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Exhibit Number	:	ORA-18
Commissioner	:	C. Peterman
ALJ	:	J. Wong
Witness	:	C. Tang

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Pacific Gas and Electric Company Test Year 2015 Gas Transmission and Storage Rate Case

Cost Recovery and Post-Test Year Ratemaking

San Francisco, California
August 11, 2014

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COST RECOVERY and POST-TEST YEAR RATEMAKING

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding Pacific Gas and Electric Company's (PG&E) Cost Recovery and Post-Test Year (PTY) Ratemaking proposals associated with its 2015 Gas Transmission and Storage (GT&S) rate case, as presented in Chapter 18 of PG&E's prepared testimony dated December 19, 2013.

Among other things, PG&E requests that the Commission approve its proposals for:[1]

- Base revenue requirements of $1.286 billion for 2015, $1.347 billion for 2016, and $1.515 billion for 2017;[2]
- Discontinuing the GT&S Revenue Sharing Mechanism that resulted from the Gas Accord V Settlement, and recovering all GT&S revenues subject to a balancing account;
- A new two-way Transmission Integrity Management Program Balancing Account (TIMPBA) for recovery of costs related to integrity management; and
- Continuing and simplifying recovery of other GT&S related costs.

II. SUMMARY OF RECOMMENDATIONS

ORA recommends post-test year revenue increases of $39 million (3.7%) in 2016 and $61 million (5.6%) in 2017, compared to PG&E's request for increases of $61 million (4.8%) in 2016 and $168 million (12.4%) in 2017

ORA does not oppose a Post-Test Year Ratemaking (PTYR) mechanism which will provide PG&E with some reasonable level of revenue increases in 2016 and 2017. ORA also proposes a third post-test year in 2018. ORA recommends post-

[1] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-1, line 27 through p. 18-2, line 4.

[2] These figures include revenue requirement associated with net plant additions from PG&E's Pipeline Safety Enhancement Plan (PSEP) Update Filing, Application No. 13-10-017.

test year revenue increases of 3.0% per year in 2016, 2017 and 2018, plus additional revenues for certain costs.[3]

Based on ORA's forecast of PG&E's 2015 GT&S revenue requirement,[4] ORA's recommended PTYR methodology yields estimated revenue increases of $38.6 million in 2016, $60.8 million in 2017, and $34.6 million in 2018. These post-test year increases result in revenue requirement levels of $1.092 billion for 2016, $1.152 billion for 2017, and $1.187 billion for 2018.

A. Cost Recovery

ORA's recommendations pertaining to PG&E's various cost recovery proposals are as follows.

- If the Commission adopts PG&E's proposal for full noncore balancing account treatment, or adopts no form of noncore balancing account treatment, then core customers should not be allocated over- or under- collections from the noncore.
- ORA does not take a position on PG&E's proposal to discontinue the GT&S Revenue Sharing Mechanism (GTSRSM).
- ORA opposes PG&E's proposal to establish a new two-way Transmission Integrity Management Program Balancing Account (TIMPBA). Instead, ORA recommends that a new one-way balancing account be established. ORA also recommends that the Commission set some limits if it allows PG&E the opportunity to file an advice letter to revise TIMP program forecasts for higher costs.
- ORA does not oppose PG&E's proposal to continue with the Z-factor mechanism, except it should be only effective during the post-test years and not the test year.
- ORA does not oppose PG&E's proposal to continue with the Adjustment Mechanism for Costs Determined in Other Proceedings (AMCDOP) which was adopted as part of the Gas Accord V Settlement Agreement.

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[3] With the additional revenues, ORA estimates that the effective post-test year increases equal 3.66% in 2016, 5.56% in 2017, and 3.00% in 2018.

[4] See Exhibit ORA-16.

- ORA opposes PG&E's proposal to include forecasted Line 407 project costs in the 2017 revenue requirement. Instead, ORA recommends that PG&E be allowed to file a Tier 2 advice letter seeking revenue recovery (up to its forecast) after the project is used and useful. This ensures that PG&E will not receive excessive amounts of money upfront, and that ratepayers are protected from overpaying in case PG&E does not spend as much as it forecasts.

- ORA does not oppose PG&E's proposal to recover all actual costs incurred for electricity used to provide gas compression, and all actual Assembly Bill 32 Greenhouse Gas compliance costs incurred for natural gas compressor stations, consistent with ORA's recommendations on this matter as presented in Exhibit ORA-10.

- ORA does not oppose PG&E's proposal to eliminate the Gas Operations Balancing Account (GOBA) as long as it is required to add new accounting procedures to the Core Fixed Cost Account (CFCA) and Noncore Customer Class Charge Account (NCA) to ensure that the entries are easily identifiable and transparent.

- ORA will address PG&E's proposal to terminate the Tax Act Memorandum Account (TAMA) if and when PG&E files the advice letter.

- If provisions for bonus depreciation are extended into any years covered by this GT&S rate case cycle, PG&E should be required to make the appropriate revenue requirement adjustments to reflect the impacts from bonus depreciation so that the benefits are flowed through to ratepayers.

B. Post-Test Year Ratemaking

ORA recommends a PTYR mechanism whereby attrition base revenue increases for PG&E are set at 3.0% for 2016, 2017 and 2018, plus additional revenues to cover certain incremental costs.

- ORA's recommended percentage increase is guided by a recent forecast of the All-Urban Consumer Price Index (CPI-U), attrition increases adopted by the Commission in recent General Rate Cases (GRCs), and, more specifically, the most recent post-test year increase adopted for the Sempra Utilities in Decision (D.)13-05-010.

- ORA recommends $35 million of additional revenues so that PG&E can undertake higher priority inspections and assessments.

ORA's recommended percentage increase for PG&E's base revenues closely mirrors the mechanism for the Sempra Utilities (San Diego Gas & Electric Company [SDG&E] and Southern California Gas Company [SoCalGas]) in their 2012 GRCs, where the Commission authorized post-test year revenue increases based on the CPI-U plus 75 basis points.[5] ORA's recommended percentage increase is also higher than what the Sempra Utilities were authorized, and will provide PG&E with more revenue to cover the return on investment on its higher priority proposed capital expenditures during the attrition years.

Based on PG&E's and ORA's 2015 revenue requirement forecasts, the differences between PG&E's proposed and ORA's recommended PTYR mechanisms yield the following estimated revenue increases for 2016, 2017 and 2018, as shown on Table 18-1:

Table 18-1
ORA Recommended vs. PG&E Requested
at Proposed Rates
Estimated GT&S Post-Test Year Revenue Increases for 2016, 2017 and 2018
(In Thousands of Dollars)

Description (a)	2016 (b)	2017 (c)	2018 (d)
PG&E Requested[6]	$61,039	$167,574	---
ORA Recommended	$38,593	$60,751	$34,573
Amount PG&E>ORA	$22,446	$106,823	n/a

If the Commission does not adopt ORA's recommended post-test year ratemaking mechanism, and instead decides to rely on a mechanism similar to PG&E's proposal, then ORA recommends the following alternative:

- Regarding PG&E's proposed methodology of determining post-test year increases for operational expenses by escalating adopted

[5] D.13-05-010, *mimeo.*, at p. 1010.

[6] PG&E Workpapers, Chapter 18, p. WP 18-227, line 1, columns B and D.

2015 expense levels and applying appropriate traditional escalation factors:

- Labor and labor-related escalation rates be set at 2.3% in 2016, and 2.6% in 2017 and 2018, in contrast to PG&E's proposed escalation rates of 2.79% for 2016 and 2017;
- ORA does not oppose PG&E's proposed materials and services (non-labor) escalation rates but recommends that they be fixed (i.e., not updated at a future date); and
- Medical plan costs escalation rates be set at 6.6% for 2016, 2017, and 2018, as opposed to PG&E's proposed escalation rates of 8.2% for 2016 and 2017.

- Adopt a 1-way balancing account for the Traditional ILI (including Direct Exam & Repair), External and Internal Corrosion Direct Assessment, and Hydrostatic Testing Station Facility M&C programs, with 2016 and 2017 expenses capped at amounts equal to PG&E's forecasts for those years, less the percentage difference between PG&E's 2015 forecast and the adopted 2015 amounts for these specific program areas.
- The capital attrition allowance should be based on the adopted 2015 level of capital expenditures, escalated to 2016, 2017, and 2018 attrition year nominal dollar levels.

III. BACKGROUND

A. Utilities are not Automatically Entitled to Post-Test Year Revenue Increases

Before 1982, the base revenue requirement was generally adjusted only during GRC proceedings. In the period between GRC proceedings, base rates would not change, but the utilities received additional income from customer growth. Post-Test Year, otherwise known as attrition, rate adjustments were implemented in the early 1980's primarily because of the unprecedented high inflation and lower rates of customer growth and sales in the late 1970's and early 1980's. Since the mid-1980's, inflation has generally declined to more modest historical levels. The utilities have also had various forms of revenue balancing account protection from sales fluctuation. Additionally, utility fuel-related costs that had high volatility, and over which utilities have limited control, were removed from base rates and are now recovered through separate mechanisms with balancing accounts.

