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Commissioner	:	<u>C. Rechtschaffen</u>
ALJ	:	<u>S. Roscow</u>
Witness	:	<u>C. Lambert</u>



OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

**The Office of Ratepayer Advocates’
Report on
Pacific Gas and Electric Company’s
Cost of Service and Rates for Gas
Transmission and Storage
Services for the Period 2019 - 2021**

Depreciation & Decommissioning

San Francisco, California
June 29, 2018

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1 **I. INTRODUCTION**

2 This exhibit presents the analyses and recommendations of the Office of
3 Ratepayer Advocates (ORA) regarding the depreciation and natural gas storage
4 decommissioning proposals of Pacific Gas and Electric Company (PG&E) in its Test
5 Year (TY) 2019 Gas Transmission and Storage Proceeding (GT&S). Specifically,
6 ORA addresses PG&E’s proposed depreciation parameters and its proposed
7 recovery of decommissioning expenses for the Los Medanos and Pleasant Creek
8 underground storage facilities. PG&E’s proposals are presented in Chapters 14B
9 and 14C of Ex. PG&E-02. For convenience, this exhibit uses “14B” as shorthand for
10 purposes of numeration (e.g., of tables and figures), though this exhibit addresses
11 both Chapters 14B and 14C.

12 Depreciation is the ratemaking mechanism that allocates the recovery of the
13 original cost of capital investments over the useful life of plant. Depreciation
14 expense is related to the magnitude of the company’s plant-in-service. As new plant
15 is placed in service, the level of depreciation concomitantly increases. The
16 depreciation expense and reserve balance for the test year are calculated in the
17 Results of Operations (RO) model, which estimates depreciation based on net plant
18 addition forecasts and calculates the depreciation reserve for the test year.

19 **II. OVERVIEW OF REQUEST**

20 PG&E proposes a TY 2019 depreciation expense of \$274.5 million and a
21 decommissioning expense of \$29.6 million.¹ This total sum of \$304.1 million is
22 reduced by \$11.9 million to realize the gas safety spend disallowance from Decision
23 (D.) 16-12-010. PG&E’s proposal includes changes to the average service lives,²

¹ Ex. PG&E-02, Ch. 14B, p. 14B-2, lines 18-21.

² The average service life is the expected lifespan of a unit of plant at the time it is placed into service. It estimates the mean useful life achieved by plant, over which time it will
(continued on next page)

1 survivor curve types,³ and net salvage rates⁴ of various plant accounts. PG&E's
2 proposal also includes accelerated depreciation rates for the Los Medanos and
3 Pleasant Creek (LM/PC) natural gas storage facilities. This accelerated depreciation
4 would allocate the remaining net book value of the LM/PC facilities, plus certain
5 capital additions, over PG&E's proposed three years of remaining life of these
6 facilities. These proposals are included within PG&E's Natural Gas Storage
7 Strategy (NGSS), as detailed in Ch. 11 and Ch. 14B of Ex. PG&E-02. In addition to
8 these accelerated depreciation accruals, PG&E proposes to collect annual
9 decommissioning expenses of \$29.6 million for three years (2019-2021) to fund the
10 decommissioning of the LM/PC facilities. PG&E proposes to commence the
11 decommissioning of both facilities in 2022.
12

(continued from previous page)

become fully depreciated.

³ The survivor curve type is drawn from the commonly used Iowa curve system, which was developed at the Iowa Engineering Experiment Station of Iowa State University, based on observations of the retirement behavior of industrial property. The Iowa curves categorize plant according to the location of the modal age at retirement relative to the average age at retirement and to the dispersion of retirements around the mode.

⁴ Net salvage refers the difference of gross salvage value less cost of removal. A net salvage rate (percentage) is applied to the amount of plant in service to provide for any forecasted net salvage value in the calculation of the depreciation expense.

1 **III. SUMMARY OF RECOMMENDATIONS**

2 **A. Depreciation Parameters**

3 Table 14B-1 below summarizes ORA’s recommendations regarding PG&E’s
 4 proposed average service lives and net salvage rates:

**Table 14B-1
 Comparison of ORA Recommended to PG&E Proposed Depreciation Parameters
 Test Year 2019**

	PG&E Proposed	ORA Recommended	PG&E < ORA
Survivor Curves	(a)	(b)	(c) ⁵ = (b) – (a)
Account 353 (Lines)	55-R4	65-R5	10
Account 356 (Purification Equip.)	45-R3	50-R4	5
Account 369 (Meas. & Reg. St. Equip.)	50-R1	58-R1	8
Account 371 (Other Equipment)	50-R2	63-R2.5	13
Net Salvage Rates	(a)	(b)	(c) = (b) – (a)
Account 353 (Lines)	-50%	-30%	20%
Account 367 (Mains)	-70%	-44%	26%

5 **1. Survivor Curves**

- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- For Account 353 (Lines), ORA recommends the 65-R5 survivor curve, in contrast to PG&E’s proposed survivor curve of 55-R4.
 - For Account 356 (Purification Equipment), ORA recommends the 50-R4 survivor curve, in contrast to PG&E’s proposed survivor curve of 45-R3.
 - For Account 369 (Measuring and Regulating Station Equipment), ORA recommends the 58-R1 survivor curve, in contrast to PG&E’s proposed survivor curve of 50-R1.

⁵ The difference in average service lives does not capture other differences that relate to the recommended survivor curve type.

- 1 • For Account 371 (Other Equipment), ORA recommends the 63-
2 R2.5 survivor curve, in contrast to PG&E's proposed survivor curve
3 of 50-R2.

4 **2. Net Salvage Rates**

- 5 • For Account 353 (Lines), ORA recommends the Commission
6 maintain the current net salvage rate of negative 30%, in contrast to
7 PG&E's proposal of negative 50%.
- 8 • For Account 367 (Mains), ORA recommends the Commission adopt
9 the net salvage rate of negative 44%, in contrast to PG&E's
10 proposal of negative 70%.

