

February __, 2012

Paul Clanon
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: PG&E's 2014 General Rate Case

Dear Mr. Clanon:

This letter concerns Pacific Gas and Electric Company's 2014 General Rate Case (GRC). Specifically, this letter contains a proposal to introduce into our GRC a technical review of key public safety components of our testimony.

PG&E offers this proposal in light of the Commission's initiative to introduce qualitative reviews of public safety into ratemaking proceedings. PG&E appreciated the opportunity to participate in the Commission's January 11 workshop examining this topic. PG&E understands that the Commission may undertake further proceedings on this topic.

As PG&E mentioned at the January 11 workshop, PG&E is scheduled to submit the Notice of Intent (NOI) for its next GRC in early July of this year. The formal application is to follow in December. This GRC will be for the test year 2014 and attrition years 2015 and 2016. Given the timing of PG&E's submittal, PG&E likely will have submitted its 2014 GRC prior to the conclusion of whatever proceedings may issue in follow-up to the January 11 workshop.

Therefore, PG&E offers this proposal to guide its 2014 GRC in order to address many of the key concepts addressed in the January 11 workshop and the straw proposal circulated by CPUC staff in advance of the workshop. PG&E's proposal consists of the following four elements:

1. **The CPUC Would Undertake Independent Technical Reviews:**
Using the NOI submission, the Consumer Protection and Safety Division would hire one or more third parties to undertake technical reviews of the key public safety issues raised or addressed in the testimony of PG&E's (i) gas operations, and (ii) electric operations. A sample scope of work for the third-party(ies) is set forth in an appendix to this letter. The third-party(ies) undertaking these reviews would be

made available to appear during evidentiary hearings, upon request by any party.

2. **PG&E Would Pay for the Costs of the Reviews:** PG&E would reimburse the Commission for all reasonable costs charged to the CPUC by the third-parties for the technical reviews. PG&E would not seek ratepayer recovery of such costs.
3. **Response to the Reviews:** PG&E would include testimony responding to the technical reviews either as part of the application or later in the case, as described below. PG&E's responsive testimony may include a revised revenue requirement forecast that would respond to specific recommendations in the technical reviews. Other parties would also be allowed an opportunity to respond to the technical reviews.
4. **Timing:** The technical reviews would be conducted concurrent with DRA's evaluation of the NOI. If the technical reviews could be completed by late September (i.e., approximately three months after PG&E's target date for tendering the NOI), PG&E would propose to provide its responsive testimony with the December application. Alternatively, PG&E would provide its responsive testimony after the submittal of the application, in which case the Commission may consider phasing the evaluation of the responsive testimony.

PG&E believes that this proposal would achieve several key goals. First, and most importantly, it would address the Commission's desire for qualitative assessments of the safety components of utility forecasts.

Second, by enlisting the help of third-parties, the Commission would be able to supplement its technical resources, a need articulated by several Commission representatives at the January 11 workshop.

Third, PG&E's offer to pay for the services of these third-parties will help to address the Commission's current budget pressures.

Fourth, the use of the time between NOI and application for the technical review should minimize any delays to a timely decision for a revised revenue requirement. To the extent that these additional efforts impacted the overall case schedule, PG&E would seek, and would ask that the Commission issue, an order that any revised revenue requirement would become effective January 1, 2014, even if a Commission decision is issued subsequent to that date.

PG&E believes that the introduction of this technical review is consistent with the intent and spirit of the Rate Case Plan, particularly in light of the Commission's initiative to address safety in ratemaking proceedings.

PG&E hopes that you also see merit in this proposal. If you have any questions, please feel free to contact me at 973-3889. Alternatively, please feel free to contact our GRC director Shelly Sharp (973-2636) or our GRC attorney Steve Frank (973-6976).

We look forward to hearing from you regarding how best to proceed.

Sincerely yours,

Tom Bottorff

cc: CPUC President Peevey
Commissioner Ferron
Commissioner Florio
Commissioner Sandoval
Commissioner Simon
Frank Lindh, CPUC General Counsel

Service List for PG&E's 2011 GRC (A.09-12-020)

Brian Cherry, PG&E
Shelly Sharp, PG&E
Steven Frank, PG&E

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DRAFT SCOPE OF WORK

I. PURPOSE OF TECHNICAL REVIEW

- Vendor shall evaluate the public safety implications of PG&E's planned activities in electric and gas distribution operations as articulated in PG&E's 2014 GRC filing. Specifically, Vendor shall evaluate PG&E's planned activities relative to (i) prevailing industry standards and (ii) industry-wide operational and technology developments and "best practices" expected for 2014-2016.
- To achieve the above objective, Vendor shall engage in some or all of the following activities:
 - Vendor shall establish baselines of industry standards and current practices for operations and technology against which to evaluate PG&E.
 - Vendor shall evaluate the current and projected state of PG&E's assets and operations.
 - Vendor shall evaluate the appropriateness of PG&E's safety goals relative to industry practices and trends.
 - Vendor shall evaluate whether PG&E's organizational support structure is consistent with industry practices and reasonably designed to achieve appropriate safety goals.
 - Vendor shall evaluate whether PG&E's QA/QC practices, statutory and regulatory compliance, and training support are consistent with industry practices and reasonably support appropriate safety goals.
- Vendor is not expected to engage in a quantitative review of the costs forecasted with these activities, nor to review the reasonableness of such cost forecasts. (The Division of Ratepayer Advocates and other intervenors are expected to perform such quantitative reviews at a later stage during the proceeding.)

II. SCOPE OF ACTIVITIES

- Vendor shall review PG&E's testimony and workpapers submitted in support of its 2014 GRC Notice of Intent (NOI).
- Vendor shall gather industry data and perform sufficient analyses of industry practices and trends to form a reasonable basis for comparison between PG&E's operational and technology practices and industry standards, practices and trends.
- Vendor shall arrange and conduct interviews with PG&E's witnesses supporting such testimony or other PG&E personnel, as appropriate.

- Vendor shall submit data requests to PG&E and review PG&E's responses, as appropriate.
- Vendor shall prepare a final report summarizing its conclusions and recommendations in the above-described areas.
- Vendor shall be prepared, and should make one or more qualified representatives available, to provide testimony during evidentiary hearings. Such hearings are expected to take place at some time during 2013.

III. TIMING

- Vendor shall provide its final report within three (3) months of receiving PG&E's testimony supporting its NOI.
- Vendor shall provide a draft of its final report to PG&E and CPSD within two (2) months of receiving PG&E's testimony supporting its NOI.
- To the extent that PG&E provides comments to Vendor (with a copy to CPSD) on the draft report within two (2) weeks of receiving such draft report, Vendor shall take such comments into account in the preparation of its final report.

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