

**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, 2014.

U 39 M

And Related Matter.

Application 12-11-009
(Filed November 15, 2012)

Investigation 13-03-007

**REPLY COMMENTS OF SETTLING PARTIES TO
OPPOSITION OF THE ENERGY PRODUCERS AND
USERS COALITION TO THE PROPOSED PARTIAL
SETTLEMENT AGREEMENT**

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Dated: October 14, 2013

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On behalf of the Marin Energy Authority (MEA), The Utility Reform Network (TURN), and itself, Pacific Gas and Electric Company (PG&E or the Company) hereby replies to the October 7, 2013 "*Opposition of the Energy Producers and Users Coalition to Proposed Partial Settlement Agreement Between and Among Pacific Gas and Electric Company (U-39M), The Utility Reform Network, and the Marin Energy Authority*" pursuant to Rule 12.2 of the Commission's Rules of Practice and Procedure (Rules). As explained below, the Energy Producers and Users Coalition (EPUC) is incorrect that Phase 1 of the General Rate Case (GRC) is not the proper venue to consider the Settlement Agreement. EPUC's venue argument is also untimely.

I. BACKGROUND

On September 6, 2013, MEA, TURN and PG&E (collectively the Parties) filed a motion for approval of a Settlement Agreement to resolve an issue raised in this proceeding regarding certain labor-related costs included in the GRC revenue requirement associated with customer programs that are collected through the Public Purpose Programs (PPP) charge. The Parties agreed to a method to reallocate a portion of administrative and general (A&G) expenses from distribution functional revenue requirements to customer programs. This change would allow

customer program revenues collected as part of the PPP charge to more directly reflect the costs of providing the services included in this category. Costs associated with certain employee benefits and payroll taxes that are currently allocated to distribution and recovered in the GRC revenue requirement would be reallocated to customer programs and the balancing accounts attributable to the customer programs. The Parties request that any necessary modifications or changes to rates and revenue requirements for the customer programs and balancing accounts be approved by the Commission in conjunction with this Settlement Agreement. The Settlement Agreement would result in a reduction to the GRC revenue requirement of approximately \$31,716,000, and an increase in the revenue requirements for the customer programs in an equal amount. The final amount will be determined by the final decision in this proceeding.

On October 7, 2013, EPUC filed comments opposing the Settlement Agreement. EPUC cites no substantive reason why the reallocation is inappropriate, nor does it claim that the Settlement Agreement should be denied because it is not in the public interest pursuant to Rule 12. Rather, EPUC opposes the reallocation of PPP costs in Phase 1 of the GRC, arguing instead that allocation issues should be addressed in Phase 2, where all parties interested in revenue allocation expect to engage on these issues.

II. DISCUSSION

EPUC's opposition fails for two reasons. First, EPUC is incorrect that Phase 1 of the GRC is the inappropriate venue to consider the Settlement Agreement. Second, EPUC's venue argument is untimely. Each of these reasons is discussed below.

A. EPUC is Incorrect That Phase 1 Is The Improper Venue.

As explained below, Phase 1 is the appropriate venue for the allocation of costs to functional areas and there is precedent for such determinations in Phase 1 of prior GRCs.

1. Allocation of Costs to Functional Areas – as Opposed to Customer Classes – is Properly a Phase 1 Issue.

The Parties disagree with EPUC's characterization that the Settlement Agreement is an "allocation of revenues" that is "explicitly, and appropriately, within the scope of Phase 2 of

PG&E's 2014 General Rate Case."^{1/} EPUC seems to be categorizing the Parties' proposal as an allocation of revenues to customer classes, which is within the scope of Phase 2, as opposed to an allocation of costs to functional revenue requirements, which is clearly within the scope of Phase 1. To be clear, in GRC Phase 2, the Commission approves proposals for allocation of revenue and rate design for the functional components of rates. However, Phase 2 is not the appropriate forum to consider what costs are included in each function.

Phase 1 of the GRC not only determines the total GRC revenue requirement, it also determines the revenue requirement on an unbundled functional basis, for example, gas distribution vs. electric distribution and electric distribution vs. electric generation.

