

PACIFIC GAS AND ELECTRIC COMPANY
Affordability Order Instituting Rulemaking
Rulemaking 18-07-006
Data Response

PG&E Data Request No.:	ED 024-Q01		
PG&E File Name:	AffordabilityOIR_DR_ED_024-Q01		
Request Date:	March 7, 2022	Requester DR No.:	024
Date Sent:	March 21, 2022	Requesting Party:	Energy Division
PG&E Witness:	Various	Requester:	Bridget Sieren-Smith

SUBJECT: 2022 SB 695 REPORT IOU RECOMMENDATIONS TO LIMIT COST AND RATE INCREASES (ELECTRIC AND GAS IOUs)

QUESTION 001

This data request is issued regarding proposed recommendations of the investor-owned electric and gas utilities (IOU) to limit cost and rate increases consistent with the state’s energy and environmental goals for reducing greenhouse gases, as required by Public Utilities Code Section 913.1. The data provided in the response will be included in its entirety in an appendix to the 2022 SB 695 Report. In preparing your response, the IOUs are encouraged to be as specific as possible in identifying and quantifying specific potential cost savings initiatives.[1] While recognizing that the utilities generally propose cost savings initiatives in Test Year General Rate Cases (GRC), Public Utilities Code Section 913.1 annually requires that the utilities: “...study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases.”

ANSWER 001

Rate Design

PG&E knows how important it is to our customers that we keep monthly electricity and gas costs affordable while maintaining safe and reliable service. In addition to mitigating cost pressures, within the framework for the allocation of costs and rate design mandated by the California Legislature (Legislature) and the CPUC, PG&E seeks to equitably allocate costs among its customers based on cost-of-service principles. Crafting equitable allocation rules for revenue requirements among and within customer classes poses challenges, in part due to rate designs mandated by law and the need to collect revenues to fund programs that benefit a specific set of customers but are paid for by nonparticipating customers (where that allocation among customers may in some cases also be mandated by law).

Since the issuance of Decision (D.)15-07-001, Decision on Residential Rate Reform, the energy sector in California has seen rapid changes, including technology innovations, new market entrants and expanded customer choice. Further, the state has continued to pursue efforts consistent with its vision for a clean electric future for California that includes a path to a 100 percent greenhouse gas (GHG)-free electricity future (as evidenced by the passage of SB 100 in 2018). Critical to this future is a robust

electric network that enhances reliability and safety, is affordable, and allows all Californians to equitably benefit from and finance this clean energy future.

As California approaches a time in which nearly all electrons are green and the “average” electric customer becomes harder to define, enhancing and maintaining the network that delivers those green electrons to all Californians becomes more and more important. To support this clean electricity future, in which customers have more choice than they had in the past, the rate architecture needs to continue to evolve and ultimately transition to a structure under which customers pay for the network separately from paying for the electrons. Great progress has been made in California over the past five plus years through the Commission’s leadership on residential rate reform. Reducing the emphasis on tiered pricing and beginning the transition toward more cost-based TOU rates are two significant accomplishments thus far resulting from the Commission’s Residential Rate Reform proceeding.

However, despite these efforts, there remain fundamental challenges with the current path. Relying almost exclusively on volumetric rates for residential customers, even if differentiated by time-of-use, is not sustainable, as such designs do not reflect the way actual costs are incurred. In the absence of reasonable fixed charges that collect at least a portion of utility fixed costs, higher-usage customers are forced to pay disproportionate shares of PG&E’s fixed costs and thus subsidize lower-usage customers. Moreover, an inclining block tiered rate structure exacerbates these subsidies from higher-usage customers to lower-usage ones.

Such rate structures, where volumetric electric rates (and, particularly, volumetric upper-tier rates) end up being set far in excess of the actual marginal costs of generating and delivering electricity, provide economically inefficient price signals to customers. They also run counter to the public policy objective of encouraging building electrification, by incenting customers to switch from appliances/equipment that use natural gas to those that use electricity in order to reduce emissions. Customers facing the choice between gas or electric appliances/equipment that provide the same service (for example, a residential household deciding whether to heat its home with a gas furnace or with an electric heat pump, or to obtain its hot water with a gas water heater or an electric heat pump water heater) will be less likely to choose the electric option if electric volumetric rates are set at artificially high levels – since doing so will lead to a much higher bill. Furthermore, a growing number of municipalities are passing ordinances requiring new residential and business construction to use electricity rather than natural gas for space heating, water heating and cooking.¹ Customers affected by these new ordinances may see much higher than expected bills due to being forced to pay high volumetric electric rates, risking customer backlash against such ordinances.

