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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2020. (U39M)	Application 18-12-009 (Filed December 13, 2018)

REPLY OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO OPENING COMMENTS ON THE ADMINISTRATIVE LAW JUDGES' PROPOSED DECISION

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TABLE OF CONTENTS

REPLY OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO OPENING COMMENTS ON THE ADMINISTRATIVE LAW JUDGES' PROPOSED DECISION

Pacific Gas and Electric Company (PG&E) replies to opening comments on the October 23, 2020 proposed decision of Administrative Law Judges (ALJs) Lirag and Lau (PD) pursuant to Rule 14.3(d) of the Commission's Rules of Practice and Procedure. PG&E replies to comments of the Alliance for Nuclear Responsibility (A4NR), Women's Energy Matters (WEM), the Joint Community Choice Aggregators (Joint CCAs), and L. Jan Reid (Reid).

I. THE DIABLO CANYON POWER PLANT (DCPP) SETTLEMENT TERMS ARE REASONABLE AND SHOULD NOT BE REVISED.

A4NR and WEM claim the PD errs in authorizing the DCPP revenue requirement in the Settlement. A4NR urges the Commission to reduce the $90.4 million capital cost of the DCPP Unit 2 main generator stator replacement ("stator replacement project") in the Settlement by $12.5 million. WEM, by contrast, urges the Commission to disapprove the entire DCPP revenue requirement. Both arguments should be rejected.

A4NR's proposed disallowance is based on an assertion that PG&E conducted the stator replacement project without adequately evaluating its cost effectiveness.[1] A4NR argues that PG&E's evaluation was inadequate because PG&E did not consider early shut down of Unit 2 as an alternative to the stator replacement project. A4NR also claims the project was imprudent since Unit 2 will be retired upon expiration of the current operating license in 2025.[2] A4NR cites the testimony of PG&E witness Cary Harbor to support its allegation that PG&E implemented the stator replacement project because it feels entitled to operate DCPP until its retirement regardless of the operating costs.[3] To the contrary, Mr. Harbor testified at length about PG&E's detailed evaluation of the stator replacement project and explained that PG&E's decision to conduct the project was because of the degradation and risk of failure of the stator.[4] Mr. Harbor explained that as of mid-2015, PG&E and the manufacturer were constantly monitoring this equipment for signs of degradation.[5] Because these inspections continued to show degradation, PG&E analyzed the vulnerability of Unit 2 to failure.[6] PG&E engaged Garrick Risk Institute of UCLA to perform a risk analysis which evaluated the potential for catastrophic failure. Its analysis found a 98% risk that Unit 2's generator would fail before its retirement.[7] PG&E concluded

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[1] Alliance for Nuclear Responsibility's Opening Comments on Proposed Decision of Administrative Law Judges Rafael Lirag and Elaine Lau (A4NR Opening Comments), p. 1.
[2] *See generally*, A4NR Opening Comments.
[3] A4NR Opening Comments, pp. 6-7.
[4] Tr. Vol. 23, 2631:7-27, PG&E/Harbor.
[5] Tr. Vol. 23, 2632:5-16, PG&E/Harbor.
[6] Tr. Vol. 23, 2632:20-25, PG&E/Harbor.
[7] Tr. Vol. 23, 2633:1-14, PG&E/Harbor.

that operating the stator beyond 2019 in its degraded condition significantly increased the risk of a catastrophic accident and, for this reason, replaced the stator.[8] Mr. Harbor also testified that when PG&E conducted the replacement project, it found the level of degradation of the generator that was anticipated in the prior analysis. This finding confirms that PG&E's decision to replace the stator "to make sure we protect the safety of our personnel and the health and safety of the public"[9] was reasonable and the project should be fully funded.

WEM's comments address two forced outages of Unit 2 in July and October 2020 involving the main generator. WEM's comments solely address events that occurred following evidentiary hearings that are not addressed in the record, and, on that basis, must be disregarded. WEM urges the Commission to disallow the entire DCPP revenue requirement, including the costs of the stator replacement project, conclude that DCPP's operations are unsafe, and order the facility to be closed.[10] WEM's assertion that the two outages indicate the facility is unsafe[11] is unfounded. Forced outages occur at all types of generating assets for a variety of reasons. In a forced outage, a generating unit is manually or automatically shut down, as occurred with Unit 2. In any event, the outages and their potential cause is not in the record and irrelevant to the issue of whether PG&E's decision to replace the stator was reasonable. Further, the Commission will have an opportunity to review planned and forced outages for all of PG&E's generating assets in the 2020 Energy Resource Recovery Account compliance proceeding.