11 **B. Depreciation and Decommissioning Expenses for Los** 12 **Medanos and Pleasant Creek**

13 The following summarizes ORA's recommendations regarding the
14 depreciation and decommissioning expenses associated with the proposed
15 retirement of the LM/PC underground storage facilities:

- 16 • ORA recommends the Commission maintain the currently
17 authorized depreciation rates for the Pleasant Creek facility for
18 three years (2019-2021), in contrast to PG&E's proposal to
19 accelerate the depreciation of the LM/PC facilities.
- 20 • ORA recommends the Commission convert the remaining net book
21 value of the Pleasant Creek facility into a regulatory asset upon the
22 commencement of decommissioning activities in 2022. For
23 ratemaking purposes, PG&E should amortize this regulatory asset
24 over five years, with no return.
- 25 • ORA recommends the Commission maintain the currently
26 authorized depreciation rates for the Los Medanos facility, in
27 contrast to PG&E's proposal of accelerated depreciation. This is
28 consistent with ORA's recommendation in Ex. ORA-11 to defer
29 consideration of the closure and decommissioning of Los Medanos
30 to the next GT&S proceeding.
- 31 • If the Commission decides to authorize the decommissioning of Los
32 Medanos beginning in 2022, ORA makes the alternative
33 recommendation that the Commission treat the depreciation of Los
34 Medanos consistent with ORA's recommendation for the Pleasant
35 Creek facility. Depreciation should continue at currently authorized
36 rates for three years (2019-2021). The remaining book value of the
37 Los Medanos facility should be converted to a regulatory asset
38 upon the commencement of decommissioning in 2022. For

1 ratemaking purposes, PG&E should amortize this regulatory asset
2 over five years, with no return.

- 3 • ORA recommends that the Commission adopt \$2.990 million in
4 annual decommissioning expenses for Pleasant Creek, in contrast
5 to PG&E's proposal of \$7.974 million. This allows
6 decommissioning expenses to be allocated across ORA's
7 recommended eight-year timespan for the depreciation and
8 regulatory asset amortization of the Pleasant Creek facility.
- 9 • ORA recommends that the Commission adopt \$6.058 million in
10 annual decommissioning expenses for Los Medanos, in contrast to
11 PG&E's proposal of \$21.630 million. This provides an equitable
12 recovery of funds for decommissioning while deferring the final
13 consideration of the closure and decommissioning to the next
14 GT&S proceeding.
- 15 • If the Commission decides to authorize the decommissioning of Los
16 Medanos beginning in 2022, ORA makes the alternative
17 recommendation that the Commission adopt \$8.111 million in
18 annual decommissioning expenses for Los Medanos, in contrast to
19 PG&E's proposal of \$21.630 million. This allows decommissioning
20 expenses to be allocated across ORA's alternatively recommended
21 eight-year timespan for the depreciation and regulatory asset
22 amortization of the Los Medanos facility.

23

- 1 Table 14B-2 compares ORA's recommended and PG&E's proposed
- 2 decommissioning expenses:

Table 14B-2
Pleasant Creek and Los Medanos Decommissioning Expenses
Test Year 2019
(in Thousands of Dollars)

Description	ORA Recommended				PG&E Proposed ⁶		
	2019	2020	2021	2022	2019	2020	2021
Primary ORA Recommendation							
Pleasant Creek Decommissioning Expense	\$2,990	\$2,990	\$2,990	\$2,990	\$7,974	\$7,974	\$7,974
Los Medanos Decommissioning Expense	\$6,058	\$6,058	\$6,058	\$6,058	\$21,630	\$21,630	\$21,630
Total	\$9,048	\$9,048	\$9,048	\$9,048	\$29,604	\$29,604	\$29,604
Alternative ORA Recommendation							
Pleasant Creek Decommissioning Expense	\$2,990	\$2,990	\$2,990	\$2,990	\$7,974	\$7,974	\$7,974
Los Medanos Decommissioning Expense	\$8,111	\$8,111	\$8,111	\$8,111	\$21,630	\$21,630	\$21,630
Total	\$11,101	\$11,101	\$11,101	\$11,101	\$29,604	\$29,604	\$29,604

⁶ Table 14B-GD-2 on page WP 14B-281 of the workpapers supporting Ex. PG&E-02, Chapter 14B.

1

PART I: DEPRECIATION

2 I. BACKGROUND

3 In general, a utility recovers both the original cost of a capital investment and
 4 its end-of-life net salvage value by claiming annual depreciation⁷ accruals over the
 5 useful life of the asset. This ratemaking mechanism allocates the cost of plant to
 6 ratepayers over its estimated useful life. Depreciation also provides for the ongoing
 7 loss of an asset’s service value that cannot be avoided by maintenance. Such loss
 8 may be caused by wear and tear, obsolescence, regulatory requirement, or other
 9 factors. The Federal Energy Regulatory Commission (FERC) defines depreciation
 10 in 18 Code of Federal Regulations (CFR), Part 101:

11 *Depreciation, as applied to depreciable electric plant, means the loss*
 12 *in service value not restored by current maintenance, incurred in*
 13 *connection with the consumption or prospective retirement of electric*
 14 *plant in the course of service from causes which are known to be in*
 15 *current operation and against which the utility is not protected by*
 16 *insurance. Among the causes to be given consideration are wear and*
 17 *tear, decay, action of the elements, inadequacy, obsolescence,*
 18 *changes in the art, changes in demand and requirements of public*
 19 *authorities.*

20 The guidelines set forth in the California Public Utilities Commission’s (CPUC
 21 or Commission) Standard Practice (SP) U-4, *Determination of Straight-Line*
 22 *Remaining Life Depreciation Accruals*, establish the following depreciation expense
 23 formula:

$$\text{Depreciation expense} = \frac{\text{original cost} - \text{depreciation reserve} - \text{net salvage}}{\text{Remaining life of asset}}$$

24

⁷ For purposes of this exhibit, *depreciation* includes the amortization of non-depreciable plant, such as software.

1 Where:

- 2 • *Original cost* refers to the gross nominal dollar value of plant in
3 service;
- 4 • *Depreciation reserve* refers to the account within which the annual
5 depreciation expenses accumulate;
- 6 • *Net salvage* refers to the gross salvage value of plant at the end of
7 its life, less the cost of its removal.

8 The level of depreciation expense is a function of the amount of plant in
9 service (i.e., recorded gross plant). The level of depreciation expense increases as
10 new plant enters service, and it declines as plant retires. The level of depreciation
11 expense is also a function of the authorized depreciation parameters for each mass
12 property account. These parameters include an average service life, a survivor
13 curve type, and a net salvage rate.⁸ The survivor curve types and average service
14 lives inform the calculation of the expected remaining life of plant. The company
15 collects the total depreciable sum of the original cost of plant and its future net
16 salvage over this estimated remaining life.

17 Depreciation expenses do not escalate over time. Rather, depreciation
18 accruals are calculated in nominal terms, based upon depreciation rates adopted by
19 the Commission in each GRC. Per SP U-4, these depreciation rates reflect the
20 percentage of the original cost of plant that is represented by the depreciation
21 expense, as calculated according to the formula above. Depreciation rates remain
22 in effect during the pendency of each GRC cycle.

23 PG&E's depreciation expense and reserve proposals incorporate the
24 company's capital additions forecasts as well as their proposed depreciation
25 parameter changes. This exhibit addresses ORA's analysis and recommendations
26 that pertain to PG&E's proposed depreciation parameters. This exhibit does not
27 address differences in ORA's recommended capital additions from PG&E's

⁸ See Footnotes 2-4 for definitions of these terms.