The GRC proceeding periodically reviews and sets reasonable rates for utilities for a specific test year, in this case, 2015. For the period between GRC proceedings, the Commission has, in some cases, granted attrition-type increases and, in other cases, has not provided such increases. In the past, the Commission has stated:

> The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all business experience…Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.[7]

For example, in PG&E's 1999 GRC decision, the Commission denied attrition increases for year 2000. In Decision (D.) 02-02-043, the Commission granted PG&E a 2001 attrition increase of approximately $151 million. In D.03-03-034, however, the Commission denied PG&E's attrition increase request for 2002. It is clear that utilities are not automatically entitled to attrition rate increases between rate cases, even though the Commission has included provisions for post-test year rate relief in some GRC decisions.

B. Post-Test Year Revenue Increases in Recent General Rate Cases

Post-test year revenue increases granted by the Commission to the large California energy utilities in each of their last two GRCs have been as follows:

In recent GRCs, utilities have typically received annual post-test year revenue increases ranging from 3% to 4%

- The Commission adopted a settlement agreement in PG&E's 2007 GRC, authorizing attrition increases of $125 million (about 2.5%) per year from 2008 through 2010.[8]

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[7] Decision (D.) 93-12-043, 52 CPUC 2d 471, 492.

[8] D.07-03-044, *mimeo.*, at pp. 2, 10 and 11.

- The Commission adopted a settlement agreement in the Sempra Utilities' 2008 GRC, authorizing attrition increases of approximately 3.1% per year from 2009 through 2011 for each of the two utilities.[9]
- For the SCE 2009 GRC, the Commission authorized attrition increases of 4.25% for 2010 and 4.35% for 2011.[10]
- The Commission adopted a settlement agreement in PG&E's 2011 GRC, authorizing attrition increases of $180 million for 2012 and $185 million for 2013 (about 3.0% per year).[11]
- For the SCE 2012 GRC, the Commission essentially authorized attrition increases of 3.9% for 2013 and 5.7% for 2014.[12]
- For the Sempra Utilities' 2012 GRC, the Commission authorized attrition increases based on the CPI-U, plus 75 basis points.[13]

With the exception of a few instances, the Commission has generally authorized attrition increases in the range of approximately 3% to 4% per year.

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[9] D.08-07-046, *mimeo.*, Appendix 3 (for SDG&E) and Appendix 4 (for SoCalGas).

[10] D.09-03-025, *mimeo.*, at pp. 305-306.

[11] D.11-05-018, *mimeo.*, Attachment 1, p. 1-17, Section 3.11.2.

[12] D.12-11-051, *mimeo.*, at p. 3, indicates that, for SCE, the Commission adopted revenue requirement levels of $5.671 billion for 2012, $6.078 billion for 2013, and $6.426 billion for 2014. Based on ORA's calculations, this equates to revenue increases of $407 million (7.2%) in 2013 and $348 million (5.7%) in 2014. However, excluding the $188 million in revenues (see page 13, Table 6, line 3 of SCE's Advice 2826-E, dated December 19, 2012, included as **Attachment 1** to this exhibit) rolled in from SCE's SmartConnect program beginning in 2013 (which were previously recovered through the Edison SmartConnect Balancing Account, or ESCBA), the net post-test year revenue increase would have been $219 million (3.9%) in 2013.

[13] D.13-05-010, *mimeo.*, at p. 1010.

C. Post-Test Year Revenue Increases in PG&E's 2011 GT&S Rate Case

In Application (A.) 09-09-013, PG&E requested a total revenue requirement for its GT&S services of:

Table 18-2
Pacific Gas and Electric Company
2011 GT&S Revenue Requirement Request[14]
(in Millions of Dollars)

Description	2011	2012	2013	2014
Revenue Requirement (RRQ)	$529.1	$561.5	$592.2	$614.8
$ Change in RRQ from prior year	---	$32.4	$30.7	$22.6
% Change in RRQ from prior year	---	6.12%	5.47%	3.82%

In D.11-04-031, the Commission adopted the following revenue requirement for PG&E's 2011 GT&S rate case:

Table 18-3
Pacific Gas and Electric Company
Adopted 2011 GT&S Revenue Requirement[15]
(in Millions of Dollars)

Description	2011	2012	2013	2014
Revenue Requirement (RRQ)	$514.2	$541.4	$565.1	$581.8
$ Change in RRQ from prior year	---	$27.2	$23.7	$16.7
% Change in RRQ from prior year	---	5.29%	4.38%	2.96%

The annual attrition increase adopted by the Commission for PG&E's 2011 GT&S rate case averaged 4.21% for the three years 2012 through 2014, compared to the average annual 5.14% increase that PG&E requested.

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14 D.11-04-031, *mimeo.*, at p. 9.

15 Id.

IV. PG&E's COST RECOVERY PROPOSALS

PG&E proposes to continue or modify various aspects of its GT&S cost recovery, as discussed below.

A. Revenue Sharing Mechanism

According to PG&E, GT&S revenue requirements are allocated between core and noncore customers, as follows:[16]

- Those allocated to core customers are decoupled and, therefore, recorded and recovered through various balancing accounts, thereby ensuring PG&E collects no more or less than the adopted amounts allocated to core customers.
- Those allocated to noncore customers are subject to a GT&S Revenue Sharing Mechanism (GTSRSM) through 2014, as negotiated as part of the Gas Accord V Settlement. Differences between the adopted revenues and billed revenues from noncore customers for 2011-2014 are recorded to the GTSRSM and shared between customers (core and noncore) and PG&E shareholders.

PG&E proposes discontinuing the GTSRSM and, instead, recovering GT&S revenues allocated to noncore customers in the same decoupled manner as those allocated to core customers.[17] In addition, PG&E proposes full balancing account treatment for its transmission and storage revenues (excluding Gill Ranch storage revenues).[18] According to PG&E:

> "To achieve decoupling and full revenue balancing account treatment, PG&E proposes to record and recover its noncore local transmission and unbundled storage and backbone transmission revenue requirements in the Noncore Subaccount of the Noncore Customer Class Charge Account (NCA)."[19]

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[16] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-2, lines 9-22.

[17] Id., p. 18-2, lines 23-26.

[18] This is addressed in Chapters 1 and 10 of PG&E's testimony.

[19] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-3, lines 6-14.

PG&E indicates that eliminating the revenue sharing mechanism and changing the NCA as a result of implementing revenue decoupling would result in changes to the Core Fixed Cost Account (CFCA).[20]

B. Transmission Integrity Management Program Costs

As indicated in PG&E's testimony, Senate Bill (SB) 879, which adds Section 969 to the Public Utilities Code, states:

> "In any ratemaking proceeding in which the commission authorizes a gas corporation to recover expenses for the gas corporation's transmission pipeline integrity management program established pursuant to Subpart O (commencing with Section 192.901) of Part 192 of Title 45 of the United States Code or related capital expenditures for the maintenance and repair of transmission pipelines, the commission shall require the gas corporation to establish a balancing account for the recovery of those expenses. Any unspent moneys in the balancing account in the form of an accumulated account balance at the end of each rate case cycle, plus interest, shall be returned to ratepayers through a true-up filing. <u>Nothing in this section is intended to interfere with the commission's discretion to establish a two-way balancing account.</u> (Emphasis added)"[21]

PG&E says that legislative analysis of SB 879 "…indicates that this bill was intended to increase the transparency of funding of the maintenance, repair and safety of gas transmission pipelines by requiring that funds authorized for that use stay in one account and only be used for that purpose."[22]

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[20] The proposed changes to the CFCA are presented in pro forma preliminary statements included in Attachment A to PG&E's Chapter 18 testimony.

[21] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-3, lines 19-32.

[22] Id., p. 18-4, lines 1-4.

To achieve this, PG&E proposes to track the difference between its actual incurred and adopted Transmission Integrity Management Program (TIMP) expenses and capital revenue requirements in a new two-way balancing account called the Transmission Integrity Management Program Balancing Account (TIMPBA), whereby:[23]

- all expenses and capital revenue requirements incurred in managing and implementing its TIMP programs would be recorded to this account;
- the adopted amounts recorded to the account would reflect authorized expenses and capital revenue requirements for its TIMP programs, adjusted for Post-Test Year (PTY) ratemaking increases; and
- at the end of the rate case cycle, 2017, any unspent amounts would be returned to customers.

PG&E indicates that "…if at any time during the funding cycle PG&E anticipates incurring costs above the total expenses and capital revenue requirements adopted for this program, PG&E proposes to file a Tier 3 advice letter detailing the additional costs so that the Commission and parties have an opportunity to review these additional costs. This approach will allow PG&E to address as-yet-unforeseen circumstances and still provide customer protection in the form of review before PG&E is authorized to recover its costs in rates."[24]

C. Other GT&S Related Cost Recovery

PG&E proposes to continue and simplify other GT&S related costs recovered from ratepayers. According to PG&E, "…[t]hese simplifications do not change the intended type of costs currently adopted for recovery, but instead reduce the number

[23] Id., p. 18-4, lines 9-29.

