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OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company for Authority, Among Other
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Electric and Gas Service Effective on
January 1, 2017. (U39M)

Application 15-09-001
(Filed September 1, 2015)

**REPLY COMMENTS OF
THE OFFICE OF RATEPAYER ADVOCATES
AND PACIFIC GAS AND ELECTRIC COMPANY ON THE
FIRST CONTESTED ISSUE IN THE SETTLEMENT AGREEMENT**

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I. INTRODUCTION

The Office of Ratepayer Advocates (ORA) and Pacific Gas and Electric Company (PG&E) hereby submit these reply comments on the first contested issue in the Settlement Agreement (the Agreement) submitted in this matter on August 3, 2016.¹ Specifically, these comments reply to the comments filed (i) by the Alliance for Nuclear Responsibility (A4NR), (ii) jointly by Collaborative Approaches to Utility Safety Enforcement (CAUSE) and The Utility Reform Network (TURN), and (iii) by the Consumer Federation of California (CFC).²

In these reply comments, ORA and PG&E explain that the parties' various arguments against a third post-test year are misplaced and that the Commission should authorize the third post-test year, as recommended by ORA and PG&E.

¹ These comments are filed pursuant to Rule 12.2 of the California Public Utilities Commission's (Commission or CPUC) Rules of Practice and Procedure, as well as the August 10, 2016 Assigned Commissioner's Ruling and Second Amended Scoping Memo.

² Unless otherwise noted, citations herein are to the opening comments filed on August 18, 2016.

II. PARTIES' ARGUMENTS AGAINST AN ACROSS-THE-BOARD CHANGE TO THE RATE CASE PERIOD ARE NOT RELEVANT HERE

CAUSE, TURN and CFC argue that a third post-test year should be denied in this GRC because the Commission recently reaffirmed the general approach of a three-year rate case cycle.³ However, none of these parties acknowledges the language in the Commission's decision two months ago expressly calling for a revisiting of the three-year cycle.⁴ Also, none of these parties acknowledges the fact that the Commission has routinely authorized exceptions to the three-year cycle.⁵ The Commission just did so this June.⁶

As ORA and PG&E explained in opening comments, the matter at hand is not whether to change the general approach of a three-year rate case.⁷ The Commission will consider that issue through the workshop and process described in Decision (D.)16-06-005. Rather, the matter at hand is whether an exception to that approach should be granted in this case. For the reasons described in ORA and PG&E's opening comments and in these reply comments, the third post-test year should be authorized.

III. PARTIES' ARGUMENTS ABOUT THE TIMING OF THE RAMP ARE MISTAKEN

CAUSE and TURN argue that the timing of the Risk Assessment and Mitigation Phase (RAMP) supports denial of a third post-test year. In making that argument, CAUSE and TURN make a basic mistake about the timing of the RAMP.⁸

CAUSE and TURN state that PG&E's next RAMP is scheduled for November 30, 2018, and that it would be wrong to delay the RAMP for an additional year to accommodate the third post-test year.⁹ In actuality, without the third post-test year, PG&E's next RAMP would be due in November 2017, not 2018. If the third post-test year is authorized, then PG&E's RAMP would be due in November 2018, which is when CAUSE and TURN seem to be expecting it.

³ CAUSE/TURN, pp. 2-3; CFC, p. 5.

⁴ ORA and PG&E Opening Comments, p. 4, citing D.16-06-005, *mimeo*, p. 6.

⁵ ORA and PG&E Opening Comments, pp. 3-4.

⁶ ORA and PG&E Opening Comments, pp. 3-4, citing D.16-06-056, *mimeo*, pp. 409-413.

⁷ ORA and PG&E Opening Comments, p. 2.

⁸ CAUSE/TURN, pp. 7-8.

⁹ CAUSE/TURN, p. 8.

Meanwhile, on August 18, 2016, the Commission voted out its decision on the first phase of the Safety Model Assessment Proceeding (S-MAP). The final decision directs that a Phase Two be established that would define the requirements for PG&E's RAMP. Thus, as predicted in ORA and PG&E's opening comments, the additional year to prepare PG&E's RAMP will likely be necessary to allow Phase Two to proceed to completion and to define the requirements for PG&E's RAMP.¹⁰

IV. PARTIES HAD AMPLE NOTICE OF THE THIRD POST-TEST YEAR AND THERE IS SUFFICIENT EVIDENCE TO SUPPORT IT

CFC objects to the third post-test year on the basis that there was insufficient "information, notice, or opportunity to address" the issue.¹¹ CAUSE, TURN and CFC also object that there is insufficient support in the record to justify the third post-test year.¹² Parties are wrong on both counts.

ORA proposed the third post-test year in its April 8, 2016 testimony.¹³ CFC and the other intervenors had a chance to address this issue in their opening testimony on April 29, 2016. Parties also had the chance to address ORA's proposal in rebuttal testimony on May 27, 2016. Although all parties had the chance to address ORA's proposal informally through discovery and formally through testimony, only PG&E chose to do so.

With respect to the sufficiency of the record evidence, parties' arguments also fail. The Commission favors simplified mechanisms for post-test year awards. As the Commission explained:

When deciding on an appropriate [post-test year ratemaking] mechanism to use, we target a mechanism that is simple; accurately aligns with how costs are incurred for the utility; and gives the utility an incentive to manage costs while enhancing productivity.¹⁴

¹⁰ ORA and PG&E Opening Comments, p. 3.

¹¹ CFC, p. 4.

¹² CFC, p. 5; CAUSE/TURN, pp. 3-7.

¹³ Exh. (ORA-1) and (ORA-21).

¹⁴ D.15-11-021, *mimeo*, p. 390.