For electrification to succeed, it is critical to reduce volumetric electric rate levels to achieve the desired emissions reductions. This can be accomplished via a number of changes electric rate designs, summarized in bullet form below (and further described in the following three sub-sections):

- Introducing and/or increasing fixed charges to collect a reasonable portion of utility fixed costs, resulting in lower volumetric electric rates;

¹ Such ordinances have been recently enacted in Berkeley.

- Further reforming tiered rate structures for electricity to either eliminate non-cost-based tiered prices or, at minimum, reducing the magnitudes of the price differentials between tiers; and
- Further reforming the compensation provided to customer-generators with on-site solar systems via Net Energy Metering (NEM).

Fixed Charges Coupled With Lower Volumetric rates.

As noted above, a critical step to fair and equitable rates is the implementation of a fixed charge for residential customers to recover fixed costs that do not vary with usage.

Such a charge is permitted by Assembly Bill (AB) 327.² PG&E supports having a fixed monthly charge in residential rates, consistent with rate design policies adopted by public utility regulators around the country and similar to the fixed monthly charges that have been in all of PG&E's non-residential rates for years. The addition of a fixed charge results in a more cost-based rate design that will spread costs to customers in a more equitable way based on the fixed costs to serve them. More importantly, if designed correctly, the resulting volumetric electric rates will be lower and closer to marginal costs of service, providing critical incentives for customers to switch to cleaner electric appliances and equipment.

Some customer groups and academicians have advocated for fixed charges that vary with customers' household incomes. While such proposals have merit and should be explored, they are likely to come with challenges to their implementation due to possible administrative complexity and customer confidentiality concerns. We should not, however, let the process of working out these issues delay the implementation of a fixed charge on residential rates as soon as possible – even if (at least at the start) they are not income-based. Time is of the essence in fighting climate change, and there is a critical need – both in terms of affordability and incentivizing electrification – to reduce volumetric rates now.

Finally, for a fixed charge to be effective in helping achieve affordability and electrification goals by significantly reducing volumetric rates, two other changes are necessary. First, the statutory language enacted by the aforementioned AB 327 needs to be modified, to either raise or, ideally, eliminate the current cap on the magnitude of the fixed charge. The statutory cap on the fixed charge would limit a fixed charge implemented in 2023 to no more than about \$12 per month.³ While a fixed charge at this level would represent a step in the right direction, the resulting fixed charge revenues would enable an average reduction in volumetric rates of less than three cents per kWh – an amount that is unlikely to substantially mitigate affordability concerns for households with high usage or to significantly incentivize customers to switch from GHG-creating appliances and equipment to ones powered by clean electricity. Second, the Commission needs to do away with the “Composite Tier 1 Methodology” it has utilized historically for designing tiered rates. This methodology has the effect of restricting the use of fixed charge revenues for the sole purpose of reducing Tier 1 rates, while leaving upper-tier rates unchanged. Since the purchase of electric

² AB 327 was signed into law in 2013.

³ Public Utilities Code Section 739.9(f) sets a \$10 cap on the fixed charge for 2015, but permits increases in this cap to account for inflation.

appliances/equipment is very likely to push household usage from Tier 1 to Tier 2 (or, alternatively, further into Tier 2), it is critical that fixed charge revenues also be used to reduce Tier 2 rates, or else households will be reluctant to make such purchases. Thus, these two changes – modification of the fixed charge cap and the elimination of the Composite Tier 1 Methodology -- are vital to achieve the state’s climate goals.