[24] Id., p. 18-4, line 29 through p. 18-5, line 6.

of accounting entries and balancing accounts necessary to achieve the currently authorized cost recovery."[25]

1. Z-factor Mechanism

PG&E proposes to continue the Z-factor mechanism that has been in every Gas Accord settlement:[26]

Table 18-4
Pacific Gas and Electric Company
Proposed Z-Factor Mechanism for 2015 GT&S Rate Case

Z-factor Cost (Savings) per Event	Cost Responsibility
$0 - $5 million	100% Shareholders
> $5 million - $10 million	50/50 Sharing
> $10 million	100% Customers

The mechanism is intended to cover cost increases or decreases for known changes arising from governmental actions.

2. Costs Determined in Other Proceedings Beyond 2014

PG&E proposes to continue the Adjustment Mechanism for Costs Determined in Other Proceedings (AMCDOP) tracking account, which was adopted as part of the Gas Accord V Settlement Agreement.[27] According to PG&E, "…[t]he purpose of this account is to track differences in revenue requirements associated with costs determined in other proceedings, and the revenue requirements included in this filing that are based on placeholder costs. These differences are then trued up and included in rates. These costs include administrative and general, uncollectibles, pension, and cost of capital."[28]

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[25] Id., p. 18-5, lines 13-16.

[26] Id., p. 18-6, Table 18-1.

[27] *See* Section 7.5 of Gas Accord V Settlement Agreement.

[28] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-6, lines 9-14.

3. Line 407 Costs

PG&E indicates that costs for Line 407 were included in its 2011 GT&S rate case,[29] but states, "…this project has not been constructed and no costs have been included in rates for recovery from customers."[30]

PG&E forecasts the Line 407 project will become operational in 2017, and requests Commission approval for recovery of the revenues associated with this project. PG&E has included the cost of the project in its 2017 revenue requirement forecast, and indicates that the 2017 revenue requirement for Line 407 is $6.994 million.[31] In addition, PG&E states, "…[h]owever, if Line 407 is not constructed and placed into service, PG&E will refund the 2017 revenue requirement to customers as part of the 2018 Annual Gas True-Up (AGT) advice letter."[32]

4. Actual Electricity Costs and Greenhouse Gas Compliance Costs

PG&E proposes to continue its currently authorized recovery of: (1) all actual costs incurred for electricity used to provide gas compression; and (2) Assembly Bill (AB) 32 Greenhouse Gas (GHG) compliance costs incurred for natural gas compressor stations. Both of these costs are tracked in a two-way balancing account, the Gas Operations Balancing Account (GOBA).[33] The GOBA records the actual costs incurred compared to the adopted forecast amounts.

According to PG&E, in D.13-03-017, the Commission authorized recovery of GHG compliance costs incurred for six natural gas compressor stations presented in Application (A.) 12-06-010. However, PG&E asserts that it is incurring GHG compliance costs for additional natural gas compressor stations beyond the six

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[29] This is addressed in Chapter 10 of PG&E's testimony, Section D.2.d.

[30] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-6, lines 20-22.

[31] Id., p. 16-22, line 18.

[32] Id., p. 18-7, lines 1-4.

[33] Id., p. 18-7, lines 8-14.

addressed in that decision.[34] PG&E is therefore requesting recovery of all GHG compliance costs incurred for any natural gas compressor stations, including any future ones for which PG&E will be required to incur GHG compliance costs.[35]

Currently, electricity costs are recorded in the Electricity Subaccount of the GOBA, while the GHG compliance costs are recorded in the Compressor Station GHG Cost Subaccount of the GOBA. Differences between the actual incurred costs and the adopted forecast amounts recorded in the two GOBA subaccounts are transferred to the CFCA and NCA for true-up to recorded actual costs, and then overcollected balances are returned to customers while undercollected balances are included in rates for future recovery.[36]

PG&E proposes simplifying the process for recovering these costs: "Rather than tracking these differences in the GOBA and transferring the balances to the CFCA and NCA for subsequent true-up to actual incurred costs, PG&E proposes to record the differences directly in the CFCA and NCA for recovery and eliminate the GOBA. Two new accounting procedures will be added to the CFCA and NCA to ensure these costs are easily identifiable and transparent."[37]

5. Tax Act Memorandum Account

The Tax Act Memorandum Account (TAMA), a one-way balancing account, was established pursuant to Resolution L 411-A. The TAMA is supposed to reflect:[38]

- the revenue requirement impacts of the Tax Relief Act of 2010 and the American Taxpayer Relief Act of 2012, not otherwise reflected in rates during the period from April 14, 2011 through the effective

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[34] This is addressed in Chapter 10 of PG&E's testimony, Section D.4.

[35] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-7, lines 20-24.

[36] Id., p. 18-8, lines 3-14.

[37] Id., p. 18-8, lines 14-20.

[38] Id., p. 18-8, line 24 through p. 18-9, line 5.

date of the revenue requirement changes in the next General Rate Case (GRC) and GT&S rate case; and

- changes in revenue requirements resulting from changes in the deferred tax reserve as well as additional utility infrastructure investment.

PG&E states that "…[b]ased on actual recorded balances, PG&E intends to request termination of the TAMA in a separate advice filing."[39]

V. ORA's COST RECOVERY RECOMMENDATIONS

PG&E proposes to continue or modify various aspects of its GT&S cost recovery. ORA's recommendations are discussed below.

A. Revenue Sharing Mechanism

PG&E proposes discontinuing the GTSRSM and, instead, recovering GT&S revenues allocated to noncore customers in the same decoupled manner as those allocated to core customers. PG&E also proposes full balancing account treatment for its transmission and storage revenues (excluding Gill Ranch storage revenues).

In response to discovery, PG&E indicates that its "…revenue recovery proposal would replace the GT&S Revenue Sharing Mechanism (GTSRSM) so that only PG&E's adopted revenues are recovered from customers, no more or no less. Therefore, PG&E's proposal for full balancing account treatment is dependent upon the discontinuation of the GTSRSM. Pursuant to Section 10.1 of the Gas Accord V Settlement, the GTSRSM expires when the term of the Gas Accord V Settlement ends (December 31, 2014)."[40]

PG&E also states that "…[u]nder PG&E's proposal for two-way 100% balancing account treatment for adopted noncore revenues, core customers would no longer be responsible for funding half of the customer portion of undercollected

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[39] Id., p. 18-9, lines 5-7.

[40] PG&E Response to ORA-043, Question 1b. (See **Attachment 2**.)

revenues or receiving 50% the benefits of any overcollections returned to customers."[41]

As discussed in Exhibit ORA-10: (1) ORA is not opposed to the continuation of the balancing accounts for core transmission and storage revenue; (2) ORA's primary objective is that core customers are only responsible for revenues allocated for recovery to core, and should not be responsible for any other transmission revenues/costs not allocated to core (i.e., those allocated for recovery from shippers / noncore); and (3) ORA supports the aspect of PG&E's proposal that would ensure core customers are not responsible for revenues that are not allocated to those customers.

If the Commission adopts PG&E's proposal for full noncore balancing account treatment, or adopts no form of noncore balancing account treatment, then core customers should not be allocated over- or under- collections from the noncore. At this juncture, ORA does not take a position on PG&E's proposal to discontinue the GTSRSM.

B. Transmission Integrity Management Program Costs

PG&E proposes to track the difference between its actual incurred and adopted TIMP expenses and capital revenue requirements in a new two-way balancing account called the Transmission Integrity Management Program Balancing Account (TIMPBA).

In response to discovery, PG&E states, "...[c]urrently, under Gas Accord V, PG&E tracks its actual integrity management expenses compared to the adopted amounts in the Integrity Management Expense Balancing Account (IMEBA) for the period January 1, 2011, through December 31, 2014. The IMEBA is a one-way balancing account. If the accumulated balance is a credit (overcollection) at December 31, 2014, the balance will be...returned to core and noncore

[41] PG&E Response to ORA-030, Question 1a. (See **Attachment 3**.)

customers…If the accumulated balance is a debit (undercollection) at December 31, 2014, the balance is funded by PG&E shareholders.”[42]

ORA recommends a one-way balancing account for TIMP costs. A one-way balancing account is consistent with the mechanism used to track these costs from 2011-2014. A one-way balancing account can increase transparency of actual and authorized TIMP costs, with unspent moneys below the amounts authorized by the Commission being returned to ratepayers. SB 879 requires that a balancing account be established for the recovery of TIMP expenses, and that unspent moneys are to be returned to ratepayers at the end of the rate case cycle. SB 879 does not require that a two-way balancing account be established, but only that it is not intended to interfere with the Commission’s discretion to establish such an account. A two-way balancing account provides PG&E with no incentive to limit costs to a reasonable amount.

A one-way balancing account protects ratepayers from providing PG&E with a blank check for TIMP costs

Since the IMEBA only tracks expenses, continuation of that balancing account for this GT&S rate case would not allow PG&E to track capital revenue requirements. Hence, ORA recommends that PG&E be directed to track the difference between its actual incurred and adopted TIMP expenses and capital revenue requirements in a new <u>one</u>-way balancing account whereby:

- all expenses and capital revenue requirements incurred in managing and implementing its TIMP programs would be recorded to this account;
- the adopted amounts recorded to the account would reflect authorized expenses and capital revenue requirements for its TIMP programs, adjusted for Post-Test Year (PTY) ratemaking increases; and
- at the end of the rate case cycle, any unspent amounts would be returned to customers.

