FILED
11/01/19
04:59 PM

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. (U 39 M)	Application No. 18-12-009 (Filed December 13, 2018)

PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M)
BRIEF ON PUBLIC UTILITIES CODE SECTION 8386.3 (E)

MARY A. GANDESBERY
PETER OUBORG

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-0675
Facsimile: (415) 973-0516
E-Mail: Mary.Gandesbery@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: November 1, 2019

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. (U 39 M)	Application No. 18-12-009 (Filed December 13, 2018)

PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M) BRIEF ON PUBLIC UTILITIES CODE SECTION 8386.3(E)

Pacific Gas and Electric Company (PG&E) submits this brief on the application of Public Utilities Code Section 8386.3(e)[1] to PG&E's capital expenditures for its approved 2019 Wildfire Mitigation Plan (WMP) pursuant to a ruling of the Administrative Law Judges during evidentiary hearings on October 10, 2019.[2]

A. PG&E Interprets Section 8386.3 To Apply To The Capital Investments Included In Its 2019 Wildfire Mitigation Plan Incurred After The Statute Became Effective.

On July 12, 2019, Governor Newsom signed Assembly Bill (AB) 1054, which impacts PG&E's equity return on capital expenditures for its WMP. Among other things, AB 1054 prohibits large electrical corporations from including in equity rate base their share of the first $5 billion spent statewide on fire risk mitigation capital expenditures[3] in their approved WMPs.

---

[1] All statutory references in this brief unless otherwise specified are to the California Public Utilities Code.

[2] The Ruling was confirmed by an e-mail from Administrative Law Judges Lau and Lirag on October 11, 2019. The e-mail states in relevant part: "In addition, PG&E will file a brief addressing the AB 1054 requirements regarding the reduction in equity ratebase related to wildfire capital expenditure on November 1, 2019. Parties may file comments on PG&E's filing in their opening briefs . . ." Administrative Law Judge Lirag ruled during the evidentiary hearings that PG&E should propose a mechanism to exclude the equity return in the GRC instead of seeking to make an adjustment later in connection with its securitization application as proposed in PG&E's rebuttal testimony. (Tr. Vol. 20, p. 2226, line 9 to p. 2228, line 13.)

[3] Capital expenditures include capital additions and cost of removal.

Public Utilities Code Section 8386.3(e) states:

> (e) The commission shall not allow a large electrical corporation to include in its equity rate base its share, as determined pursuant to the Wildfire Fund allocation metric specified in Section 3280, of the first five billion dollars ($5,000,000,000) expended in aggregate by large electrical corporations on fire risk mitigation capital expenditures included in the electrical corporations' approved wildfire mitigation plans. An electrical corporation's share of the fire risk mitigation capital expenditures and the debt financing costs of these fire risk mitigation capital expenditures may be financed through a financing order pursuant to Section 851, subject to the requirements of that financing order.

Section 3280(n)(2) contains the initial Wildfire Fund Allocation metrics referenced in Section 8386.3(e). It states in relevant part:

> The Wildfire Fund allocation metric shall be determined by the Director of Finance no later than five days after the effective date of this part. It is the expectation of the Legislature that the Wildfire Fund allocation metric is 64.2 percent for Pacific Gas and Electric Company, 31.5 percent for Southern California Edison Company, and 4.3 percent for San Diego Gas and Electric Company. If a new electrical corporation that is a large electrical corporation is admitted to the Wildfire Fund, the administrator shall promptly determine and publish a revised Wildfire Fund allocation metric based on the factors set forth in this subdivision.

PG&E's allocation of the $5 billion in capital expenditures pursuant to the initial allocation metric is $3.21 billion.[4] The capital equity return does not apply to the equity rate base for electric transmission, gas transmission, or gas storage capital expenditures as Section 8386.3(e), on its face, is limited to capital expenditures of an electric corporation for wildfire risk mitigation capital expenditures included in the electrical corporation's approved wildfire mitigation plans, i.e., projects approved by the California Public Utilities Commission. PG&E will apply a debt return to additions to rate base as described in Section 8386.3(e).

---

[4] As noted above in Section 3280, this amount is subject to later adjustment if the administrator of the Wildfire Fund publishes a revised Wildfire Fund allocation metric.

B. PG&E Requests An Implementation Date Of August 1, 2019 For Accounting Purposes.

To limit internal accounting complications, PG&E requests the Commission to allow it to begin the rate base capital exclusionary period on August 1, 2019 (*i.e.*, the first day of the first month following the effective date of the legislation). As capital additions are posted monthly during the accounting close, it is impracticable to record capital expenditures for a partial month. For this reason, PG&E requests permission to implement this statute effective August 1, 2019. This approach is consistent with a request by Southern California Edison Company in its 2021 GRC application.[5]

PG&E's capital expenditures that count towards the $3.21 billion in wildfire risk mitigation capital expenditures include both those that are recorded in the Wildfire Mitigation Plan Memorandum Account (WMPMA)[6] and those that are included in PG&E's forecast for the Community Wildfire Safety Program in the 2020 GRC. PG&E expects to reach the $3.2 billion of spending covered by AB 1054 through a combination of spending included in the GRC and inspection related replacement and other capital costs recorded directly to WMPMA. Should there be any remaining amount to reach the $3.2 billion, PG&E would apply such amount in an additional application.[7]

C. PG&E's Initial Calculation of Capital Expenditure in this GRC Subject to the Exclusion.

The following table includes PG&E's 2020 GRC forecasted capital expenditures that are subject to the exclusion.