Eliminating Steeply-Tiered Residential Rates

Since 2010, PG&E has been advocating for fewer tiers in residential rates, along with smaller price differentials between tiers. In July 2015, in D.15-07-001, the CPUC adopted a multi-year “glide path” trajectory that represented an important step in that direction, reducing the number of tiers and gradually reducing the ratio of the Tier 2 rate to the composite Tier 1 rate.⁴ Currently, as of March 1, 2022, the ratio between PG&E’s Tier 2 and composite Tier 1 rates is set at the 1.25-to-1 final glide path ratio directed by D.15-07-001.⁵ But, while an improvement over the situation that existed in 2015, a 1.25-to-1 ratio still over-charges customers for usage above their baseline amount, while subsidizing customers whose usage stays in Tier 1. As noted above, this will dis-incent customers from switching to cleaner electric appliances, since such purchases will likely drive electric usage of Tier 1 users into the higher-priced Tier 2. Moreover, D.15-07-001 also introduced, beginning in 2017, a new “super user of electricity (SUE) surcharge” (which PG&E has implemented as a “High Usage Surcharge,” or “HUS”), that applies to usage above 400 percent of the customer’s baseline amount. Prior to the pandemic, the ratio of PG&E’s HUS tier rate to its composite Tier 1 rate was set at 2.19-to-1⁶. Charging HUS usage more than double Tier 1 usage had no basis in cost, greatly increased summer bill volatility for customers in hot climate zones, and provided a severe dis-incentive for customers to switch to electric appliances if such a switch would push their electric usage up even further, into the HUS tier. Since the pandemic, though, the CPUC issued two decisions that have improved the situation. First, D.20-05-013 reduced the ratio between the HUS rate and the composite Tier 1 rate from 2.19 to 1.56, which had the effect of substantially reducing PG&E’s HUS rate.⁷ Then, in D.21-03-003, the CPUC approved a Settlement that will permit PG&E to eliminate its HUS entirely once certain elimination criteria are met (which PG&E anticipates will be, later in

⁴ The Tier 1 rate applies to usage between zero and the customer’s baseline amount, while the Tier 2 rate applies to usage between 100 percent and 400 percent of the customer’s baseline amount. The composite Tier 1 rate is calculated by adding any revenues from a fixed charge or a minimum bill amount to Tier 1 energy revenues, then dividing by Tier 1 sales. Thus, the composite Tier 1 rate exceeds the nominal Tier 1 rate actually paid by customers for Tier 1 kWh usage.

⁵ Because the composite Tier 1 rate exceeds the actual Tier 1 rate, the resulting nominal rates have a ratio that exceeds 1.25-to-1.

⁶ When the pandemic hit in March 2020, PG&E’s HUS rate was 51.9 cents per kWh, compared to the Tier 1 rate of 23.5 cents per kWh (the Tier 2 rate was 29.6 cents per kWh).

⁷ As a result of this May 2020 decision, on June 1, 2020, PG&E’s HUS rate decreased from 53.7 to 38.3 cents per kWh.

2022).⁸ The eventual elimination of the HUS rate should greatly improve customers' incentives to electrify their homes and help the state achieve its climate-related goals.⁹

Rate structure and compensation for Net Energy Metering (NEM)

The NEM tariff allows customers with on-site generation (primarily rooftop solar photovoltaic (PV) equipment) to receive a retail-based credit (for generation plus transmission and distribution rates less certain public purpose program and other non-by-passable charges) for the energy they send out to the grid to offset the cost of their consumption within the month and within an annual true-up period.¹⁰ This results in residential NEM customers being compensated over \$0.30/kWh for electricity that, according to the CPUC's 2021 Avoided Cost Calculator, is worth approximately \$0.05/kWh. This 20+ cent premium is paid by non-participating customers, resulting in a cost shift. As of December 31, 2021, the estimated annual NEM cost shift for PG&E customers reached \$1.9 billion after a \$235 million increase over the previous year. The CPUC's Proposed Decision in R.20-08-020 would significantly slow the growth of this cost shift, but non-participating customers would continue to face higher rates and the electrical system higher costs overall under the PD¹¹. If the PD is significantly revised in the favor of the distributed solar industry, NEM will continue to be a major driver of rate increases.

PG&E believes that these residential rate design and NEM reforms can have a beneficial near-term impact on its cost of delivering safe and reliable gas and electric services to its customers, as well as more fairly charging customers rates which better reflect PG&E's cost to serve them – all the while incenting building electrification policies by making electric service more affordable to higher-usage customers.

Operational Initiatives

In addition to the specific changes to electric rate design, PG&E has outlined several initiatives in support of customer rate affordability. These initiatives include both operational efficiencies as well as transactional initiatives.