1 forecasts, although these differences are responsible for a large share of differences
2 in ORA's recommended depreciation expense and reserve amounts.

3 The Results of Operations (RO) Model, presented in Ex. ORA-15A,
4 incorporates the recommendations of ORA's capital additions witnesses, as well as
5 the recommendations contained in this exhibit. The RO Model supplies the
6 depreciation expense and reserve amounts.

7 **II. TERMINOLOGY**

8 In many instances, the cost of removal of plant exceeds its gross salvage
9 value. As a result, net salvage rates are often negative. However, some accounts
10 may exhibit positive net salvage rates. To avoid confusion, this exhibit defines
11 words such as "increased" or "greater" to reflect changes in absolute magnitude
12 (distance from zero), whether positive or negative. For convenience, this exhibit
13 may include clarifying parentheticals, such as, "the proposed net salvage rate is
14 higher (more negative)."

15 **III. SURVIVOR CURVES**

16 PG&E proposes changes to the survivor curves of a variety of FERC
17 accounts.⁹ ORA makes the following recommendations regarding the survivor
18 curves of specific FERC accounts. The absence of a recommendation regarding
19 PG&E's proposed parameters for other accounts does not constitute agreement with
20 PG&E's proposals for those accounts.

⁹ See Footnote 3 for a definition of survivor curves.

1 **A. Account 353 (Lines)**

2 Account 353 consists of gas pipelines used to carry gas between
3 underground storage wells and the transmission or distribution network.¹⁰ Account
4 353 includes appurtenant equipment, such as cathodic protection equipment, valves,
5 or supports.

6 **1. Overview of PG&E’s Request**

7 PG&E proposes to use the 55-R4 curve for Account 353.¹¹ The currently
8 authorized curve is 55-R3.

9 **2. ORA’s Analysis**

10 ORA recommends the Commission adopt the 65-R5 curve for Account 353.
11 The stub curve, which displays PG&E’s historical data, is not a strong match for
12 either the 55-R3 curve or the 55-R4 curve, as shown on the following page. PG&E
13 bases its recommendation in part upon the truncation of its historical data to age
14 43.5.¹² In its previous GT&S case, PG&E truncated its historical data to age 63.5.¹³
15 The data itself did not change significantly between the two cases. PG&E’s decision
16 in the instant GT&S proceeding to truncate its historical data to age 43.5 is
17 inappropriate. The consequence of this truncation is to portray the 55-R4 curve as a
18 more reasonable match for the actual data than a curve with a longer average
19 service life. This is because the truncation of the stub curve reduces the gap in
20 area, or realized life, between the stub curve and the 55-R4 curve. The large gap in
21 area between the 55-R4 curve and the entire stub curve evinces the poor fit of the
22 55-R4 curve. The same large gap also persists if the 55-R4 curve is compared to
23 the stub curve truncated at age 67.5, which would match the amount of data
24 considered in the previous GT&S proceeding. This illustrated in Figure 14B-1.

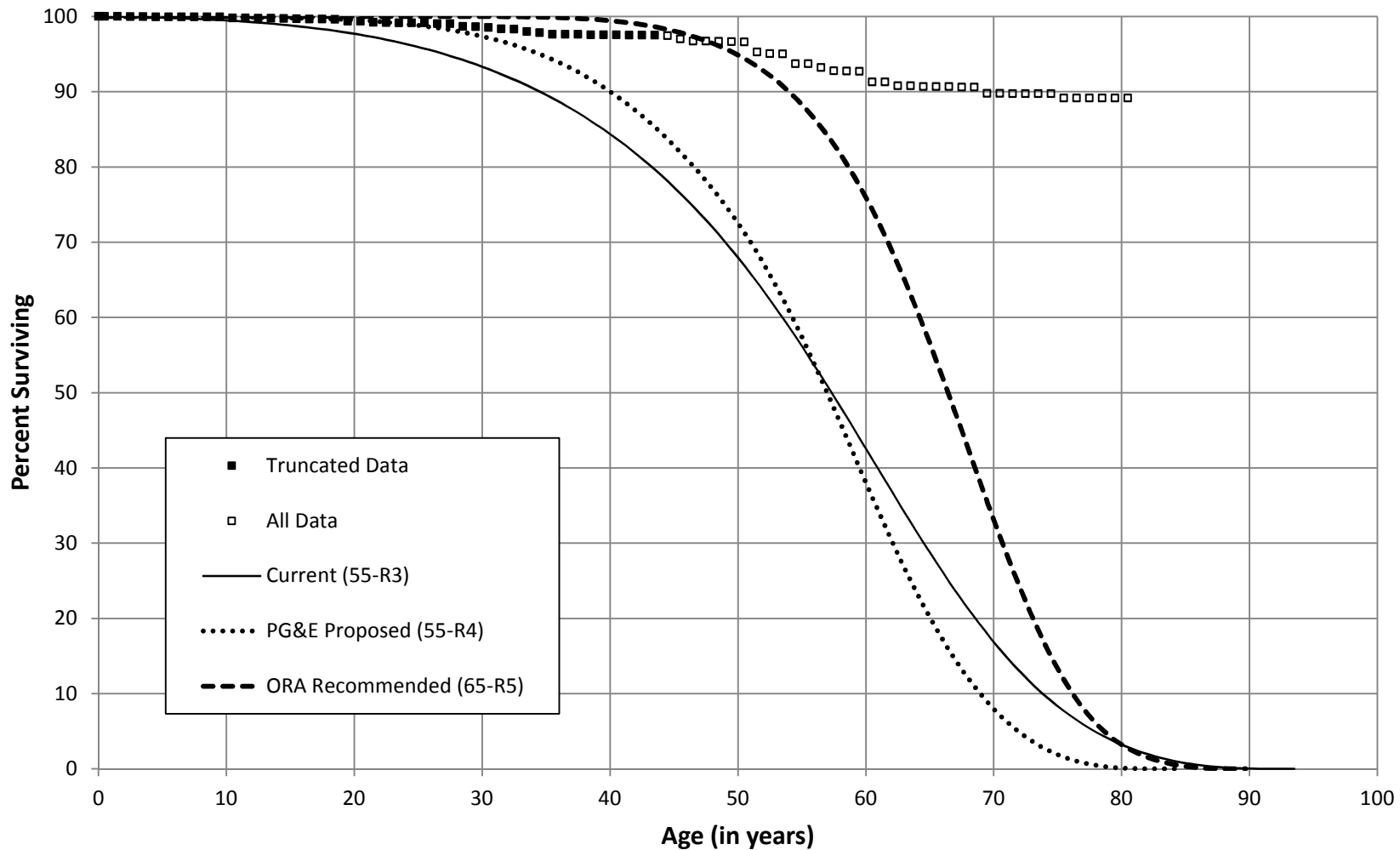
¹⁰ 18 Code of Federal Regulations, Chapter 1, Subchapter F, Part 201.