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[42] PG&E Response to ORA-030, Question 2. (See **Attachment 3**.)

PG&E proposes to file a Tier 3 advice letter should it anticipate incurring costs above the adopted TIMP program expenses and capital revenue requirements at any time during the funding cycle. The advice letter would supposedly allow the Commission and parties to review the additional costs. PG&E's proposal is open-ended, and the Commission should set some limits. If the Commission allows PG&E the opportunity to revise such forecasts, ORA recommends that PG&E be required to file a Tier 1 or 2 advice letter instead of a Tier 3 advice letter so that any proposed cost increases are subject to review and not automatically effective upon filing.

ORA recommends that the Commission allow PG&E to file such an advice letter only once during the funding cycle, and only if PG&E anticipates incurring costs—above the Commission-adopted TIMP program amounts—for complying with as-yet-unforeseen government-mandated requirements. PG&E should not be allowed to seek additional revenues for cost overruns or to correct/update inaccurate forecasts. This approach still allows PG&E to address certain as-yet-unforeseen circumstances and enhances customer protection beyond what would be provided under PG&E's proposal.

C. Other GT&S Related Cost Recovery

PG&E proposes to continue and simplify other GT&S related costs recovered from ratepayers. ORA opposes some of PG&E's proposals but does not take issue with others.

1. Z-factor Mechanism

PG&E proposes continuing with the Z-factor mechanism, which covers cost increases or decreases for known changes arising from governmental actions, that has been in every Gas Accord settlement. ORA does not oppose continuation of the Z-factor mechanism, but that the mechanism be effective only during the post-test years, and not for the test year. This is consistent with ORA's recommendation in the PG&E 2014 GRC, to which PG&E agreed in rebuttal testimony, by stating, "...PG&E does not dispute...that past Z-factor adjustments have applied exclusively to the attrition years and would not object to limiting Z-factor adjustments to the attrition years in this GRC."[43]

2. Costs Determined in Other Proceedings Beyond 2014

PG&E proposes continuing with the Adjustment Mechanism for Costs Determined in Other Proceedings (AMCDOP) tracking account, which tracks differences in revenue requirements associated with costs determined in other proceedings (such as administrative and general, uncollectibles, pension, and cost of capital), and the revenue requirements included in this filing that are based on placeholder costs. These differences are then trued up and included in rates.

The AMCDOP was adopted as part of the Gas Accord V Settlement Agreement, and ORA does not oppose PG&E's proposal for continuing with this mechanism in the 2015 GT&S rate case.

3. Line 407 Costs

The $7 million associated with Line 407 should not be included in PG&E's 2017 revenues until the project is used and useful

PG&E has included the cost of the Line 407 project in its 2017 revenue requirement forecast, but proposes that if Line 407 is not constructed and placed into service, PG&E will refund the 2017 revenue requirement to customers as part of the 2018 Annual Gas True-Up (AGT) advice letter.

ORA opposes PG&E's proposal, and recommends that the revenue requirement for Line 407 not be included in the 2017 forecast. PG&E should not be allowed to include the estimated 2017 revenue requirement amount of $6.994 million for Line 407 given that according to PG&E, Line 407 may not be constructed and placed into service in 2017. PG&E can file a Tier 2 advice letter to request revenue recovery after the project is placed into service and commercially operational.

ORA's recommendation ensures that PG&E will not receive excessive amounts of money upfront, and that ratepayers are protected from overpaying in

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43 *See* A.12-11-009 (PG&E 2014 GRC) Ex. 65 (PG&E-26 Rebuttal Testimony, Post-Test Year Ratemaking), p. 1-14, lines 19-22. (See **Attachment 4**.)

case PG&E does not spend as much as it forecasts. If Line 407 is actually constructed and placed into service in 2017, then PG&E is provided the ability to collect additional revenues to cover those costs, up to its $6.994 million forecast.

4. Actual Electricity Costs and Greenhouse Gas Compliance Costs

PG&E proposes continuing with its currently authorized recovery of all actual costs incurred for electricity used to provide gas compression, and all actual AB 32 GHG compliance costs incurred for natural gas compressor stations, including any future ones for which PG&E will be required to incur GHG compliance costs. PG&E proposes simplifying the process for recovering these costs—instead of tracking them in the GOBA and transferring the balances (difference between actual and authorized) to the CFCA and NCA for subsequent true-up, PG&E proposes to record the differences directly in the CFCA and NCA for recovery and eliminate the GOBA.

In general, ORA does not oppose PG&E's request to recover all actual costs incurred for electricity used to provide gas compression. However, there is a question regarding the number of stations for which PG&E should be allowed recovery of actual costs incurred for electricity used to provide gas compression. The recovery of AB 32 GHG compliance costs is tied to issues addressed in Chapter 10 of PG&E's testimony in this case. ORA addresses this proposal in Exhibit ORA-10 and those recommendations are also applicable for the post-test years.

Whatever the Commission decides as it pertains to PG&E's rate recovery request for all GHG compliance costs incurred for any natural gas compressor stations, including any future ones for which PG&E will be required to incur GHG compliance costs, should be consistently applied to the recovery of actual electricity costs. In other words, if the Commission decides that PG&E is allowed recovery of AB 32 GHG compliance costs for "X" number of gas compressor stations, then PG&E should only be allowed recovery of actual electricity costs associated with those "X" number of stations.

ORA does not oppose PG&E's proposal to eliminate the GOBA:

- since it would simplify the process for recovering these costs by eliminating a number of steps to the accounting procedures; and

- as long as PG&E is required to add new accounting procedures to the CFCA and NCA to ensure these costs are easily identifiable and transparent.

5. Tax Act Memorandum Account

PG&E states that it intends to request termination of the TAMA in a separate advice filing. ORA will address PG&E's request if and when PG&E files the advice letter.

6. Bonus Depreciation

PG&E has not modeled bonus depreciation[44] in this rate case. If provisions for bonus depreciation are extended into any years covered by this GT&S rate case cycle, PG&E should be required to make the appropriate revenue requirement adjustments to reflect the impacts from bonus depreciation so that the benefits are flowed through to ratepayers.

VI. PG&E's POST-TEST YEAR RATEMAKING PROPOSALS

PG&E requests Commission approval for a Post-Test Year (PTY) ratemaking mechanism to be used for adjusting (i.e., increasing) authorized revenue requirements in 2016 and 2017. The mechanism essentially consists of escalating test year operating expenses, using forecasted operating expenses for specific programs, and using forecasted capital investment growth to adjust capital related costs in rate base.

[44] Bonus depreciation is a method of accelerated depreciation which allows a business to make an additional deduction of, for example, 50% of the cost of qualifying property in the year in which it is put into service. Bonus depreciation is typically taken in the first year that the depreciable item is placed in service.

PG&E forecasts the following revenues for 2015-2017:

Table 18-5
Pacific Gas and Electric Company
GT&S Base Revenue Requirement Forecasts for 2015-2017
(in Millions of Dollars)

Description	2015	2016	2017
Base Revenue Requirement without PSEP Update[45]	$1,187.4	$1,250.6	$1,421.2
PSEP Update Base Revenue Requirement	$98.9	$96.8	$93.7
Base Revenue Requirement with PSEP Update[46]	$1,286.3	$1,347.4	$1,514.9

In other words, PG&E is requesting attrition increases of $63.2 million (or 5.32%) in 2016 and $170.6 million (or 13.64%) in 2017 for its base revenue requirement without the PSEP Update, or increases of $61.1 million (or 4.75%) in 2016 and $167.5 million (or 12.43%) in 2017 with the PSEP Update figures included.

PG&E includes "…the ongoing capital cost recovery for authorized PSEP capital for 2012-2014 by using the PSEP Update Application RO model extended out to 2017 as a placeholder…PG&E proposes to adjust this placeholder amount if the final decision results in a different revenue requirement."[47]

A. Operating Expense Adjustments

PG&E proposes escalating the majority of test year operating expenses by individual component: labor; materials and services; and medical plan expenses.

1. Labor and Labor-Related

PG&E proposes PTY increases to labor costs to reflect forecast escalation rates. Labor-related expenses subject to these adjustments also include payroll

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[45] PG&E Workpapers, Chapter 18, p. WP 18-1, line 1.

[46] Id., p. WP 18-227, line 1.