Operational Improvements result in reduction in the per unit cost of work through work planning & bundling, resource allocation, strategic sourcing negotiations and other process improvements

⁸ The Settlement was between PG&E, Southern California Edison, San Diego Gas & Electric Company, the Public Advocates Office, The Utility Reform Network, and the Utility Consumers' Action Network.

⁹ It is worth noting that the default time-of-use (TOU) rates approved by the CPUC, while providing better price signals to customers to shift their electric usage from high-cost peak hours to low-cost off-peak ones, still have a two-tiered structure that dis-incentivizes customers from switching to electric appliances.

¹⁰ The 2016 NEM successor tariff decision, Decision (D.)16-01-044, required customers to pay certain non-bypassable charges on all usage not offset by on-site generation, reducing some of this cross-subsidization.

¹¹ As of the time of this data response, the Proposed Decision in R.20-08-020 is on hold by the Commission for further evaluation.

Transactional savings are comprised of efforts such as selling real estate. Savings will be realized at the time each transaction closes. These efforts yield a benefit to the customers but do not necessarily lead to ongoing savings from doing work more efficiently.

Securitization

PG&E has identified and evaluated two alternative debt financing mechanisms. It should be noted that these alternative mechanisms would not be used to increase the proportion of debt in PG&E's capital structure, since doing so would raise the cost of equity and not reduce the overall cost of financing.

PG&E issued securitized debt in 2021, and plans to issue several more series through 2024, and potentially thereafter. PG&E anticipates that the interest cost savings to customers could eventually be on the order of about \$50 million annually. However, there is a limit to the total amount of securitized debt that can be outstanding at any one time, and as that limit is approached the credit ratings of securitized debt fall and the cost advantage may not be realized.

PG&E may also consider capital leases as another alternative to reduce financing costs. Generally, leasing is not a more cost-efficient form of debt financing for PG&E, but there may be specific transactions in which leasing may present a lower cost alternative. PG&E will evaluate any opportunities that appear promising.

Securitization of Wildfire O&M Costs

PG&E supports Commission authorization to securitize wildfire mitigation-related O&M costs as an additional financial tool to mitigate rate impacts. The Commission previously has authorized securitization of wildfire capital expenditures based on the economic benefits (i.e., customer cost reduction) as the sole standard of measure for the value of the proposal for securitization. However, securitizing wildfire mitigation-related O&M costs may result in other important customer benefits, such as promoting rate stability or reducing near-term costs (e.g., to mitigate rate impacts of vegetation management until ongoing system hardening work can be completed).

Self-insurance Program

In its 2023 GRC, PG&E proposes changes to its self-insurance program that would benefit customers. (See Exhibit (PG&E-9) Chapter 3, pp. 3-28 through 3-38 for a description of the proposal).

In summary, self-insurance provides potential cost savings benefits that traditional commercial insurance does not. With commercial policies, the premium is paid whether the coverage is used or not. In contrast, to the extent self-insurance is not used in a given year it remains available for use in future years. There is the potential for the size of the fund to increase over time, thereby reducing the amount of coverage PG&E needs to purchase from the commercial market in later years. As such, self-insurance has the potential to reduce customer costs down the road. (Exhibit (PG&E-9), Chapter 3, p. 3-28).

Self-insurance may also provide cash flow and time value of money benefits to customers. Payments from a self-insurance fund would not be due until claims are ultimately settled, which can occur sometimes three to four years after an event. In contrast, premiums for a commercial policy applicable to the same event need to be paid at the time the policy is bound. (Exhibit (PG&E-9), Chapter 3, p. 3-28).

Additionally, for self-insurance to be viewed as a viable alternative to commercial market policies, it must be enabled to operate in a consistent way. As is the case for other market-based policies, PG&E proposes that self-insurance would be available for use to pay claims and costs as needed and would not be subject to any additional regulatory process or after-the-fact reasonableness or prudence review. (See Exhibit (PG&E-9), Chapter 3, p. 3-34 through 3-35).

Outside Sources of Funding

PG&E supports outside sources of funding that can bring bill relief to customers, especially those most vulnerable. PG&E supported and partnered with the CPUC and the California Department of Community Services and Development to implement the CAPP program for qualified customers in arrears. These actions implemented AB 135 from 2021.

