**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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| 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<br>(Filed November 15, 2012) |
| And Related Matter. | Investigation 13-03-007 |

# COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ PULSIFER


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July 8, 2014

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## SUMMARY OF RECOMMENDATIONS

**Section 3 (Gas Distribution)**

1. The forecast for cross-bore remediation (Section 3.4.2) should be reduced by $8.5 million so that PG&E first conducts a risk analysis to more effectively target cross-bore inspections. The PD ignores record evidence in adopting PG&E's forecast.

2. The PD dismisses PHMSA cost estimates for program management without basis, and the forecast for DIMP program management (Section 3.4.3) should be reduced by $1.1 million.

**Section 4 (Electric Distribution)**

3. Section 4.2.5 - Customer Connections Online – Ordering Paragraph 14 should be modified to adopt TURN's proposal to have PG&E recover the reasonable costs for Customer Connections Online through a service fee charged to those customers who use the service.

4. Section 4.5.11 – The PD should be modified to reflect that TURN withdrew our recommendation regarding inspection and testing of new FLISR installations in MWC KA.

5. Section 4.5 – The PD should be modified to address and adopt TURN's recommendations regarding Overhead Transformer Labor Reclassification (MWC KA) and Underground Transformer Labor Reclassification (MWC KB).

6. Section 4.6 – The PD should be modified to clarify the methodology used to adjust the amount of joint pole credits based on the reduction in funding for pole inspections.

7. Section 4.11 – The PD should be modified to modified to insure that ratepayers receive the benefits of the Distribution Control Center Consolidation Project in this rate case cycle.

8. Section 4.15 – The PD should be modified to address and adopt TURN's recommendations regarding the measurement of electric reliability.

**Section 5 (Customer Care)**

9. Section 5.2.4 – The PD should be modified to align the reductions to CSR supervision and support costs and training costs shown in the workpapers to the PD with the discussion in the PD itself.

10. The forecast for Energy Data Services (Section 5.4.8) should be reduced by $3.2 million. The PD is factually and legally incorrect, as PG&E had in fact included savings associated with replacing the MV-90 electric meters in its original AMI program application.



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11. Smart meter maintenance expenses (Section 5.5.3) should be reduced by $4.8 million, since it is factually erroneous to offset smart meter savings by increasing the meter maintenance expense over the original AMI forecast.

**Section 6 (Energy Supply)**

12. The PD should be modified to reduce the Diablo Canyon expense forecast by $16 million to correct the erroneous assumptions that TURN used improper recorded costs and excluded Fukushima project expenses and Independent Spent Fuel Storage Installation (ISFSI) expenses.

13. The PD should be modified to reduce Diablo Canyon nuclear refueling outage costs (MWC AB) by $2.7 million to unsupported (and potentially double-counted) incremental steam generator inspection costs and by $0.5 million to eliminate PG&E's reliance on an unsupported and unique escalation rate. Moreover, the PD should normalize one-time refueling expenditures that will not recur over the rate case cycle.

14. The PD should be modified to reduce Diablo Canyon obsolete inventory write-offs by $2.017 million in the test year to reconcile the finding that such expenses are "infrequent and irregular" with the lack of any demonstration that ongoing capital expenditures will produce similar write-offs in future years.

15. Section 6.4.1.2 - The Commission should confirm that the Gateway auxiliary boiler replacement project was removed from the capital forecast adopted in this proceeding, since PG&E first indicated that it would not do the project during this rate case cycle in its opening brief.

**Section 7 (Shared Services and IT)**

16. Section 7.8.2.3 - Telecommunications Network Enhancement – Finding of Fact 227 should be modified to reduce PG&E's forecast of capital expenditures and expenses for the Telecommunications Network Enhancement project to reflect the reduced number of mobile devices (a driver of the need for additional bandwidth) adopted elsewhere in the decision.

**Section 8 (Human Resources)**

17. Section 8.3.2 - The PD should be modified to reflect that TURN withdrew our recommended disallowance of STIP funding for ESC-represented employees.

**Section 9 (Administrative and General Expenses)**

18. Section 9.2.1 – The PD should be modified to disallow all of the dues paid by PG&E to the California Taxpayers Association.

19. Section 9.5 – The PD should be modified to adopt TURN's recommendation regarding the allocation of costs of the FERC and ISO Relations Department.



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20. Section 9 – The PD should be modified to address and adopt TURN's adjustment for Clothing and Other PG&E Gear.

**Section 10 (Results of Operations)**

21. Section 10.3.3 - Water Sales -- Finding of Fact 291 should be modified to reflect increased revenues of $2.672 million rather than $2 million.

**Section 11 (Rate Base, Working Cash and Finance Issues)**

22. Section 11.3 – The PD should be modified to affirm that SP U-16 is only a guide, to be followed or not as circumstances warrant, and to explain why PG&E's ratepayers should not have the same ratemaking benefits associated with customer deposits that SCE's have enjoyed for more than a decade.

**Section 12 (Attrition Adjustment Mechanism)**

23. Section 12 – The PD should be modified to adopt CPI or a similarly broad index to escalate expenses for the attrition years and to use a seven-year period of actual historical spending for capital attrition, which could include TURN's 2005-2011 period or 2006-2012.



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## TABLE OF AUTHORITIES

**Commission Orders**

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**COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ PULSIFER**

## I. INTRODUCTION

On June 18, 2014, the Commission issued the Proposed Decision (PD) of Administrative Law Judge (ALJ) Pulsifer entitled "*Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2014-2016.*" Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) submits these comments on the PD.

