

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



August 19, 2015

**Advice Letter 4553-E**

Erik Jacobson  
Director, Regulatory Relations  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177

**SUBJECT: Request for Rule 20A Project Cost Over-Run Authority**

Dear Mr. Jacobson:

Advice Letter 4553-E is effective as of August 13, 2015, per Resolution E-4731 Ordering Paragraphs.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph  
Director, Energy Division

December 18, 2014

**Advice 4553-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Request for Rule 20A Project Cost Over-Run Authority**

This filing is made pursuant to California Public Utilities Commission (CPUC or Commission) Resolution E-4001, which established CPUC policy with regard to Rule 20A project cost over-runs and allocation borrowing.

Pacific Gas and Electric Company (PG&E or the Company) requests approval on a *nunc pro tunc* (retroactive) basis for sixteen (16) Rule 20A projects that have already been completed (Attachment A to this advice letter).

**Background**

Under Rule 20A, utilities such as PG&E annually allocate work credits to communities – either cities or unincorporated areas of counties – to convert overhead electric facilities to underground. The communities may either bank (accumulate) their annual allocations, or borrow (mortgage) future allocations. Upon completion of an undergrounding project, the utility records its costs in its electric plant account for inclusion in its rate base. (Res. E-4001, pp. 1-2.)

In 2000, the CPUC opened Rulemaking (R.) 00-01-005 to develop a uniform Rule 20A borrowing policy among utilities. The CPUC ruled that “once a city has established a master undergrounding plan and identified specific projects, it may spend its accumulated allocations plus an amount equal to its estimated allocations for the next five years.” (Decision (D.) 01-12-009, p.22) The CPUC directed utilities to file advice letters if they needed exemptions from the 5-year borrowing limit.<sup>1</sup>

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<sup>1</sup> PG&E filed two advice letters seeking authority to borrow beyond the 5-year limit. See Advice 2426-E (Mill Valley/East Blithedale Blvd.); Advice 2445-E (San Francisco/Octavia Avenue).

On August 26, 2006, the CPUC issued Resolution E-4001, which adopted policies related to Electric Rule 20 advice letter filings. Among other things, Resolution E-4001 provided (at p. 9, Ordering Paragraphs 1 and 2):

1. Electric utilities shall not commit ratepayers to the costs of an Electric Rule 20 overhead conversion project that requires borrowing more than five years of a community's Electric Rule 20A allocations without Commission's approval. Excess costs not approved by the Commission, will be paid either by pre-arranged community funds or by the utility shareholders. An exception may be made for excess costs resulting from unanticipated conditions encountered during construction.
2. Electric utilities shall file Advice Letters for exemption from the 5 year cap no later than three months before the date construction begins except where the excess costs result from unanticipated conditions encountered during construction.

### **PG&E Discovered an Error in its Rule 20A Determinations**

PG&E has discovered that, due to an inadvertent error in its Rule 20A administration, 16 projects have been completed at a cost in excess of the communities' Rule 20A allocations plus 5-years' borrowing. The excess costs for these projects did not receive prior CPUC approval.

This error in PG&E's Rule 20A administration has its roots in PG&E's 2011 General Rate Case (GRC) (A.09-12-020). In that case, PG&E and intervenors entered into a Settlement Agreement that, among other things, adopted Rule 20A allocations based on PG&E's annual budgeted amount rather than applying an escalation factor. This change in allocation methodology effectively reduced PG&E's level of annual allocations and encouraged PG&E to work down its "bank" of accumulated allocations.

The Settlement Agreement also allowed communities with projects already in progress to continue with their projects, even if they exceeded the 5-year allowable borrowing period under the modified Rule 20A allocation methodology. The Settlement Agreement was silent about the communities eligible for this "grandfathered" treatment, but PG&E's original testimony indicated that 6 communities would qualify for this exception.<sup>2</sup> In D.11-05-018, the CPUC approved the Settlement Agreement, including the Rule 20A provisions. See D.11-05-018, Finding of Fact 18.

