

**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 (U39M).

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

And Related Matter

Investigation 13-03-007

**OPENING COMMENTS OF
THE COALITION OF CALIFORNIA UTILITY EMPLOYEES ON THE
PROPOSED DECISION AUTHORIZING PACIFIC GAS & ELECTRIC
COMPANY'S GENERAL RATE CASE REVENUE REQUIREMENT FOR
2014-2016**

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SUMMARY OF RECOMMENDATIONS

	CUE's Recommendation	Additional 2014 Revenue Requirement (millions)
Gas Distribution/Leak Survey and Repair	The Commission should approve a 3-year leak survey cycle.	\$24.3
Gas Distribution Capital and Investment Planning	The Commission should approve PG&E's requested amount for Aldyl-A pipe replacement and steel pipe replacement.	\$3.08
Gas Distribution/Gas Field Services and Response	The Commission should approve funding to hire 80 new GSRs in 2014.	\$18.26
Electric Distribution Maintenance (Underground Switch Replacement)	The Commission should approve replacing 500 switches per year of pre-1981 switches.	\$1.13
Electric Distribution/Pole Replacement	The Commission should require PG&E to replace an additional 19,000 poles per year.	\$19.7
Electric Distribution/Substation Asset Strategy	The Commission should require PG&E to double its proposed breaker replacement rate.	\$0.9
Electric Distribution Reliability (Overhead Conductor)	The Commission should require PG&E to double its proposed overhead conductor replacement rate.	\$3.0
Electric Distribution Reliability (Fuses)	The Commission should require PG&E to double its overhead fuse installation program.	\$0.3
Electric Distribution Reliability (Reclosers)	The Commission should require PG&E to double its recloser installation program.	\$1.18
Electric Distribution Reliability (FLISR)	The Commission should require PG&E to expand its FLISR program by 50%, up to 300 circuits per year.	\$4.94
Electric Distribution Reliability (Targeted Circuit Improvements)	The Commission should require PG&E to expand its targeted circuit program by 50%, up to 120 circuits per year.	\$1.2
Electric Distribution Reliability (Underground Protection Program)	The Commission should require PG&E to expand its underground protection program by 50%, to a total of 100 fuses and interrupters.	\$0.1
Human Resources (Total Compensation Study)	The Commission should reject 5% market variance cap on total compensation.	
Administrative and General Expenses/HR (PG&E Academy)	The Commission should approve hiring 10 FTE Staff for PG&E Academy.	\$3.2
	TOTAL	\$81.29

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The Coalition of California Utility Employees (“CUE”) respectfully submits these Opening Comments on the Proposed Decision (“PD”) pursuant to Rule 14.3 of the Rules of Practice and Procedure. Sections are numbered based on the PD’s Table of Contents.

1. SUMMARY AND INTRODUCTION

In November 2013, the Commission issued an Order Instituting Rulemaking (“OIR”) to Develop a Risk-Based Decision-Making Framework to Evaluate Safety and Reliability Improvements and Revise the General Rate Case Plan for Energy Utilities.¹ The Commission issued the OIR because it recognized that the current rate case structure fails to prioritize safety and reliability and is not attuned to

¹ R.13-11-006.

current needs and realities.² Indeed, the OIR explicitly stated its purpose was to **“prioritize safety and reliability issues in GRC applications of energy utilities.”**³ Ultimately, the Commission’s goal is to:

[R]evis[e] general rate cases to better facilitate utility revenue requirements showings based on a risk-informed decision-making processes that will lead to safe and reliable service levels that are in compliance with state and federal guidelines, rational, well-informed, and comparable to best industry practices.⁴

SB 705, codified as Public Utilities Code Sections 961 and 963, articulated the Legislature’s policy on gas safety considerations at the Commission:

It is the policy of the state that the commission and each gas corporation **place safety of the public and gas corporation employees as the top priority.** The commission shall take all reasonable and appropriate actions necessary to carry out the safety priority policy of this paragraph consistent with the principle of just and reasonable cost-based rates.⁵

Unfortunately, the PD has not gotten the message. Instead, it reflects the usual GRC shortcomings which again fail to prioritize safety and reliability. Both PG&E and CUE presented evidence identifying substantial safety and reliability risks which cry out for additional investment. But the PD repeatedly ignores this evidence and approves forecasts that will leave PG&E with a rapidly aging infrastructure and failure to meet industry best practices.

For example, at the PD’s adopted replacement rate for overhead conductor, it would take **1,800 years** to replace PG&E’s current stock. Furthermore, the PD

² *Id.*, OIR, p. 6.

³ *Id.*, p. 1.

⁴ *Id.*, p. 7.

