The Marketing and Communications organization testimony has moved to Exhibit (PG&E-6), Ch. 11, Customer and Communications.

[3] See Exhibit (PG&E-9), WP 8-3, line 5.

Climate Vulnerability Assessment (CVA) beginning in 2023, as well as the Local Government Relations function; and (3) Contract support for the CVA program. These drivers are discussed in Section B.3. below.

2. Organization of Remainder of This Chapter

The remainder of this chapter is organized as follows:

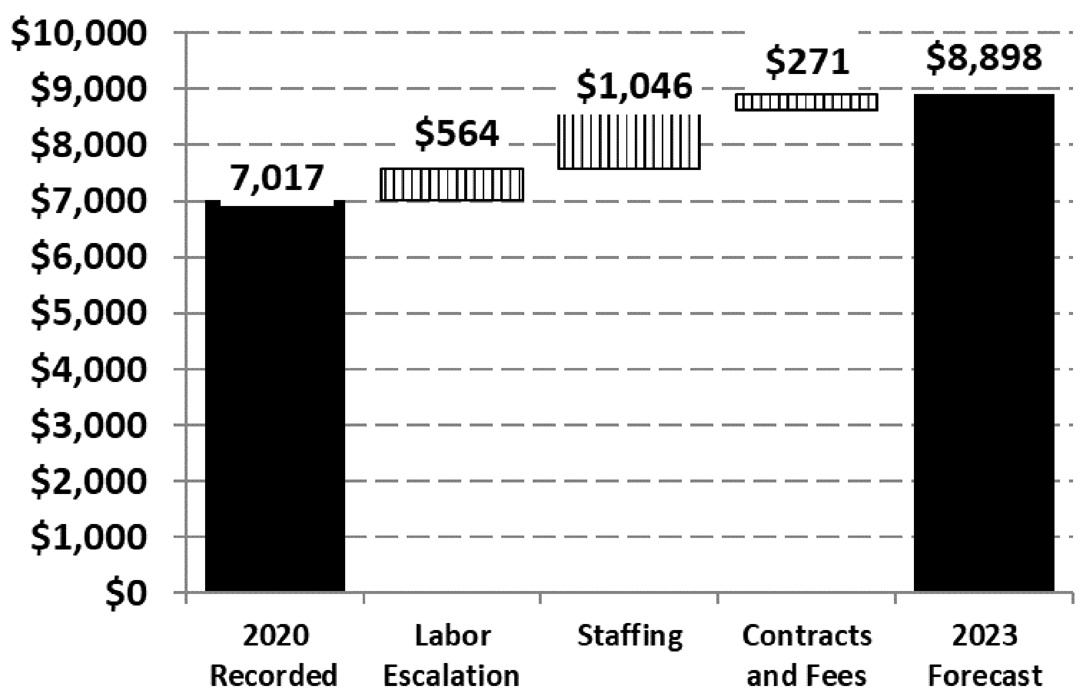
- Section B – Department Costs;
- Section C – Management of the Climate Change Cross-Cutting Factor in the Risk Assessment and Mitigation Phase (RAMP) Program; and
- Section D – Cost Tables.

B. Department Costs

1. Summary of Costs

Corporate Affairs functions and activities are described in Section B.2 below. Figure 8-1 shows the changes in department costs from 2020 recorded adjusted costs to the 2023 forecast. The drivers are discussed in Section B.3.

