

DIVISION OF RATEPAYER ADVOCATES
A.13-02-023 Energy Resource Recovery Acct 2012-Compliance
DRA Response to PG&E DR #2 (1st Partial Response)

Recipient	Division of Ratepayer Advocates		
PG&E Data Request No.:	PGE_DRA-002		
PG&E File Name:	EnerResourceRecoveryAcct2012-Compliance_DR_PGE_DRA-002/Q8		
Request Date:	September 6, 2013	PG&E Witness:	Redacted
Due Date:	September 13, 2013	DRA Witness:	Grant C. Novack

Questions 2.8:

Chapter 6 – Diablo Canyon Seismic Studies Balancing Account (Grant Novack)

- 2.8. At page 6-4, lines 15-16, DRA states that “DRA concluded that there should have been a reasonable expectation the CCC may deny such authorization”, referring to the authorization to conduct the 3-D HESS.
- a. What is the basis for DRA’s conclusion that “there should have been a reasonable expectation the CCC may deny such authorization”?
 - b. Is DRA’s conclusion based simply on the fact that the CCC had discretion to deny the permit or is DRA aware of specific facts or circumstances that should have led PG&E to reasonably expect that the CCC might deny the permit application?
 - c. If DRA is aware of such specific facts or circumstances, please describe them.

DRA Responses

- a. What is the basis for DRA’s conclusion that “there should have been a reasonable expectation the CCC may deny such authorization”?

On page 7-2 of its testimony, PG&E stated (emphasis added), “The CSLC [California State Lands Commission] authorized PG&E to perform the studies in August 2012, and PG&E had a reasonable expectation that the CCC [California Coastal Commission] also would authorize PG&E to conduct the HESS.” However, PG&E failed to support its’ proposition that the CSLC authorization caused PG&E to have a “reasonable expectation” the CCC would authorize PG&E to conduct the HESS. DRA based its conclusion that “there should have been a reasonable expectation the CCC may deny such authorization” based on the unfavorable trajectory of the permitting process. PG&E provided no evidence of a nexus between CSLC and CCC decisions, and PG&E originally proposed to conduct 3D high-energy seismic surveys in four offshore areas. However, as the Independent Peer Review Panel (IPRP) and environmental permitting process progressed, PG&E ultimately reduced the proposed survey areas to only one offshore area, and the CCC even denied a permit for that one proposed area.

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- b. Is DRA's conclusion based simply on the fact that the CCC had discretion to deny the permit or is DRA aware of specific facts or circumstances that should have led PG&E to reasonably expect that the CCC might deny the permit application?

DRA's conclusion is not based simply on the fact that the CCC had discretion to deny the permit. DRA concluded that the unfavorable trajectory of the permitting process should have led PG&E reasonably to expect that the CCC might deny the permit application. PG&E originally proposed to conduct 3D high-energy seismic surveys in four offshore areas. However, as the Independent Peer Review Panel (IPRP) and environmental permitting process progressed, PG&E ultimately reduced the proposed survey areas to only one offshore area. Considering the unfavorable trajectory of the permitting process, a prudent manager would not have a "reasonable expectation" that the CCC would authorize PG&E to conduct the offshore HESS. Ultimately, the CCC did deny authorization.

- c. If DRA is aware of such specific facts or circumstances, please describe them.

PG&E originally proposed to conduct 3D high-energy seismic surveys in four offshore areas. However, as the Independent Peer Review Panel (IPRP) and environmental permitting process progressed, PG&E ultimately reduced the proposed survey areas to only one offshore area, without any change to the cost. Spending funds prior to the CCC completing its review of PG&E's proposal was not prudent.

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Questions 2.9:

Chapter 6 – Diablo Canyon Seismic Studies Balancing Account (Grant Novack)

2.9. At page 6-4, lines 16-18, DRA states that “PG&E should have waited until the CCC granted the permit to proceed before incurring the \$3.76 million costs for survey vessel contracting and NQA.” DRA further asserts at page 6-4, lines 20-23, that “PG&E’s expenditures in the amount of \$3.76 million to prepare for seismic studies that were contingent on obtaining the CDP were not incurred in the ordinary and prudent course of business.”

- a. Is it DRA’s position that it is never prudent for a utility to incur any project implementation costs until such time as all permits are obtained from all agencies of jurisdiction?
- b. In the alternative, is it DRA’s position that there might be circumstances when it would be prudent to incur certain project implementation costs in advance of receiving all required permits?
- c. If the latter, in what types of circumstances would it be prudent to incur certain project implementation costs in advance of receiving all required permits and what types of costs would it be prudent to incur?

DRA Responses

- a. Is it DRA’s position that it is never prudent for a utility to incur any project implementation costs until such time as all permits are obtained from all agencies of jurisdiction?

No, that is not DRA’s position. With regard to the offshore HESS, DRA found that it was prudent and necessary for PG&E to incur \$2.97 million costs for permitting and to incur \$1.47 million costs for environmental monitoring and mitigation programs. However, DRA found that without PG&E first obtaining the required permit from the CCC to conduct the offshore HESS, it was not prudent and necessary for PG&E to incur \$3.76 million costs for survey vessel contracting and NQA for seismic data acquisition. DRA’s position regarding PG&E’s expenditures to prepare for seismic studies at the Diablo Canyon power plant is that, under the facts and circumstances of this matter, it was not prudent for PG&E to incur \$3.76 million costs for survey vessel contracting and NQA before first obtaining a permit from the CCC to conduct the HESS. DRA’s position regarding utilities expenditures in projects unrelated to PG&E’s application is outside of the scope of review of this ERRA proceeding, and DRA cannot speculate about the prudence of hypothetical costs that have not been subject to DRA’s review.

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- b. In the alternative, is it DRA's position that there might be circumstances when it would be prudent to incur certain project implementation costs in advance of receiving all required permits?

DRA cannot speculate about the prudence of hypothetical costs that have not been subject to DRA's review. With regard to the offshore HESS, DRA found that it was prudent and necessary for PG&E to incur \$2.97 million costs for permitting and to incur \$1.47 million costs for environmental monitoring and mitigation programs. However, DRA's position is that it was not prudent for PG&E to incur \$3.76 million other costs in advance of receiving a permit from the CCC. Incurring \$3.76 million costs for survey vessel contracting and NQA before first obtaining a permit from the CCC was not reasonable and not prudent. DRA noted that in early November 2012, PG&E paid \$2,091,946 of the \$3.76 million to one vendor about two weeks prior to the November 14, 2012 CCC hearing denying a permit and, in December 2012, PG&E paid another \$956,748 of the \$3.76 million to another vendor just after the CCC's denial of a permit.

- c. If the latter, in what types of circumstances would it be prudent to incur certain project implementation costs in advance of receiving all required permits and what types of costs would it be prudent to incur?

DRA cannot speculate about the prudence of hypothetical costs that have not been subject to DRA's review. With regard to the offshore HESS, DRA found that it was prudent and necessary for PG&E to incur \$2.97 million costs for permitting and to incur \$1.47 million costs for environmental monitoring and mitigation programs.