# 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, 2017. (U 39 M)

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

## PROTEST OF THE UTILITY REFORM NETWORK

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## PROTEST OF THE UTILITY REFORM NETWORK

## I. INTRODUCTION AND SUMMARY

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, The Utility Reform Network ("TURN") submits this Protest of the general rate case ("GRC") application of Pacific Gas and Electric Company ("PG&E"). In addition to the traditional elements of a protest, TURN's Protest includes two specific requests. First, for the reasons explained in Section V, PG&E should be required to submit supplemental testimony, as part of its case-in-chief, demonstrating that it is not seeking recovery in this case of any costs to remedy deficient recordkeeping or any other imprudence in its operations. Second, for the reasons explained in Section VI, the Commission should remove from the scope of this case PG&E's premature effort to obtain funding for programs that are the subject of its recently filed Distribution Resources Plan application.

II. PG&E'S APPLICATION, COMBINED WITH OTHER RECENT DECISIONS AND PENDING REQUESTS, INCREASES THE RISK THAT VULNERABLE CUSTOMERS WILL FIND ENERGY SERVICES FROM PG&E EVEN MORE UNAFFORDABLE

Based on information that PG&E presented at the September 29, 2015 workshop, PG&E is requesting that its overall revenue requirement for operations covered by this GRC increase by 5.8% in 2017, another 5.8% in 2018, and another 4.4% in 2019, a total increase of 16%. These percentage increases dwarf the annual rate of inflation, which

<sup>&</sup>lt;sup>1</sup> Rule 2.6 requires that protests be filed within 30 days of the date the notice of the filing of the application first appeared in the Commission's Daily Calendar. Notice of PG&E's application first appeared on September 3, 2015. As the 30<sup>th</sup> day fell on a Saturday, pursuant to Rule 1.15, protests are due Monday, October 5, 2015. TURN's protest is thus timely filed.

has averaged 1.7% for the last three years.<sup>2</sup> The substantial 2018 and 2019 increases are driven by a proposed "attrition" mechanism that clearly needs careful attention from the Commission in this case. Taken together, PG&E asks that its ratepayers pay \$2.7 billion more over the three-year rate case cycle for gas and electric service than ratepayers would pay if 2016 currently authorized base revenue requirements were to remain unchanged.<sup>3</sup>

It is important that the Commission view PG&E's request in the context of other adopted and proposed rate increases that already pose severe affordability challenges for PG&E's vulnerable customers. In PG&E's 2014 GRC, the Commission approved overall revenue requirement increases of 6.9%, 4.6% and 5% for 2014, 2015 and 2016, a total three-year increase of over 16%.<sup>4</sup> For gas distribution service, the increase was even more extreme, 20.4% in 2014, followed by the above-described attrition year increases, for a three-year total revenue requirement increase of 30%. In the 2011 test year GRC, the Commission approved similarly high revenue requirement increases, 14.6% over the three-year period.<sup>5</sup> Furthermore, gas customers are threatened by another draconian rate increase in the pending Gas Transmission and Storage ("GT&S") case, where PG&E has requested a 118% increase in revenue requirements for the 2015-2017 period.

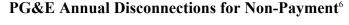
Vulnerable customers are already suffering from the large revenue requirement increases that the Commission has approved for PG&E in the last five years. As shown in the following graph, PG&E's disconnections for non-payment are steadily rising:

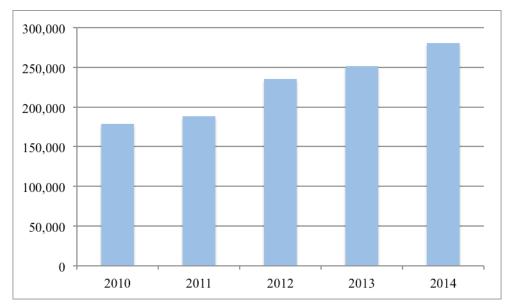
<sup>&</sup>lt;sup>2</sup> The CPI-U (U.S. City Average) increased by 2.1% in 2012, 1.5% in 2013, and 1.6% in 2014, a three-year average of 1.7%. See <a href="http://www.bls.gov/cpid1508.pdf">http://www.bls.gov/cpid1508.pdf</a>

<sup>&</sup>lt;sup>3</sup> Calculation: (\$457 million) x 3 + (\$489 million) x 2 + (\$390) = \$2.739 billion.