In the process of developing the revenue requirements by function, certain residual costs (e.g., administrative and general, common plant, and general plant) must be allocated between departments and between functions. The Settlement Agreement clearly deals with the allocation of certain of these residual costs, specifically employee benefits (medical, vision, dental, employee healthcare contributions, group life insurance, short-term incentive payments, 401 k expenses, relocation expenses, short-term disability, tuition reimbursement) and payroll taxes, to functions.

As explained in PG&E's rebuttal testimony,^{2/} ever since Phase 1 of PG&E's 2003 GRC, the employee benefits and payroll taxes associated with the customer programs have been included in the distribution function instead of the PPP or other functional category where the costs of customer programs otherwise exist. The Settlement Agreement simply allows the employee benefits costs and payroll taxes to be included in the function that includes the program direct labor. This clearly is an issue of cost functionalization that is a GRC Phase 1 issue, and not an issue of revenue allocation to customer class that is the subject of GRC Phase 2.

^{1/} EPUC Opposition, p. 2.

^{2/} Exhibit 58 (PG&E-21), p. 6-30.

2. There is Precedent for Such Reallocations in Phase 1 of Prior GRCs.

It is a common occurrence to remove costs from a GRC and into another proceeding, such as being done in the Settlement Agreement. For example, in PG&E's current GRC, DRA, TURN and PG&E have agreed to remove certain customer care costs for consideration in the Commission proceeding dealing with Peak Time Rebate.^{3/} Similarly, in PG&E's last GRC, the settling parties agreed to remove Market Redesign and Technology Upgrade (MRTU) related costs for recovery instead in the Energy Resource Recovery Account (ERRA) or other proceedings.^{4/}

Prior Phase 1 decisions have also addressed allocation issues among functional areas similar to the issue at hand. For instance, in Phase 1 of Southern California Edison Company's 2006 GRC, the Commission addressed the proper allocation of generation-related A&G costs between the functional areas of distribution and generation, concluding that SCE should seek recovery of generation related A&G expense and general plant overheads from [Direct Access] customers in its ERRA proceedings."^{5/} Also, in PG&E's last GRC, the settling parties agreed to an allocation of electric research development and demonstration costs between the functional areas of generation and distribution.^{6/} Finally, Phase 1 is the appropriate proceeding in order to determine the amount of PG&E's revenue requirement; Phase 2 would only address the allocation of the approved revenue requirement.

B. EPUC's Venue Argument Is Also Untimely.

EPUC and all other parties were on notice that the allocation of certain costs among functional revenue requirements was an issue in Phase 1. In its December 17, 2012 protest,

^{3/} Exhibit 374 (Joint Comparison Exhibit), p. 2-166 and A-16.

^{4/} D.11-05-018, mimeo, p. 1-15 (Settlement Provision 3.9(c)). While the Parties acknowledge that settlements such as PG&E's 2011 GRC settlement are non-precedential, the Commission's approval of this provision is relevant here to the matter of venue.

^{5/} D.06-05-016, *mimeo*, pp. 57-58.

^{6/} D.11-05-018, *mimeo*, p. 1-5 (Settlement Provision 3.2.2.(c)).

MEA and other parties described this allocation issue and explicitly set forth -- as one of the issues for consideration – the following:

Is PG&E’s allocation of PPP Administration costs to the distribution function inappropriate from policy or legal perspectives? If so, what is a reasonable allocation and/or assignment of these costs?”^{7/}

In the January 22, 2013 *Assigned Commissioner’s Ruling and Scoping Memo*, the Commission identified one issue (related to Competition Transition Charges) that was not properly within the scope of PG&E’s 2014 Phase 1 GRC, and expressly stated that the other “[i]ssues identified by parties in protests and [prehearing conference] statements fall within the overall scope.”^{8/} EPUC’s venue concern is thus untimely.

III. CONCLUSION

For the above reasons, EPUC’s opposition to the Settlement Agreement should be disregarded and the Commission should approve the Settlement Agreement in its entirety.

Counsel from MEA and TURN have authorized PG&E to submit this reply on their behalf.

Respectfully Submitted,

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By: _____ /s/

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^{7/} *Protest of Marin Energy Authority, Alliance for Retail Energy Markets and Direct Access Customer Coalition to General Rate Case Application of Pacific Gas and Electric Company*, p. 6; see also, *id.*, at 3-4.

^{8/} *Assigned Commissioner’s Ruling and Scoping Memo* (January 22, 2013), p. 4.