---

5 See *Test Year General Rate Case Application of Southern California Edison Company* (U 338-E), A. 19-08-013 (Aug.30, 2019) p. 23, fn. 40.

6 Incremental costs related to WMP capital expenditures prior to June 2019 are included in the Fire Risk Mitigation Memorandum Account (FRMMA).

7 Pursuant to AB 1054, PG&E anticipates that the Commission will authorize PG&E to create a new memorandum account or continue the WMPMA when it approves PG&E's 2020 WMP. Pub. Util. Code § 8386.4(a).

Table 1
2019-2022 GRC Forecast Wildfire Mitigation Plan Capital Expenditures[8]

	Aug to Dec 2019	2020	2021	2022	Total
Electric Distribution	144,610	592,286	923,863	1,143,966	2,804,724
Common Utility	2,599	9,186	9,393	9,626	30,804
					2,835,528

Forecast amounts in 2019-2022 will depend on the amount approved in this proceeding for PG&E's WMP capital expenditures. The common utility amounts are shown at the GRC amount, with the percentage based on PG&E's proposed labor allocators. Depreciation rates remain constant on the AB 1054 rate base assets.

D. PG&E Proposes to Modify Its 2020 GRC Results of Operation Model To Model Identified Wildfire Mitigation Capital in Its Rate Base using 100% Debt Financing.

PG&E separated the capital planning orders associated with wildfire mitigations into specific Unbundled Cost Categories (UCC) that calculated the revenue requirement using debt-only financing. A majority of the capital wildfire costs are in electric distribution, but some capital costs are common to all business lines. Specific UCCs were created for each business line to properly capture the allocation of common capital. After order assignment to the UCC, or allocation to the UCC, the cost of capital bond debt ratio was increased from 47% to 99% and the cost of equity ratio was decreased from 52% to 0%. The preferred stock ratio remained unchanged at 1.0%. The calculation used the current authorized cost of debt, which is 4.89%. This authorized rate, or a new cost of debt rate as may be updated in a subsequent cost of capital proceeding, would be used for any portion that is financed with conventional debt, and to the extent that some or all of this capital is financed with securitized debt, the cost of the securitized debt would be used for such portion.

8 This includes the electric distribution forecasts included in PG&E's opening testimony and rebuttal testimony, as indicated in Attachment A.

A list of the planning orders associated with the wildfire risk mitigation capital that PG&E has included in its 2020 GRC application with major work category (MWC), exhibit and chapter is included in Attachment A. The GRC forecast of post-July 2019 WMP capital expenditures have also been included as they will be the first increment to count towards PG&E's equity rate base exclusion[9]. Accordingly, PG&E has calculated the associated equity return and cost of debt with appropriate tax adjustments including deferred taxes using the Results of Operation Model. The resulting GRC revenue requirement reduction will be $22 million in 2020, $57 million in 2021 and $105 million in 2022. These amounts will be adjusted to reflect the approved wildfire risk mitigation capital forecast amounts included in PG&E's 2020 GRC Decision, including amounts adopted for post-test-year ratemaking. PG&E has computed a revenue requirement for 2020 and the post-test year (PTYR) period (2012 and 2022) assuming its positions in the Joint Comparison Exhibit are adopted, both without the impacts of AB 1054 (Attachment B, Table 1) and with the impacts of AB 1054 included (Attachment B, Table 2). All computations are made based on the PTYR methodology described in PG&E's opening and rebuttal testimony. PG&E has provided these computations in the interest of time and they should be viewed as preliminary in nature. These amounts are subject to revision based on the final decision.

E. Cost Recovery and Securitization.

In place of earning an equity return on the investment, AB 1054 provides for up to 100 percent debt financing of the investments through securitized debt, with rate recovery of securitized debt financing costs.[10] In order for the utility to file the securitization application, the Commission must first determine that the capital expenditures are "just and reasonable."[11] PG&E requests the Commission to review and approve in this proceeding the forecast wildfire-

---

9 Actual incurred WMP costs will be recorded in the WMPMA.

10 Pub. Util. Code § 8386.3(e).

11 Pub. Util. Code § 850(a)(2).

related costs for 2019 through 2022 as just and reasonable, including those associated with PG&E's $3.21 billion equity rate base exclusion. Following the Commission's decision, PG&E may file an application to securitize capital costs, including certain of the capital proposed in this GRC application and that recorded in 2019 in the WMPMA, or other balancing or memorandum accounts, pursuant to AB 1054.[12] For activities and capital expenditures subject to AB 1054 that are not included in PG&E's GRC testimony and forecast, PG&E requests the Commission to establish a process for frequent and timely review to determine if the capital expenditures are "just and reasonable" to allow them to be included in a securitization application.