¹¹ Page WP 14C-55 of the workpapers supporting Ex. PG&E-02, Chapter 14C.

¹² Page WP 14C-56 of the workpapers supporting Ex. PG&E-02, Chapter 14C.

¹³ A.13-12-012, page WP 15A-50 of the workpapers supporting Chapter 15A.

Figure 14B-1
Account 353: Lines
Placement band 1936-2014 • Experience band 1981-2016
Test Year 2019



1 In the 2015 GT&S proceeding, PG&E argued, “The Company is replacing
2 storage lines at McDonald Island which could show additional retirements
3 associated with this work in the future. While the recent life analysis showed
4 increasing life characteristics from the current approved life, this future work could
5 result in increased retirement activity that could impact the service life.”¹⁴ In this
6 GT&S, PG&E’s data show no retirement activity for the most recent five years of
7 data (2012-2016).¹⁵ To the extent that an anticipated increase in retirement activity
8 may previously have constituted reason for caution with respect to extending the
9 average service life of this account, that reason is no longer extant.

10 ORA’s recommendation of the 65-R5 curve more accurately represents the
11 depreciation of this account. This curve captures the few retirements of plant in its
12 first decades of life, and it maintains the reasonable end of life characteristics of the
13 existing 55-R3 curve. Overall, the curve captures the retirement of approximately 90
14 percent of plant between ages 50 and 80. ORA’s recommended 65-R5 curve also
15 addresses PG&E’s observation that “[s]torage lines are more subject to corrosion
16 than transmission mains, since well gas is not as dry as pipeline gas,”¹⁶ because the
17 R5 curve shifts the realization of life to younger ages, as compared to the R2 curve
18 of Account 367 (Mains). For a given age of plant, the steepness of the R5 curve
19 produces a higher realized life than the R2 curve of Account 367 (Mains).

20 **B. Account 356 (Purification Equipment)**

21 Account 356 consists of equipment used to remove impurities and condition
22 gas for storage deliveries or withdrawals.¹⁷

23 **1. Overview of PG&E’s Request**

24 PG&E proposes to maintain the current 45-R3 curve.¹⁸

¹⁴ Ibid.

¹⁵ Page WP 14C-61 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

¹⁶ Page WP 14C-55 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

¹⁷ 18 Code of Federal Regulations, Chapter 1, Subchapter F, Part 201.

2. ORA's Analysis

ORA recommends the Commission adopt the 50-R4 curve for Account 356. The 45-R3 curve matches the first 25 years of the stub curve well, but it is not a strong match for the remainder of the curve, as shown on the following page. For example, the 45-R3 curve assumes that only 40% of plant will remain in service by age 50. The stub curve shows that approximately 75% of plant has historically survived to age 50.

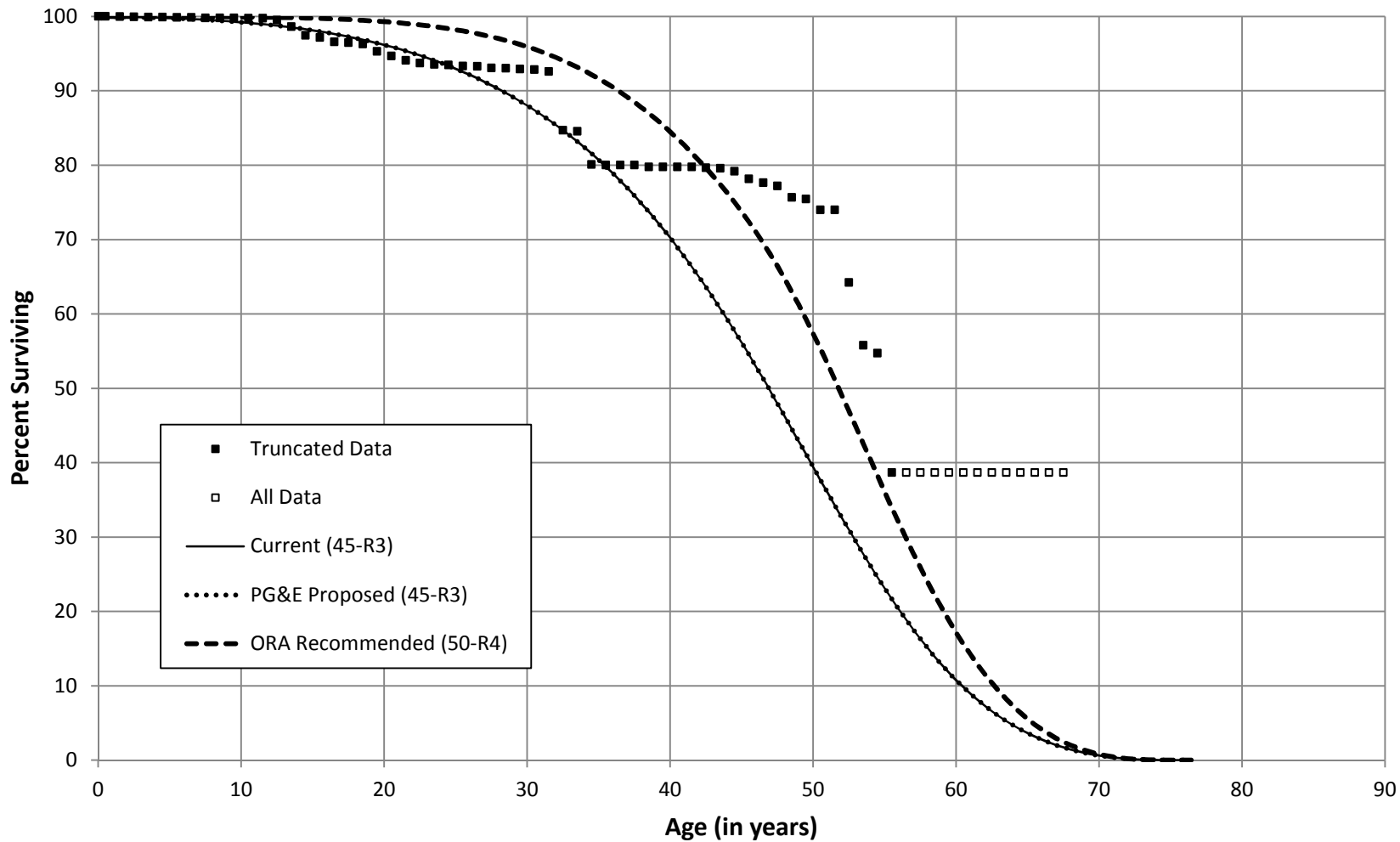
PG&E truncates the stub curve to age 55.5. Because assets at higher ages are denominated in dollars from many decades ago, a seemingly small nominal dollar amount may correspond to a significant amount of real property. So long as this plant remains in service, it contributes to the overall characteristics of the account and offers evidence of retirement activity patterns in old age. ORA does not discount this property entirely, as occurs when the stub curve is truncated. The fact that older plant evinces limited retirement activity is useful information, which adds to the evidence in favor of a longer service life.