<sup>&</sup>lt;sup>4</sup> D.14-08-032, p. 2.

<sup>&</sup>lt;sup>5</sup> D.11-05-018, p. 2.





2010	2011	2012	2013	2014
179,071	188,756	235,138	251,881	280,354

Another three years of steep rate hikes would only prolong and exacerbate this dangerous trend. With its renewed and appropriate focus on safety, the Commission must not lose sight of the fact that unaffordable gas and electric services pose a direct threat to the health and safety of each person who is deprived of these essential services.

# III. SAFETY AND REASONABLE RATES NEED TO BE CONSIDERED IN TANDEM

Promoting the safety of PG&E's operations will justifiably be a key issue in this case. As it has in the past, TURN will be mindful of safety in its analysis and will seek to avoid making any recommendations that would place the safety of the public or PG&E's employees at undue risk. In addition, as the Commission recognized in the 2014 PG&E GRC decision, the safety priority needs to be balanced with the concomitant requirement

<sup>6</sup> Based on data from PG&E's 2011-2014 Disconnections Reports in R.10-02-005.

that rates be just and reasonable, as required by Public Utilities Code Sections 451 and 961(b)(3).<sup>7</sup> The Commission explained the nature of the balance as follows: "Virtually everything a utility does [has] some nexus to safety and can be deemed to have some safety impact, but the emphasis should be on those initiatives that deliver the optimal safety improvement in relation to the ratepayer dollars spent."

As the Commission reviews PG&E's request, the Commission should not lose sight of the financial incentives of PG&E, like any utility regulated under cost-of-service form of regulation: (1) to maximize capital spending and therefore rate base on which it can collect a return from ratepayers; and (2) to maximize expense recovery in order to make it less challenging for the company to perform work at or below adopted expense levels. Indeed, these financial incentives are the key reasons that the rates of investor-owned utilities need to be carefully regulated. These incentives apply to any costs for which utilities seek rate recovery – whether identified as necessary for safety or for any other purpose.

Accordingly, with the help of the intervenors, the Commission needs to carefully scrutinize PG&E's application to determine that the company is doing the right work, particularly to promote safety, and also to ensure that the proposed work is necessary and cost-effective.

# IV. PG&E BEARS THE BURDEN OF PROOF

As the applicant, PG&E bears the burden of proving that it is entitled to the revenue requirement it seeks here and must affirmatively establish the reasonableness of

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<sup>&</sup>lt;sup>7</sup> D.14-08-032, pp. 18-19.

<sup>&</sup>lt;sup>8</sup> *Id.*, p. 28

each and every proposal within its application. In addition, the starting point for the Commission's analysis must be that existing rates are reasonable unless a party meets its burden of proving that they are not. 10 Moreover, as the Commission explained in D.14-08-032, "PG&E should demonstrate that it compared the cost of alternative approaches to performing the work activity and that the proposed approach is the most cost-effective. The burden is on PG&E to establish that its proposed work activities are necessary, and that it has prudently examined alternatives before receiving ratepayer funding."11

While TURN is still in the preliminary stage of its review of PG&E's request, we expect to present evidence in our prepared testimony and through evidentiary hearings regarding proposed work activities for which PG&E has failed to meet its burden of proof. Although TURN will not be able to review all of PG&E's request, TURN expects to scrutinize PG&E's showing in various areas, including but not limited to certain proposals regarding electric and gas distribution work, post-test year ratemaking, customer service costs and service levels, including the potential closure of 26 customer service offices, electric generation costs, administrative and general expenses, shared services and other support costs, and rate base.

### V. THE COMMISSION SHOULD DIRECT PG&E TO SUPPLEMENT ITS CASE IN CHIEF TO ADDRESS THE EXTENT TO WHICH ITS REQUEST INCLUDES AMOUNTS TO REMEDY PG&E'S **IMPRUDENCE**

A basic principle of ratemaking is that costs that result from a utility's imprudence are not reasonable under Section 451 and should not be recovered from

<sup>11</sup> *Id.*, pp. 28-29.