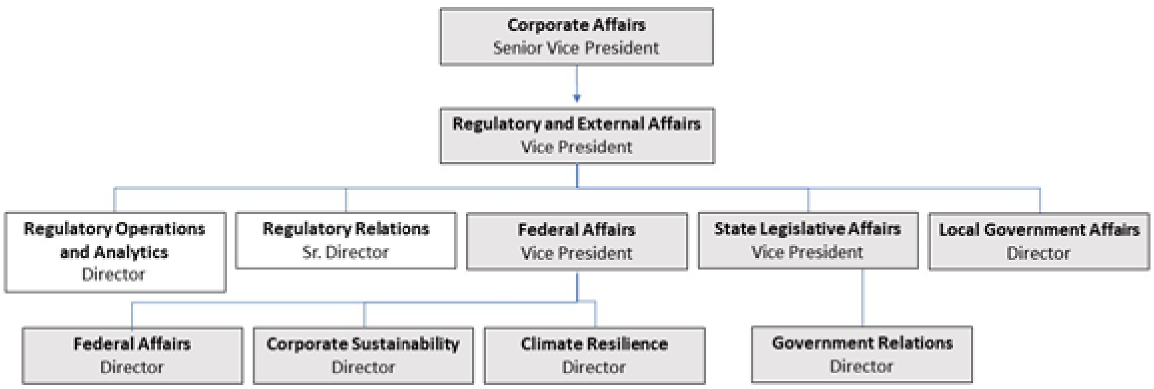
FIGURE 8-1
CORPORATE AFFAIRS EXPENSE WALK 2020-2023
(THOUSANDS OF NOMINAL DOLLARS)



2. Corporate Affairs Organization

The Corporate Affairs organization is overseen by the Senior Vice President (SVP) of Corporate Affairs. It consists of the following departments; Federal Affairs, State Legislative Affairs, Local Government Affairs and Regulatory Affairs. The Corporate Affairs Organization addressed in this chapter consists of the shaded areas shown in figure 8-2.[4]

FIGURE 8-2
CORPORATE AFFAIRS ORGANIZATION



a. SVP of Corporate Affairs

The SVP is responsible for the overall management of Corporate Affairs and oversees PG&E's Federal Affairs, State Legislative Affairs, Local Government Affairs and Regulatory Affairs organizations.[5] The SVP provides leadership, direction, and oversight to develop PG&E's energy strategies and policies through innovative solutions, partnership integration, public advocacy at the national, state, and local levels, and all regulatory matters. In 2020, the SVP's immediate office consisted of two full-time equivalent (FTE) employees: the SVP, and an Executive Assistant.

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4 The Regulatory Affairs' costs are presented in Exhibit (PG&E-9), Ch. 5, Regulatory Affairs.

5 *Id*.

b. Government Relations and Corporate Sustainability

The Government Relations and Corporate Sustainability function is responsible for building and maintaining successful working relationships with government and agency officials, as well as community stakeholders. It is also responsible for developing, integrating, and implementing sustainability goals. Government Relations is responsible for engagement with local, state agency, and federal elected and appointed officials; and Corporate Sustainability is responsible for developing and implementing sustainability practices and communicating with customers and stakeholders on sustainability goals; At the end of 2020, there were approximately 52.1 FTEs in Government Relations and Corporate Sustainability (including 1 vacancy).

1) Government Relations

Government Relations is comprised of three distinct functions, Federal Affairs, State Legislative Affairs and Local Government Affairs.[6]

a. The Federal Affairs team represents the Company and PG&E Corporation before Congress and federal agencies. Federal Affairs develops and enhances relationships with various stakeholders at the national level to support PG&E's safety practices, infrastructure, operational goals, customer service, and commitment to the environment. The Vice President (VP) of Federal Affairs is responsible for developing, executing, overseeing, and managing PG&E's Federal Affairs activities.

b. The State Legislative Affairs team is responsible for representing the interests of PG&E and its customers before state agencies other than the CPUC (e.g., the California Energy Commission, California State Water Resources Control Board, California Governor's Office of Emergency Services, and the California Air Resources Board). It is responsible for regular interaction with 8 elected statewide officials and

6 Cost information is provided in work papers organized by Immediate Office, Federal Affairs, Local Government Affairs, and Sustainability. (See Exhibit (PG&E-9), WP 8-1 to WP 8-45.)