ORA's recommendation of the 50-R4 curve more accurately represents the depreciation of this account. Approximately 90 percent of plant retires between ages 30 and 65. The end-of-life characteristics remain substantially similar to the 45-R3 curve. Overall, ORA's recommendation is a conservative estimate, since ORA uses the experience band of 1981-2016, rather than the more recent experience band of 1999-2016. If the experience band was limited to 1999-2016, the stub curve would suggest an even longer service life and evince an even larger gap between the stub curve and PG&E's proposed 45-R3 curve.

(continued from previous page)

¹⁸ Page WP 14C-85 of the workpapers supporting Ex. PG&E-02, Chapter 14C.

Figure 14B-2
Account 356: Purification Equipment
Placement band 1949-2016 • Experience band 1981-2016
Test Year 2019



1 **C. Account 369 (Measuring and Regulating Station Equipment)**

2 This account includes meters, gauges, and other equipment used to measure
3 and regulate gas for transmission system operations.¹⁹

4 **1. Overview of PG&E’s Request**

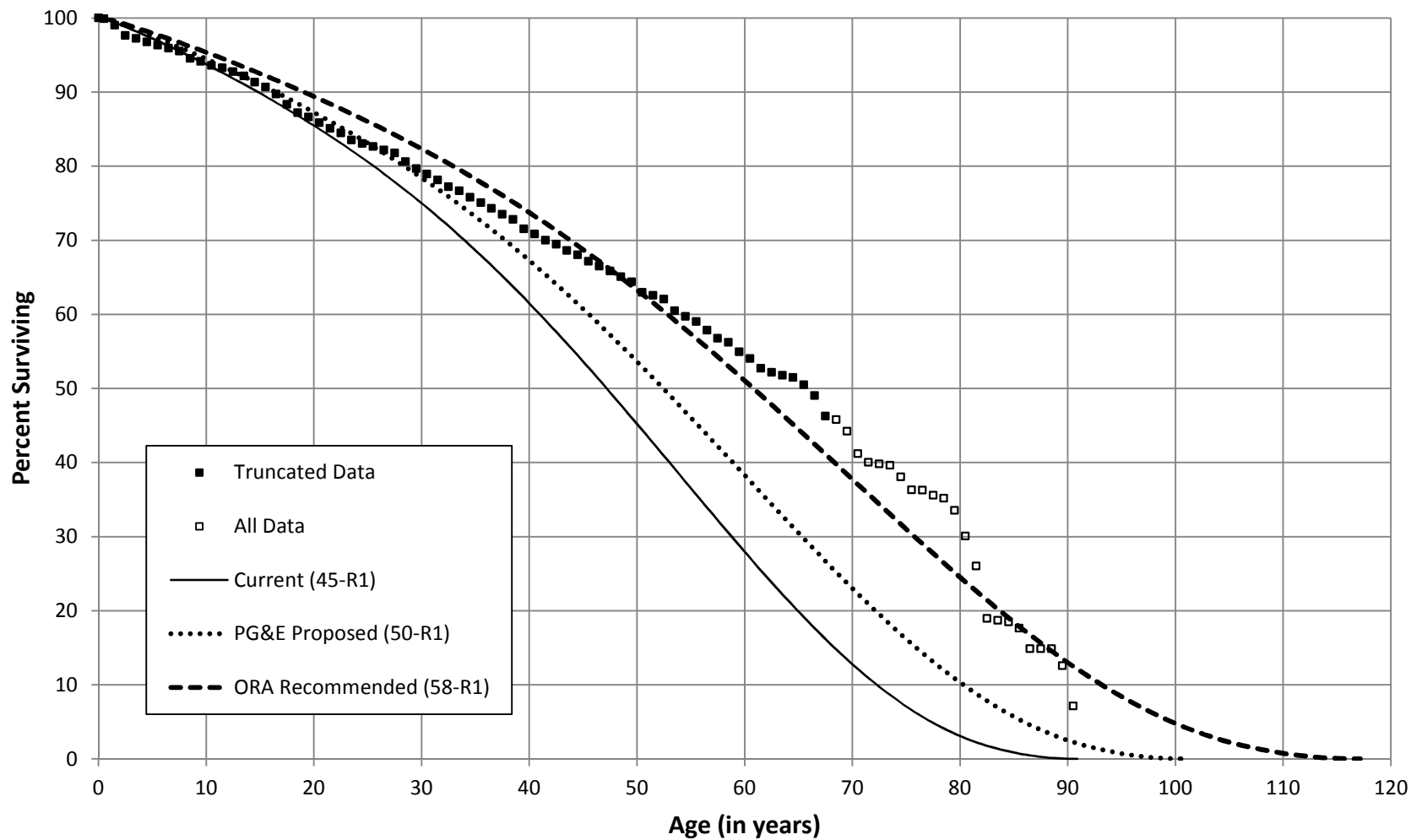
5 PG&E proposes to use the 50-R1 curve for Account 369.²⁰ The current
6 curve is 45-R1.

7 **2. ORA’s Analysis**

8 ORA recommends the Commission adopt 58-R1 for Account 369. The
9 proposed 50-R1 curve understates the percent surviving at most ages above 40, as
10 shown on the following page. PG&E argues that it “expects that the level of
11 replacements of assets at stations may increase going forward, as testing of stations
12 could lead to increased replacement activity.”²¹ The expectation of increased
13 retirement activity is insufficient justification for the adoption of a service life that is
14 shorter than otherwise suggested by the data. The prospect that hypothetical
15 retirements may eventually appear in the data is speculative. For further discussion,
16 please see the discussion of Account 353 (Lines). The Commission should not
17 adopt inappropriately short average service lives on the basis of hypothetical activity
18 that has not yet appeared in the data. If retirement activity does in fact increase, the
19 data should appear in PG&E’s next depreciation study, and any necessary
20 adjustments can be considered in the next GT&S proceeding.

¹⁹ 18 Code of Federal Regulations, Chapter 1, Subchapter F, Part 201.
²⁰ Page WP 14C-177 of the workpapers supporting Ex. PG&E-02, Chapter 14C.
²¹ Ibid.