<sup>&</sup>lt;sup>9</sup> See, e.g., D.09-03-025, p. 8 (discussing SCE's burden of proof in its Test Year 2009 General Rate Case, A.07-11-011).

<sup>&</sup>lt;sup>10</sup> "[The utility] has the burden of proving that its current authorized revenues are unreasonable and should be adjusted." D.00-02-046, Conclusion of Law 3.

ratepayers.<sup>12</sup> As the Commission stated in D.84-09-120, "it would be unconscionable from a regulatory perspective to reward such imprudent activity by passing the resultant costs through to ratepayers."<sup>13</sup>

Although prudence issues typically come up in the context of an after-the-fact reasonableness review, in light of the San Bruno explosion and the serious operational deficiencies at PG&E that it exposed, the Commission has recognized that forecast revenue requirements should also be stripped of any amounts that result from utility imprudence. In PG&E's pipeline safety enhancement plan ("PSEP") case, the Commission disallowed \$635 million of PG&E's forecast costs that were caused by PG&E's "imprudent management," mostly related to deficient recordkeeping. The Commission explained:

PG&E has imprudently managed its gas system records such that extensive remedial work is now needed to correct past deficiencies. Having created the need for this remedial work by its imprudent historic document management practices, PG&E has not shown by a preponderance of the evidence that the costs of the current document search and organization projects can be included in revenue requirement and the resulting rates will be just and reasonable. <sup>15</sup>

As will be discussed further in this section, we now know that PG&E's gas distribution recordkeeping has suffered from the same types of problems that led to large disallowances of forecast costs for its transmission system. PG&E clearly wishes to avoid addressing these and other operational problems in its GRCs, but the Commission should not let PG&E dodge these issues. It is not fair to saddle ratepayers with the costs to fix PG&E's mistakes. To meet its burden of proof, PG&E should be required to

<sup>&</sup>lt;sup>12</sup> See, e.g., D.12-12-030, pp. 61, 87; D. 09-06-027, pp. 35-36; D.01-06-047, p. 2; D. 95-12-046, 1995 Cal. PUC Lexis 959; D.94-03-048, 53 CPUC 2d 452, 456; D.85-08-102, 18 CPUC 2d 700, 715-716.

<sup>13</sup> 16 CPUC 2d 249, 283.

<sup>&</sup>lt;sup>14</sup> D.12-12-030, p. 122 (Conclusion of Law (COL) 13); D.15-04-024, p. 82.

<sup>&</sup>lt;sup>15</sup> D.12-12-030, p. 87.

demonstrate that its request does not include any such costs.

# A. PG&E Is Under Investigation for Violations and Imprudence

On November 20, 2014, the Commission issued Order Instituting Investigation ("OII") 14-11-008 for the purpose of "review[ing] and determin[ing] whether PG&E's recordkeeping practices for its gas distribution system have been unsafe and in violation of the law."<sup>16</sup> The OII arose out of six incidents, from 2010 to 2014, in which mapping and other recordkeeping deficiencies contributed to significant problems, including in one case, the explosion of a house.<sup>17</sup> The Safety and Enforcement Division ("SED") report accompanying the OII found that the incidents resulted from errors and other deficiencies in PG&E's maps and records, which were pervasive throughout PG&E's gas distribution system. In its December 22, 2014 Response to the OII, PG&E stated that, for the most part, it did not disagree with "the factual contentions and conclusions regarding its gas distribution recordkeeping stated in the SED Reports."<sup>18</sup>

PG&E's Response to the OII detailed "numerous improvement initiatives to enhance the accuracy and accessibility of its gas distribution records," including the implementation of a gas distribution geographic information system ("GD GIS") – part of

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<sup>18</sup> PG&E Response to the OII, I.14-11-008, p. 5

<sup>&</sup>lt;sup>16</sup> OII 14-11-008, p. 1.