24 departments, boards, and commissions in the areas of energy, natural resources, tax collection, and the environment. State Agency Relations represents PG&E in various forums to support environmental leadership, customer satisfaction, and safety and reliability goals. The VP of State Legislative Affairs is responsible for representing the Company's legislative agenda and leading communications efforts with state legislative bodies.

c. Local Government Relations supports the work of PG&E's Electric, Gas, and Nuclear Operations teams by managing PG&E's interactions with counties, cities, school boards, special districts, other local and regional public agencies, community organizations, key civic and business leaders, and emergency response coordination communication with local officials in the 48 counties, 62 tribal governments, and 244 towns and cities across the Company's 70,000 square-mile service territory. For example, Local Government Relations provides local county and agency planned shutoff specific information during Public Safety Power Shutoff (PSPS) emergencies, and keeps key stakeholders apprised throughout the PSPS process on weather updates, scope, timing, and mitigations to reduce impacts to customers and communities. The department also supports the California Independent System Operator's Flex Alert efforts, providing information to local counties and agencies when conservation is needed throughout the state. As local liaisons with governments and other emergency response organizations, they advise key functions in PG&E's Emergency Operations Center during a PSPS event, if there are requests for support, for example, standing up a Community Resource Center, requests for the location of circuits that may be in scope, or support with the installation of temporary generation.

2) Corporate Sustainability

Corporate Sustainability's activities include providing information to customers and the public regarding the Company's business and sustainability goals, initiatives and progress; developing and implementing sustainable practices to enhance the Company's performance; analyzing energy, environmental and climate change policies to reduce risk and costs to customers; and engaging with a wide range of environmental, sustainability and other stakeholders to obtain feedback on the Company's performance and identify key emerging issues, risks, and best practices. This includes leading the Company's engagement with tribal communities and working to integrate environmental and social justice considerations into PG&E's business operations. It also includes conducting analysis and advocacy to align state and federal climate change policy with PG&E's vision of a clean and resilient energy future for our customers.

Corporate Sustainability leads the Company's efforts to build climate resilience, which is defined as the actions to be taken related to PG&E's assets, infrastructure, operations, employees, and customers, to mitigate against potential consequences and adapt to a changing climate and associated weather patterns. This work includes incorporating climate resilience strategies into business operating plans. PG&E's 2020 Risk Assessment and Mitigation Phase (RAMP) report identifies and discusses management of the Climate Change cross-cutting factor which helps the Company anticipate and plan for changing weather patterns and climate change related events. See Section C below for more information on the Climate Change RAMP risk.

3. 2023 Forecast Drivers

The 2023 forecast is $8.9 million, which is $1.9 million (27 percent) higher than the 2020 recorded amount of $7.0 million. As shown in Figure 8-1 above, there are three major cost drivers for 2023: (1) labor escalation; (2) staffing; and (3) contracts and fees. PG&E discusses each driver below.

a. Labor Escalation

PG&E forecasts $0.5 million in labor escalation based on the escalation factors provided in Exhibit (PG&E-8), Chapter 4.

b. Staffing

PG&E forecasts an approximate $1.1 million increase in staffing costs including: (1) 2 FTEs to support the Climate Vulnerability Assessment (CVA); and (2) 4 FTEs to support Local Government Relations.[7]

1) CVA

PG&E will add 2 FTEs to support its continued work on the CVA program, which was separately funded outside the GRC prior to 2023 in the Climate Adaptation and Vulnerability Assessment Memorandum Account (CAVAMA).

In Decision (D.) 20-08-046 in August 2020, the Commission ordered California's Investor-Owned Utilities (IOU) to conduct systemwide CVAs of their assets, operations, and services, and to file this assessment alongside its subsequent RAMP filing[8]. D.20-08-046 also ordered the utilities to engage with all disadvantaged and vulnerable communities throughout the CVA process and to file a Community Engagement Plan outlining this process.[9]. The 2 additional FTEs PG&E forecasts are necessary to support this work ordered by the commission.

