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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
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January 1, 2017 (U39M).

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

**JOINT PROPOSAL OF
PACIFIC GAS AND ELECTRIC COMPANY AND THE CITY OF HAYWARD FOR
RULE 20A AUDIT SCOPE AND FUNDING**

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Dated: July 10, 2017

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Pacific Gas and Electric Company (“PG&E”) and the City of Hayward (“Hayward”) respectfully submit this joint proposal of the scope and funding estimate for PG&E’s Rule 20A audit (“Joint Proposal”) pursuant to D.17-05-013, *Decision Authorizing Pacific Gas and Electric Company’s General Rate Case Revenue Requirement For 2017-2019* (“2017 GRC Decision”) issued on May 18, 2017. The 2017 GRC Decision directed PG&E, Hayward, and Commission Staff to meet and confer and PG&E and Hayward to jointly file and serve the joint estimate of scope and the required funding within 60 days of the effective date of the decision.^{1/}

Accordingly, PG&E, Hayward, and Commission Staff participated in an in-person meeting on July 6, 2017. The City and County of San Francisco, the City of San Louis Obispo, and Southern California Edison Company also participated, via teleconference, in the meet and confer. The proposed audit scope is described below and the list of issues to be addressed in the audit is included as Attachment A to this filing.

In addition, PG&E and Hayward also provide additional comments and proposals for the Commission’s consideration in determining the next procedural steps.

^{1/} D.17-05-013 at p. 249, Ordering Paragraph 8.

I. AUDIT SCOPE PROPOSAL

The audit scope proposal is aligned with the Commission directive for the audit to:

1. Ensure that PG&E has fully accounted for annual Rule 20A budgeted amounts;
2. Ensure that localities will receive the full benefit of these funds;
3. Assess PG&E's progress in implementing the steps it has taken to increase its capability to perform Rule 20A conversions;
4. Assess PG&E processes to verify the eligibility of Rule 20A projects; and
5. Assess reliability of Rule 20A project cost estimates.^{2/}

PG&E and Hayward have worked collaboratively to create the list in Attachment A, which identifies specific issues to be addressed by the auditor. Prior to the meet and confer, PG&E and Hayward separately circulated audit scope proposals. Attachment A is the end result of combining certain aspects from both proposals. Specifically, detailed concepts from Hayward's proposal were included into PG&E's proposal of high-level concepts. Both parties agreed that Attachment A will guide the auditor and that the scope did not need to contain a list of items that the auditor will review because the expectation is that the auditor will need to create a more detailed work plan prior to beginning the auditing process and the auditor will have full access to the documents and items the auditor determines may be relevant. The audit scope does not need to specifically instruct the auditor on how to perform the audit.

With respect to the time period that the audit will cover, PG&E and Hayward have agreed that a time period of five to ten years is appropriate. The independent auditor will determine the appropriate time frame between 2007- 2016 to best effectuate the purposes of the audit on an issue by issue basis. This will allow the auditor maximum flexibility to balance data and information availability against the needs of the audit considering the often long life span of a Rule 20A project, from start to finish. This proposal of a flexible time frame of up to ten years strikes a balance of the need for enough detail and information for a meaningful review and to ensure that the audit is efficient and cost-effective.

^{2/} See D.17-05-013 at p. 75.

PG&E and Hayward propose that the audit be completed within 180 days from the time a contract for the work is executed by PG&E and the selected auditor. PG&E and Hayward also recognize that the auditor may require additional time to complete the audit. When requested by the auditor, PG&E will timely file a request to extend the audit deadline as needed later in the audit process.

II. OVERLAP WITH THE RULE 20A AUDIT IN R.17-05-010

In R.17-05-010, *Order Instituting Rulemaking to Consider Revisions to Electric Rule 20 and Related Matters* (“Rule 20 OIR”), each utility is mandated to perform a programmatic and financial audit of the administration of its Rule 20A program conducted by an independent firm in consultation with the Commission’s Utility Audit Finance & Compliance Branch and Energy Division.^{3/} Specifically, the audit will review compliance with prior Commission decisions and the proper financial oversight of the use of Rule 20A ratepayer funds.^{4/}

PG&E recognizes that the two audits may not be identical in scope and does not attempt to pre-judge the scope in the Rule 20 OIR. However, these two audits will focus on the Rule 20A program and have overlapping issues, as well as require significant commitments from PG&E and Commission resources. PG&E requests that the Commission allow PG&E to hire one independent firm or auditor to perform one audit, which will cover the scope required under both PG&E’s 2017 GRC decision and the Rule 20 OIR proceeding. This approach is the most efficient and effective use of expenditures recoverable from customers and will avoid the duplication of efforts by PG&E and the Commission. Further, the approach will prevent the inefficient use of time for two separate sets of auditors to be selected, engaged, and become familiar with the Rule 20A program.

^{3/} Rule 20 OIR at p. 18.

^{4/} *Id.*

III. FUNDING ESTIMATE PROPOSAL

At this time, PG&E and Hayward have not been able to secure a funding estimate since both parties are working on a list of potential firms for outreach.

PG&E and Hayward recommend that the Commission set a not to exceed amount of \$1 million for the total cost of the audit.

IV. PROPOSED NEXT STEPS

A. Auditor Selection Process

PG&E and Hayward recommend that the Commission allow both parties to continue to work together to determine a list of recommended independent firms. PG&E and Hayward plan to each put forth three options, for a total of six options, of recommended independent firms.