The Commission should ignore WEM's unfounded allegations and conjecture. The ALJs appropriately determined that "this proceeding will assume that [DCPP] will continue to operate within this GRC period."[12] WEM's comments do not provide a basis for the Commission to conclude otherwise.

II. THE DECOMMISSIONING REVENUE REQUIREMENT FOR HYDROELECTRIC AND SOLAR FACILITIES IS JUST AND REASONABLE.

The Joint CCAs allege that the PD errs in authorizing the hydroelectric and solar portions of the decommissioning revenue requirement in the Settlement because PG&E's decommissioning reserve estimates are unreasonable. The Joint CCAs claim that PG&E's estimates were too high because they included values for hydroelectric assets that may be sold and did not include potential reductions for the

[8] Joint Reply Comments of Settling Parties (Feb. 5, 2020) p. 19.
[9] Tr. Vol. 23, 2634:6-18, PG&E/Harbor.
[10] *See generally* WEM's Opening Comments on the PD, pp.6-7.
[11] WEM Opening Comments, pp. 2-5.
[12] *Administrative Law Judge's Ruling Denying Motion to Strike Testimony of the Alliance for Nuclear Responsibility* (Sept. 6, 2019) p. 2.

expected salvage value of the solar facilities. They argue that the PD should be revised to deny recovery of these costs.[13]

In its rebuttal testimony, PG&E's witness explained that the proposed decommissioning reserve accrual for hydroelectric assets had already been reduced to reflect potential sales.[14] PG&E's solar decommissioning cost estimates were developed by vendors with extensive decommissioning experience.[15] The Joint CCAs did not provide any evidence to substantiate their position that the solar decommissioning cost estimates should be lower.[16] The Settling Parties explained that the Joint CCAs proposal was not in the best interests of future customers because the customers who benefit from these facilities now should share in the decommissioning costs.[17] They also noted that the reserves will later be trued up to actual costs and if there is any overcollection, it would be returned to customers.[18] The estimated decommissioning reserves in Settlement Section 2.4.6, which include an $8 million reduction from PG&E's request, are a reasonable compromise of the parties' positions and should be approved.

III. CUSTOMER CARE SERVICES ARE UNRELATED TO GENERATION.

The PD correctly approves PG&E's longstanding Customer Care cost allocation, which divides customer service costs by the proportion of gas and electric distribution customers who use and benefit from these services.[19] PG&E allocates customer services costs 55 percent to Electric Distribution and 45 percent to Gas Distribution based on the total number of service agreements.[20] As the PD indicates, this allocation is based on the cost causation principle which provides "costs should be borne by [the] customers [that] cause the utility to incur those costs."[21] This principle ensures that customers who can use a service bear the costs to access that service, even if actual use varies over time. Because both bundled and unbundled customers have equal access to and use these services, they should both appropriately bear the costs.

The Joint CCAs argue that the PD should be revised to allocate a portion of the customer services costs to the generation function instead of the distribution function.[22] This is inappropriate because the electric generation function does not directly provide any customer-facing services.[23] The

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[13] Joint CCAs Opening Comments, p. 5 and p. 7.
[14] HE-71: Exhibit (PG&E-19), p. 8-6, lines 19-25.
[15] *Id*., p. 5-24, line 26 to p. 5-25, line12.
[16] *Id*., p. 5-30, line 1 to p. 5-31, line 16.
[17] Joint Reply Comments of Settling Parties (Feb. 5, 2020) p. 25.
[18] *Id*.
[19] PD, pp. 309-314.
[20] HE-93: Exhibit (PG&E-20), p. 2-5, lines 21-24.
[21] PD, p. 311, citing D.14-12-024 at 48.
[22] Joint CCAs Opening Comments, pp. 11-18.
[23] *See* HE-80: Exhibit (PG&E-10), Ch. 6 for a description of the costs and services assigned to the generation function.

customer service costs at issue are distribution support activities, including "system reliability, service planning, demand-side management programs, billing, payments, start, stop or transfer services, outages, gas leaks, and emergencies."[24] The Joint CCAs provided no evidence that these customer-facing activities and services are generation related.