The PD would increase PG&E's revenue requirement by $453 million in 2014, followed by another $321.8 million in 2015 and $371.3 million in 2016. By the end of the 2014-16 period PG&E's GRC revenue requirement would be more than $1 billion higher than it was before the PD went into effect. And over the course of the three-year period PG&E's customers will pay a cumulative $2.4 billion to the utility for gas and electric service.

As the Commission considers potential further modifications to the PD, TURN urges the Commission to keep in mind that the GRC increases are not occurring in isolation – PG&E's customers are also laboring under the burden of the PSEP-related revenue requirement increases totaling $769 million for 2012-14, with a further increase of $555 million for 2015 sought in PG&E's GT&S application (with further increases in ensuing years). In light of the Commission's recent finding that economic conditions in California have not substantially improved since mid-2010,[1] it should seek opportunities to avoid unnecessary rate increases and the hardships that befall utility customers, individuals and businesses alike, who lack the financial means to simply absorb the increased costs. This PD provides such an opportunity.

[1] D.13-10-019 (PG&E Economic Development Rate application A.12-03-001), p. 38, Finding of Fact 1.



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In the following sections, TURN points out errors in the PD, the correction of which will reduce the burden to be placed on customers while still ensuring that PG&E has sufficient revenues to provide safe and reliable service.

## II. COMMENTS ON THE PROPOSED DECISION

### A. Natural Gas Distribution (PD Section 3)

#### 1. Section 3.4.2 - Cross-Bore Sewer Remediation Program

The PD adopts PG&E's estimate of work load for 2014 (30,000 inspections and 500 repairs), which is three times the number of inspections and two-and-a-half times the number of repairs actually conducted in 2012. TURN had recommended a reduced work load and cost estimate (an expense reduction of $8.5 million) based on continuing 2012 levels of inspections, due to both constraints on contractor resources as well as the need to conduct a risk analysis that would improve the identification of which sewer laterals need inspections.[2]

The PD concludes PG&E's forecast is reasonable based on statements and premises that are contradicted by record evidence. The PD claims that PG&E "appears capable" of ramping up to complete 25,000 inspections in 2013, even though PG&E in fact had completed only 5,000 inspections as of late July 2013.[3] Furthermore, though the PD directs PG&E to assess whether it could conduct the program more cost-effectively, the PD fails to consider that PG&E's forecast was based on minimal analysis and that the program cost-effectiveness should be significantly improved by first refining the methods for identifying cross-bore risks before conducting expensive video inspections. The Commission should order a lower level of inspections until PG&E improves the targeting and cost-effectiveness of the inspection efforts.

[2] TURN Opening Brief, p. 43-46.

[3] 14 RT 1339 (PG&E/Chapman).



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### 2. Section 3.4.3 - DIMP Program Management

The PD concludes that there are "too many uncertainties as to the empirical validity of the 2004 PHMSA study" used by TURN to forecast program management costs. But TURN showed that PG&E's only challenge to the PHMSA estimates was to provide three wholly irrelevant examples of federal cost estimates for extremely complex projects such as clean-coal and nuclear waste clean-up. There is no basis on which to discount the PHMSA forecast, especially given that TURN increased PHMSA's estimate by more than a factor of 10 to account for utility size and inflation. PG&E's forecast for program management should be reduced by $1.1 million as a more reasonable estimate of management costs.

### 3. Section 3.8.2 - Emergency Shut Down Valves

TURN does not identify errors in this section; however, the relevant text on page 101 and in Finding of Fact 61 should be revised to clarify that the 2014 capital forecast reduction is a total of $15.96 million based on two separate TURN recommendations.

## B. Electric Distribution (PD Section 4)

### 1. Section 4.2.5 - Customer Connection Online (CCO)

The Proposed Decision would authorize $3.9 million of expense and $14.0 million of 2012-14 capital for the Customer Connections Online (CCO) to provide improved online tools to new customers who are requesting and monitoring service requests. PD, pp. 146-147. TURN had calculated that the annual revenue requirement impact of approximately $5 million is being incurred to serve approximately 37,000 customers that PG&E forecasts will use this service annually.[4] Therefore TURN proposed that the associated costs be collected similar to the new customer administrative fees, as a charge set on a per meter basis and assessed to the new

[4] Ex. 123 (TURN Testimony of Gayatri Schilberg), p. 29.



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customers who are using the tools.[5]

The Proposed Decision concludes that TURN's recommendation for such a fee-based approach is beyond the scope of this decision and belongs in Phase 2. Proposed Decision, p. 148. This is factual error. TURN's proposal seeks to introduce a cost-based fee collected from the subset of customers who use the service, not to allocate the costs to a particular class of customers. The proposal is fundamentally consistent with charges such as new customer connection administrative costs, funded completely by the customers who drive the need for this work,[6] as well as reconnection and non-sufficient funds fees, all of which are within the scope of Phase 1. The Commission should correct this error by acknowledging that TURN's proposal is a reasonable approach to permitting PG&E to go forward with its proposal to incur expenses of $3.9 million per year and $14.0 million of capital expenditures without saddling the 99% of PG&E customers who will NOT use these services with the costs of providing the services.

### 2. Section 4.5.11 – Overhead Preventative Maintenance and Equipment Repair

The PD unnecessarily addresses TURN's position regarding inspection and testing of new FLISR installations in MWC KA, described by the PD as a $1.214 million reduction.[7] While TURN had originally recommended a reduction of $825,000 (as opposed to the amount reflected in the PD), TURN withdrew this recommendation in our opening brief.[8] Thus, PG&E's forecast is no longer in dispute. The PD should be modified to accurately reflect TURN's final position.

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[5] *Id.*, p. 29, citing Ex. 20 (PG&E-5 – Testimony on Customer Care), pp. 4-35 to 4-36.