⁵ Pub. Util. Code § 963(b)(3) (emphasis added).

rejects repeated attempts to strengthen and enhance PG&E's gas pipeline safety. Where PG&E wants to replace dangerous gas pipe, the PD cuts funding and keeps the replacement rate for pre-1940's steel at status quo. Where PG&E wants to hire enough Gas Service Representatives so that it can respond promptly to gas odor calls, the PD rejects PG&E's attempts to provide safer service to its customers based on muddled notions of "cost efficiencies."⁶

In sum, the PD fails to move the Commission in the direction the Commission, and most every other observer, recognizes as necessary and long overdue. Instead, the PD maintains GRC status quo by ignoring strong evidence justifying spending to improve safety and reliability.

Despite the PD's disturbing failure to propose a path clearly intended by the Commission, there is a silver lining. PG&E sought a 17.5% increase in 2014 revenue requirement; the PD would grant a 6.8% increase. We proposed an 8.1% increase. For an increase of only \$81.29 million in 2014 Revenue Requirements over the PD's proposal, an additional 1.3% increase over that proposed by the PD, the Commission can come dramatically closer to achieving its safety and reliability goals. As drafted, the PD would maintain business as usual approach to GRC and continue bad policy. With the modest changes proposed here, the Commission could set itself and PG&E on a path toward distinctly better safety and reliability.

⁶ PD, p. 89.

3. GAS DISTRIBUTION

3.1 POLICY

SB 705 requires each gas corporation to develop a plan for the safe and reliable operation of its Commission-regulated gas pipeline facility pursuant to industry-best practices.⁷ PG&E has asked the Commission to approve programs which would greatly increase its system safety and meet industry best practices. However, the PD inexplicably rejects these attempts to meet SB 705's requirements. We cannot fathom why the Commission would thwart rather than encourage (or even mandate) PG&E's actions to improve gas distribution system safety. How will the Commission explain itself if some future accident occurs which could have been prevented had not the Commission refused to authorize the resources necessary to prevent it?

3.6 LEAK SURVEY AND REPAIR

PG&E asks the Commission to approve three-year leak cycles in order to meet industry best practice, as mandated by SB 705. The PD rejects this proposal and maintains a five-year leak cycle and concludes "setting GRC funding based on a five-year survey cycle does not preclude PG&E from achieving leak survey results comparable to the best industry operators."⁸ The PD bases this conclusion on TURN's analysis that Picarro, cluster surveying, and accelerated rechecks will result in same performance outcome as a three-year leak cycle.⁹ However, the PD dismisses clear evidence that a three-year survey cycle will result in a safer system.

⁷ Pub. Util. Code §§ 961(b)(1), (c), 963(b)(3).

⁸ PD, p. 77.

⁹ *Id.*, at p.76.

The PD's assertion that one-year leak survey cycle would become prohibitively expensive is a moot point.¹⁰ No party is proposing a one-year cycle, just a three-year cycle. The Commission would be thwarting PG&E's attempts to meet industry best practices by rejecting the three-year leak cycle and enhance system safety for just \$24.3 million per year. The difference in 2014 Revenue Requirement for PG&E's proposed three-year cycle and the PD's adopted five year cycle equals \$24.3 million.¹¹

There is no conceivable reason for the Commission to refuse to fund better leak detection and repair. The PD should be modified to approve this funding.

3.7 GAS FIELD SERVICES AND RESPONSE (MWC DD)

3.7.2 Gas Service Representative (GSR) Scheduling/Dispatching

PG&E recognizes it needs to improve response times to gas odor calls. PG&E forecast 40 Gas Service Representatives ("GSR") added in 2012 and 80 more GSRs in 2014 in order to meet new safety goals to investigate customer reports of gas odors consistent with gas industry best practices.¹² PG&E's goal is to improve its response time to customer reports of gas order to achieve top-quartile performance within the industry.¹³ PG&E hired 40 GSRs during 2012 to enable responses to all calls classified as "Immediate Response" within 30 minutes 75% of the time and within 60 minutes 99% of the time.¹⁴ PG&E plans to hire 80 more GSRs during

¹⁰ *Id.*, at p. 75.

¹¹ This value represents the value difference spread between MWCs HY, FI, 50, and DE.

¹² PD, p. 86.

¹³ *Id.*

¹⁴ *Id.*

2014 to enable all gas odor calls to be treated as “Immediate Response” calls.¹⁵ This new standard is expected to double the number of calls to which PG&E can respond immediately.¹⁶

However, the PD rejects funding for the 80 GSRs in 2014. The PD reasons that because customers won’t realize any benefit from the additional GSRs added in 2014 until 2015, that it is “premature to approve funding for 80 additional GSRs for this GRC cycle.”¹⁷ Preliminarily, we note that the Commission’s failure to abide by its own Rate Case Plan schedule by issuing a final decision prior to 2014 does not justify refusing to fund safe gas operations. Moreover, this reasoning fails to recognize the ratepayer benefits for the remaining years of the GRC cycle. Furthermore, though the PD also argues that PG&E neglected to “adequately reflect appropriate efficiencies in adding such a large staffing increase,”¹⁸ it ignores the added safety benefits added by hiring the additional GSRs. PG&E is actively trying to meet industry best standards and increase system safety, yet the Commission would block PG&E’s efforts. For an additional Revenue Requirement of \$18.26 million in 2014, PG&E could improve response times to gas odor calls to be consistent with gas industry best practices.¹⁹ The Commission should authorize this funding.