<sup>&</sup>lt;sup>17</sup> As recounted in the OII, the six incidents were: (1) 9/17/10 – Because of a mapping error resulting from incorrect field documentation, a third-party contractor struck a 1-inch plastic service line in Castro Valley; (2) 6/12/12 – Because of PG&E's failure to locate and mark a <sup>3</sup>/<sub>4</sub> inch steel service line that was not shown in PG&E's plat map, a third-party contractor struck and damaged the line in Morgan Hill; (3)10/10/12 – Because PG&E's engineering model showed that a non-emergency distribution main valve was in the open position when it was actually in the closed position, a project to replace a 6-inch steel gas distribution main in Milpitas resulting in losing service to 987 customers; the model error resulted from an error in the plat sheet; (4) 3/4/13- Because of a failure to accurately mark location resulting from an omission from the plat map, a third-party contractor dug into a 2-inch plastic distribution main; (5) 7/30/13 – Because PG&E's records failed to indicate the presence of a plastic insert, a PG&E welding crew in Mountain View melted the insert, causing a release of gas; (6) 3/3/14 – Because PG&E's records failed to indicate the presence of a plastic insert, a PG&E welding crew damaged the insert, leading to an escape of gas into a Carmel home and an explosion that destroyed the house. OII, pp. 2-7.

the Pathfinder Project -- and various other measures to correct errors in its records. including a Records Validation Project. 19 Programs and projects of this nature were included in PG&E's last GRC request and appear to be part of PG&E's request for ratepayer funding in this case. In the 2014 GRC, PG&E obtained:

- Approximately \$15 million for Gas Distribution Mapping and Records.<sup>20</sup> which the Commission justified in part based on the issue of "inaccurate location" information" as a "significant contributing factor to excavation damage."<sup>21</sup> reflected a dramatic increase from 2011 funding for this work of only \$1 million.<sup>22</sup>
- \$39 million to Locate and Mark Underground Facilities, which PG&E justified in part as necessary to provide field personnel "more accurate information, while remaining compatible with mapping, records and GIS improvements."23
- Approximately \$9 million in expenses and approximately \$15 million in 2014 capital spending for the Pathfinder Project,<sup>24</sup> the same project that PG&E's Response to the I.14-11-008 OII identified as a key element of its effort to improve its gas distribution recordkeeping, and the same project for which PG&E's shareholders were required to absorb full costs with respect to gas transmission recordkeeping.<sup>25</sup>

In this GRC, PG&E describes a "Mapping Support" program that includes work to

<sup>19</sup> *Id.*, pp. 5-6, 17-19.

<sup>&</sup>lt;sup>20</sup> D.14-08-032, Section 3.3. The decision reduced PG&E's \$16.2 million request by the removal of PG&E's proposed \$1.3 million for contingency and an unspecified amount to reduce headcount for mappers from 85 to 80.

<sup>&</sup>lt;sup>21</sup> D.14-08-032, p. 41.

<sup>&</sup>lt;sup>22</sup> D.14-08-032, p. 38.

<sup>&</sup>lt;sup>23</sup> D.14-08-032, p. 57.

<sup>&</sup>lt;sup>24</sup> D.14-08-032, Section 3.11.1.

<sup>&</sup>lt;sup>25</sup> With respect to transmission, Pathfinder was originally called Gas Transmission Asset Management or GTAM. D.12-12-030, p. 18. As noted, the Commission required shareholders to absorb the full costs of this project, which the Commission found to be needed to remedy PG&E's recordkeeping deficiencies. D.12-12-030, pp. 96-97.

improve accuracy and availability of records and maps.<sup>26</sup>

In short, in response to a November 2014 Commission OII, PG&E has now admitted to significant problems with its gas distribution records and has further acknowledged that the company found it necessary to develop a variety of work activities to remedy those problems.

B. To PG&E's Financial Benefit and the Detriment of Ratepayers, PG&E's Case-in-Chief In Its Previous GRC Did Not Discuss PG&E's Known Problems and Incidents Related to Gas Distribution Recordkeeping

As previously noted, the pattern of gas distribution incidents that triggered the issuance of I.14-11-008 spanned the period September 2010 to March 2014.