[6] Ex. 20 (PG&E-5 Testimony on Customer Care), p. 4-35.

[7] PD, pp. 179-180.

[8] TURN Opening Brief, p. 106.



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### 3. Section 4.5 – Overhead and Underground Transformer Labor Reclassification

TURN proposed reductions of $117,200 to PG&E's forecast for Overhead Transformer Labor Reclassification (MWC KA) and $51,000 for Underground Transformer Labor Reclassification (MWC KB), neither of which is addressed by the PD.[9] The PD should be modified to adopt TURN's recommendations for the reasons previously provided by TURN.

### 4. Section 4.6 – Pole Test, Treat, Restoration and Joint Utilities Coordination

As the PD correctly explains, TURN proposed an increase of $1.6 million to PG&E's forecast of joint pole credits, and PG&E conceded the need for an increase but argued that $1.067 million was the appropriate amount.[10] Both of these adjustments were calculated based on PG&E's full pole test and treat forecast. The PD would agree with TURN that ratepayers should be credited with 100% of the pole test and treat fees that are due from Joint Owners, and would accept PG&E's calculation of the additional joint pole credits. However, because the PD would adopt a lower pole inspection forecast for MWC GA, the PD purports to "correspondingly reduce the joint pole credit amount in proportion to the reduced forecast amount for Pole Test and Treat work, resulting in an adjustment of $0.232 million."[11]

TURN has reviewed the workpapers supporting the PD in an attempt to understand this "adjustment" to joint pole credit amount.[12] Based on this review, TURN recommends that the PD be modified to first clarify that the $0.232 million adjustment is a reduction to the $1.067 million in *additional* joint pole credits that PG&E conceded following TURN's testimony,

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[9] TURN Opening Brief, pp. 108-109 (Overhead); 109-110 (Underground).

[10] PD, pp. 187-188.

[11] PD, p. 188.

[12] TURN specifically reviewed the calculations contained in Tab "4 Elec Distrib (O&M)" of the Excel file entitled "Master List of PD Adoptions."



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leaving $835,000 of additional joint pole credits. Second, the PD should be modified to explain that the reference to $0.735 million in credits "attributable to PG&E's pole inspection forecast" in footnote 39 is the portion of the $1.067 million in additional joint pole credits conceded by PG&E that are associated with "pole inspections," as opposed to the portion associated with "pole restorations."[13] As TURN understands the workpapers to the PD, the PD does not make any adjustment to the amount of additional joint pole credits associated with pole restorations, approximately $0.332 million, because the PD would adopt PG&E's forecast for pole restorations.

Finally, as a matter of logical consistency, it may additionally be appropriate to modify the PD to proportionally adjust the $1.1 million in joint pole credits originally estimated by PG&E to offset the costs of pole inspections. This $1.1 million is part of the total of $1.6 million in credits for pole inspections and pole restoration in PG&E's forecast before PG&E increased that forecast by $1.067 million in response to TURN's testimony.[14] It is unclear to TURN whether the PD would automatically make this adjustment by virtue of the reduction in PG&E's pole inspections forecast.

### 5. Section 4.11 – Distribution System Operations

The PD would reject TURN's proposal to reduce the test year revenue requirement by $1.747 million by normalizing the benefits from staffing reductions and avoided overtime that PG&E projects in 2015-2016 from the Distribution Control Center Consolidation Project.[15] The PD reasons that these cost savings are already reflected in PG&E's workpapers, "including headcount reduction costs in 2013-2015 and overtime reduction costs beginning in 2016," and

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[13] *See* PD Workpaper "Master List of PD Adoptions," Tab 4, Section 4.6.

[14] *See* PD Workpaper "Master List of PD Adoptions," Tab 4, Section 4.6.

[15] PD, p. 212.



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thus finds "no basis to reduce PG&E's forecast a second time for these savings."[16] The PD is mistaken.

The fact that cost savings during the attrition years appear in the utility's workpapers does not mean that ratepayers will actually enjoy these benefits. Indeed, PG&E's basis for opposing TURN's normalization proposal was not that the expected benefits would *literally* be double counted, as the PD suggests, but that, in the utility's view, "productivity savings" are already embedded in PG&E's proposed attrition mechanism as a general matter.[17] Because the PD's rationale for rejecting TURN's proposal is based on factual error, the PD should be modified to insure that ratepayers receive the forecasted project-specific benefits of the Distribution Control Center Consolidation Project in this rate case cycle.

**6. Section 4.15 – Electric Distribution Reliability**

The PD omits mention of TURN's recommendations regarding PG&E's measurement of electric reliability. Those recommendations, which resulted from TURN's analysis indicating the need for extreme caution in interpreting PG&E's outage statistics that result from the IEEE definition, are as follows:

> • PG&E should be ordered to continue to report total outages, including MEDs [Major Event Days], in its annual report to the Commission. The report should contain a) total outage statistics, b) outages excluding MEDs, and c) an analysis of MEDs. PG&E has agreed to report total outages, but has not commented on the recommendation to analyze MEDs.
>
> • PG&E should recognize that the IEEE method of classifying MEDs does not work well for PG&E's data and that this is not a "gold standard" that is sacrosanct. The fact that it is based on statistics does not make it accurate in PG&E's case.
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> • PG&E should examine whether the IEEE definition is classifying too many small events as MEDs compared to the definition in D.96-09-045.

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[16] PD, p. 214.

[17] Ex. 55 (PG&E-19, Electric Distribution Rebuttal Vol. 1), p. 11-19, referring to Ex. 65 (PG&E-26, PTYR Rebuttal), pp. 1-23-1-24.