Figure 14B-3
Account 369: Measuring and Reg. Station Eq.
Placement band 1926-2016 • Experience band 1981-2016
Test Year 2019



1 **D. Account 371 (Other Equipment)**

2 This account includes a variety of equipment used in transmission system
3 operations that is not otherwise chargeable to another account.²²

4 **1. Overview of PG&E's Request**

5 PG&E proposes to use the 50-R2 curve for Account 371.²³ The current
6 curve is 50-R1.5.

7 **2. ORA's Analysis**

8 ORA recommends the Commission adopt the 63-R2.5 curve for Account 371.
9 PG&E calculates that this is the best fit curve for the stub curve data points.²⁴ The
10 63-R2.5 curve is an excellent fit through age 67.5, as shown on the following page.
11 There is limited retirement activity beyond this age, which provides additional
12 evidence for a longer average service life than 50 years. For most stub curve data
13 points above age 20, PG&E's proposed 50-R2 curve significantly underestimates the
14 actual percent surviving at that age.

15 PG&E cites the inclusion of new assets as reason to avoid increasing the
16 average service life.²⁵ ORA recommends the use of the recorded data as the basis
17 of its adjustments for this account. If the changing asset mix truly alters the overall
18 account characteristics, additional adjustments can be considered in a future GT&S
19 proceeding, when a new depreciation study has clarified the nature of the changing
20 parameter(s). Until then, the best-fit 63-R2.5 curve is an appropriate representation
21 of the evident life characteristics of Account 371.

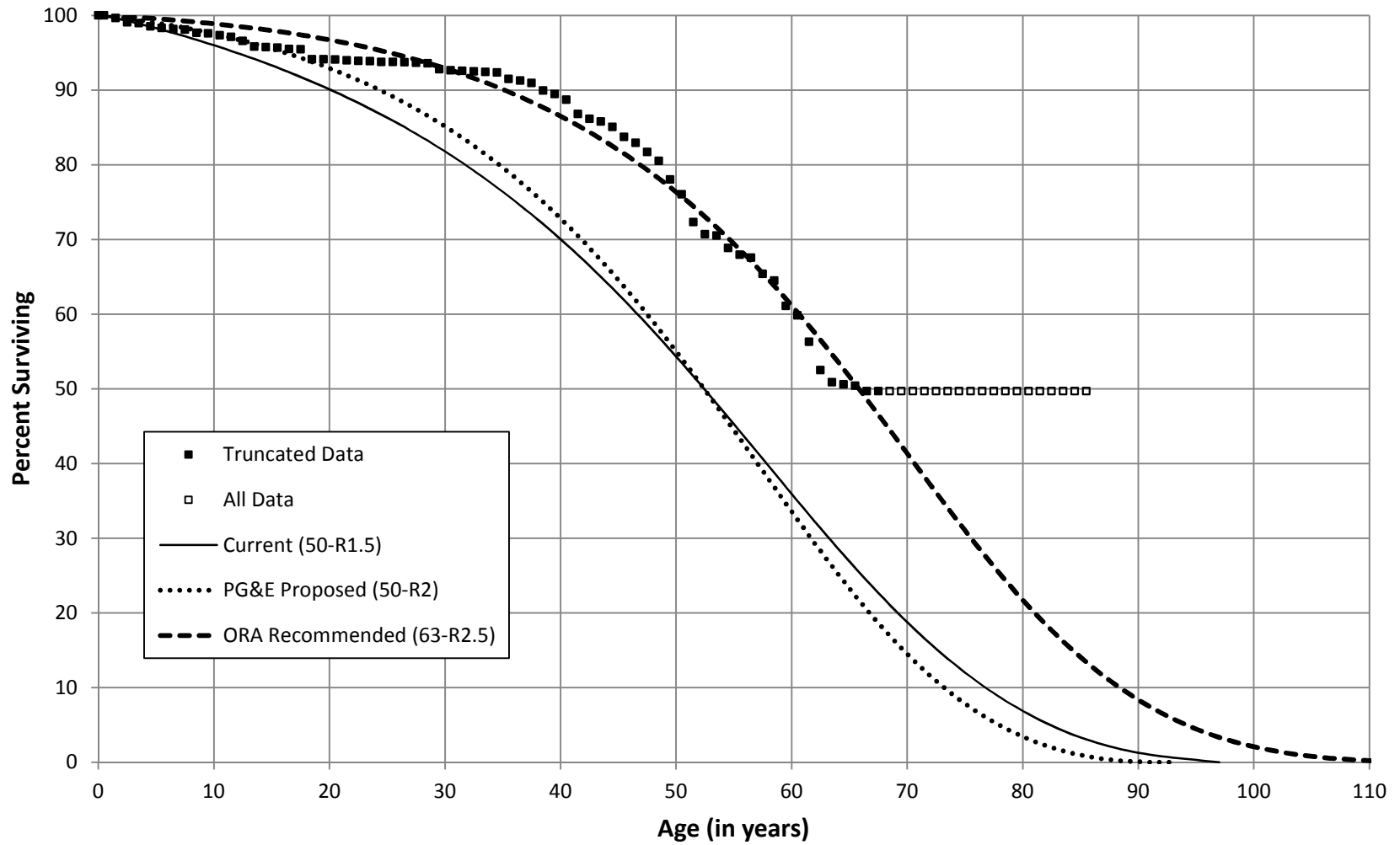
²² 18 Code of Federal Regulations, Chapter 1, Subchapter F, Part 201.

²³ Page WP 14C-194 of the workpapers supporting Ex. PG&E-02, Chapter 14C.

²⁴ PG&E response to data request ORA-PGE-013-CL8, Question 13.

²⁵ Page WP 14C-194 of the workpapers supporting Ex. PG&E-02, Chapter 14C.

Figure 14B-4
Account 371: Other Equipment
Placement band 1931-2016 • Experience band 1981-2016
Test Year 2019



1 **IV. NET SALVAGE RATES**

2 PG&E proposes changes to the net salvage rates of various accounts. ORA
3 makes the following recommendations regarding the net salvage rates of specific
4 FERC accounts:

**Table 14B-3
Selected Net Salvage Rates
Test Year 2019**

Account	Currently Authorized (a)	PG&E Proposed (b)	ORA Recommended (c)	Amount PG&E > ORA (d) = (c) – (b)
353: Lines	-30%	-50%	-30%	20%
367: Mains	-35%	-70%	-44%	26%

5 **A. Account 353 (Lines)**

6 **1. Overview of PG&E's Request**

7 PG&E proposes negative 50% for Account 353.²⁶ The currently authorized
8 rate is negative 30%. For the amount of gross plant as of December 31, 2016,
9 PG&E's total forecast of future net salvage would increase to \$47.6 million, as
10 compared to \$28.6 million at the currently authorized net salvage rate.²⁷ Additional
11 net salvage amounts would be collected for post-2016 capital additions.