[47] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 16-7, lines 2-9.

taxes and the wage-related portion of benefits (excluding pension and medical plan costs). PG&E states that "…[b]ecause wage growth is driven primarily by union wage escalation, this component of escalation is fixed at 2.75 percent."[48]

PG&E states that "…[t]he current wage agreements with Local 1245 of the International Brotherhood of Electrical Workers and the Engineers and Scientists of California, Local 20, were ratified in July 2012 and cover the period of January 1, 2012 through December 31, 2014. For purposes of calculating PTY increases, these agreements are assumed to set wage levels through the entire 2015 GT&S period."[49] The labor adjustments proposed by PG&E are based on 2016 and 2017 wage rate increases of 2.75% for union (operating units) employees and 2.97% for non-union (A&G) employees.[50]

2. Materials and Services (Non-Labor)

PG&E proposes PTY increases to materials and services operating expenses by approximately 2.2% to 2.8% per year, depending on the functional area (e.g., gas distribution, gas storage, gas transmission, or administrative & general).[51] PG&E indicates that the non-labor escalation rates were obtained from the IHS Global Insight Power Planner Fourth-Quarter 2012 edition.

3. Medical Benefits

PG&E proposes PTY increases to 2015 adopted medical plan costs, and uses escalation rates of 8.2% in 2016 and 2017.[52]

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[48] Id., p. 18-10, lines 21-23.

[49] Id., p. 18-10, footnote 11.

[50] Id., p. 16-29, Table 16-9, lines 5-6.

[51] Id., p. 16-29, Table 16-9, lines 1-4.

[52] Id., p. 16-29, Table 16-9, line 7.

B. Specific Expense Adjustments

PG&E proposes specific PTY increases for three programs—the Traditional ILI, External and Internal Corrosion Direct Assessment, and Hydrostatic Testing Station Facility M&C—that allegedly require increases above the escalation methodology described above. PG&E's expense forecasts for 2015 thru 2017 are as follows:

Table 18-6
Pacific Gas and Electric Company
GT&S 2015-2017 Expense Forecasts for Specific Programs[53]
(in Thousands of Dollars)

Program	2015 Forecast	2015-16 Increase	2016 Forecast	2016-17 Increase	2017 Forecast
Traditional ILI, including Direct Exam & Repair	$27,831	$32	$27,863	$25,000	$52,863
External and Internal Corrosion Direct Assessment	$41,555	$7,481	$49,036	$12,593	$61,629
Hydrostatic Testing Station Facility M&C	$5,471	$5,730	$11,201	$11,740	$22,941
Total	$74,857	$13,243	$88,100	$49,333	$137,433

According to PG&E:

- Traditional ILI expenses are forecasted to significantly increase in the attrition years because "…PG&E is transitioning to reliance on ILI as its preferred pipeline integrity assessment method";[54]
- External and Internal Corrosion Direct Assessment (ECDA and ICDA) expenses are forecasted to significantly increase in the attrition years because "…PG&E will continue to use ECDA and ICDA when ILI is not feasible";[55] and
- Hydrostatic Testing Station Facility M&C expenses are forecasted to significantly increase in the attrition years because "…normal

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[53] Id., p. 18-19, Table 18-5 for the 2015, 2016 and 2017 forecast figures. Annual increases calculated by ORA.

[54] Id., p. 18-11, lines 16-18.

[55] Id., p. 18-11, lines 22-23.

escalation will not be sufficient to cover the forecast ramp up costs for 2016 and 2017."[56]

C. Capital Related Cost Adjustments

PG&E proposes that the capital related revenue requirement increases in the attrition years be based on the 2016 and 2017 capital expenditures forecasts. PG&E states that this is "…consistent with the methodology adopted in PG&E's 2011 GT&S Rate Case."[57] PG&E indicates that the calculation methodology used for the post-test year plant additions and retirements is the same methodology used for 2015. PG&E also states that "…[c]ertain rate base components, working capital, Tax Reform Act Adjustments, and Customer Advances, are held constant through the rate case period."[58]

PG&E asserts that increases in capital related revenue requirements cannot be determined by simple cost escalation factors, and that it "…believes that the proposed PTY ratemaking mechanism for 2016 and 2017 is necessary in order to provide PG&E with the funds it needs to provide safe and reliable service to customers, while offering PG&E a reasonable opportunity to earn the rate of return found reasonable by this Commission."[59]

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[56] Id., p. 18-11, line 32 through p. 18-12, line 1.

[57] Id., p. 18-12, lines 10-11.

[58] Id., p. 18-12, lines 20-23.

[59] Id., p. 18-15, lines 1-5.

PG&E forecasts the following capital expenditures for 2015-2017:

Table 18-7
Pacific Gas and Electric Company
GT&S 2015-2017 Capital Expenditure Forecasts[60]
(in Thousands of Dollars)

Description	2015	2016	2017
Transmission Pipe Integrity and Emergency Response Programs	$365,416	$408,342	$406,878
Transmission Pipe Engineering Programs	$81,147	$77,835	$84,659
Asset Family - Storage	$12,456	$12,709	$7,302
Asset Family - Facilities	$144,279	$159,151	$160,635
Corrosion Control	$49,300	$57,449	$48,600
Program Management Office	$6,420	$6,582	$6,756
Gas System Operations	$79,490	$118,792	$202,715
Information Technology	$24,473	$31,339	$14,143
Other GT&S Support Plans	$24,237	$13,690	$14,266
Total	$787,218	$885,889	$945,953

[60] PG&E Prepared Testimony, Volume 1 (Krannich), p. 3-12, Table 3-3.

VII. ORA's PRIMARY POST-TEST YEAR RATEMAKING RECOMMENDATIONS

ORA's PTYR mechanism allows revenue recovery for PG&E's costs and protects ratepayers from overpaying in case PG&E does not spend as much as it forecasts

ORA does not oppose a PTYR mechanism in 2016 and 2017 that provides PG&E with some reasonable level of attrition revenue increases. However, PG&E's forecasted Post-Test Year revenue increases of $61.0 million (4.8%) in 2016 and particularly $167.6 million (12.4%) in 2017 are excessive. ORA recommends a mechanism which would result in more reasonable post-test year revenue increases.

ORA recommends post-test year revenue increases of 3.0% per year for 2016, 2017 and 2018, plus $35 million of additional revenues to cover certain incremental costs. With the additional revenues, ORA estimates that the effective post-test year increases equal 3.66% in 2016, 5.56% in 2017, and 3.00% in 2018.

Based on ORA's forecast of PG&E's 2015 GT&S revenue requirement,[61] ORA's recommended PTYR methodology yields estimated revenue increases of $38.6 million in 2016, $60.8 million in 2017, and $34.6 million in 2018. These post-test year increases result in revenue requirement levels of $1.092 billion for 2016, $1.152 billion for 2017, and $1.187 billion for 2018.

A. ORA Recommends a PTYR Mechanism Which Provides PG&E with Reasonable Base Revenue Increases...

ORA recommends that the Commission set post-test year GT&S revenue increases for PG&E at 3.0% for 2016, 2017 and 2018, plus additional revenues to cover certain incremental costs. ORA's recommended percentage factors are guided by:

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[61] See Exhibit ORA-16.

- a recent forecast of the All-Urban Consumer Price Index (CPI or CPI-U), equal to 1.8% for 2016 and 2017, and 2.0% for 2018;[62]
- attrition increases adopted by the Commission in recent GRCs; and
- more specifically, the most recent post-test year increase adopted for the Sempra Utilities in D.13-05-010.

PG&E's proposed attrition increases are excessive as compared to the increases that the Commission has granted in the majority of past GRCs. As discussed in the "Background" section of this exhibit, the Commission has found it reasonable to adopt PTYR mechanisms providing attrition increases for California energy utilities based on forecasted CPI rates, or similar methods. In many cases, ORA has supported and recommended using the CPI as a basis for determining attrition increases. For this rate case, ORA proposes equitable post-test year increases of 3.0% per year, plus additional revenues to cover certain incremental costs.

ORA's proposal is higher than the most recent post-test year increase adopted in D.03-05-010 for SDG&E and SoCalGas. In that proceeding, the Commission adopted attrition increases of CPI plus 75 basis points. Based on the latest Global Insight forecasts for CPI of 1.8% in 2016 and 2017, the CPI plus 75 basis points is equal to 2.55% in 2016 and 2017.

B. ...and Provides PG&E Additional Revenues for Specific Programs

PG&E requests significant post-test year revenue increases to cover specific operations and maintenance programs and capital expenditures. PG&E should not be authorized excessive amounts of revenue upfront from ratepayers. As discussed below, ORA recommends additional revenues to cover higher-priority incremental costs, but not the amounts PG&E requests.

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[62] IHS Global Insight Cost Planner First-quarter 2014, page 13, Purchasing Environment, Table A1, Aggregate Price and Wage Forecasts, Consumer Price Index, CPI, All Items, Urban (CPI %). (See **Attachment 5**.)

1. Specific Expense Adjustments

PG&E proposes specific PTY increases for the Traditional ILI (including Direct Exam & Repair), External and Internal Corrosion Direct Assessment (ECDA and ICDA), and Hydrostatic Testing Station Facility M&C programs. According to PG&E, these three programs require attrition year increases above traditional escalation. Specifically, PG&E requests:

- a $13.2 million (or 17.7%) increase from 2015 to 2016; and
- a $49.3 million (or 56.0%) increase from 2016 to 2017.[63]

ORA agrees with PG&E's proposal for PTY increases but objects to the requested levels of expense increases. PG&E's expense forecasts reflect a greater amount of work activity compared to historical levels (e.g., as discussed in Exhibit ORA-4B), and excessive amounts of money upfront. ORA recommends that the Commission adopt the following incremental attrition-year increases, which are more moderate expense increases that would still provide PG&E with funding to undertake higher priority inspections and assessments:

- a $7 million increase from 2015 to 2016; and
- a $28 million increase from 2016 to 2017.