In 2020, there were 3 FTEs supporting climate resilience work, which included the CVA technical analysis and preparation of materials for the community engagement plan with disadvantaged and vulnerable communities in PG&E's service territory. The additional 2 FTEs for 2023 include an expert and a senior representative. These FTEs' roles will be to leverage the data collected by the CVA and CEP process to inform data-driven, risk-based decision-making, and to support the community engagement plan with disadvantaged and vulnerable communities.[10]

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7 See WP 8-7.

8 D.20-08-046, Ordering Paragraphs (OP) 8, 9, 11, 12, 14.

9 D.20-08-046, OPs 5-7.

10 See WPs 8-46 to 8-48.

2) Local Government Relations

PG&E will add 4 FTEs (Local Government Relations Representatives) for 2023. The addition of these representatives supports the increasing needs of our local agencies, government officials and community leaders in addressing evolving conditions and requirements in permitting, vegetation management, drought, and wildfire resiliency. The team also enables operations to work on innovative programs such as battery storage, environmental efforts, and company emergency response such as major outages and communication for hydro operations events. This function also provides a high level of support in PSPS (temporary generation coordination, providing informational workshops, reporting and responding during PSPS events), educating new local leaders on the importance of climate change, translating county orders (i.e., pandemic response orders) and how they apply to Company operations, and work with public officials to minimize the impact to customers during maintenance and other company activities.[11]

c. Contracts and Fees

PG&E forecasts an approximate $0.2 million increase in contract costs for 2023 to support the CVA program discussed above. This consultant support will focus on analysis of complex climate model information relevant to the CVA and facilitating engagement with disadvantaged and vulnerable communities, which, as the CPUC directs in D.20-08-046, will involve the participation of community-based organizations[12].

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11 See WPs 8-48 to 8-50.

12 D.20-08-046, OP 6, 7.

C. Management of the Climate Change RAMP Cross-Cutting Factor

Climate Change was identified as one-of-eight cross-cutting risk factors in the 2020 RAMP report.[13] In the report, Climate Change was aggregated across individual risk models and mapped according to RAMP risk impacts.[14]

Climate Change presents ongoing and future risks to PG&E assets, infrastructure, operations, employees, and customers. Infrastructure and management of this cross-cutting factor includes continued gathering and collecting of knowledge, tools, and information to mitigate against potential consequences and adaptation to a changing climate and associated weather patterns. The management of this cross-cutting factor is a critical responsibility in integrating climate change into the Company's risk approach and preparing for projected climate-driven natural hazards. In addition, through CPUC D.20-08-046, PG&E along with other California IOUs were ordered to conduct a CVA, which is overseen by the Climate Resilience team.

For the 2023 GRC, PG&E updated the foundational work it views as necessary to prepare the Company to understand and plan for the physical risks of climate change. In the 2020 RAMP report, PG&E anticipated the 2020 CPUC Climate Adaptation decision. Given this, the foundational work proposed in 2020 included undertaking a CVA and developing climate adaptation plans to make the Company more climate resilient.

In August 2020 the CPUC ordered the IOUs to conduct system wide CVAs of their assets, operations, and services.[15] The CVAs are due at the time of each utility's next RAMP Report. PG&E's CVA will be filed in 2024. The CPUC, in this decision, also instructed the IOUs to file a standalone chapter with their subsequent GRC that includes: (1) a list of vulnerabilities, (2) proposals addressing those vulnerabilities (with options), and (3) long term goals for adapting to climate risks.[16] PG&E will provide this chapter with its 2027 GRC.

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13 Climate Change was previously referred to as "Climate Resilience" in the 2020 GRC Exhibit (PG&E-9), Chapter 8.