The premise for the Joint CCAs' cost allocation argument – that bundled service customers use these services more frequently than unbundled service customers – was also disproved by PG&E. PG&E's testimony demonstrated that the Joint CCAs' data which purported to show that CCA customers use the call centers less frequently than bundled service customers is flawed and does not demonstrate actual usage of such services by CCA customers.[25] In fact, PG&E showed that CCA customers use call centers more frequently, including calls to inquire why they are being billed for CCA opt-out service.[26] In any event, assuming, *arguendo,* that CCA customers used these services less frequently, the proposed solution of allocating costs for these distribution-related services to generation rates should be rejected because the customers services at issue *are not generation-related*. The PD correctly concludes that the services at issue are distribution services.[27] The frequency of usage of these services by unbundled or bundled service customers – which will vary over time – does not change the nature of the services and thus would not support a change in the allocation of these costs. The PD appropriately concludes based on the record evidence that PG&E should retain the existing allocation of 55% electric and 45% gas distribution during this rate case period.[28] As required by the PD, PG&E will report in its next GRC data regarding the proportion of customer calls received in 2020 that relate to PG&E's generation function.[29]

IV. THE COST ALLOCATION PROPOSED BY THE JOINT CCAS FOR RESILIENCE ZONES SHOULD BE REJECTED.

The Joint CCAs argue that the costs of Resilience Zones should be borne solely by PG&E's generation customers if PG&E is the generation supplier.[30] The PD appropriately rejects this argument. The Resilience Zones are segments of the distribution system that can be isolated from the grid and provide temporary power to critical community services during Public Safety Power Shutoff (PSPS)

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[24] PD, p. 314.
[25] HE 103: PG&E response to Data Request JointCCAs_015-Q10, dated 9/20/19. *See also* PG&E Reply Brief, pp. 27-32.
[26] HE 103: PG&E response to Data Request JointCCAs_015-Q10, dated 9/20/19; Tr. Vol. 15, 1581:20 to 1582:1, PG&E/Zenner.
[27] PD, p. 314.
[28] PD, pp. 314-315.
[29] *See* PG&E Opening Comments, p. 17.
[30] Joint CCAs Opening Comments, pp. 21-23.

events.[31] The PD finds that it is appropriate that CCA customers who benefit from these services also fund them: "The Resilience Zones benefit all distribution customers by providing temporary power to customers affected by a PSPS event, regardless of whether the customer is bundled or unbundled… Thus, it would be unfair to shift all the costs of the Resilience Zones to electric generation, to be borne only by bundled customers."[32] The Joint CCAs do not explain why CCA customers should not pay a fair share of the costs of this equipment and service if PG&E also provides the generation. In fact, when PG&E supplies the generation, it is a windfall for the CCAs since their customers pay the CCAs the CCA generation rate for the generation PG&E supplies. The PD has it right – this service should not be wholly funded by PG&E's bundled service customers when the CCA customers benefit equally. The Joint CCA's argument was properly rejected.

V. THE SETTLING PARTIES CONSIDERED CUSTOMER AFFORDABILITY

PG&E understands that many of its customers are experiencing financial hardship at this time, as noted by Reid in his Opening Comments.[33] PG&E strives to keep rates affordable while providing safe, reliable, and clean service. The Settling Parties agreed to a 2020 revenue requirement increase that was approximately half of PG&E's original request, in addition to attrition year reductions.[34] The rate increase in the Settlement for wildfire risk mitigation and liability insurance is necessary to address increased wildfire risk in California. Reid suggests these costs should be funded solely by PG&E's shareholders.[35] However, state law provides that the just and reasonable costs of this wildfire mitigation work is appropriately funded through customers rates.[36]

VI. CONCLUSION

For the reasons set forth in PG&E's and the Settling Parties' opening comments and in this reply, PG&E respectfully requests the PD to be revised to find the Settlement "reasonable in light of the whole record, consistent with law, and in the public interest,"[37] and approve it in its entirety without modification.

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[31] PD, pp. 57-58.
[32] PD, p. 307.
[33] Reid Opening Comments, p. 8.
[34] PD, pp.1-2. $584M (PD) divided by $1058 (original PG&E request) = 55%.
[35] Reid Opening Comments, p. 9.
[36] *See* HE-234: Assembly Bill 1054 ("The bill would authorize the electrical corporation to recover the cost of implementing the [Wildfire Mitigation] plan in its general rate case"); Pub. Util. Code § 8386.4.
[37] Commission Rules of Practice and Procedure, Rule 12.1 (d).

Respectfully Submitted,

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