F. Conclusion

PG&E respectfully requests the Commission to approve PG&E's proposal to remove the equity return on forecast WMP capital expenditures from rate base pursuant to Public Utilities Code Section 8386.3(e). PG&E also requests that the Commission determine in this proceeding that the capital expenditures removed from equity rate base are just and reasonable, to allow PG&E to finance the capital through a securitization application.

Respectfully Submitted,

MARY A. GANDESBERY
PETER OUBORG

By: *\/s\/ Mary A. Gandesbery*
MARY A GANDESBERY

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-0675
Facsimile: (415) 973-5520
E-Mail: Mary.Gandesbery@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: November 1, 2019

12 Pub. Util. Code § 850(a)(2).

PACIFIC GAS AND ELECTRIC COMPANY

ATTACHMENT A

TO PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M) BRIEF

ON PUBLIC UTILTIES CODE SECTION 8386.3(E)

PG&E 2020 GRC - AB 1054 Wildfire Captial Orders

Line #	Order	Description	MWC	MAT	UCC	Capital Expenditure Forecast (000's) Post July 2019	2020	2021	2022	Total	Exhibit	Chapter	Program Description
		A. Electric Distribution - System Hardening Orders											
1	5530520	SYSPLN-2A-Exempt Line Equip (CWSP)	2A	2AP	301	2,146	5,285	5,425	5,570	18,426	4	6	OH CAP Projects
2	5528510	SYSPLN-2AP-OH Prjs > $25K Perf (RAMP)	2A	2AR	301	29,837	73,486	75,433	77,445	256,200	4	6	Surge Arrester Replacement
3	5530363	SYSPLN-49H- Microgrids (CWSP)	49	49M	301	4,399	12,847	13,188	8,018	38,453	4	9	PIH / Microgrids: non-gen
4	5530362	SYSPLN-08W-System Rebuild (CWSP)	8	08W	301	81,268	204,093	340,207	432,438	1,058,006	4	9	Wildfire Resiliency projects
5	5516386	SYSPLN-08W-Wire Down related projects	8	08W	301	17,458	289,132	481,960	612,620	1,401,170	4	9	Wildfire Resiliency projects
		ED System Hardening Sub-Total				**135,107**	**584,844**	**916,213**	**1,136,091**	**2,772,255**			
		B. Electric Distribution - Non-System Hardening Orders											
6	5530407	SYSPLAN-09A - EXP AUTO CWSP	9	09A	301	6,480	0				4	10	ED Line SCADA Inst/Repl
7	5530364	SYSPLN-49T- Reclosers (CWSP)	49	49T	301	876	2,157	PTYR Escalation			4	9	D-TripSaverII Cutout-MountedLR
8	5532879	CWSP - Granular Sectionalizing	49	49H	301	2,146	5,285				4	9	UG Fault Indicator Inst/Repl
		ED Non-System Hardening Sub-Total				**9,502**	**7,442**	**7,650**	**7,874**	**32,469**			
		C. Common Orders											
9	5530902	SYSPLAN-21#-Other CWSP	21		800	299	0				4	3	
10	5530406	SYSPLAN-21#-PMO CWSP	21		800	225	555				4	18	CWSP PMO
11	5532767	Other CWSP - Advanced Fire Modeling	21		800	0	4,200	PTYR Escalation			4	3	CWSP Initiatives
12	5532768	Other CWSP-Enhanced Wire Down Detection	21		800	874	0				4	3	Wire Down Detection
13	5532766	Other CWSP - Expanded Weather Stations	21		800	1,729	6,300				4	3	CWSP Initiatives
		Common Total Company Sub-Total				**3,128**	**11,055**						
		Common GRC Sub-Total				**2,599**	**9,186**	**9,393**	**9,626**	**30,804**			*GRC Portion is 83.09%
14		**Total AB 1054 Electric Distribution (Section A + B)**				144,610	592,286	923,863	1,143,966	2,804,724			
15		**Total AB 1054 Common (Section C)**				2,599	9,186	9,393	9,626	30,804			
16		**Total AB 1054 Capital Expenditures**				147,209	601,472	933,256	1,153,592	2,835,528			

Attachment B
Estimate of Revenue Change and Attrition Adjustment

	Revenues Adjusted Per Joint Comparison Exhibit (JCE)					
	(Thousands of Dollars)					
	Test Year 2020	Attrition Year 2021		Attrition Year 2022		
		Increase	Total	Increase	Total	
	(A)	(B)	(C)	(D)	(E)	
JCE Revenue	9,520,354	356,402	9,876,757	480,777	10,357,534	
JCE Attrition Change (%)		3.74%		4.87%		
	Revenues Adjusted for JCE and AB 1054 Reductions					
						Net All Years
AB 1054 Revenue Change	(21,909)	(57,411)		(105,110)		(184,430)
Revised Revenue	9,498,445	298,991	9,797,437	375,667	10,173,104	
Revised Attrition Change (%)		3.15%		3.83%		