¹⁵ *Id.*

¹⁶ *Id.*, at pp. 86-87.

¹⁷ *Id.*, at p. 89.

¹⁸ *Id.*, at p. 88.

¹⁹ This amount is the difference between PG&E’s forecasted amount and the PD’s reduction in expense dollars, which has a dollar for dollar impact on Revenue Requirement.

3.8 GAS DISTRIBUTION CAPITAL AND INVESTMENT PLANNING

3.8.1 Gas Pipeline Replacement Program

PG&E has not been replacing gas distribution pipe fast enough to prevent service quality and safety from declining. PG&E proposes to double steel pipe replacement to 60 miles per year, and replacing plastic pipe (primarily Aldyl-A) at a similar spending level. However, the PD approves TURN's recommendations for maintaining steel pipe replacement at 27 miles per year and spending more money on Aldyl-A replacement, to achieve the same amount of leak reduction at a lower cost.²⁰ This is robbing Peter to pay Paul. Both pre-1940 steel pipe and Aldyl-A pipe must be replaced as quickly as possible.

The PD would freeze the steel pipe replacement rate at 2011 levels.²¹ At that rate, it would take 63 years to replace all pre-1940 steel pipe.²² By the time the last miles were replaced, the steel pipe would be over **130 years old**. Meanwhile, PG&E forecasts replacing 100 miles per year of Aldyl-A pipe.²³ The PD will increase spending in 2014-16 on Aldyl-A pipe replacement by almost 40 percent, which would allow replacement of 139 miles per year.²⁴ However, even at the PD's increased replacement rate, it would still take over **40 years** to replace it all.²⁵

Simply put, the PD may be right that PG&E could spend its gas pipe replacement money more efficiently, but it is wrong to suggest reduced program

²⁰ PD., at p. 97.

²¹ CUE's Reply Brief, p. 16.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*, at p. 17

spending. Even with the PD's increased replacement mileage, replacement cycles are still far too long for both pre-1940 steel and Aldyl-A pipe.²⁶ Rather than spending less money, as the PD proposes, it would be better to spend at least the same money and get a bigger safety benefit. For an additional \$3.08 million²⁷ in Revenue Requirement, the Commission could approve doubling the replacement of pre-1940's steel pipe, which would still require **15 more years** to bring the leak rate down to system average and increasing replacement of Aldyl-A pipe to 100 miles per year, which would still require **15 years** to decrease the leak rate to system average.²⁸

Again, PG&E is trying to increase its pipe replacement program in order to bring leak rates down, increase safety, and provide more reliable service. The PD ignores evidence justifying costs for safety and reliability, and asks the utility to maintain status quo in order to save \$3.08 million in 2014 Revenue Requirement. This is unjustifiable.

4. ELECTRIC DISTRIBUTION

4.1 POLICY AND INTRODUCTION

The PD seems to adopt a “run it ‘til it fails” policy for electric distribution. Either the PD adopts forecasts which result in unreasonably long life spans for electric distribution equipment or it fails to consider increased replacement rates with remarkably high benefit to cost ratios. CUE presented evidence that even with

²⁶ *Id.*

²⁷ This amount reflects the \$34.25 million in capital reductions, calculated for Revenue Requirement impact.

²⁸ PD, at p. 95.

proposed increases to replacement programs, the benefit to cost (“B/C”) ratio would result in large reliability benefits for a small amount of increased Revenue Requirement. The PD completely ignored this evidence and adopts replacement rates which are either egregiously long or do not go far enough to result in increased reliability benefits.

4.5 ELECTRIC DISTRIBUTION MAINTENANCE

4.5.7 Underground Oil Switch Replacements

PG&E requested funding to proactively replace 500 underground oil switches per year. Though the PD recognizes that “[t]here have been more than 250 failures of oil-filled switches on PG&E’s system reported for root cause analysis since 2000, many of which have been *catastrophic*,”²⁹ it only approves funding for 250 underground oil switches per year.³⁰

CUE presented evidence showing that PG&E’s proposal to replace 500 pre-1981 switches per year, starting in 2014, still results in a *40 year* replacement cycle just for those switches.³¹ In negotiating between PG&E’s requested rate of 500 replacements per year and TURN and DRA’s requested rate of 100 replacements per year, the PD discusses the slow replacement rate and the greater risk of failures and the associated reliability and safety risks.³² Yet, the PD argues PG&E’s proposal would place an undue cumulative cost burden on ratepayers during the

²⁹ PD, at p. 173 (emphasis added).