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• PG&E should undertake analysis of the frequency and response to MEDs, as recommended by IEEE. A full understanding is needed of whether the large MEDs are caused by worse-than-average weather, inefficient response on the part of PG&E, or other factors.

• Any utility-caused major outage should not be classified as an MED or allowed to be excluded for purposes of outage reporting and for the STIP program.[18]

For the reasons offered by TURN in testimony and our opening brief, the PD should be modified to address and adopt these recommendations.[19]

### C. Customer Care (PD Section 5)

#### 1. Section 5.2.4 – CSR Supervision and Support

The PD would follow TURN's suggestion that the forecast of CSR supervision costs should be adjusted in proportion to reductions in CSR staffing levels, so as to maintain PG&E's ratio of 14.5 CSRs for every supervisor (with supervisors reduced at a cost of $109,861 per supervisor). Accordingly, the PD explains, "We adjust PG&E's 2014 forecast amount by $181,839 to reflect our adopted headcount of 991 CSRs (reduced from PG&E's 1,020 headcount)."[20] However, this amount appears to be in error, as a reduction of 29 CSRs should translate into $220,000 in savings from a reduced need for supervision, based on the 14.5 CSR/supervisor ratio. In fact, the workpapers to the PD show a $220,000 adjustment for CSR supervision and support.[21] Thus, TURN recommends that the PD be modified to show a reduction of $220,000 for CSR supervision and support, instead of $181,839.

Relatedly, TURN recommends that the PD's discussion of CSR supervision and support be modified to include a proportional adjustment for training costs flowing from the PD's

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[18] Ex. 123 (TURN-11, Schilberg Public), pp. 54-55.

[19] Ex. 123 (TURN-11, Schilberg Public), pp. 42-55; TURN Opening Brief, Section 4.15.3, pp. 135-137.

[20] PD, p. 271.

[21] *See* PD Workpaper "Master List of PD Adoptions," Tab 5 (Customer Care (O&M)).

adoption of 29 fewer CSRs than forecast by PG&E. While the PD is silent on this aspect of TURN's proposal, the workpapers to the PD reflect a $44,000 reduction to training costs, which is based on PG&E's estimate of $1,555.20/CSR (accepted by TURN).[22] To reconcile the text of the PD with the supporting WPs, the PD should be modified to mention this $44,000 reduction in training costs, if only very briefly.

**2. Section 5.4.8 - Energy Data Services**

There is not dispute that PG&E had planned to replace the vast majority of the EDS-read meters as part of its AMI program. However, the PD authorizes funding for meter reading of these meters, which were never replaced, based on the statement that "we are not persuaded that PG&E's AMI business case had assumed savings based on converting the electric MV-90 meters with SmartMeters."[23] This is factually and legally incorrect. TURN's expert witness in fact quoted directly from PG&E's testimonies in A.05-06-028 to show that PG&E had estimated billing and meter reading savings from replacing those meters.[24] PG&E did not dispute this assertion, but merely responded that it had included all forecast AMI savings in this GRC application.[25]

However, even though PG&E may have *included* all the savings in another portion of the GRC, by requesting this $3.2 million for reading the MV-90 meters, PG&E is in fact *reducing* those forecast savings by exactly this amount. The savings become illusory. The PD should be modified to remove this forecast so as to ensure that the promised savings are realized.

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[22] PD Workpaper "Master List of PD Adoptions," Tab 5 (Customer Care (O&M)); Ex. 118 (TURN Testimony, Nahigian), p. 17.

[23] PD, p. 294.

[24] Ex. 118, p. 19; Ex. 119, Attachments 9 and 10 (TURN/Nahigian).

[25] PG&E Reply Brief, Section 5.4.1.12, p. 5-16.



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### 3. Section 5.5.3 - Smart Meter Maintenance

TURN recommended a reduction in SmartMeter maintenance expenses based on forecasts promised in the AMI proceedings. As with the Energy Data Services issue discussed above, PG&E responded that it had included all the forecast AMI savings in this rate case. However, by approving costs that significantly exceed the estimates made by PG&E in A.07-12-009, the Commission continues to undermine the promised cost-effectiveness of the SmartMeter program. The maintenance expense forecast for smart meters should be reduced by $4.8 million. Otherwise the Commission fails to hold PG&E accountable for the promised benefits that supported the original AMI program authorization.

### 4. SmartMeter Program

Ordering Paragraph 21 denies TURN's proposal "to open an additional phase of the [GRC] to evaluate the results of Commission Staff's audit of SmartMeter costs," though there is no further discussion of this issue in the text. However, TURN did not recommend an evaluation of Staff's audit, since there is no evidence that an audit was ever conducted. PG&E denied having any contacts with CPUC staff, as would have been necessary for an audit.[26] TURN thus actually recommended that an independent audit be conducted of SmartMeter program costs and benefits. The evidence in this proceeding showed that PG&E may have deprived ratepayers of close to $21 million in benefits due to the delay between meter installation and meter activation.[27] Additionally, through various requests in rate cases, such as the one discussed above regarding Energy Data Services and smart meter maintenance, PG&E has eroded the benefits promised in the original AMI applications. Only an independent audit can confirm the actual costs of the program, whether those costs were correctly accounted for in the relevant accounts,

[26] Ex. 118, p. 59 (TURN/Nahigian).

[27] Ex. 118, p. 60 (TURN/Nahigian); TURN Opening Brief, p. 189-190.

and whether benefits were properly booked based on meter deployment.