In light of the objective of simple post-test year ratemaking, there should be no expectation that a similar level of detail is provided for a post-test year forecast as for a test year. In PG&E's last GRC, the Commission explained:

The ARA [Attrition Rate Adjustment] is not intended to replicate a test year analysis, or to cover all potential cost changes so as to guarantee PG&E's rate of return. . . . The ARA is merely to mitigate economic volatility between test years to a reasonable degree so that a well-managed utility can provide safe and reliable service while maintaining financial integrity.¹⁵

The recommendation for 2020 meets these objectives. The recommendation is based on ORA's alternative post-test year ratemaking methodology, which is described and supported in the record.¹⁶ ORA's alternative proposal also has support in Commission precedent, as it is modeled on that adopted by the Commission in PG&E's 2014 GRC.¹⁷

Also, in terms of record support for the extra post-test year, the facts at hand are quite similar to those in PG&E's recent Gas Transmission and Storage (GT&S) rate case. There, the Commission adopted an ORA/PG&E stipulation on a post-test year mechanism to add an extra post-test year.¹⁸ Just as it was reasonable to add an extra post-test year revenue requirement there, it is also reasonable to do so here.

V. THE RECOMMENDED ADJUSTMENT TO THE THIRD POST-TEST YEAR IS INAPPROPRIATE

CAUSE and TURN argue that the third post-test year amount recommended by ORA and TURN would result in a "windfall" to PG&E in excess of \$20 million.¹⁹ CAUSE and TURN base this argument on the "levelization" of costs associated with the second refueling at the Diablo Canyon Power Plant and the Long Term Service Agreement (LTSA) costs for certain power plants.

There is no such "windfall." In deciding whether or not to support the third post-test year provision in the Agreement, PG&E evaluated whether the *overall* amount would provide PG&E with a reasonable chance to earn its rate of return. Although CAUSE and TURN do not cite it in

¹⁵ D.14-08-032, *mimeo*, pp. 652-653. *See also*, D.15-11-021, *mimeo*, pp. 391-392.

¹⁶ Exh. (ORA-21), p. 22; citing D.14-08-032, *mimeo*, p. 656.

¹⁷ Exh. (ORA-21), p. 22; citing D.14-08-032, *mimeo*, p. 656.

¹⁸ D.16-06-056, *mimeo*, p. 412.

¹⁹ CAUSE/TURN, pp. 8-10.

their joint comments, the tax benefits of bonus depreciation are set to expire in 2020.²⁰ The expiration of these benefits will place upward pressure on the revenue requirement. This fact, along with the increased degree of uncertainty around operational costs for a third post-test year, make the amount agreed to by ORA and PG&E for 2020 a fair result. CAUSE and TURN seek to unfairly disturb this bargain.

Furthermore, any downward adjustment proposed by CAUSE and TURN would be inappropriate without also considering upward adjustments. Such a process is unnecessary. As the Commission has stated, “Inherently, any simplification relative to a budget-based forecast (e.g., escalation of the test year amount by any factor) will exclude changes in the forecast after the test year. We accept this reality as part of the tradeoff between accuracy and simplicity.”²¹

VI. A4NR’S SPECIFIC CONCERNS ARE MISPLACED

A4NR raises a few concerns about the possibility of a third post-test year that are misplaced.

For instance, after warning of the “compounding” effect of post-test year increases, A4NR states that “the 2019 revenue requirement adopted in this 2017 general rate case would be used as the base year revenue requirement for the proposed 2021 test year general rate case.”²² This is not true. If the Commission were to authorize a third post-test year, the base year for a 2021 test year would be 2018, not 2019 as A4NR states.

A4NR articulates its “discrete and unique interest” in holding to a three-year GRC cycle.²³ Specifically, A4NR states that a longer cycle “could result in a commensurate delay in the timing” of A4NR’s ability to invoke its rights if the “Joint Proposal” concerning the Diablo Canyon Power Plant is no longer in effect.²⁴ However, the footnote that A4NR uses to explain this issue undercuts its position. As A4NR explains, if PG&E reverses its decision to abandon the license extensions, “A4NR would seek to invoke its rights...at the first available

²⁰ Exh. (PG&E-19), pp. 2-3. See the Protecting Americans from Tax Hikes Act of 2015, Pub. L. No. 114-113 (codified as amended in various sections of 26 U.S.C.).

²¹ D.15-11-021, *mimeo*, p. 393.

²² A4NR, p. 9.

²³ A4NR, p. 11.

²⁴ A4NR, p. 11.

opportunity.”²⁵ This may include seeking “to reopen this proceeding based on the material change in circumstances.”²⁶ Thus, as A4NR itself recognizes, it may not need to await another GRC cycle to seek the relief it may desire.

Finally, A4NR expresses concern that an “increase [in] the number of years and amount of materials” in the next GRC would “place significant burdens on A4NR’s resources and ability to participate effectively in that matter.”²⁷ A4NR goes on to state that it believes “all parties, *including the ORA*, would likely suffer from this disadvantage as well.”²⁸ A4NR need not speculate on ORA’s disadvantages. ORA supports the third post-test year.

VII. CONCLUSION

For the reasons set forth above, ORA and PG&E respectfully request that the Commission disregard parties’ comments and authorize the third post-test year, as recommended by ORA and PG&E.

Pursuant to Commission Rule 1.8(d), counsel for PG&E has authorized ORA to submit these reply comments on its behalf.

Respectfully submitted,

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²⁵ A4NR, p. 11, footnote 41.

²⁶ A4NR, p. 11, footnote 41.

²⁷ A4NR, pp. 11-12.

²⁸ A4NR, p. 12 (emphasis added).