Accordingly, when PG&E presented its 2014 GRC request and as it litigated the case, PG&E clearly knew that there were serious problems with the accuracy of its gas distribution records and maps and that those problems had created incidents posing safety risks. Indeed, as PG&E's Response to the I.14-11-008 OII shows, PG&E designed work efforts in its 2014 GRC to address these problems. However, notwithstanding the Commission's disallowance of remedial transmission recordkeeping costs in D.12-12-030, in the 2014 GRC, PG&E never discussed its pattern of problems with distribution records and maps and completely avoided any discussion of whether ratepayers should be required to pay the costs of such remedial work. By withholding this issue from its case-in-chief in its 2014 GRC, PG&E averted a potentially costly disallowance of gas distribution recordkeeping costs, to the financial advantage of shareholders and to the

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<sup>&</sup>lt;sup>26</sup> PG&E Testimony, Exh. PG&E-3, pp. 10-7 to 10-9. TURN hastens to add that it has not comprehensively reviewed PG&E's testimony and workpapers for programs and projects that are intended to address PG&E's recordkeeping deficiencies. Indeed, the point of this section of the Protest is that TURN and other parties should not be put to this exercise; rather, PG&E should be directed to identify any aspect of its request that remedies operational deficiencies.

financial detriment of ratepayers. It is unfair to ratepayers for a company to fail to disclose imprudence that it alone is aware of and then have ratepayers pay to fix those problems.

Intervenors cannot be expected to – and should not be required to -- ferret out any and all instances in which a utility's forecast work is made necessary in order to remedy deficient recordkeeping or any other imprudence. TURN did not learn of the pattern of incidents caused by PG&E's poor distribution records until the issuance of the I.14-11-008 in November 2014, months after the Commission issued the 2014 GRC decision.<sup>27</sup> But PG&E knew about the series of incidents and chose not to reveal them in the record of the 2014 GRC. In this GRC, there may be other pending audits or investigations – either external or internal – that have revealed issues concerning the prudence of PG&E's operations that are well known to PG&E and that motivated proposed work in this case, but that are unknown to the intervenors.

Given the massive burden of analyzing a GRC request, it is unreasonable to expect intervenors to conduct the equivalent of a Commission investigation in order to attempt to ascertain the extent to which forecast work activities are made necessary by the company's past imprudence. For this very reason, utilities are assigned the burden of proof to demonstrate the reasonableness of all aspects of their GRC requests, including, where necessary, a demonstration that the proposed work is not made necessary to remedy imprudence. Accordingly, when a utility knows that there is a substantial question whether work it is forecasting is needed to remedy imprudence, the utility is obliged to address such issues in its case-in-chief, in order to enable a full and fair

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<sup>&</sup>lt;sup>27</sup> TURN became aware of the March 3, 2014 Carmel explosion from news reports, but was unaware of the previous five incidents.

adjudication of the issues.

# C. The Commission Should Direct PG&E to Promptly Supplement Its Opening Testimony

For the reasons discussed above, PG&E should be required to fully address in its case-in-chief the extent to which any of its forecast costs are the result of deficiencies in its operations, with respect to recordkeeping or any other aspect of its business.

Specifically, with respect to gas distribution recordkeeping, PG&E should be required to present testimony and workpapers that:

- a. Identify each and every project or program in this GRC and the 2014 GRC -- and the associated costs -- that address distribution recordkeeping deficiencies; and
- b. Explain whether costs of those projects or programs are included in, or affect, revenue requirement requested in this case.
  - i. If so, why this outcome is just and reasonable.
  - ii. If not, what costs have been removed from PG&E's request and why such amount of removed costs is just and reasonable.

PG&E should be required to similarly supplement its testimony and workpapers with respect to any other projects or programs that include work to address deficiencies in the company's operations, *e.g.*, as may be identified in Commission audits or internal audits as falling short of Commission or company standards.