### D. Energy Supply (PD Section 6)

#### 1. Section 6.3.1.3 - Manage DCPP Business (MWC BP), and Section 6.3.1.8 - Diablo Plant Asset Maintenance Expense (MWC BS)

The PD rejects TURN's proposal to reduce PG&E's expense forecast by $16 million and accepts PG&E's contention that TURN's forecast "used incorrect numbers for 2012 and 2013 and excluded Fukushima project expenses and Independent Spent Fuel Storage Installation (ISFSI) expenses."[28] The PD repeats this finding in two separate sections (6.3.1.3 and 6.3.1.8) addressing MWC BP and MWC BS. A review of TURN's reply brief demonstrates that this finding is factually incorrect.

TURN's recommended reduction is based on the fact that PG&E forecasts $27.349 million in 2014 for "expense projects and major maintenance" as compared to average annual spending of $5.6 million during 2011-2013 on this category.[29] PG&E proposed a 1040% increase for this category in 2014 despite a declining historical trend and zero evidentiary support for the massive jump in proposed expenditures.[30] In light of this unsupported increase, TURN proposed averaging 2011 recorded costs and 2012-2014 forecasts for a recommended test year amount of $11.039 million.[31]

Moreover, TURN's reply brief provides specific proof that the historical averages used to

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[28] PD, page 385. The PD directly quotes this conclusion from PG&E's opening brief without attribution (see PG&E opening brief, pages 6-65 and 6-66) rather than performing any independent review of PG&E's claims.

[29] TURN reply brief, pages 109-110, *citing* Ex. 28 (PG&E workpapers for Ex. 6, Ch. 3), page 3-61.

[30] TURN reply brief, pages 109-110.

[31] TURN opening brief, pages 222-223. TURN's reply brief shows that Fukushima and ISFSI costs are separately identified in PG&E's expense forecast and are <u>not included</u> in the line item challenged by TURN.



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develop both its recommendation and PG&E's 2014 forecast for this category are unrelated to Fukushima or ISFSI costs.[32] TURN did not propose any adjustments to the Fukushima or ISFSI line items in PG&E's forecast. Had TURN included ISFSI and Fukushima costs in both the historical averages and the 2014 forecast, the resulting recommendation (a $16 million reduction) would be unchanged. As a result, the PD's claim is factually incorrect and must be remedied.

### 2. Section 6.3.1.1 - Nuclear Refueling Outage Costs (MWC AB)

The PD rejects TURN's proposal to adjust the 2014 refueling outage costs by excluding $5.5 million in steam generator inspection costs that have been double-counted by PG&E. Specifically, the PD claims that TURN "omits the impact of additional inspections required in 2014 outages which increase outage costs."[33] The PD is deficient because it fails to address the three specific critiques of PG&E's forecast raised in TURN's opening and reply briefs.

First, the PD does not address TURN's argument that PG&E's request for $5.5 million in incremental costs is based on workpapers that double count the costs of this work. PG&E did not provide any corrections to these workpapers and instead argued that the Commission should ignore the detailed breakdown of the forecast provided in its own application. TURN explained that PG&E failed, at a minimum, to provide any support for $2.7 million in 2014 costs.[34] The PD ignores this concern and does not resolve the contested issues detailed in TURN's briefs.

Second, PG&E forecasts steam generator inspection costs by applying an unsupported

[32] TURN reply brief, pages 109-110.

[33] PD, page 382.

[34] TURN reply brief, page 107; TURN opening brief, pages 226-227.



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and undocumented 6% annual escalation rate to 2010 recorded costs for similar work.[35] The PD does not address whether PG&E's proposal to use an unsupported and unique escalation rate solely for this work is reasonable. Moreover, the PD does not respond to TURN's proposal to use a standard nuclear non-labor escalator that would reduce the forecast by $0.5 million.

Third, the PD does not address TURN's concerns that $5.5 million in unique incremental inspection and repair costs forecast for 2014 will not recur in any other refueling outage over the GRC cycle.[36] Because PG&E claims that these costs are one-time expenditures for unique incremental outage work that will not recur over the rate case cycle, any recovery for the 2014 Unit 1 outage should be normalized over the entire rate case cycle rather than being built into the base outage costs. The PD simply ignores TURN's concern on this point.

**3. Section 6.3.1.12 - Obsolete Inventory Write-off**

The PD rejects TURN's forecast of $1.016 million for obsolete material inventory write-off and instead adopts PG&E's forecast of $3.033 million. While acknowledging that inventory write-off is "an infrequent and irregular expense", the PD claims that the forecast is justified based on $870 in capital expenditures occurring between 2011-2014.[37] These two statements are internally inconsistent because PG&E has not forecast ongoing capital expenditures that justify annual write-offs of this amount throughout the entire GRC cycle.

The PD relies on the fact that PG&E wrote-off $3.3 million in 2010 following $900 million in capital expenditures.[38] But the PD fails to consider the demonstrated fact that this amount was "irregular" since PG&E recorded write-offs of only $0.033 million in 2011 and

[35] TURN reply brief, page 106, *citing* Ex. 116, page 46; TURN opening brief, page 227.

[36] TURN opening brief, pages 227-228; TURN reply brief, pages 106-107.

[37] PD, pages 399-400. The PD relies, however, on 2011-2013 capital investment (and excludes 2014) in reaching the conclusion that PG&E's 2014 write-offs are reasonable.

[38] PD, page 400. See TURN reply brief, page 110.



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$0.557 million in 2012.[39] Had PG&E been authorized to collect $3.3 million in each year of the previous GRC cycle, it would have substantially overcollected over the entire period.

In order to reconcile the legitimate finding that such expenses are "infrequent and irregular" with the facts presented in PG&E's application, the Commission should normalize the expense as suggested by TURN. To do otherwise would create an internal incoherence within the PD itself. The Commission should therefore adopt TURN's recommendation of $1.016 million for the test year.

