August 19, 2015

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,

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.¹

¹ 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.² 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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² 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, 4th 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:
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/.

/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)

<table>
<thead>
<tr>
<th>Company name/CPUC Utility No.</th>
<th>Pacific Gas and Electric Company (ID U39 E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility type:</td>
<td>Contact Person: Kingsley Cheng</td>
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<tr>
<td>☑ ELC</td>
<td>Phone #: (415) 973-5265</td>
</tr>
<tr>
<td>☐ GAS</td>
<td>E-mail: <a href="mailto:k2e0@pge.com">k2e0@pge.com</a> and <a href="mailto:PGETariffs@pge.com">PGETariffs@pge.com</a></td>
</tr>
<tr>
<td>☐ PLC</td>
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</tr>
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<td>☐ HEAT</td>
<td></td>
</tr>
<tr>
<td>☐ WATER</td>
<td></td>
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</table>

EXPLANATION OF UTILITY TYPE
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., 4th 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
Attachment A

16 Rule 20A Projects
Accumulated Allocations Plus 5-Years’ Borrowing
<table>
<thead>
<tr>
<th>Work Credit Sponsor</th>
<th>Order</th>
<th>Description</th>
<th>Work Credit Balance</th>
<th>5-Year Borrow</th>
<th>Work Credits + Borrow</th>
<th>Project Cost</th>
<th>Cost in Excess of 5-Year Borrow</th>
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<tr>
<td>HILLSBOROUGH</td>
<td>30367568</td>
<td>OC1 E HILLSBOROUGH RALSTON/EUCALYPTUS R2</td>
<td>($1,008,717)</td>
<td>$151,715</td>
<td>$1,201,772</td>
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<td>$869,699</td>
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<td>PACIFICA</td>
<td>30700370</td>
<td>R2 PALMETTO AVE, PACIFICA, R20A</td>
<td>$4,370,476</td>
<td>$703,120</td>
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<td>HAYWARD</td>
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<td>CAMPBELL</td>
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<td>EP WINCHESTER BLVD CAMPBELL R20A</td>
<td>$2,709,738</td>
<td>$809,740</td>
<td>$3,519,478</td>
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<td>$2,902,526</td>
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<td>FOWLER</td>
<td>30676929</td>
<td>OC2 E FOWLER LIBRARY, 7TH ST FOWLR R20A</td>
<td>$526,739</td>
<td>$81,785</td>
<td>$608,524</td>
<td>$878,483</td>
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<td>SAN LUIS OBISPO</td>
<td>30563616</td>
<td>OC2 CITY OF SLO BROAD ST 20A; PH 1</td>
<td>$1,696,474</td>
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<td>FIREBAUGH</td>
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<td>MADERA</td>
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<td>RIVERBANK</td>
<td>30406568</td>
<td>OC2 CITY OF RIVERBANK RULE 20A</td>
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<td>$177,145</td>
<td>$799,981</td>
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<td>ANDERSON</td>
<td>30644207</td>
<td>OC4 BALLS FERRY RD. ANDERSON RULE 20A</td>
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<td>PLACER COUNTY</td>
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<td>AUBURN (E) 20A PGE LEAD HWY 49 AUBUR</td>
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<td>PLACERVILLE</td>
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<td>OC4 EP PLACERVILLE DR PLACERVILLE</td>
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<td>$232,200</td>
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<td>BELVEDERE</td>
<td>30809002</td>
<td>OC4 R20A - MID SAN RAFAEL AVE, BELVEDERE</td>
<td>($292,637)</td>
<td>$30,790</td>
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<td>NAPA COUNTY / ST HELENA</td>
<td>30185719</td>
<td>R20A - HWY29, NAPA COUNTY</td>
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<td>SONOMA</td>
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$ 24,439,742
PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV

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