After the 2011 GRC decision was issued, PG&E personnel evaluated all of the Rule 20A projects that were planned or proposed at the time, and indicated that

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<sup>2</sup> Settlement Motion, p. 33, n. 52; citing PG&E-3, p. 7-10, lines 13-23.

projects that were forecast not to exceed the relevant Rule 20A allocations plus 5-year borrowing were authorized to move forward. However, other PG&E personnel working on the Rule 20A projects misunderstood this authorization to mean that the projects were grandfathered, *i.e.*, that the projects could go forward without prior CPUC approval even if they exceeded the 5-year borrowing limit. This misunderstanding about grandfathered projects was communicated to several communities resulting in the cost overrun described in this advice letter. Because of this inadvertent error, PG&E did not seek prior CPUC approval for these projects, as required by Resolution E-4001.

### **PG&E Requests Retroactive Approval for 16 Rule 20A Projects**

By this advice letter, PG&E requests retroactive approval for 16 undergrounding projects that have already been completed at a cost in excess of the affected community's Rule 20A accumulated allocations plus 5-years' borrowing (shown in Attachment A to this Advice).

Approval of PG&E's request is in the public interest and is consistent with the policies underlying Resolution E-4001 and PG&E's 2011 GRC decision. In Resolution E-4001, the CPUC recognized that project costs may grow for a variety of reasons, both within and outside the control of the utility. (Res. E-4001, p. 3.) That is what happened in these cases. As described above, PG&E personnel initially assessed all of the Rule 20A projects to determine whether they met the CPUC's 5-year borrowing limit, and at the time, they did. Due to various reasons, however, project costs grew beyond the initial forecasts. Because these projects were erroneously categorized as "grandfathered," PG&E personnel did not believe it necessary to seek CPUC approval for the cost over-runs.

In Resolution E-4001, the CPUC also expressed concern that, by allowing a community to over-run its 5-year Rule 20A borrowing cap, other projects in the community would have to be deferred until sufficient future allocations were accumulated. (*Id.*) However, this concern is countered by the facts of PG&E's Rule 20A program. In PG&E's 2011 GRC, the Division of Ratepayer Advocates (now ORA) expressed concern about the growing accumulation of Rule 20A allocations, and the 2011 GRC Settlement Agreement and Decision reflect the CPUC's support for working down the accumulated Rule 20A balance – effectively encouraging PG&E to do more Rule 20A undergrounding projects.

### **PG&E Shareholders Will Pay for the Cost Overruns Associated with the 16 Rule 20A Projects Described in this Advice Letter**

As described above, the Commission in Resolution E-4001, Paragraph 2, stated:

Excess costs not approved by the Commission, will be paid either by pre-arranged community funds or by the utility shareholders. An exception may

be made for excess costs resulting from unanticipated conditions encountered during construction.

The completed projects are forecast to “overrun” by approximately \$24.5 million. Although the existing pool of unused Rule 20A allocations is adequate to fund the sixteen Rule 20A overrun projects described in this advice letter, PG&E has decided to use shareholder funds to pay for these costs for two reasons: first, to reflect the fact that the overrun occurred as a result of PG&E’s own error, however inadvertent; and second, to ensure that other customers are unaffected by the error.

### **Added Internal Controls will be Implemented Going Forward**

Since discovering this issue, PG&E has examined its Rule 20A project governance and has identified several controls to prevent future overruns. The project controls are simultaneously being applied to both new projects as well as projects currently under construction. PG&E is implementing a review of each community’s accumulated balance at several key decision points and project milestones in order to be able to better inform a community about its accumulated work credits before the community adopts a resolution and during the construction phase. The periodic review will also allow for better tracking and communications of project costs during construction to help prevent a project from exceeding its accumulated work credits balance.