#### 4. Section 6.4.1.2 –Maintain Fossil Generating Equipment

The PD would reject TURN's $90,000 credit for savings to result from the Gateway auxiliary boiler replacement project because PG&E has indicated that it no longer plans to replace the boiler during this rate case cycle.[40] TURN agrees that this is the appropriate outcome, but only if the auxiliary boiler replacement project is removed from the capital forecast adopted in this proceeding. TURN was unable to easily confirm this fact and so recommends that the Commission confirm this removal before authorizing a final revenue requirement.

### E. Shared Services and IT (PD Section 7)

#### 1. Section 7.8.2.3 - Telecommunications Network Enhancement

PG&E claimed that the need for an enhanced telecommunications network is due in part to its effort to increase the bandwidth requirements to accommodate more workers with mobile capability.[41] TURN challenged PG&E's forecast in part due to the excessive number of workers for which PG&E seeks mobile capability, and recommended that each work crew have only one

[39] Ex. 116 (TURN Marcus testimony, page 37).

[40] PD, pp. 416-417.

[41] PD, pp. 490-491.

mobile device. The PD rejects TURN's challenge, applying the logic:

> However, with multiple devices, the crews can break into smaller groups to complete work more quickly and efficiently. With only one device per crew, efficiencies from working in smaller crews are lost.[42]

The outcome here is inconsistent with the PD's correct treatment of this issue in the section addressing Electric Distribution Workforce Mobilization and Scheduling Projects (Section 4.2.3). There the PD correctly recognized that the small size of PG&E's average crew size means there are limited opportunities to split them into smaller crews, and therefore no need to fund additional mobile units.[43] The same logic applies with equal force to the number of mobile units that are presumed in PG&E's proposed spending for Telecommunications Network Enhancement, and should result in a reduction to the forecast amount here. Otherwise, the Commission is funding bandwidth needed for mobile devices that it decided were unnecessary.

TURN had recommended an overall reduction of 30% to PG&E's requested funding level for bandwidth requirements in the Telecommunications Network Enhancement Project. Over half of that reduction was tied to the reduction in the number of mobile unites, with TURN presuming a reduction of 600 units.[44] The Proposed Decision would reduce PG&E's request by 878 mobile units, substantially more than TURN had presumed. Therefore a decrease of 15% (half of TURN's proposed 30% reduction) is justified and, indeed, very conservative. The associated expense forecast for 2014 should be reduced $525,000, and the forecasted capital expenditures for 2014 reduced by $5.9 million.[45]

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[42] PD, p. 492.

[43] PD, p. 143.

[44] Ex. 123 (TURN Testimony of Gayatri Schilberg), p. 15.

[45] Calculated from Ex. 32 (PG&E-7, WP 07-09), p. 8-174.



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### 2. Section 7.8.2.7 - Technology Reliability Portfolio

There is a typographical error in this section. In the paragraph that begins "Based on past experience…," there is a sentence that begins, "As a conditional consideration supporting our adoption…."[46] The correct word is "additional."

## F. Human Resources (PD Section 8)

### 1. Section 8.3.2 – Short-Term Incentive Plan (STIP)

The PD refers to TURN's recommendation "that $2.1 million in STIP funding for ESC-represented employees be denied, resulting in an overall reduction of $35.4 million to PG&E's 2014 STIP forecast."[47] The PD should be modified to remove this statement, as TURN withdrew our recommendation for a disallowance for the ESC STIP in our opening brief.[48]

## G. Administrative and General Expenses (PD Section 9)

### 1. Section 9.2.1 – Finance Department A&G Costs

TURN recommended a disallowance of $61,000 (2014$) for the dues paid by PG&E to the California Taxpayers Association, a political organization. The PD would adopt a much smaller disallowance of the 10 percent of dues that PG&E conceded were direct lobbying costs, finding the remainder "a valid utility expense."[49] This outcome is in stark contrast to the Commission's finding in the most recent SCE GRC, where the Commission concluded that ratepayers should not fund any of the utility's membership dues paid to the California Taxpayers Association because that organization is "focused on tax policy, not delivery of electrical

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[46] PD, p. 501.

[47] PD, p. 510.

[48] TURN Opening Brief, pp. 278, 283.

[49] PD, pp. 531-532.



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service," and "advancing policies of tax reduction is inherently political."[50] The PD provides no rationale as to why a different outcome is appropriate here. Furthermore, the PD's approach is inconsistent with its treatment of a very similar issue, whether to disallow some or all of the dues PG&E paid to the California Council for Environmental and Economic Balance (CCEEB). The PD would adopt TURN's proposal to exclude all of these dues because excluding only the dues directly supporting lobbying "is too narrow, and doesn't account for the other public advocacy activities of CCEEB," … with which ratepayers may not agree.[51]

To prevent conflicting guidance and the associated likelihood of continued litigation on these same issues in future GRCs, the PD should be modified to disallow all of the dues paid by PG&E to the California Taxpayers Association.

### 2. Section 9.5 – Regulation and Rates Department

The PD explains: "… TURN recommends that the FERC and ISO Relations Department's (Provider Cost Centers 12864 and 12916) total forecast cost be allocated 100% to the generation LOB. We address these disputes below."[52] However, while the PD addresses the other disputed aspects of PG&E's forecast for this department, the PD does not address this issue raised by TURN. The PD should be modified to resolve this issue. For the reasons provided by TURN in our testimony and brief, we submit that the Commission should adopt our recommendation for the FERC and ISO Relations Department.[53]

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[50] D.12-11-051, p. 507.

[51] PD, p. 557.

[52] PD, p. 554.

[53] Ex. 114 (TURN, Jones Testimony), p. 56; TURN Opening Brief, pp. 290-291.