³⁰ *Id.*, at p. 175.

³¹ CUE Reply Brief, p. 20.

³² PD, at p. 175.

GRC cycle when many other new programs will be increasing ratepayer costs.³³

However, adopting PG&E's underground oil switch replacement rate results in an additional 2014 Revenue Requirement of only \$1.13 million.³⁴ That is a small price to pay for preventing potential catastrophic disasters.

4.7 POLE REPLACEMENT

The PD adopts PG&E's 2014 pole replacement forecast, but reduced its 2013 forecast to replace the backlogged poles due to deferred maintenance.³⁵ CUE proposed doubling PG&E's proposal from 19,000 poles per year to 28,000 poles, and subjecting the increase to a one-way balancing account.³⁶ The PD declines to adopt our proposal even though "a faster rate of pole replacements would make the system incrementally more reliable, but we are not persuaded that the additional cost burden that CCUE proposes to impose on customers is justified in terms of reliability benefits."³⁷ The PD also argues that poles are not replaced only based on age but also on inspections.³⁸

While true that pole replacements are based on inspections and not absolute age, there is a direct correlation between pole age and pole failure.³⁹ Even though the poles are depreciating at a slower rate, they are still aging and will eventually need replacement. The current rate of pole replacements will leave over 120,000

³³ *Id.*

³⁴ This amount reflects the \$12.5 million in capital reductions, calculated for Revenue Requirement impact.

³⁵ PD, at pp. 191-192.

³⁶ CUE Opening Brief, p. 14.

³⁷ PD, at p. 192.

³⁸ *Id.*

³⁹ CUE Reply Brief, p. 23.

existing poles over the age of 60 on PG&E's system.⁴⁰ If PG&E aligned its pole replacement rates with depreciation rates, it would need to replace 100,000 poles in 2014.⁴¹

While our proposed increase will result in an additional \$19.7 million in 2014 Revenue Requirement, it will go a long way in preventing a potential deluge of future pole failures do to the rapidly aging stock, and will protect safety and reliability. Without this additional money, PG&E will be left with a pole replacement cycle of **116** years.⁴² Obviously, there are very few poles that will actually last 116 years; instead they will fail, with safety and reliability being the casualty.

4.13 SUBSTATION ASSET STRATEGY

4.13.2 SAS Capital Expenditures: Distribution Breakers in Substations

The PD adopted PG&E's forecasts for all SAS capital expenditures, which include forecasts for substation circuit breakers.⁴³ CUE recommended doubling the replacement to 71 breakers per year—an increase of \$0.9 million per year in Revenue Requirement. This replacement rate will allow PG&E to better align its distribution substation breaker replacement rate with its depreciation rate.⁴⁴ The

⁴⁰ *Id.*, at pp. 23-24.

⁴¹ *Id.*

⁴² Exh. 146, CUE/Marcus, p.13.

⁴³ PD, p. 222 (although distribution breakers are not discussed in the PD).

⁴⁴ *Id.*, p. 18.

evidence shows that at PG&E's proposed replacement rate, it would still take over **112 years** to replace the current stock of distribution breakers.⁴⁵

PG&E faces an increasingly aging infrastructure. The Liberty Report recommended treating aging infrastructure as an enterprise-level risk and recommended that "PG&E place greater weight on age when evaluating risk and replacements decisions such that the system as a whole does not age too quickly."⁴⁶ The Commission should approve CUE's recommendation to increase spending on distribution breakers to increase PG&E's replacement rates of aging facilities for an increase of \$0.9 million in Revenue Requirement.

4.15 ELECTRIC DISTRIBUTION RELIABILITY

Money is a finite resource. Therefore, when deciding whether or not a particular program is worth the money, the accepted method is to look at the B/C ratio. CUE analyzed this data, and then presented a substantial amount of testimony on exactly this question: which programs deserve funding because they had a high B/C ratio. Consequently, CUE recommended that PG&E should be doing more work in MWC 08 and MWC 49, which had particularly high B/C ratios for several programs in this category, including overhead conductor, fuses, reclosers, FLISR, targeted circuits, overhead protection, and underground protection.⁴⁷ The work in MWC 08 includes: (i) Overhead Conductor Replacement; and (ii) Line Recloser Revolving Stock. The work in MWC 49 includes: (i) FLISR Installations; (ii)

⁴⁵ CUE Opening Brief, pp. 17-18.

⁴⁶ Exh. 168, Liberty, pp. 68, 98.

⁴⁷ CUE Opening Brief, pp. 20-26.

Targeted Circuit Initiative; (iii) Recloser Control Upgrades; (iv) Overhead Protection; and (v) Underground Protection.