VI. THE COMMISSION SHOULD DIRECT PG&E TO REMOVE FROM ITS REQUEST SPENDING INTENDED TO IMPLEMENT THE DISTRIBUTION RESOURCES PLAN, SINCE THIS REQUEST IS PREMATURE AND INCONSISTENT WITH THE REQUIREMENTS OF SECTION 769 OF THE PUBLIC UTILITIES CODE

In this rate case, PG&E is requesting authorization for at least \$200 million in

capital spending to implement its Distribution Resources Plan ("DRP"), submitted by PG&E on July 1, 2015 in Application (A.)15-07-006. As explained below, PG&E's effort to gain approval of its DRP programs in this GRC before its DRP has been reviewed and ruled upon in A.15-07-006 is premature and contrary to statutory requirements.

#### PG&E Is Requesting Significant Capital Spending to A. Implement the Distribution Resources Plan

In this GRC, PG&E seeks authorization for two programs that are the subject of its DRP Application. First, PG&E requests almost \$100 million in capital (2017-2019) for the new Distributed Energy Resources ("DER") Integration Capacity Program, 28 whose goal is "to invest in distribution line and substation upgraders on circuits where scenario growth rates of DER customers are projected to create issues on the distribution system."<sup>29</sup> PG&E explains that this program is designed "to advance the modernization of PG&E's electric grid consistent with California policy as described in Assembly Bill (AB) 327 and Commission Rulemaking 14-08-013," and that this program is intended to implement its Distribution Resource Plan:

Through the DER Integration Capacity program, consistent with the Commission's requirements for accommodating additional deployment of DERs, PG&E seeks to enable DER growth and customer choice by making investments to increase DER integration capacity to support forecast DER deployment. Consistent with the DRP, PG&E is seeking cost recovery for this program in this GRC.30

Second, PG&E requests almost \$84 million in capital for the new Volt-Var Optimization Program.<sup>31</sup> PG&E claims that this program is consistent "with California

<sup>30</sup> PG&E-04, p. 13-30.

<sup>&</sup>lt;sup>28</sup> PG&E-04, Figure 13-5, p. 13-30.

<sup>&</sup>lt;sup>29</sup> PG&E-04, p. 13-31.

<sup>&</sup>lt;sup>31</sup> PG&E-04, Figure 13-7, p. 13-37.

policy as described in Senate Bill (SB) 17 and PG&E's Smart Grid Deployment Plan filed with the CPUC on June 30, 2011."<sup>32</sup> However, the goal of the Volt-Var Optimization Program has always been to improve the integration of distributed renewable resources,<sup>33</sup> and PG&E explains in this rate case filing that the VVO program provides benefits by supporting "the increased penetration of distributed energy resources."

The goal of these DRP-related programs is to enhance the amount of distributed energy resources on the distribution grid. The Distributed Resources Plan in fact identifies the DER Integration Capacity program and the Volt/Var Optimization program as two specific investments to be proposed in a future GRC to implement the plan.<sup>34</sup> The DRP also specifies that there are "other DRP-related investments and expenditures that will be identified in PG&E's 2017 GRC filing." <sup>35</sup> TURN has not had an opportunity to determine which other programs and spending categories in this rate case, besides the Integration Capacity Program and the VVO, are specifically DRP-related. PG&E should be required to identify all such DRP-related spending in this GRC.

# B. PG&E's Request Is Premature Because the Distribution Resources Plan Has Not Been Approved as Required by Section 769(c)

Spending on these two programs, as well as any other investments specifically designed to implement the DRP, should be removed from this rate case. They are premature and prejudge the outcome of the Distribution Resource Plan Rulemaking 14-08-013 and A.15-07-006.

<sup>33</sup> PG&E Smart Grid Plan, June 2011, pp. 134, 139, 181.

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<sup>&</sup>lt;sup>32</sup> PG&E-04, p. 13-35.

<sup>&</sup>lt;sup>34</sup> PG&E DRP, July 1, 2015, p. 202.

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The Legislature directed the utilities to submit the distribution resources plans pursuant to AB 327, codified as Section 769 of the Public Utilities Code. Section 769(b)(4) directs the utilities to "identify any additional utility spending necessary to integrate cost-effective distributed resources into distribution planning consistent with the goal of yielding net benefits to ratepayers." Sections 769(c) and (d) provide guidance relevant to eventual cost recovery:

§769(c). The commission shall review each distribution resources plan proposal submitted by an electrical corporation and approve, or modify and approve, a distribution resources plan for the corporation. The commission may modify any plan as appropriate to minimize overall system costs and maximize ratepayer benefit from investments in distributed resources. (Emphasis added.)