In 2022, PG&E continues to look for opportunities to provide rate relief for our customers. PG&E is working with SDG&E and SCE to bring forward a bill proposal that would remove public purpose program funding from the electric bill. This legislation would create a fund in the State Treasury and require state or other non-customer funding for these programs. PG&E is committed to working with stakeholders on this proposal and others to find opportunities to alleviate rate pressures on our customers.

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PG&E Witness:	Various	Requester:	Bridget Sieren-Smith

SUBJECT: 2022 SB 695 REPORT IOU RECOMMENDATIONS TO LIMIT COST AND RATE INCREASES (ELECTRIC AND GAS IOUs)

QUESTION 002

In addition to studying and reporting on specific measure that each IOU recommends be undertaken to limit costs and rate increases,[2] please study and report on the following topics, drawn from the Affordability Rulemaking Phase 3 En Banc held February 28th and March 1, 2022:

- Implement an income-based fixed charge with the amount charged progressively increasing for higher income households.
- Implement a percent of income payment plan program at scale, specifically commenting on potential sources of non-ratepayer funds to fund a full-scale program.
- Move wildfire mitigation costs to the General Fund.
- Reduce IOUs' authorized Return on Equity.
- Reduce GRC phase I anchor bias through evaluation of required alternative scenario(s).
- Implement rate or infrastructure planning mechanisms to avoid excessive gas infrastructure costs falling disproportionately on residential customers who cannot electrify.

ANSWER 002

During a March 7, 2022 email exchange with CPUC Energy Division representative Bridget Sieren-Smith, and PG&E representative Catherine Buckley, the Energy Division provided clarification of this data request, explaining that the request is soliciting a written synopsis of PG&E's comments made in regard to several subjects discussed during the "2022 Affordability Rulemaking En Banc: Evaluating Innovative Proposals for Cost Containment and Customer Protection," held February 28 -March 1, 2022.

PG&E appreciates the opportunity to provides its input and elaborate on the many significant issues it commented upon during the Affordability En Banc proceeding. PG&E supports the Commission's efforts to look beyond the traditional utility and regulatory approaches to address the equity challenges faced by our customers. In this context, PG&E provides the following response with important caveats, notably that some issues raised during the En Banc are being more fully considered and addressed in other proceedings. As an example, the Gas Transition Rulemaking, R.20-01-007,

has drawn significant stakeholder participation to consider in a more holistic manner issues relating to gas infrastructure costs. Further, issues regarding a fixed charge may be addressed in a future proceeding dedicated to rate design. As an additional caveat, PG&E believes providing responses to this data request is at an early stage in the schedule for this proceeding, given the next steps in Phase 3 of the Affordability OIR (R.18-07-006) are several procedural events to consider recommendations to mitigate energy rate and bill increases, including submission of written comments, a workshop on party recommendations, and an Energy Division staff proposal on this subject. Accordingly, while PG&E has provided its responses below, the positions provided below are preliminary and subject to change upon further consideration, as more formal comments are lodged in this proceeding, and as these issues are considered in this and related proceedings. In addition, PG&E would like to clarify that it did not have a chance to directly respond to each of these proposals during the En Banc hearing.

Implement an income-based fixed charge with the amount charged progressively increasing for higher income households.

PG&E agrees that major changes are needed to start recovering significant portions of costs in fixed charges. Fixed charges in all rates for residential customers are long overdue. Current default residential rates, with inclining tiers and no fixed charges, create artificially high, inefficient, price signals and are not structured to promote electrification to fight climate change. Approximately half or more of PG&E's electric costs are fixed but PG&E's rates disproportionately recover costs through volumetric rates.

Although an interesting proposal, implementing an income-based fixed charge has challenges in obtaining then retaining data on customers' household incomes. These challenges would not be easy to overcome, such as:

- Not every customer files a tax return;
- Residential customers on the same account often have multiple earners contributing to payment of an energy bill, and the utility does not know their identities;
- Tracking changes in household income presents problems as customers change jobs, become unemployed, get a job after being unemployed, or have a life event that causes a change income level;
- Ensuring information on customers' incomes remains confidential;
- Need for interagency cooperation to share information;
- Administrative costs with a detailed program to confirm and verify the income levels for all customers; and
- Using the state government to collect information to help bill just investor-owned utility and not publicly-owned utility customers.