14 PG&E's 2020 Risk Assessment and Mitigation Phase Report, Attachment A, p.20 AtchA-9.

15 D.20-08-046, OPs 8, 9.

16 D.20-08-046, OPs 12.

PG&E applauds this decision as an important step in improving our understanding of the climate risks faced by the Company, its customers, and the communities it serves. In March 2021, it informed the Commission of its updated governance structure for climate resilience, and provided an update on the progress it has made on the technical aspects of understanding climate change risk on its assets and operations, as well as progress on developing a community engagement plan.

D. Cost Tables

The Corporate Affairs organization's recorded adjusted costs for 2016 through 2020, and forecasted costs for expense for 2021 through 2023, appear in Tables 8-1 and 8-2.

TABLE 8-1
SUMMARY OF DEPARTMENT EXPENSES
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	SVP Corporate Affairs Immediate Office	$3,960	$544	$597	$286	$255	$603	$623	$630	WP 8-3, line 32
3	Local Government Relations	5,261	4,043	2,653	3,379	3,866	4,741	4,875	5,013	WP 8-3, line 31
4	Federal Affairs	2,339	1,806	1,351	921	1,196	1,169	1,187	1,205	WP 8-3, line 25
5	Community Relations	13	(13)	–	–	–	–	–	–	
6	Sustainability	1,384	1,467	2,152	1,441	1,700	1,340	1,292	2,502	WP 8-3, line 46
8	Total Corporate Affairs	$12,957	$7,847	$6,753	$6,027	$7,017	$7,853	$7,977	$9,350	

TABLE 8-2
SUMMARY OF DEPARTMENT EXPENSES BY FERC ACCOUNT
HISTORICAL AND FORECAST
(THOUSANDS OF NOMINAL DOLLARS)

Line No.	Description	Recorded Adjusted 2016	2017	2018	2019	2020	Forecast 2021	2022	2023	Workpaper Reference
1	920 – Admin & Gen Salaries	$7,235	$6,308	$3,971	$4,374	$5,350	$5,764	$5,942	$6,606	WP 8-3, line 1
2	921 – Office Supplies & Ex	910	(172)	639	539	259	532	534	688	WP 8-3, line 2
3	923 – Outside Svc Employ – Utility	3,794	776	955	876	1,246	1,344	1,287	1,843	WP 8-3, line 3
4	923 – Outside Svc Employ – Corp	1,018	948	1,188	237	162	213	213	213	WP 8-3, line 4
5	Total	$12,957	$7,860	$6,753	$6,026	$7,017	$7,854	$7,976	$9,350	
6	Change From Prior Year	–	$(5,098)	$(1,106)	$(727)	$990	$837	$122	$1,374	

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 9

ADMINISTRATIVE AND GENERAL RATEMAKING ADJUSTMENTS

PACIFIC GAS AND ELECTRIC COMPANY
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PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 9
ADMINISTRATIVE AND GENERAL RATEMAKING ADJUSTMENTS

A. Introduction

In this chapter, Pacific Gas and Electric Company (PG&E or the Company or the Utility) describes adjustments to its total Administrative and General (A&G) expenses for ratemaking purposes in this General Rate Case (GRC), as well as the methodologies that support those adjustments. The purpose of the adjustments is to determine the appropriate amount of A&G expenses to be included in the GRC and to present those costs in the format required by the California Public Utilities Commission (CPUC or the Commission). The adjustments discussed in this chapter are summarized in Table 9-1 in the next section.

1. Summary of Ratemaking Adjustments

PG&E adjusts A&G expenses for ratemaking purposes in the following ways:

PG&E removes certain items from its A&G expense forecast, which are not recoverable in customer rates. Specifically, PG&E removes below-the-line (BTL) activities and a portion for non-Utility affiliate activities. The removal of these items reduces the overall revenue requirement forecast.

PG&E also capitalizes certain A&G costs. The purpose of the capitalization adjustment is to properly account for expenses associated with construction projects included in capital expenditure forecasts. These capitalized A&G costs will be recovered along with other capital costs over the life of each asset.