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### 3. Other Base Year Adjustments for Inappropriate Expenses – Clothing and Other PG&E Gear

The PD is silent as to TURN's recommendation that the Commission remove from the base year $183,000 (escalated to $199,000 in 2014$) for Clothing and Other PG&E Gear because these expenses are promotional and image building. The PD should be modified to address this contested issue. For the reasons previously provided by TURN, we submit that the Commission should adopt our adjustment.[54]

## H. Results of Operations (PD Section 10)

### 1. Section 10.3.3 - Water Sales

The text of the Proposed Decision would increase PG&E's forecast of Other Operating Revenue (OOR) by $2.672 million to reflect the effects of the utility's agreement with Placer County Water Agency (PCWA) that calls for an increase in revenues from $378,000 per year to $3 million per year by 2014.[55] But the associated Finding of Fact describes a $2 million increase. FOF 291. The "discussion" section refers to a TURN-proposed adjustment of $2 million, then later describes adoption of an increase of $2.672 million to PG&E's forecast. Here the confusion is at least partly TURN's fault – TURN's proposed adjustment is $2.672 million, as indicated in TURN's opening brief (p. 349), but TURN incorrectly listed the proposed adjustment as $2 million in the Comparison Exhibit (p. A-37). Finding of Fact 291 should be modified to reflect increased revenues of $2.672 million rather than $2 million.

## I. Rate Base, Working Cash and Finance Issues (PD Section 11)

### 1. Section 11.3 – Customer Deposits

The PD would reject TURN's proposal that customer deposits be applied as a rate base

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[54] Ex. 116 (TURN, Marcus Testimony), p. 63; TURN Opening Brief, p. 297

[55] PD, p. 596-598.



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offset, instead determining that customer deposits should be reflected in PG&E's capital structure as a form of low-cost debt until further consideration in PG&E's next cost of capital proceeding.[56] While TURN continues to believe that our position is the most reasonable outcome as a matter of policy, we do not repeat our prior supporting arguments here. Rather, TURN recommends that the PD's analysis be modified to avoid confusing guidance when viewed against the line of Commission decisions considering the ratemaking treatment of customer deposits for SCE.

First, the PD's discussion of Commission Standard Practice U-16 (SP U-16) should be modified. In rejecting TURN's proposal, the PD relies on its observation that "TURN's proposed treatment of customer deposits is also inconsistent with" SP U-16.[57] However, the Commission has on a number of occasions deviated from SP U-16 for the purpose of providing the utility with adequate amounts of cash working capital at a minimum cost to ratepayers, including in the last four SCE GRCs.[58] The PD should be modified to likewise recognize the Commission's discretion to determine whether the provisions of SP U-16 should apply in the particular circumstances at hand.

Equally as important, the PD should be modified to explicitly address the basis for reaching opposite outcomes for PG&E and SCE on whether to treat customer deposits as an offset to rate base. The Commission has three times affirmed its original holding in SCE's Test

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[56] PD, pp. 616-617.

[57] PD, p. 616.

[58] *See, e.g.*, D.04-07-022, pp. 253-254 ("As the Commission has previously held, U-16 is only a guide, and deviations are appropriate where circumstances warrant. TURN has demonstrated that such is the case here, since customer deposits are no longer small, while interest rates are relatively low compared to rates of return."); D.09-03-025, p. 289 (finding authority to deviate from the specific wording of SP U-16 "under the circumstances where ratemaking adjustments, which are consistent with the theory of SP U-16, result in a ratepayer benefit while the utility is made whole through alternative cost recovery," and concluding that treating customer deposits as an offset to rate base met that test).



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Year 2003 GRC that customer deposits held by SCE should be treated as an offset to rate base for ratemaking purposes.[59] If the Commission adopts the PD's proposal regarding customer deposits, the Commission should at least distinguish PG&E from SCE in justifying the opposite outcome. Otherwise, the Commission's approach will appear arbitrary.

No one benefits when the Commission's decision-making yields conflicting or confusing guidance – not the utilities, not the intervenors, and not subsequent Commissions. If the Commission is intent on rejecting TURN's proposal and adopting the outcome in the PD, the Commission should at least avoid muddying the waters any further. The PD should be modified to affirm that SP U-16 is only a guide, to be followed or not as circumstances warrant, and to explain why PG&E's ratepayers should not have the same ratemaking benefits associated with customer deposits that SCE's have enjoyed for more than a decade.

### J. Attrition Adjustment Mechanism (PD Section 12)

The PD would adopt a two-part post-test year attrition rate adjustment mechanism, which would separately adjust expense and capital expenditures. On the expense side, the PD would "generally adopt industry-specific escalation factors, rather than use of the CPI," which was proposed by TURN and ORA.[60] The PD reasons, "CPI reflects consumer retail prices changes, not the escalation in wholesale purchases of utility goods and services."[61] On the capital side, the PD would adopt TURN's proposed seven-year historical average, though using years 2008-2014 instead of TURN's 2005-2011 period, because "use of a more recent seven-year period offers a

[59] D.12-11-051, issued in SCE's TY 2012 GRC; D.09-03-025, issued in SCE's TY 2009 GRC; D.06-05-016, issued in SCE's TY 2006 GRC; and D.04-07-022, issued in SCE's 2003 GRC.

[60] PD, p. 639.

[61] PD, p. 639.



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more robust forecast relative to TURNs."[62] The PD errs both in relying on industry-specific escalation factors and in using the 2008-2014 period.