Generally, PG&E does not currently collect income data from its customers. Collecting, verifying, and safely storing this information would likely require additional, costly, changes to PG&E's billing systems that PG&E has not researched or analyzed.

Aside from implementation challenges, the Next10 paper¹ uses "equity" synonymously with a progressive system of taxation to redistribute income. The CPUC, on the other hand, generally uses the term "equity" to mean that customers are charged fair amounts relative to what it costs to serve them. By that latter definition, an equitable fixed charge would not allocate costs the way the Next10 paper indicates, as a customer's income does not determine its cost of service. If two customers living adjacent to each other have the same load profiles, both will cost the same to serve even if one has an income double the other's income.

PG&E notes that while there is a positive correlation between income and usage, it is relatively weak. As such, a uniform fixed charge is not necessarily regressive. It would harm lower users and benefit higher users, but that is not synonymous with harming lower-income customers and benefiting higher-income ones. A uniform fixed charge would also benefit low- and moderate-income households with high usage (e.g., Central Valley renters in poorly insulated homes) and harm well-to-do households with low usage (e.g., who live in luxury condos in San Francisco).

In addition, any approved fixed charge would already have three levels built into it based on income: the approved fixed charge for non-CARE customers, along with two discounted levels for FERA and CARE customers who are eligible for line-item discounts on their bills (which would include the fixed cost component). Note, too, that AB 327 included a cap on the level of the fixed charge for CARE customers at \$5 (in 2015; escalated for inflation, thereafter), which is 50% of the non-CARE fixed charge cap of \$10 (similarly escalated for inflation).

There could be other ways to differentiate fixed charges that are based on cost of service, such as based on connection costs. For example, charging a higher fixed charge for single-family dwellings (with higher amperage services and longer service drops) than multi-family dwellings (with more meters per service drop).

PG&E is hopeful that the state's push for affordability and electrification results in CPUC decisions approving fixed charges for PG&E's residential rates. In the spirit of not letting the perfect be the enemy of the good, PG&E recommends that the Commission consider swift adoption of a fixed charge, even if it does not include income-based differentiation beyond non-CARE, CARE, and FERA.

Implement a percent of income payment plan program at scale, specifically commenting on potential sources of non-ratepayer funds to fund a full-scale program.

Consideration of administering the Percentage of Income Payment Plan (PIPP) at scale should occur once the PIPP Pilot and third-party evaluation ordered in D.21-10-012 are completed. PG&E submitted Tier 3 Advice Letter (Advice 4569-G/6493-E) on February

¹ Next 10 and Energy Institute at Haas, UC Berkeley, "Designing Electricity Rates for An Equitable Energy Transition," (2021). Link: [Next 10 Report](#).

4, 2022 to implement the PIPP Pilot and its proposal has not yet been approved. The Pilot and evaluation will provide insights to help determine whether it should be administered at scale, and if so, what the associated costs may be. PG&E would support exploring different approaches to funding such a program at that time, which could include non-ratepayer sources.

Move wildfire mitigation costs to the General Fund.

PG&E in general supports this concept and will continue to work with the state and policy makers to identify areas that may be more appropriately funded by all Californians to help PG&E minimize impact to customers. In order to have the highest impact on near term affordability we believe the state could focus on using state funds to reduce operating expenses which reduce costs more in the near term than capital related costs.

PG&E is also supportive of moving items such as Public Purpose Program (PPP) costs, off the utility bill and is interested in exploring this option further with other parties.

Reduce IOUs' authorized Return on Equity.

Utility infrastructure is funded from the proceeds of utility issuance of debt and equity securities to investors. Debt investors are paid a contractual rate of interest for the use of their money, and equity investors (shareholders) are entitled to whatever profits (earned ROE) the utility actually earns. Although equity investors are not guaranteed a return on their money, just as the cost of service includes interest paid to bondholders as a reasonable component of the cost of service, the CPUC determines a reasonable rate of return on equity (ROE) to be included in the cost of service. Shareholders then have an opportunity to actually earn the adopted ROE if the company can manage its costs and revenues in such a way as to actually earn the adopted ROE.