TABLE 9-1
RATEMAKING ADJUSTMENTS FOR ORGANIZATIONAL EXPENSES AND COMPANYWIDE EXPENSES

Line No.	Ratemaking Adjustments	A&G Corporate Services Department Costs	Companywide A&G Costs
1	Reduction Adjustment	BTL and non-Utility Affiliates	BTL and non-Utility Affiliates
2	Capitalization	Composite Rates (Labor and Materials and Supplies (M&S))	Labor rate, Short-Term Incentive Plan (STIP) rate and Third-Party Claims rate

2. Organization of Chapter

The remainder of this chapter is organized as follows:

- Section B: Reductions for BTL and non-Utility Affiliate Activities – This section explains adjustments to both Corporate Services expenses and Companywide A&G costs for BTL activities and non-Utility affiliate activities.
- Section C: Capitalization Adjustments – This section explains the capitalization of portions of both Corporate Services expenses and Companywide A&G costs.

B. Reductions for BTL and Non-Utility Affiliates

PG&E reduces its A&G expense forecast to exclude BTL activities and non-Utility affiliate work.

1. A&G Department Cost Reductions

a. Below-the-Line

In general, expenses attributable to normal Utility operations are above-the-line and recoverable in rates. Consistent with the Commission requirements, certain PG&E's costs are borne solely by shareholders and excluded in the revenue requirement for cost recovery. Those costs are classified as BTL. PG&E's BTL Accounting Standard describes the process and requirements for recording BTL activities and expenses.[1] Examples of BTL activities and expenses include: (1) political activities; (2) political contributions and memberships; (3) charitable contributions; (4) advertising; (5) penalties;

[1] Utility Standard: FIN-3901S BTL Accounting Standard.

and (6) other activities not attributable to normal Utility operations. All PG&E employees receive an annual communication regarding their obligation to comply with the BTL Accounting Standard. In addition, employees who regularly charge directly to BTL orders receive annual training on the BTL Accounting Standard.[2]

As part of the annual enterprise-wide planning process, Business Finance department within the Finance organization reviews the BTL allocations for all A&G cost centers to ensure the percentages are reflective of current BTL activities. The Lines of Business owner of each A&G cost center approves their BTL allocations annually. The procedures in the BTL Accounting Standard are applicable to all PG&E departments performing work activities for which the costs are borne by shareholders. PG&E removes the BTL amounts from the A&G expense forecast.

b. Non-Utility Affiliates

PG&E Corporation (PCG) sometimes performs services for its non-Utility affiliates. In most instances, the Corporate Services organizations directly charge for non-Utility affiliate work. The Company has removed the costs of those services from its GRC forecast.

In addition to removing the direct charges, the Company removes an additional 1 percent of Corporation expenses from the A&G forecast.[3] This additional allocation acts as an extra precaution, to ensure that PG&E accounts for any potential non-Utility affiliate-related activities, which may not have been captured through direct charges.

The 1 percent reduction is derived from a 3-factor methodology employed by PG&E's Affiliate Accounting Department. The 3-factor methodology consists of taking an average of the following three ratios:

1) Affiliate Assets/Total Consolidated Assets;

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2 PG&E's Internal Audit Department conducts an annual compliance review of the BTL guidelines documented in the BTL Accounting Standard. The Internal Audit Department reviews recorded costs and evaluates controls for recording and monitoring BTL costs in compliance with the BTL guidelines. PG&E adjusts its recorded costs for items identified through the audit.

3 Current non-Utility affiliates include PCG Support Services, Inc., PCG Support Services II, Inc., and PCG Capital, Inc.

2) Affiliate Operating Expenses less Fuel purchase costs/Total Consolidated Operating Expenses less Fuel purchase costs; and

3) Affiliate Headcount/Total Consolidated Headcount.

PG&E updates this calculation annually to account for new non-Utility affiliates and affiliates which are no longer active. The actual percentage resulting from the above calculation is less than 1 percent for 2020 and has historically remained at that level.[4] To be conservative, PG&E has rounded the calculated percentage to 1 percent for the GRC forecast.