12 **2. ORA's Analysis**

13 ORA recommends the Commission retain the current net salvage rate of
14 negative 30% for Account 353. There has been no retirement activity recorded to
15 this account in the last five years (2012-2016) of the span included within the
16 depreciation study. There is consequently no statistical indication that would support

²⁶ Page WP 14C-55 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

²⁷ Page WP 14B-3 of the workpapers supporting Ex. PG&E-02, Ch. 14B, line 20.

1 a change to the net salvage rate for this account. PG&E notes, “[t]here has been
2 little activity in recent years. The statistical indications are therefore similar to the
3 previous study” from the 2015 GT&S proceeding.²⁸ The overall average net salvage
4 rate reported for Account 353 has slightly declined (become less negative) since the
5 prior study. PG&E’s proposal is the second-highest (second-most negative) net
6 salvage rate for Account 353 (Lines) recommended by its depreciation consultant,
7 Gannett Fleming, in comparison with Gannett Fleming’s estimates in other utilities’
8 rate cases.²⁹ Across those utilities, the median net salvage rate for lines estimated
9 by Gannett Fleming is negative 15%.

10 PG&E argues that the net salvage rate for Account 353 should be increased
11 because it contains assets that are similar to the assets charged to Account 367
12 (Mains): “Account 367, Mains includes relatively similar types of assets to this
13 account, and also has experienced negative net salvage. While net salvage may not
14 be as negative for storage lines as for transmission mains due to work requirements
15 for gas mains in more populated areas, the data for Account 367, Mains provides
16 further support for a more negative net salvage estimate for this account.”³⁰ As
17 PG&E notes, the assets in Account 367 are subject to conditions that do not apply to
18 the assets in Account 353, such as “work requirements for gas mains in more
19 populated areas” or Caltrans requirements that gas mains be removed from the
20 right-of-way.³¹ Because these factors do not apply to the assets in Account 353, it
21 is unreasonable to adduce statistical indications from Account 367 to impute a rising
22 (i.e., more negative) net salvage rate to Account 353.

²⁸ Page WP 14C-55 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

²⁹ PG&E response to data request ORA-PG&E-013-CL8, Question 8, Attachment 1.

³⁰ Ibid.

³¹ PG&E response to data request ORA-PG&E-043-CL8, Question 1, Attachment 1.

1 **B. Account 367 (Mains)**

2 **1. Overview of PG&E’s Request**

3 PG&E proposes negative 70% for Account 367.³² The currently authorized
4 rate is negative 35%. For the amount of gross plant as of December 31, 2016,
5 PG&E’s forecast of future net salvage would increase to \$2.18 billion, as compared
6 to \$1.09 billion at the currently authorized net salvage rate.³³ ORA estimates that
7 this proposal would increase the annual depreciation expense by \$17.873 million,
8 not including additional amounts due to post-2016 capital additions.

9 **2. ORA’s Analysis**

10 ORA recommends negative 44% for the net salvage rate of Account 367.
11 PG&E’s proposal is the highest (i.e., most negative) net salvage rate recommended
12 by its depreciation consultant, Gannett Fleming, in comparison with the net salvage
13 rates for Account 367 (Mains) estimated by Gannett Fleming in other utilities’ rate
14 cases.³⁴ Across those utilities, the median net salvage rate for mains estimated by
15 Gannett Fleming is negative 20%. The modal (most common) value is negative
16 10%.

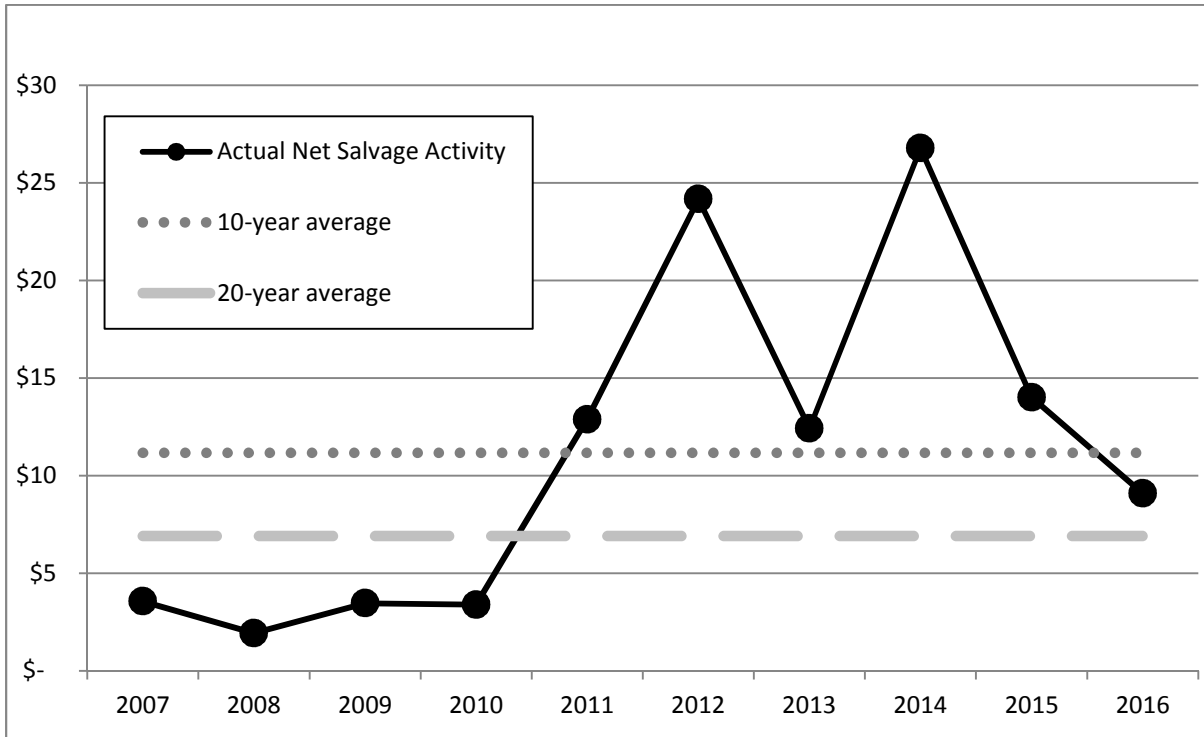
17 ORA’s recommendation ensures that PG&E will continue to collect net
18 salvage amounts that significantly exceed the account’s actual net salvage activity.
19 Figure 14B-5, below, shows the actual net salvage activity of Account 367 for the
20 most recent ten years examined in PG&E’s depreciation study.