The standard used by the CPUC to set the adopted ROE is that established by the U.S. Supreme Court. (See, for example, the 2020 TY CPUC cost of capital decision D.19-12-056 mimeo at p15-16). As stated by the CPUC in D.19-12-056, "We attempt to set the ROE at a level of return commensurate with market returns on investments having corresponding risks and adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation."

Setting the adopted ROE at a level artificially below that otherwise determined under the standards used by the CPUC is not a unilateral decision: Investors have choices, and will invest in utilities that have a track record of offering investors a reasonable opportunity to earn a fair return on their investments. For California, which has substantial risks due to climate change as well as some of the most aggressive decarbonization policies in the country, we believe investors require a higher return in order to bear higher risk relative to other U.S. utilities. Investors remember that California's bold energy policies of the late 1990s led to the financial distress for the California utilities, including the bankruptcy of PG&E.

Setting a fair ROE doesn't impact just utility shareholders, but also utility debt holders. The adopted ROE is a critical determinant of the cash flow needed to support utility debt, and the credit ratings that indicate the riskiness of that debt. As debt becomes more risky the cost of that debt increases, and those higher costs will be passed on to customers. Setting the ROE at an artificially low rate signals the investment community that the Commission may be less supportive of the financial health of the utility, and as a result credit rating agencies may downgrade their ratings of utility debt.

Reduce GRC phase I anchor bias through evaluation of required alternative scenario(s).

While PG&E understands and appreciates the stakeholder engagement to arrive at solutions to address affordability equity concerns, PG&E does not agree with the conclusion in the data request that an "anchor bias" currently exists in an investor-owned utility's submission of revenue requirement requests in GRC proceedings. After a utility initiates a GRC through the filing of an application and testimony supporting a requested revenue requirement, reviewers of the utility's request then retain broad discretion in determining the information to submit in response and are not "anchored" or limited by the utility's presentation.

PG&E has provided extensive comments recommending the Commission deny a proposal for a "CPI-constrained" forecast put forward by The Utility Reform Network (TURN) in PG&E's 2023 GRC Phase I (A.21-06-021):²

As PG&E stated in its responses to TURN's earlier efforts, while we share TURN's concern regarding the effect of rate increases on our most vulnerable residential customers, we strongly disagree that requiring PG&E to submit an alternative, arbitrarily constrained showing in this GRC is the appropriate solution. As discussed in greater detail in this Response, TURN's Motion is flawed and should be denied for the following reasons:

- Safe operation of the utility is not only PG&E's top priority, it is also mandated by California law. PG&E's 2023 GRC forecast, as filed in our application, is informed by a detailed assessment of the key risks that we face and programs that address those risks. Approximately 75% of the requested revenue requirement increase over the 2022 adopted amount is for risk reduction in our gas and electric operations and the remainder includes customer service and operational support, among other important functions. Such efforts cannot easily – or reasonably – be pared back via an arbitrary CPI-based limitation.
- PG&E's 2023 GRC application complies with Commission's longstanding process for litigating general rate case proceedings, including the Commission's recent Rate Case Plan decision. In contrast, TURN's Motion constitutes an end run of both the Commission's process generally and the Rate Case Plan decision in particular.

² *Pacific Gas and Electric Company's Response to Motion of the Utility Reform Network to Require Pacific Gas and Electric Company to Supplement its Testimony with an Inflation-Constrained Alternative Spending Plan*, A. 21-06-021 (August 20, 2021), pp. 2-3.

- By seeking to force PG&E to sponsor testimony that we cannot support, TURN's Motion violates PG&E's constitutional due process and free speech rights.
- TURN's requested relief is unnecessary, as TURN itself is fully capable of conducting the kind of CPI-restricted analysis that it seeks to impose upon PG&E, as well as presenting such analysis in TURN's own testimony. TURN's requested relief would also confuse and delay the proceeding.
- On a substantive level, the assumptions underlying TURN's proposed CPI-capped spending plan contradicts the regulatory compact and runs counter to a long line of Commission precedent rejecting the use of CPI for ratesetting purposes.

PG&E's position has not changed from the above.