§769(d). Any electrical corporation spending on distribution infrastructure necessary to accomplish the distribution resources plan shall be proposed and considered as part of the next general rate case for the corporation. The commission may approve proposed spending if it concludes that ratepayers would realize net benefits and the associated costs are just and reasonable. The commission may also adopt criteria, benchmarks, and accountability mechanisms to evaluate the success of any investment authorized pursuant to a distribution resources plan.

Taken together, these two sections mandate that the Commission first review the utility's distribution resources plan for the purpose of approving or modifying the plan.

Subsequently, the utility must request cost recovery for spending necessary to implement the plan in its "next general rate case," and the Commission may approve such spending if it concludes there would be net benefits to ratepayers.

The plain meaning of the statute is that the Commission must first approve or modify a distribution resources plan, and the utility should seek cost recovery to implement the plan in its "next" rate case. Contrary to Subsection 769(c), PG&E requests cost recovery in this rate case <u>prior</u> to any approval of its distribution resources plan by the Commission. If PG&E were allowed to request cost recovery prior to any

Commission approval of the plan, the Commission's approval process would be rendered meaningless and superfluous.

Indeed, the Guidance Document issued by the Assigned Commissioner in R.14-08-003 explained that it was premature to direct the utilities to integrate their DRPs into the next rate case:

That said, it is currently too early to direct the Utilities to integrate any given piece of the DRP into their next GRC filing. Instead, the Utilities shall include a section in their DRPs where they describe what specific actions or investments may be included in their next GRCs as a result of the DRP process.<sup>36</sup>

Thus, the Assigned Commissioner's Ruling in R.14-08-013 asked the utilities to propose investments that "may be included in their next GRCs," consistent with the notion that the Commission must first approve the distribution resources plan before such investments should be proposed. The clear intent was to get a sense of possible investments that PG&E could make to support the DRP, in order to assess the nature and magnitude of future costs.

PG&E's claim that its request in this rate case is "consistent with the DRP" is thus inconsistent with the law and with Commission direction. PG&E's claim would make sense only if one assumed that the phrase "the next GRC" referred merely to the filing date of the rate case versus the filing date of the distribution resources plan, irrespective of whether the Commission had reviewed and authorized the plan. But such an interpretation of the clause "the next GRC," as explained above, would render the requirement of § 769(c) that the Commission review the resources plan entirely superfluous.

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<sup>&</sup>lt;sup>36</sup> R.14-08-013, Assigned Commissioner's Ruling on Guidance, February 6, 2015, Attachment, p. 11 (emphasis added).

The need for the Commission to review the distribution resources plan is no mere formality that can be ignored by the utility. The Commission must evaluate how the utilities should integrate distributed energy resources in a manner that will "minimize overall system costs and maximize ratepayer benefit from investments." This evaluation will have significant impacts on proposals for system upgrades necessary to integrate "cost-effective" distributed energy resources. The Commission cannot go forward with PG&E's requested DRP-related spending in this rate until it has established that such programs are consistent with the goals specified in § 769(c).

Accordingly, TURN recommends that no DRP-related spending be evaluated and authorized in this rate case. However, if the Commission seeks to authorize DRP-related spending prior to PG&E's real "next rate case," then at a minimum the Commission should set a second phase of this GRC to evaluate any DRP-related spending, to occur only after the Commission evaluates and rules upon PG&E's distribution resources plan in A.15-07-006.

# C. Denying Spending for the Distribution Resources Plan in No Way Jeopardizes Normal Grid Automation and Modernization Programs

Spending to implement the DRP is focused on expanding the ability of the distribution grid to accommodate distributed energy resources, and the Commission has not yet determined how best to accomplish this task in a manner that provides net benefits to the system and ratepayers. It is critical to note, however, that removing specific programs designed to implement the DRP will in no way reduce PG&E's ability to continue to spend money on a variety of other programs and assets designed to modernize and automate the distribution grid. Such spending is part and parcel of

PG&E's ongoing efforts to replace older assets with more modern equipment.