4.15.1 Overhead Conductor

The PD approves PG&E's proposed overhead conductor program in full.⁴⁸ CUE proposed doubling PG&E's planned replacement rate of overhead conductor because at PG&E's planned replacement rate of 62 miles per year, it would take over **1,800 years** to replace the current stock of overhead distribution conductor.⁴⁹

The PD recognizes "that PG&E's forecasted rate of replacement is considerably higher than historic levels, but it is still modest compared to the large amount of overhead conductor PG&E eventually will have to replace. Postponing replacements until future GRCs will exacerbate the problem as more conductor deteriorates and other types of aging infrastructure compete for funding."⁵⁰ Yet, it ignores CUE's proposal to double the planned replacement rate at an additional \$3 million in Revenue Requirement.⁵¹ CUE's proposal still has a replacement rate of 915 years. Interestingly, the PD recognizes that this program has a B/C ratio over 2 and concludes that it is in the ratepayers' interests to approve the funding.⁵² CUE showed that even with doubling the replacement rate, the B/C ratio is still greater than one and would increase reliability benefits.⁵³

⁴⁸ PD, at p. 227.

⁴⁹ CUE's Opening Brief, p. 20.

⁵⁰ PD, at p. 227.

⁵¹ CUE's Opening Brief, p. 21.

⁵² PD, at pp. 227-228.

⁵³ CUE's Opening Brief, p. 21.

The Commission has recognized that deteriorated conductor situation is a high priority in this proceeding.⁵⁴ CUE's recommendation will better address this issue than the PD's adopted forecast, while still ensuring that the benefits substantially exceed the cost.

4.15.3 FLISR Installation

The PD also adopted PG&E's forecast for FLISR installations but imposed a 25% reduction due to the fact that "PG&E failed to justify why it could not address electric reliability matters in an integrated fashion. We are persuaded that PG&E's VOS analysis provides justification to support the project but believe reduced funding by approximately 25% will sufficiently allow PG&E to move forward with the project."⁵⁵ The PD authorizes funding to complete approximately 150 installations per year for 2014-2016, or approximately 450 installations over three years.⁵⁶

CUE proposed increasing PG&E's proposal for FLISR installations by 50% .⁵⁷ Even at CUE's doubled proposal, the B/C ratio is still **over 15**.⁵⁸ The PD notes the high B/C ratio for PG&E's proposed FLISR program and agrees that it would be one of PG&E's **most cost-effective programs**, yet still reduces funding by 25%.⁵⁹ The PD does not explain how or why PG&E failed to address electric reliability matters in an integrated fashion, or why that results in a 25% reduction in funding to "**one**

⁵⁴ PD, p. 227.

⁵⁵ PD, p. 231.

⁵⁶ *Id.*

⁵⁷ CUE Opening Brief, p. 23.

⁵⁸ Exh. 146, CUE/Marcus, p. 27.

⁵⁹ PD, pp. 231-232.

of PG&E's most cost-effective programs." Increasing PG&E's proposed FLISR program by 50% as CUE suggests would increase the 2014 Revenue Requirement by \$4.94 million.⁶⁰ With a B/C ratio so high, the Commission should recognize that CUE's proposal will both save customers much more than it costs, and will reduce future, delayed maintenance costs.

4.15.4 MWC 49: Other Programs

The PD approves PG&E's proposed MWC 49 forecasts (besides FLISR), but does not discuss several programs within that category. CUE provided evidence of extremely high B/C ratios and proposed additional work on that basis. Elsewhere, the PD recognizes high B/C ratios for other programs and approves them precisely because of that reasoning.⁶¹

a. Reclosers

PG&E forecasts installing 244 new line reclosers during the GRC period, with a calculated B/C ratio of **37.2**.⁶² The reduction in outages due to those 244 reclosers will save customers outage-related costs of some **\$364 million**.⁶³

CUE proposed doubling PG&E's recloser program by identifying additional locations for reclosers that would have an incremental B/C ratio well above one.⁶⁴ The PD ignores CUE's proposal and also the extremely high B/C ratio—which after the Commission found that a B/C ratio of 2 was in the ratepayers' interest for

⁶⁰ This amount reflects the difference between PG&E's forecast and the PD's capital reductions (totaling \$1.38 million in RRQ) plus CUE's proposed addition of \$2.7 million for FLISR and additional \$0.86 for Reclosers, calculated to reflect Revenue Requirement.

⁶¹ Overhead Conductor, FLISR.

⁶² Exh 17, PG&E/Calvert, pp. 15-23, 15-24.

⁶³ CUE Opening Brief, p. 22.

