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)	Application 12-11-009 (Filed November 15, 2012)
And Related Matter.	Investigation 13-03-007 (Filed March 21, 2013)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rule 8.4 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) hereby gives notice of the following *ex parte* communication.

On November 20, 2013 at approximately 11:00 a.m., Hayley Goodson and Robert Finkelstein of TURN met with Marcelo Poirier, advisor to Commissioner Florio, at the CPUC offices in San Francisco. No handouts were used in the meeting. The meeting lasted approximately one hour.

Mr. Finkelstein first discussed general concerns regarding PG&E's reliance on safety as a justification for its requested revenue requirement increase, given the utility's inadequate cost-benefit analysis of such safety spending. Even though it can be challenging to quantify benefits from safety-related measures, such a quantification is still necessary in order to permit the Commission to determine the reasonableness of the proposed spending. And PG&E must not be permitted to equate a call for a cost-benefit showing as an attempt to require each safety program to be "cost-effective." TURN is not seeking to limit funding to only those projects with quantified benefits exceeding the forecasted costs; rather, TURN is merely pointing out that in order to compare competing proposals for safety spending, the Commission needs to know the benefits from each proposal, even if the quantifiable benefits total to an amount less than the forecasted costs.

Mr. Finkelstein then discussed PG&E's showing in support of its requested gas distribution revenue requirement, where the utility had liberally applied the "safety" label but quantified safety benefits for very few of the proposed projects. He explained that evidence showing that three utilities each pursued a different strategy and had achieved top quartile performance did not warrant authorizing PG&E to implement all three strategies simultaneously, yet PG&E's funding request took such an approach. He also noted that TURN's proposed expansion to gas pipeline replacement focused on the pre-1973 Aldyl-A pipes that have proven more problematic and, in doing so, would achieve a more appropriate balance between the need for increased replacement activities and the upward pressure those activities have on rates charged to PG&E's customers.

Mr. Finkelstein discussed PG&E's proposed spending for Information Technology (IT) projects, noting that the approximately 70% increase sought in this GRC follows a requested 70% increase in the previous GRC. He also compared the quality of the benefit forecasting effort when PG&E's shareholders' interests were directly implicated, as was the case with Business Transformation in previous GRCs, with the near absence of any meaningful benefit forecasts for the IT projects included in this GRC.

Ms. Goodson then discussed revenue requirement issues that do not directly impact the utility's ability to provide safe and reliable service, such as the ratemaking treatment of refueling outage costs for Diablo Canyon and customer deposits. She explained that TURN's flexible "pay as you go" approach to refueling outages would save ratepayers money over time, compared to PG&E's proposal to normalize the costs of the projected second outage in 2014 across the rate case cycle, by avoiding "prepayment" costs in rate base and attrition increases for costs included in the test year revenue requirement. She mentioned that this approach has been approved by the Commission for SCE (for SONGS outages), as well as for PG&E in the past.[1] As for customer deposits, Ms. Goodson explained that the Commission has adopted TURN's approach of treating customer deposits as an offset to rate base in the past four SCE GRCs. She also discussed the treatment of customer deposits in the GRC decisions pertaining to PG&E, SDG&E, and SoCalGas over the past decade, all of which were either settled or did not address this issue.

Mr. Finkelstein explained that depreciation expense is another area where the adopted outcome in this GRC will not impact the utility's ability to provide safe and reliable service. He noted that the utility was seeking a $500 million annual increase tied to its proposed changes to depreciation parameters alone, and had asserted in its brief that the Commission needed to prepare for a 15-fold increase in the underlying costs of removal over the next thirty years. He pointed out that this represents annual increases of approximately 9.5%, a rate that far exceeds any reasonable prediction of inflation or other

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[1] As a follow-up on the ratemaking procedure required to implement TURN's recommended treatment of refueling outage expenses, Ms. Goodson provided a further explanation of TURN's recommendation in an e-mail message from Ms. Goodson to Mr. Poirier on November 25, 2013. A copy of that e-mail is attached to this notice.

cost increases for that period. Mr. Finkelstein stated that the utility's request needs to be rejected in this case, and PG&E should be directed to present in its next GRC a better showing of the specific factors driving removal costs in each of its major plant accounts.