The data request inquiries into "evaluation of required alternative scenario(s), to reduce a contention of "anchor bias," which may encompass consideration of Affordability Metrics adopted in R. 18-07-006. PG&E incorporates by reference its response filed in the Affordability proceeding on January 10, 2022.³ In those comments and again here, PG&E recommended the Affordability Metrics be relied upon for directional insight and benchmarking purposes, and cautioned against use of the metrics as an evaluation criterion for further reasonableness reviews of specific revenue requests, stating, in part, that:

A decisionmaker's reliance on affordability metrics should not supplant the Commission's findings on whether a utility's underlying proposals satisfy a burden of proof and further address the continued safe and reliable operation of the utility at just and reasonable rates. In revenue requirement proceedings such as general rate cases, PG&E is committed to keeping costs as low as reasonably possible, but also recognizes that affordability necessarily must be balanced against a utility's legal mandate to provide "such adequate, efficient, just, and reasonable service instrumentalities, equipment and facilities ... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees and the public." equipment and facilities ... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees and the public." (*citing* California Public Utilities Code § 451.)^{4/}

Implement rate or infrastructure planning mechanisms to avoid excessive gas infrastructure costs falling disproportionately on residential customers who cannot electrify.

PG&E notes that consideration of gas infrastructure costs is occurring in other proceedings, particularly the Gas Transition Rulemaking (R. 20-01-007), and this response is not intended to preclude PG&E's further consideration of these issues in

³ *Opening Comments of Pacific Gas and Electric Company (U 39 M) on the Assigned Commissioner's and Assigned Administrative Law Judge's Ruling Inviting Comments on Staff Proposal on Implementation of Affordability Metrics, R. 18-07-006 (January 10, 2022)*

⁴ *Id.*, pages 8-9.

this or other proceedings. Below are some examples of rate or infrastructure planning mechanisms that could be utilized:

- From an equity and affordability standpoint, PG&E advocates for a building decarbonization strategy that enables reduced gas system expenditures, such that all customers benefit, not only those living or working in an all-electric building. As E3 notes in *The Challenge of Retail Gas in California's Low Carbon Future*, “a managed gas transition would likely require some amount of targeted or zonal electrification, to enable a reduction in the gas distribution infrastructure ... without any effort to target electrification, it would be difficult to reduce the size or scale of gas system investments and costs.”⁵ Thus, when building decarbonization efforts are proposed, they should focus first on enabling whole building and zonal electrification efforts, rather than piecemeal appliance-specific incentives.
- In the California Public Utilities Commission Building Decarbonization proceeding (R.19-01-011), PG&E did not oppose the elimination of gas line extension allowances, discounts and refunds for all residential customers and for non-residential customers where there was not a financial or environmental benefit to customers. The elimination of gas line extension allowances, discounts, and refunds for a majority of customers would help maintain affordable gas rates while emphasizing development of non-residential, environmentally beneficial projects that support affordable gas rates through the decarbonization transition.
- PG&E advocates for a regulatory mechanism to consider “non-pipeline alternatives” in support of decarbonization and affordability. Greenlight of utility “zonal electrification” non-pipeline alternatives would minimize further investment into natural gas infrastructure where electrification presents a more cost-effective alternative to ratepayers. Because gas pipeline replacement or repair projects are often undertaken for safety and reliability concerns, an expedited process such as a Tier 2 advice letter is critical to ensuring the success of non-pipeline alternatives.
- Allowing the utility to treat behind-the-meter electrification costs in a financially similar method to utility gas replacement or repair costs, where electrification is shown to financially benefit all ratepayers, opens up the possibility for utilities to pursue additional non-pipeline alternatives, rather than having to expense the costs associated with these projects.
- External state or federal funding will be critical to establish zonal electrification programs at scale. Ideally, funding would focus on supplementing non-pipeline alternatives that are nearly cost-effective and prioritizing the transition of vulnerable communities.
- Through the Long-Term Gas Planning OIR, Building Decarbonization OIR, or legislation, zonal electrification projects to preemptively electrify communities that will be most affected by long-term gas rates will enable a just transition of these customers. Communities to prioritize should include, but not be limited to: DACs, renters, multifamily residents, income-qualified customers, or customers on tribal land.

⁵ [The Challenge of Retail Gas in California's Low-Carbon Future \(ethree.com\)](https://ethree.com)