⁶⁴ *Id.*

overhead conductor seems a bit incongruous. Doubling the program would increase the 2014 Revenue Requirement by only \$1.18 million with vastly greater outage costs avoided.⁶⁵

b. Overhead Fuses

PG&E proposes to install 700 overhead fuses, with a calculated B/C ratio of **21.0**.⁶⁶ The reduction in outages due to those 700 fuses will save customers from outage-related costs of some **\$189 million**.⁶⁷

CUE proposed doubling PG&E's overhead fuse program by identifying additional locations for fuses that would have an incremental B/C ratio well above one.⁶⁸ The Commission should also authorize the necessary funding for an expanded program. Given the B/C ratio of 21 for the proposed program, it is shocking that PG&E proposes to install so few fuses. With a B/C ratio so high, the Commission should recognize that CUE's proposal will both save customer much more than it costs, and will reduce future, delayed maintenance costs. CUE's proposal will increase 2014 revenue requirements by only \$0.3 million.⁶⁹

c. Targeted Circuit Program

PG&E proposed target improvements for 80 of its 400 worst-performing circuits each year, with a calculated B/C ratio of 7.1.⁷⁰ That means that the

⁶⁵ This amount reflects the difference in PG&E's proposed amount for Reclosers (\$.88 million), plus CUE's added \$0.3 million, calculated for Revenue Requirement Impact.

⁶⁶ Exh. 17, PG&E/Calvert, p. 15-23.

⁶⁷ Exh. 146, CUE/Marcus, p. 23.

⁶⁸ CUE Opening Brief, p. 22.

⁶⁹ *Id.*

⁷⁰ *Id.*, at p. 25.

reduction in outages due to those 80 targeted circuits per year will save customers from outage-related costs of some **\$364 million**.⁷¹

CUE proposed expanding PG&E's targeted circuit program by 50%, to 120 circuits per year, by identifying additional circuits where targeting would have an incremental B/C ratio well above one. Even an expanded program would still not address all of the 400 worst-performing circuits over the three year GRC cycle. The Commission should authorize the necessary funding for an expanded targeted circuit program. CUE's proposal would increase 2014 revenue requirements by approximately \$1.2 million.⁷²

d. Underground Protection

PG&E proposed installing 67 underground fuses and 67 interrupters, with a B/C ratio of 4.6.⁷³ The reduction in outages due to those underground fuses will save customers from outage-related costs of some \$36.8 million.⁷⁴

CUE proposed PG&E expanding its underground protection program by 50%, to a total of 100 fuses and interrupters, by identifying additional underground fuses and interrupters which would have an incremental B/C ratio well above one.⁷⁵ The Commission should also authorize the necessary funding for an expanded targeted circuit program. That would increase 2014 revenue requirements by roughly \$0.1 million.⁷⁶

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Id.*, at pp. 25-26.

⁷⁴ *Id.*

⁷⁵ *Id.*, at p. 26.

⁷⁶ *Id.*

8. HUMAN RESOURCES

8.3 COMPENSATION

8.3.1 Total Compensation Study

The PD adopts DRA's recommendation to bring PG&E's overall total compensation within a 5% variance of the market in order to "remain consistent with more recent Commission policy."⁷⁷ The updated TCS reflects that PG&E's overall total compensation is at 5.2% over the market median.⁷⁸ The PD notes that if it were to adjust the overall total compensation downward from 5.2% to 5%, it would result in a deduction of \$5,047,748, but then ultimately deducts the compensation from the STIP program.⁷⁹

The PD is vague in its reference to "more recent Commission policy." The last four PG&E GRC decisions have resulted in settlements and range from approving 107.52% to 104.71% over market median.⁸⁰ Furthermore, the PD ignores CUE's extensive evidence of the gross imprecision of a TCS study.

Even if the comparison utilities were drawing from the same labor market as PG&E, it is not valid to compare wages for two utilities in different locations without also comparing the cost of living and the cost of labor in those locations. The average cost of living in the headquarters cities of the utilities in the TCS is 130.1% of the national average.⁸¹ The average cost of living in PG&E's

⁷⁷ PD, at p. 508.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ D.00-02-046; D.04-05-055; D.07-03-044; D.05-11-018.

⁸¹ CUE Reply Brief, p. 41.

headquarters city is 181.7% of the national average.⁸² PG&E wages would thus have to be 39.5% higher than the survey utilities to compensate for the difference in the cost of living.⁸³ Using the same comparison for the cost of labor, PG&E's wages would have to be 17.3% higher than the survey utilities to compensate for the higher cost of labor here.⁸⁴ To reflect the high cost of living in California (only one surveyed utility has a higher cost of living), Mercer attempted to adjust the survey data to account for cost of living. This means the study relies on adjusted data.⁸⁵ This is but one indicator of the imprecision of the survey.⁸⁶

Additionally, benefits are virtually impossible to compare in a reliable fashion. The costs for health insurance reflect the local insurance and healthcare provider markets, and an inferior plan may cost more in a high-cost healthcare area than a better plan in a low-cost healthcare area. The imprecision in establishing a value for benefits is illustrated by comparing the 2009 and 2012 studies. The benefits value for most classifications increased between 2009 and 2012, as you would expect, yet some did not.⁸⁷ Comparing the cost of benefits is not a precise science.

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.*, at p. 42.

⁸⁶ *Id.*

⁸⁷ *Id.*, at pp. 6-7.