The criteria that will be considered in identifying these firms are:

- Previous experience in utility auditing;
- Capacity to handle an audit of the proposed scope in the allotted time; and
- Certified diverse supplier, which are firms that have certification as women; minority; lesbian, gay, bisexual, and transgender; and disabled veteran-owned;

Once the list is compiled, both parties will solicit and review proposals from the recommended firms. PG&E and Hayward expect to reach consensus on the independent firm to be selected to perform the audit.

Once a firm is selected, PG&E and Hayward propose a joint meeting be held with the auditor, PG&E, Commission Staff, and Hayward to discuss the scope of the audit in detail. Following the initial meeting, any questions which arise regarding the scope of the audit will be presented by the auditor jointly to PG&E, Commission Staff, and Hayward. Once a draft audit report is completed, the draft will be simultaneously circulated to PG&E, Commission Staff, and Hayward. A second joint meeting will then be scheduled with the auditor, PG&E, Commission Staff, and Hayward for comment and discussion of any further work to be addressed prior to finalizing the audit report.

B. Funding Source for the Audit

Ordering Paragraph 9 of D. 17-05-013 requires that PG&E pay for the audit “with part of its 2017 authorized Rule 20A budget.”^{5/} In the proposed Rule 20A balancing account, required by Ordering Paragraph 10, PG&E has included a provision for a debit amount equal to the costs of the audit.^{6/} Although the Rule 20A budget is considered capital expenditures rather than expenses, the balancing account will track the Rule 20A program costs on a revenue requirement basis, thus allowing the audit costs to be covered by the Rule 20A related revenue requirement. However, as noted above, the parties expect the audit to extend beyond the end of 2017, and since the Rule 20A balancing account is a one-way account with a fixed revenue requirement, additional expenses have the potential to crowd out capital expenditures. PG&E will keep the Commission informed of the progress of the audit and any effect on capital spending, and will request modification to the Rule 20A balancing account procedures if necessary.

V. CONCLUSION

PG&E and Hayward respectfully request that the Commission accept the Joint Proposal and additional recommended steps. In addition, PG&E and Hayward thank Commission Staff for its facilitation of the meet and confer held on July 6, 2017 and look forward to continuing to work collaboratively with the Commission Staff throughout the process of the Rule 20A audit.

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^{5/} D.17-05-013 at p. 249, Ordering Paragraph 9.

^{6/} See Advice 5083-E filed on June 12, 2017.

Respectfully Submitted on Behalf of Pacific Gas and
Electric Company and the City of Hayward,

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Dated: July 10, 2017

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

ATTACHMENT A

PG&E AND HAYWARD'S JOINT PROPOSAL OF ISSUES TO BE ADDRESSED IN THE RULE 20A AUDIT ORDERED IN D.17-05-013

The scope of the audit shall include the following objectives:

- 1. Ensure PG&E has fully accounted for annual Rule 20A budgeted amounts**
 - a. Budgeting
 - i. What was PG&E's budgeting process for Rule 20A adopted amounts?
 - ii. What were the Rule 20A initial budget amounts?
 - b. Spending
 - i. What was PG&E's annual spend?
 - ii. What is the breakdown of the annual program spending (labor, materials, overhead, etc.)?
 - c. Re-prioritization
 - i. Were Rule 20A budgeted amounts re-prioritized?
 - ii. What were the budget amounts that resulted from re-prioritization, i.e. budget increases or decreases, throughout the year?
 - iii. What factors that led to re-prioritization of the budgeted amounts?
- 2. Ensure that localities will receive the full benefit of Rule 20A funds**
 - a. Allocations to Governmental Agencies
 - i. What is the process of allocating work credits to governmental agencies?
 - ii. What is the amount of work credits allocated to each governmental agency annually?
 - iii. What is the end of year ledger balance of governmental agencies?
 - iv. How does PG&E communicate work credits available to governmental agencies?
 - b. Work Credit Usage by Governmental Agencies
 - i. What governmental agencies have not used work credit allocations and do not have any plans for an underground project?
 - ii. What governmental agencies have large accumulations of work credits?
 - iii. What governmental agencies are over-borrowed?
 - iv. What governmental agencies would like to do an undergrounding project, but have not built up enough work credits?
 - c. Review of projects initiated, but not completed
 - i. How many projects have been initiated, but not completed?
 - ii. Why have these projects not been completed?

- d. Project Completion
 - i. What is the process when a project is completed?
 - ii. How are the work credits applied to the ledger?
- 3. Assess progress in implementing steps PG&E has taken to increase its capability to perform Rule 20A conversions**
 - a. Assessment of the following:
 - i. Instituting a single contract to increase project efficiency with civil design and construction phases
 - ii. Establishing a cross-functional team to increase program understanding and share lessons learned to mitigate potential future risk
 - iii. Dedicating four full time employees to focus on customer requirements
 - iv. Establishing a single contractor to develop the service lateral books and perform service lateral work thereby increasing project efficiencies
 - v. Revising PG&E's General Conditions Agreement to facilitate the abilities of governmental agencies to get projects into the queue
- 4. Assess PG&E processes to verify eligibility of Rule 20A projects**

What is the process for governmental agencies to initiate project?

 - a. What criteria does PG&E use to determine the eligibility of a project?
 - b. How does PG&E ensure tariff requirements are met?
 - c. What factors would make a project not eligible for Rule 20A funds?
 - d. Are there instances that would make an eligible project change to be ineligible for Rule 20A funds? If so, what is the cause?
- 5. Verify the reliability of Rule 20A project cost estimates (Random sampling of projects for last 10 years, 2007-2016)**
 - a. Review of PG&E's final project cost with approved design cost estimates
 - b. Identify and quantify factors that contribute to cost variances