### **Protests**

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, facsimile or E-mail, no later than January 7, 2015, which is 20 days after the date of this filing. Protests must be submitted to:

CPUC Energy Division  
ED Tariff Unit  
505 Van Ness Avenue, 4<sup>th</sup> Floor  
San Francisco, California 94102

Facsimile: (415) 703-2200  
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest shall also be sent to PG&E either via E-mail or U.S. mail (and by facsimile, if possible) at the address shown below on the same date it is mailed or delivered to the Commission:

Meredith Allen  
Senior Director, Regulatory Relations  
Pacific Gas and Electric Company  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177

Facsimile: (415) 973-7226  
E-mail: PGETariffs@pge.com

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (General Order 96-B, Section 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (General Order 96-B, Section 3.11).

### **Effective Date**

PG&E submits this as a Tier 3 advice letter and requests that the Commission issue a resolution approving this advice letter as soon as practicable.

### **Notice**

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for A.12-11-009. Address changes to the General Order 96-B service list should be directed to PG&E at email address PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process\_Office@cpuc.ca.gov. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs/>.

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/S/

Meredith Allen  
Senior Director – Regulatory Relations

Attachments

cc: Service List A.12-11-009

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 E)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Kingsley Cheng

Phone #: (415) 973-5265

E-mail: k2c0@pge.com and PGETariffs@pge.com

EXPLANATION OF UTILITY TYPE

(Date Filed/ Received Stamp by CPUC)

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

Advice Letter (AL) #: **4553-E**

**Tier: 3**

Subject of AL: **Request for Rule 20A Project Cost Over-Run Authority**

Keywords (choose from CPUC listing): Compliance, Agreements

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL: \_\_\_\_\_

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: **Upon Commission Approval**

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**California Public Utilities Commission**