First, the PD's use of industry-specific (and even company-specific) indices to escalate test year expenses misses a critical opportunity to encourage PG&E to stretch. As the Commission observed in the SDG&E/SoCalGas GRC decision issued hardly a year ago, "although these utility-specific indexes may be a better reflection of the PTY costs in a 'business as usual' setting, such indexes, if adopted, will not provide the Applicants with an incentive to manage and reduce their costs during the PTY period."[63] Indeed, the use of overly narrow indices, which essentially compare the utility to itself or similarly situated businesses, creates a perverse incentive for the utility to spend more; the more the utility expends, the greater the future increases tied to such escalation. While it may be appropriate to use narrow escalators to determine test year revenue requirements, the purpose of an attrition mechanism is different, as the PD aptly observes.[64] According to the PD, the Commission seeks "to promote PG&E's incentive to stretch to achieve productivity between test years."[65] To achieve this end, the Commission should modify the PD to adopt CPI or a similarly broad index to escalate expenses for the attrition years.

Second, the PD errs in adopting 2008-2014 as the historical period for purposes of capital spending attrition increases. The PD touts the reasonableness of using an historical average: "Use of an historical average is consistent with the approach applied in the past, and normalizes

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[62] PD, p. 646.

[63] D.13-05-010, p. 1008.

[64] PD, p. 639 ("The ARA [Attrition Rate Adjustment] is not intended to replicate a test year analysis, or to cover all potential cost changes so as to guarantee PG&E's rate of return through 2015 and 2016. The ARA is merely to mitigate economic volatility between test years to a reasonable degree so that a well-managed utility can provide safe and reliable service while maintaining financial integrity.").

[65] PD, p. 639.

actual utility spending variations over time."[66] However, inclusion of year 2014 in this "historical average" would mix historical recorded data from 2008-2013 with authorized but not actual capital spending in 2014. Hence, the PD should be modified to adopt an actual seven-year historical period for setting capital attrition. TURN submits that our seven-year period, 2005-2011, is reasonable and consistent with the Commission's traditional seven-year approach. Alternatively, TURN would not object to a more recent seven-year period including 2012, especially as all parties and the PD have relied on recorded 2012 data in this proceeding.

## III. CONCLUSION

For the foregoing reasons, the Commission should modify the Proposed Decision as provided herein.

Date: July 8, 2014

Respectfully submitted,

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[66] PD, p. 643.



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## Appendix A

## Proposed Modifications to Findings of Fact and Conclusions of Law

**Findings of Fact**

28. PG&E's cross-bore sewer remediation project mitigates a major safety risk by identifying where cross bores may have occurred and by relocating the line, where necessary. ~~PG&E's cost forecast for the program is reasonable, except for an adjustment based on the $5,000 unit cost calculated by DRA~~ However, PG&E's tripling of program activity is not cost effective or practical. PG&E's forecast is reduced by $8.5 million to be commensurate with 2012 inspection and repair levels. PG&E should conduct additional analysis to improve the targeting of inspection efforts.

29. PG&E's forecast of $4.5 million for DIMP internal management resources is r~~easonable~~ excessive compared to appropriately escalated federal estimates and is reduced by $1.1 million.

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 further reduce costs by 13.91 million 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.

74. The new CCO tools enhance website capabilities and integration to back end systems to provide customers timely and direct access to service request status. Existing online tools do not adequately meet customer needs for requesting and monitoring service requests. However, PG&E forecasts that only approximately 37,000 of its customers will make use of this service once it is available.

173. PG&E has not reasonably forecast the cost of the two DCPP refueling outages scheduled for 2014. Outage costs should be reduced by $2.7 million to reflect unsupported incremental steam generator inspection costs and by $0.5 million to eliminate reliance on an unsupported and unique escalation rate. PG&E's ratemaking approach should ~~is~~ also be modified to normalize one-time refueling expenditures. ~~reasonable by providing uniform treatment over the GRC cycle and avoiding a larger increase in 2014 followed by a decrease in 2015.~~

182. PG&E unreasonably forecasts $184.18 million for preventive and corrective maintenance and surveillance testing of DCPP's mechanical and electrical equipment, instrumentation and controls. This forecast should be reduced by $16 million to correct unsupported forecasts for expense projects and major maintenance. DRA's proposed reductions do not properly consider the costs of the second refueling outage, the change in accounting for

security and facility costs; and excludes labor escalation. DRA's proposal to amortize three projects over three years is not appropriate here since the projects are ongoing and the amounts are relatively small.

186. It is reasonable to reduce PG&E's forecast of NRC regulatory and inspection fees by $1.326 million as proposed by TURN, because PG&E's trend line analysis is unduly biased by escalation during 2007-2010 that has not continued in subsequent years. It is also reasonable to reduce PG&E's forecast of obsolete inventory write-offs by $2.017 million in recognition of the fact that such write-offs are infrequent and irregular.

227. PG&E's 2014 forecast of capital expenditures and expenses for the Telecommunications Network Enhancement project ~~is reasonable~~ should be reduced in view of the projected increase in network bandwidth needs and other identified factors that supported forecasted cost increases.

291. It is reasonable to increase PG&E's 2014 OOR forecast by $2.672 million for the effects of additional revenues PG&E will receive from the Placer County Water Agency (PCWA) under a new agreement increasing revenues. . . .

**Conclusions of Law**

**Ordering Paragraphs**

14. ~~The Utility Reform Network's proposal is denied to charge Pacific Gas and Electric Company's website users with a new online administrative fee for Customer Connections Online.~~ TURN's proposal to have PG&E recover the reasonable costs for Customer Connections Online through a service fee charged to those customers who use the service is adopted.

21. The Utility Reform Network's proposal ~~to open an additional phase of the 2014 General Rate Case to evaluate the results of Commission Staff's~~ for an independent audit of SmartMeter™ costs and benefits is ~~denied~~ granted.

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