The magnitude of these recommended incremental increases are similar to PG&E's requested dollar increase in 2016 and requested percentage increase in 2017 for Traditional ILI (including Direct Exam & Repair), and ECDA/ICDA. The magnitude of these recommended incremental increases are also generally consistent with ORA's forecasts for these expenses as discussed in other ORA exhibits; if the assumptions used to develop ORA's 2015 forecasts[64] are carried forward, they would yield the following illustrative forecasts for 2016 and 2017:

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[63] Calculated from total expense figures appearing in Table 18-6.

[64] In Exhibit ORA-4B, ORA does not oppose PG&E's forecasts for Traditional ILI (including Direct Exam & Repair) expenses. In Exhibit ORA-4D, ORA forecasts lower ECDA and ICDA expenses. In Exhibit ORA-6, ORA recommends no ratepayer funding for Hydrostatic Testing Station Facility M&C expenses at this time.

Table 18-8
Pacific Gas and Electric Company
ORA's Illustrative Forecast of 2015-2017 Expenses for Specific Programs
(in Thousands of Dollars)

Program	2015 Forecast	2015-16 Increase	2016 Forecast	2016-17 Increase	2017 Forecast
Traditional ILI, including Direct Exam & Repair	$27,831	$32	$27,863	$25,000	$52,863
External and Internal Corrosion Direct Assessment	$20,119	$7,013	$27,132	$10,447	$37,579
Hydrostatic Testing Station Facility M&C	$0	$0	$0	$0	$0
Total	$47,950	$7,045	$54,995	$35,447	$90,442

ORA's recommendation: (1) forecasts that PG&E will incur higher expenses for doing more work in these program areas; (2) results in more gradual expense increases; and (3) better protects ratepayers from overpaying in case PG&E does not spend as much as it forecasts, particularly in 2017. ORA's recommendation essentially represents a more balanced approach than what PG&E proposes.

2. Specific Capital-Related Adjustments

PG&E forecasts increases in post-test year capital expenditures compared to its test year 2015 forecast. ORA calculates that PG&E forecasts growth in gross capital expenditures of $98.7 million (12.5%) from 2015 to 2016, and $60.1 million (6.8%) from 2016 to 2017. PG&E's forecasted capital expenditure increases in 2016 and 2017 are primarily due to three program areas—the Transmission Pipe Integrity and Emergency Response Programs, Asset Family – Facilities, and Gas System Operations.

ORA takes issue with PG&E's post-test year capital expenditure forecasts. As discussed later in Section VIII.C., the farther out in time project-based plans are projected, the greater the likelihood that the projects themselves, and/or the expenditure levels, will change or be eliminated. Projects may also be delayed.[65] In regards to post-test year capital expenditure forecasts, the Commission has indicated that "…there is a fundamental problem with budget-based ratemaking that boils down to the fact that budgets are not always implemented as planned."[66]

As previously stated, in D.13-05-010, the Commission adopted attrition increases of CPI plus 75 basis points for the Sempra Utilities. Based on the latest Global Insight forecasts for CPI of 1.8% in 2016 and 2017, and 2.0% in 2018, the CPI plus 75 basis points equals 2.55% in 2016 and 2017, and 2.75% in 2018. Compared to the PTYR mechanism authorized for the SDG&E and SoCalGas in their 2012 GRCs, ORA's proposed mechanism for this GT&S rate case will provide PG&E with greater revenue increases. PG&E could therefore fund the return on investment for higher priority proposed capital expenditures during the attrition years by using the incremental revenues above what it would be receiving otherwise, under the mechanism adopted for the Sempra Utilities.

ORA's recommendation: (1) allows for moderate growth in capital expenditures during the post-test years; (2) results in more gradual revenue increases; and (3) better protects ratepayers from overpaying in case PG&E does not spend as much as it forecasts. ORA's recommendation essentially represents a more balanced approach than what PG&E proposes.

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[65] For example, in its June 6, 2014 supplemental testimony to its Pipeline Safety Enhancement Plan (PSEP) Update Application 13-10-017, PG&E indicates that projects scheduled for completion in 2014 are at risk for delay beyond 2014 (i.e., at risk for not being operational by the end of 2014). PG&E indicates that the number of delayed projects and resulting magnitude of impact may change as it continues to engineer these projects and secure permits and land rights. (See **Attachment 6**.)

[66] D.09-03-025, *mimeo*., at p. 305.

VIII. ORA's ALTERNATE POST-TEST YEAR RATEMAKING RECOMMENDATIONS

If the Commission does not adopt ORA's primary recommendation on PG&E's post-test year revenue increases, and instead relies on a mechanism similar to PG&E's proposal, then the Commission should adopt ORA's alternate recommendations, discussed below.

A. Operating Expense Adjustments

PG&E proposes escalating the majority of test year operating expenses by individual component: labor; materials and services; and medical plan expenses.

1. Labor and Labor-Related

PG&E proposes PTY increases to labor costs. The labor adjustments proposed by PG&E are based on 2016 and 2017 wage rate increase forecasts of 2.75% for union (operating units) employees and 2.97% for non-union (A&G) employees.[67] These figures are similar to those presented by PG&E in its 2014 GRC, where PG&E forecasted an overall company-wide labor escalation rate of 2.79% per year for 2012 through 2016.[68] ORA recommends labor escalation rates of 2.3% for 2016, 2.6% for 2017, and 2.6% for 2018, which are moderately lower than PG&E's requests.

At the time PG&E filed its GT&S rate case application, it did not have negotiated wage escalation rates in place for 2015, 2016 and 2017. In response to discovery where ORA asked when PG&E anticipates reaching wage agreements for January 1, 2015 through December 31, 2017 (assuming a 3-year agreement) and when PG&E anticipates ratifying such wage agreements, PG&E responded as follows:

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[67] PG&E Prepared Testimony, Volume 2 (Jones), p. 16-29, Table 16-9.

[68] *See* A.12-11-009 (PG&E 2014 GRC) Ex. 42 (PG&E-10 General Report), p. 3-4, Table 3-2. (See **Attachment 7**.)

- "At this time PG&E expects to enter into general negotiations with IBEW Local 1245 (Physical and Clerical Agreements) and ESC Local 20 in the third quarter of 2014 with the expectation that an agreement will be reached in the fourth quarter of this year."[69]

- "At this time, PG&E expects to reach agreement with IBEW Local 1245 and ESC Local 20 such that agreements can be submitted to their members for ratification prior to December 31, 2014."[70]

Just recently, PG&E indicated that "…the IBEW and ESC unions ratified a one year contract extension with PG&E that included a wage escalation rate of 2.75% through 2015."[71]

Given that wage increases have yet to be established for the post-test year period, PG&E's labor costs for 2016, 2017 and 2018 should be based on Global Insight forecasts of labor increases. Accordingly, ORA recommends that PG&E's labor escalation rates be set at 2.3% for 2016, 2.6% for 2017, and 2.6% for 2018 (see Table 18-9).

The Commission should reject PG&E's proposed annual labor expense increases which exceed industry forecasts. PG&E has granted wage rate increases well in excess of the utility industry in recent years.

In the SCE 2012 GRC decision, the Commission states:

> We do not embrace SCE's premise that whatever wages and increases are included in a collective bargaining agreement with its represented workers are *ipso facto* reasonable for purposes of rate recovery or labor escalation.[72]

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[69] PG&E Response to ORA-018, Question 7a. (See **Attachment 8**.)

[70] PG&E Response to ORA-018, Question 7b. (See **Attachment 8**.)

[71] PG&E Response to ORA-044, Question 2e. (See **Attachment 9**.)

[72] D.12-11-051, *mimeo*., at p. 598.

This statement has more bark than bite if the Commission continues authorizing rate recovery based on labor escalation rates from collective bargaining agreements. If a utility and its unions negotiate 5% annual wage increases, would the Commission still pass all of those costs to ratepayers? What if they negotiated annual increases of 8% or 10%?

If the costs associated with PG&E's assumed wage increases are automatically passed-through to ratepayers, there is practically no incentive for PG&E management to aggressively negotiate, or rein in labor costs, in order to minimize ratepayer impacts.

a. According to the Bureau of Labor Statistics, Many Collective Bargaining Agreements Tie Wage Increases to the CPI

As discussed above, ORA recommends Global Insight's forecasted wage escalation rates of 2.3% for 2016, and 2.6% for 2017 and 2018. If the Commission concludes that ORA's recommended labor escalation rates are too high, then the Commission may want to consider using a recent forecast of CPI-U equal to 1.8% for 2016 and 2017, and 2.0% for 2018,[73] as a proxy for PG&E's labor and labor-related escalation.

