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

COMMENTS OF THE ENERGY PRODUCERS AND USERS COALITION ON THE PROPOSED DECISION IN PHASE 1

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Pursuant to Rule 14.3 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, the Energy Producers and Users Coalition[1] (EPUC) submits these comments on the Proposed Decision (PD) in the above captioned proceeding.

I. INTRODUCTION

Administrative Law Judge (ALJ) Pulsifer's PD grants Pacific Gas and Electric (PG&E) a revenue requirement (RR) of $6.634 billion in Test Year 2014; it also provides for attrition year increases of $322 million and $371 million in 2015 and 2016, respectively. Administrative Law Judge Pulsifer's PD is generally well-reasoned and thorough. In particular, the PD reasonably proposes to continue existing ratemaking treatment of PG&E's nuclear fuel inventory to

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1 EPUC is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, Chevron U.S.A. Inc., ExxonMobil Power and Gas Services Inc., Phillips 66 Company, Shell Oil Products US, Tesoro Refining & Marketing Company LLC, THUMS Long Beach Company, and Occidental Elk Hills, Inc.

avoid ratepayer impact. The PD's proposed approval of PG&E's hydro capital expenditures, however, requires additional scrutiny. The PD appropriately reduces hydro capital expenditures for low priority projects, but these cuts do not go far enough. Further reductions for projects not substantiated by PG&E should be approved. With this change, the Commission should expeditiously adopt the PD.

II. COMMENTS

A. The PD Rightly Maintains the Current Ratemaking Treatment of Nuclear Fuel.

The PD rejects PG&E's proposal to include $399 million in nuclear fuel inventory in rate base, and instead instructs PG&E to continue its current ratemaking treatment of nuclear fuel for this GRC cycle.[2] The PD finds that the significant ratepayer impact of PG&E's proposed change is not merited considering it will result in no "*corresponding improvement in service quality*."[3] The PD defers prospective consideration of the treatment of nuclear fuel until PG&E's next cost of capital proceeding.[4] EPUC recommends that the Commission adopt this portion of the PD with no change.

PG&E argued that nuclear fuel is a long term asset and that "changed circumstances" since the last Commission decision on the ratemaking treatment of nuclear fuel suggest that nuclear fuel should be financed using long term debt.[5] The PD rightly recognizes that the circumstances identified by PG&E

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2 Proposed Decision in A.12-11-009 (PD) at 609.
3 *Id.*
4 *Id.* at 612.
5 *Id.* at 610.

predate D.12-12-034, the most recent cost of capital decision.[6] Additionally, the PD notes that PG&E's proposal would result in a significant ratepayer impact, raising the annual RR for nuclear fuel inventory from $1.6 million to $47 million, a 2,856% increase.[7] The PD rejects PG&E's proposal for this GRC cycle; continuing the current treatment of nuclear fuel simply maintains the status quo.[8]

The PD acknowledges PG&E's concerns regarding "*the long-term viability of limiting recovery of nuclear fuel carrying costs to a short term interest rate.*"[9] The significant ratepayer impact of changing the existing ratemaking treatment, however, requires full consideration of the financial impact and capital structure, more appropriate for the cost of capital proceeding. The PD defers further consideration of the issue until the next cost of capital proceeding so the Commission can consider "*a full record relating to the range of effects on financial risks, costs of credit and liquidity as well as ratepayer impacts.*"[10] This determination should be sustained in the final decision.

B. The PD's Cuts to Hydro Capital Expenditures Do Not Go Far Enough.

The PD adopts $27.03 million in reductions to PG&E's proposed hydro capital expenditures relying on a methodology to cut low priority projects suggested by TURN.[11] While EPUC appreciates that the PD makes reductions, the budget recommended is still in excess of what PG&E requires to provide

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6 *Id*. at 610.
7 *Id*. at 612.
8 *Id*. at 609.
9 *Id*. at 611.
10 *Id*. at 612.
11 *Id*.at 361.

reliable hydro service. The Commission should adopt additional cuts to PG&E's hydro capital expenditures in 2014, 2015 and 2016.

PG&E's stated goals for its test year budget are safety, reliability and affordability.[12] PG&E's hydro capital proposal, however, sacrifices affordability without any guarantee of increased reliability. PG&E's hydroelectric system is currently more reliable than the industry average and additional spending on reliability projects may not result in increased generation.[13] Instead, the output of PG&E's hydro facilities is closely tied to rainfall and weather patterns, factors outside PG&E's control.[14] Additionally, PG&E failed to provide adequate justification for the majority of its reliability projects. For example, PG&E failed to provide a job estimate or project justification for over 60% of the proposed hydro capital expenditures for Test Year 2014.[15]

By adopting TURN's proposed reductions, the PD begins to address EPUC's concerns regarding PG&E's failure to provide adequate justification for its projects.[16] EPUC proposed further reductions to the reliability Major Work Categories (MWC) 2M, 2N and 2P to protect the affordability of rates.[17] Recognizing the paramount importance of safety, EPUC's proposed reductions only impact MWCs related to reliability, and leave untouched safety and regulatory compliance MWCs.[18] EPUC's proposal is based on an average of

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[12] 12 TR 840:20-21 (PG&E Earley); See EPUC Opening Brief at 5; See also Ex. 24 (PG&E/Jones at 2-17:9-12.

[13] See EPUC Opening Brief at 5.

[14] Ex. 24 (PG&E/Jones) at 2-45; 20 TR 2418:14-19 (PG&E/Jones); See EPUC Opening Brief at 13.

[15] EPUC Testimony at 11.

[16] *See* PD at 372.

[17] *See* EPUC Testimony at 1.

[18] *Id.*

2009-2011 recorded costs with additional funds for facilities with Forced Outage Factors higher than the industry average.[19] EPUC's proposed budget provides sufficient funds to cover all projects given a project status by PG&E and any project with a safety or regulatory driver with $97 million available for other projects in these MWCs.[20]

Given the uncertainty regarding the efficacy of additional reliability spending, the Commission should further moderate PG&E's hydro capital expenditures. At a minimum, the Commission should ensure affordable rates and adopt the reductions proposed by EPUC. If the Commission believes that PG&E requires the flexibility to pursue additional spending, it can direct PG&E to track these costs in a memorandum account and track them for an after-the-fact reasonableness review.

III. CONCLUSION

For all of the foregoing reasons, the PD should be adopted with the outlined modifications.

Respectfully submitted,

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July 8, 2014

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19 *Id*. at 17.

20 EPUC Opening Brief at 17, See Ex. 228.

PROPOSED MODIFICATIONS TO FINDINGS OF FACT

162. EPUC's proposed level of hydro capital spending reductions for MWC 2M, 2N, and 2P ~~goes too far in potentially impacting PG&E's ability to provide~~ is reasonable and allows PG&E to provide affordable, safe and reliable service.

163. It is reasonable to reduce PG&E's hydro capital budget by $66 million in 2014 (including TURN reductions), $138 million in 2015 and $175 million in 2016.

PROPOSED MODIFICATIONS TO CONCLUSIONS OF LAW

41. It is reasonable for PG&E to establish a memorandum account to track additional reliability hydro capital spending and seek after the fact reasonableness review.