PG&E requests authorization in this GRC to spend very significant amounts of money to upgrade and modernize the distribution system. For example, PG&E requests over \$215 million in capital (2015-2019) for Distribution Automation and System Protection in order to install, upgrade and replace "remotely controlled automation and protection equipment in both distribution substation and on feeder circuits."37 PG&E separately requests over \$717 million in capital (2015-2019) for the Electric Distribution Reliability Program, which likewise includes upgrading switches and protective devices with more automated and advanced equipment.<sup>38</sup> Thus, almost \$1 billion out of the \$8.77 billion in capital (2015-2019) for electric operations includes spending on more automated modern equipment. It is quite likely that many other investments in this large capital category replace existing assets with more modern equipment.

TURN will carefully examine the drivers of these various spending programs, and may propose modifications and/or reductions in these programs. Nevertheless, the Commission can be assured that removing the Integration Capacity Program, the Volt-Var Optimization program, or any other DRP-related program, will not in any way jeopardize the ongoing work being conducted by PG&E to modernize its distribution grid.

VII. THE REASONABLENESS OF PG&E'S RISK-SCORING MODELS SHOULD BE WITHIN THE SCOPE OF THIS CASE TO THE EXTENT THE RESULTS OF THOSE MODELS ARE USED TO SUPPORT PG&E'S **REQUEST** 

At the September 29, 2015 workshop, PG&E's counsel's made a statement to the

<sup>&</sup>lt;sup>37</sup> PG&E-04, p. 10-1. <sup>38</sup> PG&E-04, ch. 9.

effect that the Commission should avoid litigating the reasonableness of PG&E's risk-scoring models in both this case and the Safety Model Assessment Proceeding ("S-MAP") case, A.15-05-002 et al. While TURN is sympathetic to the desire to avoid addressing similar issues in two cases, TURN ultimately does not agree that the reasonableness of PG&E's scoring models should be outside the scope of this case.

TURN certainly would prefer to keep this case from getting bogged down in complex issues related to PG&E's methodology for its risk-scoring models that could unduly complicate and prolong this case. Indeed, the workshop statement of PG&E's counsel tends to confirm TURN's hypothesis (informed by the S-MAP and other cases) that the scoring models have a minimal impact, if any, on the risks that PG&E has chosen to address and the projects and programs for which PG&E seeks funding.

However, to the extent that PG&E claims that its scoring models offer at least some support for proposed activities, parties should be free to address the reasonableness and reliability of those models and the scores they generate. For some parties, this may require re-stating positions and analysis from the S-MAP case, just as PG&E has cross-referenced S-MAP submissions in its direct testimony.

## VIII. EFFECT OF THE APPLICANT ON THE PROTESTANT

TURN is a non-profit consumer advocacy organization, and has a long history of representing the interests of residential and small commercial customers of California's utility companies before this Commission. PG&E's application threatens to harm the interests of PG&E's residential and small commercial ratepayers, whose interests TURN represents, by seeking authorization to collect from ratepayers charges that are unjust and unreasonable for the provision of safe and reliable electric and natural gas utility service

by PG&E during the years 2017, 2018 and 2019.

IX. EVIDENTIARY HEARINGS ARE NECESSARY

In Resolution ALJ 176-3363 (Sept. 7, 2015), the Commission preliminarily

determined that this proceeding should be categorized as "ratesetting" and that

evidentiary hearings will be necessary. TURN concurs with this assessment. PG&E has

requested a substantial rate increase, and the Commission's disposition of PG&E's

application will require the resolution of numerous disputed issues of material fact,

including the reasonableness of PG&E's forecasts of test year costs throughout its

showing and the reasonableness of PG&E's proposed attrition mechanism. TURN

intends to actively participate in evidentiary hearings as necessary to support our

recommendations.

X. SCHEDULE

TURN intends to address PG&E's proposed schedule in conjunction with the

prehearing conference, rather than in this protest.<sup>39</sup>

Date: October 5, 2015 Respectfully submitted,

By: /s/\_\_\_\_\_

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<sup>39</sup> PG&E Application, p. 22.