In this case, the CPI is an appropriate proxy for wage escalation. The Bureau of Labor Statistics (BLS) website's "Addendum to Frequently Asked Questions" states the following:[74]

> The CPI is often used to adjust consumers' income payments (for example, Social Security) to adjust income eligibility levels for government assistance and to automatically provide cost-of-living wage adjustments to millions of American workers. As a result of statutory action the CPI affects the income of millions of Americans. Over 50 million Social Security beneficiaries, and military and Federal Civil Service retirees, have cost-of-living adjustments tied to the CPI. In

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[73] IHS Global Insight Cost Planner First-quarter 2014, p. 13, Purchasing Environment, Table A1, Aggregate Price and Wage Forecasts, Consumer Price Index, CPI, All Items, Urban (CPI %). (See **Attachment 5**.)

[74] Available at: http://www.bls.gov/cpi/cpiadd.htm. (See **Attachment 10**.)

> addition, eligibility criteria for millions of food stamp recipients, and children who eat lunch at school, are affected by changes in the CPI. ***Many collective bargaining agreements also tie wage increases to the CPI***. (emphasis added)

PG&E may argue that relying on the CPI to establish wage escalation rates would not be in line with rates approved for SCE and the Sempra Utilities. This is a self-fulfilling prophecy, as each of those utilities can make the same argument over and over again and point to adopted wage escalation rates of the others. This results in a vicious cycle for California ratepayers who are constantly funding costly utility labor expenses. If the Commission is truly concerned about utility employee compensation levels funded by ratepayers, then it should start adopting more reasonable wage escalation rates consistent with industry forecasts by Global Insight, starting with PG&E in this GT&S rate case.

b. PG&E's Labor Escalation Rates Have Far Exceeded Those Paid by Other Utilities

The following table compares PG&E's historical and proposed wage escalation rates to those recommended by ORA, and to those of IHS Global Insight's "Average Hourly Earnings – Utilities" Index.

Table 18-9
Comparison of PG&E's Labor Escalation Rates,
as Proposed by PG&E and as Recommended by ORA,
to IHS Global Insight's "Average Hourly Earnings – Utilities" Index

Year (a)	PG&E Labor Escalation Rates – PG&E Proposal[75] (b)	Average Hourly Earnings - Utilities[76] (c)	PG&E Labor Escalation Rates – ORA Scenario (d)	PG&E Labor Escalation Rates – Illustrative Only (e)
2007	3.8%	1.7%	3.8%	3.8%
2008	4.0%	3.4%	4.0%	4.0%
2009	4.1%	2.5%	4.1%	4.1%
2010	3.5%	1.9%	3.5%	3.5%
2011	3.5%	2.6%	3.5%	3.5%
2012	2.79%	2.5%	2.79%	2.79%
2013	2.79%	2.1%	2.79%	2.79%
2014	2.79%	1.8%	2.79%	2.79%
2015	2.79%	2.0%	2.79%	2.79%
2016	2.79%	2.3%	2.3%	**1.22%**
2017	2.79%	2.6%	2.6%	**1.22%**
2018	n/a	2.6%	2.6%	---
2013-2017 Compounded	14.75%	11.27%	13.99%	11.27%
2007-2017 Compounded	41.99%	28.53%	41.06%	37.69%

[75] *See* A.12-11-009 (PG&E 2014 GRC) Ex. 42 (PG&E-10), p. 3-3, Table 3-1 for 2007 thru 2011 data, and p. 3-4, Table 3-2 for 2012 thru 2016 data. (See **Attachment 7**.) ORA assumes the 2017 figure is the same as for 2012 thru 2016, given that the labor rates appearing in Pacific Gas and Electric Company 2015 Gas Transmission and Storage Rate Case Prepared Testimony Volume 2 of 2, p. 16-29, Table 16-9, lines 5-6, match those from the PG&E 2014 GRC.

[76] 2007 data from IHS Global Insight Cost Planner Fourth-quarter 2009, p. 89, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). 2008 and 2009 data from IHS Global Insight Cost Planner Fourth-quarter 2010, p. 77, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). 2010 and 2011 data from IHS Global Insight Cost Planner Fourth-quarter 2012, p. 77, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). (See **Attachment 11**.) 2012 thru 2018 data from IHS Global Insight Cost Planner First-quarter 2014, p. 79, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). (See **Attachment 5**.)

From the information presented above, PG&E's actual labor escalation rates during the 7 years from 2007-2013 are about 50% higher compared to the average hourly earnings increases for utilities as measured by Global Insight. By tying attrition year labor escalation rates to the Global Insight forecasts for those years, ORA presents a reasonable alternative to PG&E's proposal.

To illustrate, column b of Table 18-9, labeled "PG&E Proposal," shows PG&E's annual labor escalation rates from 2007 through 2017. Column d, labeled "ORA Scenario," shows PG&E's annual labor escalation rates for 2007 through 2015, but ORA's recommended escalation rates of 2.3% for 2016 and 2.6% for 2017. The compounded labor escalation rates over the 5-year period from 2013-2017 and the 11-year period from 2007-2017 for columns b and d are noticeably higher than that of column c, which is the data set from IHS Global Insight.

If the Commission sets PG&E's 2016 and 2017 labor escalation rates at the rates proposed by ORA, the ratepayers would, overall, still be funding generous wage increases for PG&E's employees over a multi-year time period. If one were to take the PG&E's labor escalation percentages for 2007-2015 but set the labor escalation rates for 2016 and 2017 at 1.22% per year (column e, labeled "Illustrative Only"), PG&E's compounded increases: (1) over the 5-year period from 2013-2017 would be similar to those as measured by the Global Insight index in column c; and, (2) over the 11-year period from 2007-2017 would still exceed those as measured by the Global Insight index in column c by nearly one-third.[77]

Based on the data presented above, it is apparent that PG&E has not negotiated wage rate increases similar to those negotiated by other comparable utilities during the past several years. The Commission should not automatically pass through to ratepayers PG&E's assumed labor cost increases for 2016 and

[77] If one were to take the Illustrative Only scenario (column e) for 2007-2015 and set the 2016 and 2017 labor escalation rates at -2.2%, it would yield results similar to the 2007-2017 compounded percentage from column c. In other words, if the Commission were to adopt PG&E's proposed labor escalation rate for 2015, PG&E could withstand a 2.2% per year pay reduction in 2016 and 2017 and still be paying its employees the same wage growth as measured by the Global Insight index over the 11-year period from 2007 to 2017.

2017. The Commission should adopt a less costly and equitable alternative for PG&E's ratepayers, as recommended by ORA.

2. Materials and Services (Non-Labor)

PG&E proposes PTY increases to materials and services operating expenses. PG&E obtained forecasted non-labor escalation rates from the IHS Global Insight Power Planner 4th Quarter 2012 edition. ORA reviewed the same non-labor escalation rates from the 1st Quarter 2014 edition of the Power Planner, and they are similar to the forecasted rates from the 4th Quarter 2012 edition upon which PG&E relies on its forecasts. Thus, ORA does not take issue with PG&E's proposed non-labor escalation rates for 2016 and 2017.

ORA recommends that PG&E not be allowed to adjust or true-up these rates after a final Commission decision in this proceeding. This is consistent with PG&E's Post-Test Year Ratemaking proposal for its 2014 GRC, regarding non-labor escalation expenses.[78]

3. Medical Benefits

PG&E proposes PTY increases to medical plan costs, and uses escalation rates of 8.2% in 2016 and 2017. In SCE's 2015 GRC, ORA recommended a 6.6% medical escalation rate for 2014 and 2015,[79] based on results from a Berkeley Health Care Forum.[80] As part of its alternative post-test year ratemaking in the SCE GRC, ORA also recommends a 6.6% medical escalation rate for 2016 and 2017.[81]

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[78] *See* A.12-11-009 (PG&E 2014 GRC) Ex. 45 (PG&E-11 Post-Test Year Ratemaking), p. 2-5, lines 2-5. (See **Attachment 12**.)

[79] *See* A.13-11-003 (SCE 2015 GRC) Ex. ORA-17 (Human Resources Benefits and Other Compensation).

[80] The forum analyzed California-specific data from a number of sources and projects that total premiums for employer-sponsored insurance (ESI) will increase an average of 6.6% annually through 2022. See Executive Summary from Appendix III of the report, available at: http://berkeleyhealthcareforum.berkeley.edu/report/, "A New Vision for California's Healthcare System: Integrated Care with Aligned Financial Incentives," (April 2013). (See **Attachment 13**.)

[81] *See* A.13-11-003 (SCE 2015 GRC) Ex. ORA-25 (Post-Test Year Ratemaking).

To be consistent with ORA's position in the SCE 2015 GRC, and as a lower-cost alternative to PG&E's proposal, ORA recommends that the Commission adopt the same 6.6% rate for the post-test years in this PG&E GT&S rate case.