Moreover, the survey data has been aged. This is an accepted practice in wage surveys, but aging introduces yet another imprecision to an already imprecise methodology.⁸⁸

Additionally, any snapshot of wages can be affected dramatically by hiring and wage progression cycles. Between 2011 and 2012, PG&E workers were given a negotiated 2.75% general wage increase.⁸⁹ Despite this increase, the total bargaining unit payroll rose by only 0.9%.⁹⁰ New hires replacing retiring employees have the effect of driving the average wage down because they are in lower wage steps of a wage progression. Between 2009 and 2010 employees received a 3.75% wage increase, yet bargaining unit payroll went up only 2.0%.⁹¹ Conversely, after a 3.75% wage increase in 2007, the payroll went up 8.4%.⁹² Today's data will not hold tomorrow, let alone a year from now.

Lastly, PG&E's unusually low turnover rate skews its average wage higher than other utilities. PG&E's *annual* separation rate is thus approximately the same as the average *monthly* separation rate for other contact centers.⁹³

Because of low turn-over rates at PG&E, a large number of PG&E's clerical workers have progressed to the top wage step, skewing the weighted average hourly rate upwards.⁹⁴ Conversely, the extremely high turn-over rates at other contact centers mean that few workers reach the top wage step, thus skewing the weighted

⁸⁸ *Id.*, at p. 7.

⁸⁹ *Id.*

⁹⁰ *Id.*, at p. 7.

⁹¹ *Id.*

⁹² *Id.*

⁹³ *Id.*, at p. 43.

⁹⁴ *Id.*

average hourly rate downward.⁹⁵ Retaining trained employees is an obvious benefit to ratepayers that DRA ignores, even though PG&E's low turn-over rate helps avoid higher training costs.⁹⁶ Thus, ignoring the savings from PG&E's low turnover rate for customer service representatives makes the simple comparison of wage rates analytically invalid.

For all of these reasons, one simply cannot ascribe the degree precision to the TCS sufficient to justify the radical interference in collective bargaining advocated by DRA and the PD. The PD states that a 5% variance is sufficient for PG&E to attract and maintain a competent labor force.⁹⁷ However, the PD cites to no evidence supporting this fact and fails to grasp the potentially damaging effects it could have on PG&E's workforce if this 5% variance becomes Commission precedence.

The Commission should accept PG&E's overall total compensation at 5.2% over the market variance and refrain from placing such a low cap on future overall total compensation. The TCS is not a perfect study. Furthermore, the provides no support for prescribing the 5% cap.

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ PD. p. 508.

9. ADMINISTRATIVE AND GENERAL EXPENSES

9.4 HUMAN RESOURCES DEPARTMENT AND HR TECHNOLOGY COSTS

9.4.1.2 PG&E Academy

The PD approves DRA's proposal to reducing training costs and refuses to fund PG&E's proposal to hire 10 new FTEs for PG&E Academy Department.⁹⁸ Given the challenges facing PG&E as a result of the explosions in Rancho Cordova and San Bruno, as well as the nine fatal accidents involving union members in the last few years, it is astonishing that the PD would approve reduced training. Further, with increased retirements inevitable in the next few years, training is all the more important.⁹⁹ Only by constant training of new apprentices will PG&E be able to sustain a qualified, safe workforce.

CONCLUSION

The PD does not heed the Commission's directive to focus on safety and reliability first in this GRC. Now is the time for the Commission to commit to its renewed focus on safety and reliability by adopting CUE's proposals directly related to safety and reliability. This GRC should mark a new era when the Commission makes safety and reliability the primary focus of ratesetting. The Commission should modify the PD as discussed here.

⁹⁸ *Id.*, at pp. 548-49.

⁹⁹ CUE Reply Brief, pp. 48-49.

APPENDIX A

FINDINGS OF FACT

37. PG&E's 2014 forecast of corrective pipeline maintenance (MWC FI) is reasonable. ~~except for a reduction of \$27.8 million, as proposed by TURN, based on TURN's leak find rate of 2.457%, and incorporating a five year leak survey cycle.~~

46. ~~It is premature to approve increased ratepayer funding to move from a five year to a three year routine leak survey cycle until PG&E makes further progress in evaluating the results of optimizing all of techniques and strategies PG&E will use to detect and repair leaks.~~

47. ~~Based on continuation of a five year leak survey cycle, PG&E's leak survey expense forecast for MWC DE declines to \$11.6 million.~~

52. ~~PG&E's request for 80 additional gas service representatives in 2014 to meet faster response time goals is reasonable. Although PG&E claims its needs an additional 80 gas service representatives during 2014 to meet faster response time goals planned to take effect in 2015, there is uncertainty as to whether PG&E has adequately reflected appropriate efficiencies in adding such a staffing increase.~~