2. Reductions for Companywide A&G Expenses

PG&E also reduces its GRC forecast for certain other Companywide A&G costs to account for BTL and non-Utility affiliate activities.

a. BTL Allocation

The BTL reductions for Companywide expenses are determined differently than A&G departmental expense reductions because they are not incurred by a particular Corporate Services department. The BTL percentage is calculated by using the last recorded years' total BTL labor as a percentage of total Company expense labor. PG&E applies the calculated percentage of BTL to the forecasted expenses. PG&E updates this allocation factor annually to reflect current activity.

b. Non-Utility Affiliates

The treatment of non-Utility affiliates' expenses is similar to the reduction adjustments for the BTL expenses. PG&E reviews the last recorded year to determine the percentage of benefits that were associated with non-Utility affiliates expenses. PG&E applies the calculated percentage of non-Utility affiliates to the forecasted expenses. PG&E updates this allocation factor annually to reflect current activity.

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[4] See workpapers supporting Exhibit (PG&E-10), Ch. 8 for the calculation supporting the 1 percent non-Utility affiliate reduction.

C. Capitalization Adjustments

To reflect the total costs of ongoing and new construction, work supporting construction activities not directly charged to construction orders must be accounted for in capital and removed from expense. In this section, PG&E explains the methodology for capitalizing these construction-related costs.

1. Capitalization of Corporate Services Department Costs

PG&E determines the appropriate amount of Corporate Services department costs that should be capitalized by applying a composite Labor capitalization factor to its A&G expenses in Federal Energy Regulatory Commission (FERC) Account 920 (A&G Salaries), as well as a composite Material & Supplies capitalization factor to expenses in Account 921 (Office Supplies and Expenses). The capitalization methodology is described in Section a and b below.

a. Labor and M&S Capitalization Factors

Determining the total capitalized amount of A&G expenses is a two-step process: (1) determine the amount of each Corporate Services department's work that supports capital projects; and (2) calculate a composite A&G capitalization rate for Labor and for M&S.

PG&E's Corporate Services organization began by identifying the costs in their respective forecasts that should be allocated to capital.

Each Corporate Services department generates a single capitalization factor that will be applied to both labor and materials. PG&E then applies each Corporate Services department's labor capitalization factor to the salaries in the department's FERC Account 920. The resulting capitalized labor amount for the department is presented in FERC Account 922 (A&G Transfer Credit), along with the capitalized labor amounts from the other Corporate Service departments. Similarly, PG&E applies each Corporate Services department's M&S capitalization factor to the department's Office Supplies and Expense amount in FERC Account 921. The resulting capitalized M&S amount for the department is presented in FERC Account 922 (A&G Transfer Credit), along with the M&S amounts from the other Corporate Service departments. The sum of all the Corporate

Service departments' capitalized labor amount and the capitalized M&S amount is the total Corporate Services capitalization amount.

b. Composite Rates

After determining the total capitalization amount, PG&E develops a Composite A&G capitalization rate. The composite rate is a convenient accounting tool to recognize and implement the outcome of the A&G capitalization on PG&E's financial books in the years following a GRC decision. The labor composite rate is calculated by dividing the sum of all the Corporate Services departments' resulting capitalized labor amounts presented in FERC Account 922 (A&G Transfer Credit), by the sum of the total Corporate Services Department labor in FERC Account 920 (A&G Salaries). Similarly, the M&S composite rate is calculated by dividing the sum of all the Corporate Services departments' resulting capitalized M&S amounts presented in FERC Account 922 (A&G Transfer Credit), by the sum of the total Corporate Services M&S in FERC Account 921 (Office Supplies and Expense). See Table 9-2 for the 2020 capitalization rates. Similar to the Companywide A&G expenses described in the section below, the individual and composite rates may be updated annually to reflect current activity.