Ms. Goodson then addressed post-test year ratemaking, noting that attrition year increases had never been intended as a guarantee that the utility would be made whole for cost changes that occur between test years. She explained that TURN's proposal here is consistent with the approach the Commission has used most often in past GRCs, and more appropriately balances the utility desire for revenue requirement increases with the need to keep rates at reasonable levels for PG&E's customers.

Ms. Goodson turned to other Diablo Canyon issues. She discussed TURN's recommended adjustments to PG&E's dramatic and unsupported increases for Expense Projects, as well as its bloated staffing forecasts, which unreasonably assume that new hires are unproductive.

Ms. Goodson addressed customer care issues, and specifically the increased costs PG&E predicted for overcoming deficiencies with Smart Meters. Despite the promises of cost savings from the shift to Smart Meters at the time the utility sought approval of that very expensive undertaking, in this GRC PG&E is seeking additional funds for the manual processing of interval data, which TURN opposes. Ms. Goodson also mentioned other ways in which Smart Meters are driving up costs according to PG&E, such as through increased call center staffing tied to an expected increase in customer confusion and inquiries tied to their Smart Meters.

Mr. Finkelstein addressed PG&E's proposed spending for O&M and capital expenditures for its hydroelectric generation operations. For O&M, he explained that

PG&E's approach relied on a barrage of specific proposals so numerous that it was virtually impossible for any person to review each one. Therefore TURN relied on an approach it had used and the Commission had deemed reasonable in the past, and on that basis proposed an overall O&M spending level that represents a 10% increase in real terms, but substantially below the 31% increase PG&E proposed. TURN's capital spending recommendations focused on the timing of FERC relicensing, as well as disallowances proposed for three projects to limit the amounts PG&E ratepayers are charged for the costs of PG&E's failed forays into the reservoir draining or quarry development business. Mr. Finkelstein also explained that PG&E had made some effort to prioritize a large number of proposed capital projects, but then had ignored the results of that effort and instead sought funding for all of the projects. Given that the scoring used for the prioritization ranged from 0 to 2000, and TURN's proposed funding reduction focused primarily on projects with scores lower than 20, the Commission should adopt TURN's approach as the more reasonable one.

To obtain a copy of this notice, please contact Jessica German at (415) 929-8876 ex. 300.

November 25, 2013

THE UTILITY REFORM NETWORK

By: _______/s/_____________

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ATTACHMENT

TURN 11/25/13 E-MAIL COMMUNICATION
TO MARCEL POIRIER

Subject: PG&E TY 2014 GRC: fo llow up from our 11/20/13 mee ng
From: Hayley Goodson <hayley@turn.org>
Date: 11/25/2013 3:14 PM
To: "'Poirier, Marcelo'" <marcelo.poirier@cpuc.ca.gov>
CC: Bob Finkelstein <b nkelstein@turn.org>

Hi, Marcelo.

During our mee ng last week to discuss the PG&E GRC, we said we would get back to you regarding your ques on about the underlying ratemaking necessary to implement TURN's recommenda on for Diablo Canyon refueling outage costs. We are doing that with this email.

TURN addressed the issue in the prepared tes mony of Bill Marcus of JBS Energy (Ex. 116, p. 47), at page 218 of our opening brief, and again at pages 107 108 of our reply brief. As we explained in our opening brief:

> Under TURN's preferred ratemaking approach, the Commission would set a single cost per outage, place one outage into base rates, and allow PG&E to collect an addi onal outage cost in any year where two outages actually occur. [Cita on to TURN tes mony.] Prac cally speaking, this means that PG&E would be permi ed to collect for two outages in 2014. In 2015 and 2016, the second outage cost would not be included in base rates. In the next GRC, PG&E would be able to collect the second outage cost in whatever year that outage occurs.

Because PG&E is forecas ng two refueling outages in the 2014 test year, its revenue requirement should re ect the cost of two o utages. In the u lity's advice le er for Annual Electric True up Filing for rates on January 1, 2015, PG&E would need to remove the costs of one refueling outage to re ect the expecta on that there will be only one refueling outage in 2015.

This ratemaking mechanism is consistent with the approach the Commission approved for SCE and SONGS in D.06 05 016, and rea rmed in the most recent SCE GRC (D.12 11 051, p. 34). It's also consistent with the a pproach re ected in the PG&E 2007 GRC se lement that an cipated a second refueling outage at Diablo Canyon in 2009. (All of this is as set forth in our opening brief.)

If this does not answer your ques ons, please let us know and we'll try again.

Thanks again for mee ng with us.

Hayley

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