If the Commission concludes that a 6.6% medical escalation rate is too high for PG&E, then ORA recommends that the medical plan costs be escalated by 5.9% in 2016, 6.0% in 2017, and 5.4% in 2018, based upon a recent IHS Global Insight forecast of group health insurance escalation rates.[82] ORA's recommendation is consistent with the medical escalation rates of 5.4% for 2012, 6.4% for 2013, and 5.4% for 2014 used in PG&E's 2014 GRC.[83] Global Insight is also the same source used for non-labor escalation rates by both PG&E and ORA. Global Insight's forecasted interest rates are used by the utilities to update long-term debt and preferred stock costs in the Cost of Capital proceedings.[84]

B. Specific Expense Adjustments

PG&E proposes specific PTY increases for the Traditional ILI (including Direct Exam & Repair), External and Internal Corrosion Direct Assessment, and Hydrostatic Testing Station Facility M&C programs. According to PG&E, these three programs require attrition year increases above traditional escalation. Specifically, PG&E requests:

- a $13.2 million (or 17.7%) increase from 2015 to 2016; and
- a $49.3 million (or 56.0%) increase from 2016 to 2017.

As discussed in its primary recommendation, ORA's forecasted post-test year increases for these three programs are lower than PG&E's requested increases. If

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[82] IHS Global Insight Cost Planner First-quarter 2014, p. 151, Additional Forecast Tables, Table A1, Corporate Expenses, Health Care Benefits, ECI, Group Health Insurance (ECIHI %). (See Attachment 5.)

[83] *See* A.12-11-009 (PG&E 2014 GRC) Ex. 37 (PG&E-8 Human Resources Policies Workpapers Supporting Chapters 5, 6, 7, 8, 9), p. WP 6-10. (See Attachment 14.)

[84] D.12-12-034, *mimeo.*, at p. 14.

the Commission is not inclined to adopt ORA's primary recommendation, then ORA offers the following alternative.

The Commission can adopt a 1-way balancing account for the Traditional ILI (including Direct Exam & Repair), External and Internal Corrosion Direct Assessment, and Hydrostatic Testing Station Facility M&C programs, with post-test year expenses capped at amounts equal to PG&E's forecasts for those years, less the percentage difference between PG&E's 2015 forecast and the adopted 2015 amounts for these specific program areas. In other words, if the Commission adopts a 2015 expense level for those three programs which is 33% lower than PG&E's request, then the cost cap would be 67% of PG&E's expense forecasts for 2016 and 2017, or 33% lower than PG&E's forecasts.[85]

Hence, PG&E would receive money upfront for the three programs, but ratepayers would still be protected from overpaying in case PG&E does not spend as much as it forecasts as PG&E would have to refund any unspent amounts at the end of the rate case cycle.

C. Capital Related Cost Adjustments

PG&E proposes that the capital related revenue requirement increases in the attrition years be based on the 2016 and 2017 capital expenditures forecasts. PG&E claims that this is "…consistent with the methodology adopted in PG&E's 2011 GT&S Rate Case."[86] PG&E's assertion is misleading. The Commission decision, D.11-04-031, addressing PG&E's 2011 GT&S rate case did not adopt the utility's forecasting methodology. In response to ORA discovery, PG&E admits:

- "In D.11-04-031, the Commission does not specifically state that it adopted PG&E's capital expenditures forecasting methodology for the post-test years."[87]

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[85] Since PG&E did not provide a forecast for 2018, the Commission could set the 2018 expense level to be the same as the 2017 level, plus inflation.

[86] PG&E Prepared Testimony, Volume 2 (Hoglund), p. 18-12, lines 10-11.

[87] PG&E Response to ORA-020, Question 1. (See **Attachment 15**.)

- "D.11-04-031 does not specifically order, direct, or require PG&E to use the methodology it employed in the 2011 GT&S rate case to forecast 2016 and 2017 capital expenditures for the 2015 GT&S rate case."[88]

PG&E forecasts significant increases in post-test year capital expenditures compared to its test year 2015 forecasts. Based on the utility's forecasts, ORA calculates that PG&E's estimated growth in capital expenditures is $98.7 million (12.5%) from 2015 to 2016, and $60.1 million (6.8%) from 2016 to 2017.

ORA opposes PG&E's proposal to rely on the utility's 2016 and 2017 capital expenditure forecasts to develop post-test year revenue requirement increases. The Commission should consider a less costly alternative for ratepayers which still provides PG&E with a reasonable amount of capital related revenue requirement for the attrition years.

ORA recommends adopting for this GT&S case the methodology PG&E proposed in its 2014 GRC,[89] where post-test year capital additions are based on the <u>adopted</u> test year net capital additions plus escalation, and where escalation is fixed based on forecasted capital escalation rates.[90] Such an approach is similar to the one adopted by the Commission in Southern California Edison's (SCE's) test year 2006[91] and 2012[92] GRC decisions.

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[88] PG&E Response to ORA-020, Question 2. (See **Attachment 15**.)

[89] *See* A.12-11-009 (PG&E 2014 GRC) Ex. 45 (PG&E-11 Post-Test Year Ratemaking), p. 3-3, lines 5-6 and lines 9-11. (See **Attachment 12**.)

[90] If the methodology is adopted for this GT&S case, one would have to apply gas storage and transmission capital escalation rates for 2016, 2017 and 2018. The Results of Operations (RO) model being used in this rate case includes Storage Plant capital escalation rates of 2.3% for 2016 and 2.3% for 2017, and Transmission Plant capital escalation rates of 2.3% for 2016 and 2.6% for 2017. The IHS Global Insight Power Planner First-quarter 2014, p. 44, Cost Trends of Gas Utility Construction: Pacific Region, Table A20, forecasts a capital escalation rate of 2.8% in 2018 for Storage Plant and 2.7% in 2018 for Transmission Plant. (See **Attachment 16**.)

[91] D.06-15-016, *mimeo*., at pp. 305-306.

[92] D.12-11-051, *mimeo*., at p. 608.

Utilizing the adopted test year levels of plant additions is more reasonable, and consistent with past Commission precedent, in contrast to relying solely on budget-based attrition year forecasts. This is because the farther out in time project-based plans are projected, the greater the likelihood that the projects themselves, and/or the expenditure levels, will change or be eliminated. In addition, ORA and other parties normally do not possess the resources to conduct a detailed analysis of the utility's budget-based plant additions for years beyond the test year.

In SCE's 2009 GRC, the utility described its Post-Test Year Ratemaking mechanism as budget-based. The Commission's decision on that case stated:

> As we repeatedly observed in prior decisions, there is a fundamental problem with budget-based ratemaking that boils down to the fact that budgets are not always implemented as planned. In addition, no other party other than SCE provided or analyzed detailed post-TY plant addition budget forecasts in determining increases. We cannot fault other parties for not recommending detailed PTYR capital budgets. As we have noted in past GRCs, analyzing such budgets for two additional years imposes a significant burden on resources. For these reasons, we reject SCE's proposal for budget-based cost increases.[93]

ORA's recommended approach to determining attrition-year plant additions estimates is reasonable because it: (1) does not rely solely on PG&E's forecasts of 2016 and 2017 capital additions that ORA and other parties could not review and analyze in detail; but (2) relies on the adopted 2015 level of capital expenditures (and, hence, plant additions) that ORA and other parties were able to review and analyze in detail, and which the Commission adopts after a thorough evaluation of the entire record.

Finally, PG&E's rate base forecasts for the attrition years hold certain rate base components—working capital, Tax Reform Act Adjustments, and Customer Advances—constant through the rate case period. ORA agrees with PG&E's approach, but reiterates that if provisions for bonus depreciation are extended into any years covered by this GT&S rate case cycle, PG&E should be required to make

[93] D.09-03-025, *mimeo*., at p. 305.

the appropriate revenue requirement adjustments to reflect the impacts from bonus depreciation so that the benefits are flowed through to ratepayers.

IX. GT&S RATE CASE CYCLE

PG&E proposes a 3-year GT&S rate case cycle, with a 2015 test year and two post-test years, 2016 and 2017. In PG&E's last case, the utility was on a 4-year rate case cycle (test year 2011, and post-test years 2012, 2013 and 2014).

ORA recommends a 4-year cycle for this GT&S rate case. First of all, this would be consistent with prior GT&S rate cases. In addition, a 4-year cycle would be consistent with ORA's recommendation in Rulemaking (R.) 13-11-006. If the Commission decides that a 4-year cycle is appropriate for this GT&S rate case, then there would be one additional post-test year—2018—and PG&E's next GT&S rate case would be for a test year 2019.

X. ORA's 2016 and 2017 REVENUE REQUIREMENT AND RATE SCHEDULES DEVELOPED FROM THE RESULTS OF OPERATIONS AND RATE MODELS

The 2016 and 2017 revenue requirement and rate schedule figures appearing in Exhibits ORA-16 and ORA-17, respectively, do not reflect ORA's primary post-test year ratemaking recommendation. The figures in those exhibits represent an approximation of ORA's alternate post-test year ratemaking recommendations.

It is this ORA witness' understanding that the GT&S Results of Operations (RO) model has to be run with capital expenditure estimates for 2015 through 2017, in order to develop the revenue requirement for those years, which, in turn, are then run through the Rate Models to produce rate schedules for those three years. Thus, the results from those models are only approximations and illustrative, as the RO model in its current form does not reflect ORA's primary post-test year revenue requirement forecasts since they are not developed from specific capital expenditure estimates for 2016 and 2017.