56. The current pace of PG&E's pipeline replacement must increase, or service quality and safety will decline over time. ~~Increased funding for a more rapid pace of pipeline replacement in this GRC is constrained, however, by limits on what current ratepayers can reasonably afford to pay in relation to the degree of risk mitigation involved. Although PG&E proposes a significant increase in the rate of pipeline replacement, however, PG&E has not developed a risk informed position on the optimal rate of pipeline replacement.~~

58. ~~TURN's pipeline replacement funding proposal provides a reasonable balance between containing cost increases while mitigating pipeline safety risk. TURN's proposed funding keeps current steel pipe replacement at 30 miles per year while redirecting more funding to plastic pipe replacement.~~

59. ~~TURN's proposed funding is sufficient to replace high priority steel pipe within three years, and results in 2014 capital spending 230% above 2011 levels, while reducing PG&E's 2014 forecast by \$32.4 million.~~

60. PG&E forecasts of \$62.7 million, \$72.439 million and \$128.1 million in 2012, 2013, and 2014, respectively, for MWC 50, Gas Distribution Reliability, for capital installation or replacement of aging gas facilities to improve system safety and

reliability, replace aging facilities, and maintain compliance with safety regulations is reasonable.

~~61. Consistent with a five year leak survey cycle, it is reasonable to reduce PG&E's forecast for MWC 50 by \$2.051 million for 2014, as calculated by TURN, and to reflect planned installation of emergency shut-down valves over six years, rather than three. Extending installation over six years mitigates impacts on customers of such a large cost increase, and alleviates pressure on PG&E's ability to fund competing resources and high priority programs.~~

~~90. To the extent that oil-filled switch failures cause outages, PG&E has not estimated the reliability improvement from its replacement program, or compared hypothetical improvements to the costs of other reliability enhancement programs.~~

~~91. Although some level of proactive replacement is warranted, PG&E's proposed rate of replacement reflects an unjustified cost burden on ratepayers relative to mitigation of risks. Funding replacement of 250 oil switches per year provides some momentum to move forward with proactive replacement, while moderating cost burdens on ratepayers.~~

PG&E's proposal to replace 500 oil-filled switches per year is reasonable.

CUE's proposal to replace an additional 19,000 poles per year at a cost of \$19.7 million in 2014 Revenue Requirement is reasonable.

CUE's proposal to double PG&E's Substation Circuit Breakers at a cost of \$0.9 million in 2014 Revenue Requirement is reasonable because otherwise it will take over 112 years to replace the current stock.

111. PG&E justified its forecast for conductor replacements to mitigate the public and system safety risks of "wire down" events, but the replacement rate is too slow. CUE's proposal to double its proposed overhead conductor replacement rate at a cost of \$3.0 million in 2014 Revenue Requirement is reasonable because otherwise it will take over 1800 years to replace the current stock.

112. PG&E forecasts \$24.42 million in MWC 08 for line reclosure revolving stock. Each new FLISR circuit requires, on average, the installation of three line reclosers. It is reasonable to increase funding to double its recloser program, consistent with CUE's proposal, at a cost of \$0.86 million in 2014 Revenue Requirements due to having a high B/C ratio. ~~It is reasonable to reduce funding for line reclosure revolving stock by 25% to be consistent with the 25% reduction of funding for FLISR/Feeder automation.~~

113. Funding for FLISR installations is warranted, but with an increase of 300 circuit replacements per year at a cost of \$4.94 million in 2014 Revenue Requirements due to the extremely high B/C ratio. ~~with a reduction in 2014 capital funding by approximately 25%, due to the fact that PG&E failed to justify why it could not address electric reliability matters in an integrated fashion.~~

CUE's proposal to double PG&E's overhead fuse installation program at a cost of \$0.3 million is reasonable due to the high B/C ratio.

CUE's proposal to expand its targeted circuit replacement program at a cost of \$1.2 million in 2014 Revenue Requirement is reasonable due to the high B/C ratio.

CUE's Proposal to expand its underground protection program at a cost of \$0.1 million in 2014 Revenue Requirement is reasonable due to the high B/C ratio.

240. Mercer, the independent consultant utilized by PG&E and DRA to produce a Total Employee Compensation Study, re-ran the Total Compensation Study using employee benefit plan designs PG&E proposed for its 2014 GRC that were not included in the initial study. After accounting for the plan design changes already implemented, PG&E's total employee compensation was calculated as being only 5.2% above the market median, and is reasonable.

261. PG&E forecasts \$63.5 million for the Human Resources (HR) organization in 2014. HR functions to attract, retain, and support a highly qualified and diverse workforce. PG&E's forecast is reasonable. ~~It is reasonable to reduce the forecast by \$4.0 million consisting of: (1) a \$1.9 million reduction across FERC Accounts 920 and 921 to keep staffing levels for PG&E Academy at 2012 levels; and (2) a \$2.1 million reduction in FERC Account 923 for Technical Training maintenance based on 2012 recorded data.~~