TABLE 9-2
2023 CAPITALIZATION FACTORS
CAPITALIZATION OF CORPORATE SERVICES ORGANIZATIONAL COSTS

Line No.	Factor	FERC Account	Percent
1	Corporate Service – Labor Factor	920	11.50%
2	Corporate Services – M&S Factor	921	9.60%

2. Capitalization of Companywide A&G Expenses

Similar to the capitalization of Corporate Services department costs, PG&E capitalizes certain Companywide A&G expenses.

a. Labor and STIP Capitalization Factors

PG&E capitalizes a portion of Companywide A&G expenses related to workers compensation, benefits, and STIP. For ratemaking purposes, to calculate the capitalized amounts for workers compensation, and benefits, PG&E divides the recorded capital labor by the total Company labor[5] to derive a capital labor ratio. To calculate the capitalized amount for STIP, PG&E divides the capitalized non-bargaining unit (NBU) labor and Engineers and Scientists of California (ESC) STIP-eligible[6] straight-time labor to total straight time NBU and ESC STIP eligible straight time labor using 2020 recorded labor. PG&E's STIP capitalization practice was approved in PG&E's 1993 GRC Decision and PG&E continues this methodology for recorded costs.[7] Table 9-3 below shows the 2023 GRC Labor and STIP capitalization factors.[8] PG&E updates these capitalization factors on an annual basis to reflect current activity.

TABLE 9-3
2023 GRC LABOR AND STIP CAPITALIZATION FACTORS
CAPITALIZATION OF CERTAIN COMPANYWIDE EXPENSES

Line No.	Type of Cost	FERC Account	Basis for Capitalization	Factor
1	Workers Compensation	925	Labor	43.62%
2	Benefits	926	Labor	43.62%
3	STIP	922	NBU & ESC Labor	35.94%
4	Third-Party Claims	925	Third-Party Claims	17.08%

b. Implementation of Financial Accounting Standards Board (FASB) No. 2017-07

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 which required that companies calculate the capitalization of Post-Retirement Benefits Other Than Pension (PBOP) costs based on the annual service cost determined by a plan's actuaries starting on January 1, 2018. The annual service cost represents the present value

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5 Total Company labor includes bargaining unit and NBU labor.

6 Not all ESC employees are eligible for STIP. Those that are eligible are included in the calculation.

7 D.92-12-057, 1992 CPUC LEXIS 971, 47 CPUC2d 143, PG&E 1993 GRC, Section 11.4.4.

8 See workpapers supporting Exhibit (PG&E-10), Ch. 8 for the development of these capitalization factors.

of future benefits earned by employees during the current year. Thus, the amount of PBOP costs included in capital projects will be the capital labor ratio,[9] multiplied by the annual service cost.

PG&E effectuated this change by filing Advice Letter (AL) 3915-G/5195-E, in which the Commission approved the capitalization of PBOP based on the annual service cost determined by a plan's actuaries. The AL was approved on January 8, 2018 and became effective January 1, 2018.

c. Third-Party Claims

PG&E classifies third-party claims based on the likelihood of having a capital component. Examples of third-party claims that possibly have a capital component are: (1) Company vehicle incidents and (2) Company job site injuries. Examples of third-party claims not likely to have a capital component include: outages and electrical interruptions and non-dig in gas incidents.

PG&E then determines percentages of capital and expense recorded costs for each Line of Business that has been assigned a third-party claim with a possible capital component. To determine the capitalization amount, the Company calculates the third-party claim capitalization factor using four years of historical expense and capital data for cost centers that have been assigned with third-party claims (specifically for incidents with a possible capital component). The capitalization factor is then applied to the total third-party claims to yield the capitalization amount.[10] PG&E updates this capitalization factor every GRC cycle.

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9 Calculated as capital labor divided by total labor.

10 See Table 9-3 for the 2023 Third-Party Claims capitalization factor.