**Energy Division**

**EDTariffUnit**

**505 Van Ness Ave., 4<sup>th</sup> Flr.**

**San Francisco, CA 94102**

**E-mail: EDTariffUnit@cpuc.ca.gov**

**Pacific Gas and Electric Company**

**Attn: Meredith Allen**

**Senior Director, Regulatory Relations**

**77 Beale Street, Mail Code B10C**

**P.O. Box 770000**

**San Francisco, CA 94177**

**E-mail: PGETariffs@pge.com**

Advice 4553-E  
December 18, 2014

## **Attachment A**

### **16 Rule 20A Projects Accumulated Allocations Plus 5-Years' Borrowing**

Work Credit Sponsor	Order	Description	Work Credit Balance	5-Year Borrow	Work Credits + Borrow	Project Cost	Cost in Excess of 5-Year Borrow
HILLSBOROUGH	30367568	OC1 E HILLSBOROUGH RALSTON/EUCALYPTUS R2	(\$1,008,717)	\$151,715	\$1,201,772	\$2,071,470	\$ 869,699
PACIFICA	30700370	R2 PALMETTO AVE_PACIFICA_R20A	\$4,370,476	\$703,120	\$5,073,596	\$5,436,928	\$ 363,332
HAYWARD	30677628	MISSION OVERHILL DIST 27 HAYWARD R20A	\$4,759,721	\$0	\$4,759,721	\$4,848,313	\$ 88,592
CAMPBELL	30720578	EP WINCHESTER BLVD CAMPBELL R20A	\$2,709,738	\$809,740	\$3,519,478	\$6,422,004	\$ 2,902,526
FOWLER	30676929	OC2 E FOWLER LIBRARY, 7TH ST FOWL R20A	\$526,739	\$81,785	\$608,524	\$878,483	\$ 269,959
SAN LUIS OBISPO	30563616	OC2 CITY OF SLO BROAD ST 20A; PH 1	\$1,696,474	\$892,715	\$2,589,189	\$3,501,916	\$ 912,727
ATWATER	30660879	OC2 E RULE 20A - BELLEVUE RD - ATWATER	\$2,073,498	\$340,670	\$2,414,168	\$3,286,907	\$ 872,739
FIREBAUGH	30675529	OC2 13TH ST FIREBAUGH R20A	\$1,346,475	\$88,745	\$1,435,220	\$2,423,393	\$ 988,173
MADERA	30675659	OC2 E EP MADERA YOUTH CENTER MADERA	\$581,288	\$0	\$581,288	\$993,089	\$ 411,800
RIVERBANK	30406568	OC2 CITY OF RIVERBANK RULE 20A	\$622,836	\$177,145	\$799,981	\$2,355,751	\$ 1,555,770
ANDERSON	30644207	OC4 BALLS FERRY RD. ANDERSON RULE 20A	\$1,117,164	\$202,970	\$1,320,134	\$3,333,987	\$ 2,013,853
PLACER COUNTY	30170714	AUBURN (E) 20A PGE LEAD HWY 49 AUBUR	\$3,408,460	\$0	\$3,408,460	\$4,571,705	\$ 1,163,245
PLACERVILLE	30641242 & 30547671	OC4 EP PLACERVILLE DR PLACERVILLE	\$1,473,257	\$232,200	\$1,705,457	\$1,993,856	\$ 288,399
BELVEDERE	30809002	OC4 R20A - MID SAN RAFAEL AVE, BELVEDERE	(\$292,637)	\$30,790	\$201,480	\$449,630	\$ 248,150
NAPA COUNTY / ST HELENA	30185719	R20A - HWY29, NAPA COUNTY	\$4,803,891	\$925,820	\$5,729,711	\$17,077,667	\$ 11,347,956
SONOMA	30302192	OC4 R20A - BROADWAY, SONOMA	(\$347,201)	\$208,245	\$1,602,841	\$1,745,663	\$ 142,822
							<b>\$ 24,439,742</b>

**PG&E Gas and Electric  
Advice Filing List  
General Order 96-B, Section IV**

AT&T	Division of Ratepayer Advocates	Occidental Energy Marketing, Inc.
Albion Power Company	Douglass & Liddell	OnGrid Solar
Alcantar & Kahl LLP	Downey & Brand	Pacific Gas and Electric Company
Anderson & Poole	Ellison Schneider & Harris LLP	Praxair
BART	G. A. Krause & Assoc.	Regulatory & Cogeneration Service, Inc.
Barkovich & Yap, Inc.	GenOn Energy Inc.	SCD Energy Solutions
Bartle Wells Associates	GenOn Energy, Inc.	SCE
Braun Blaising McLaughlin, P.C.	Goodin, MacBride, Squeri, Schlotz & Ritchie	SDG&E and SoCalGas
CENERGY POWER	Green Power Institute	SPURR
California Cotton Ginners & Growers Assn	Hanna & Morton	Seattle City Light
California Energy Commission	In House Energy	Sempra Utilities
California Public Utilities Commission	International Power Technology	SoCalGas
California State Association of Counties	Intestate Gas Services, Inc.	Southern California Edison Company
Calpine	K&L Gates LLP	Spark Energy
Casner, Steve	Kelly Group	Sun Light & Power
Center for Biological Diversity	Linde	Sunshine Design
City of Palo Alto	Los Angeles County Integrated Waste Management Task Force	Tecogen, Inc.
City of San Jose	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
Clean Power	MRW & Associates	TransCanada
Coast Economic Consulting	Manatt Phelps Phillips	Utility Cost Management
Commercial Energy	Marin Energy Authority	Utility Power Solutions
Cool Earth Solar, Inc.	McKenna Long & Aldridge LLP	Utility Specialists
County of Tehama - Department of Public Works	McKenzie & Associates	Verizon
Crossborder Energy	Modesto Irrigation District	Water and Energy Consulting
Davis Wright Tremaine LLP	Morgan Stanley	Wellhead Electric Company
Day Carter Murphy	NLine Energy, Inc.	Western Manufactured Housing Communities Association (WMA)
Defense Energy Support Center	NRG Solar	YEP Energy
Dept of General Services	Nexant, Inc.	