³² Page WP 14C-151 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

³³ Page WP 14B-3 to Page WP 14B-4 of the workpapers supporting Ex. PG&E-02, Ch. 14B, lines 55, 69, and 84.

³⁴ PG&E response to data request ORA-PG&E-013-CL8, Question 8, Attachment 1.

Figure 14B-5
Account 367 (Mains) – Net Salvage Activity
(\$ millions)



1 If the Commission adopts ORA’s recommendation, PG&E will collect the
2 annual sum of \$19.768 million for the future net salvage of its 2016 year-end gross
3 plant, plus amounts for post-2016 capital additions. These collections exceed the
4 ten-year average annual net salvage (i.e., actual net salvage activity) by more than
5 \$8 million, and they are nearly three times as large as the twenty-year average
6 annual net salvage. These collections also exceed the average net salvage of the
7 most recent six years (2011-2016) by approximately \$3 million. These six years
8 evince higher levels of net salvage activity than previous years. PG&E explains that
9 this higher average level may overstate the true net salvage characteristics of the
10 overall account.³⁵

³⁵ Page WP 14C-151 of the workpapers supporting Ex. PG&E-02, Ch. 14C.

1 In contrast, if the Commission adopts PG&E’s proposed net salvage rate of
2 negative 70%, then PG&E will collect the annual sum of \$33.213 million for the
3 future net salvage of its 2016 year-end gross plant, plus amounts for the net salvage
4 of plant additions after 2016. This sum is nearly five times the twenty-year average
5 and approximately three times the ten-year average.

6 ORA’s recommendation incorporates Commission precedent that applies
7 gradualism to net salvage rate changes. In D.14-08-032, the Commission adopted
8 the principle of gradualism to allocate large increases in forecasted net salvage
9 across multiple GRC cycles:

10 *Given the magnitude of such increases, we are concerned that*
11 *adopting PG&E’s negative salvage rates in full would pose an*
12 *unacceptably abrupt impact on current ratepayers... ..Also, it is*
13 *advisable to be cautious in making large changes in estimates of*
14 *service lives and net salvage for property that will be in service for*
15 *many decades, as future experience may show the current estimates*
16 *to be incorrect... ..We recognize that future ratepayers should not be*
17 *unfairly burdened with unduly large deferred costs from prior GRC*
18 *cycles. Yet, the correct remedy is not to subject current ratepayers to*
19 *similar unfair burdens by imposing inordinately large negative salvage*
20 *cost burdens attributable to deferrals from earlier GRC cycles.*^{36, 37}

21 D.14-08-032 establishes that net salvage gradualism is an appropriate tool to
22 mitigate overall ratepayer impacts when the aggregate cost increase at issue within
23 the proceeding is “substantial.”³⁸ In that proceeding, PG&E requested an 8.0%
24 increase in its revenue requirement for TY 2014, relative to its then-forecasted

³⁶ D.14-08-032, p. 598.

³⁷ D.14-08-032, p. 599.

³⁸ D.14-08-032, p. 599: “In view of the many new programs being implemented in this GRC, overall cost increases at issue in this GRC relative to past GRCs are substantial,” and p. 600: “We, of course, cannot foresee at this time what costs may be forecasted or adopted in PG&E’s next GRC. Nonetheless, ratepayers in future GRC cycles will not pay for the same program cost increases approved in this GRC a second time, but will realize continued benefits from programs previously adopted. Depending on conditions prevailing in future GRC cycles, ratepayers may be better positioned to absorb removal cost increases in comparison to today’s customers.”

1 revenue requirement for 2013.³⁹ In this current GT&S proceeding, PG&E is
2 requesting a revenue requirement increase of 22% for TY 2019, relative to its
3 adjusted authorized amount for 2018.⁴⁰ As was the case in D.14-08-032, future
4 “ratepayers may be better positioned to absorb removal cost increases in
5 comparison to today’s customers.”⁴¹

6 D.14-08-032 also establishes the pace of gradualism by allocating a net
7 salvage deferral across 40% of the remaining life of plant. As D.14-08-032 allocates
8 one-fourth of the deferral to a single GRC cycle, an entire net salvage deferral could
9 be allocated across 12 years, or four three-year GRC cycles. This is 40% of the 30-
10 year remaining life of plant.⁴² Account 367 has a remaining life of 52 years,
11 exclusive of Line 401 and Stanpac plant.⁴³ If the statistical indications that underlie
12 PG&E’s proposed net salvage increase continue to persist in future GT&S
13 proceedings, then ORA’s recommendation permits this deferral to be allocated
14 across 16 years. This would allocate the deferral across approximately 30% of the
15 remaining life of plant in Account 367, allowing PG&E to recover the net salvage
16 deferral more quickly than otherwise indicated by precedent. If the statistical
17 indications that support PG&E’s proposed net salvage increase do not persist in
18 future GT&S proceedings, then ORA’s recommendation mitigates the risk of
19 intergenerational inequity.

20 For ratemaking purposes, the Commission adopted one-fourth of PG&E’s
21 proposed net salvage increase, if otherwise supported by the evidence.⁴⁴ With
22 respect to Account 367, one-fourth of PG&E’s proposed increase is approximately

³⁹ A.12-11-009, p. 4, Table 3.

⁴⁰ A.17-11-009, p. 3: “PG&E’s 2019 revenue requirement forecast represents a 22 percent increase over the 2018 adjusted authorized revenue requirement collected in rates of \$1.301 billion.”

⁴¹ D.14-08-032, p. 600.

⁴² The Commission identifies its concern with plant in the aggregate and ascribes a 30-year life to plant in its discussion on p. 597 of D.14-08-032.

⁴³ Page WP 14B-3 of the workpapers supporting Ex. PG&E-02, Ch. 14B, Line 55.

⁴⁴ D.14-08-032, p. 598 et seq., as interpreted further in D.15-11-021, p. 413.

- 1 9%. ORA recommends the Commission adopt a total net salvage rate of negative
- 2 44% for Account 367, which adds this gradual increase of 9% to the currently
- 3 authorized rate of negative 35%.

1 **III. ORA's ANALYSIS AND RECOMMENDATIONS**

2 **A. Accelerated Depreciation**

3 PG&E proposes to accelerate the depreciation of the LM/PC facilities over a
4 three-year period (2019-2021), including the net book value of the facilities as of
5 2016 year-end, plus any capital additions after 2016.⁵⁰ ORA opposes the
6 accelerated depreciation of the LM/PC facilities and recommends the Commission
7 retain the currently authorized depreciation rates.

8 The magnitude of PG&E's proposal for accelerated depreciation is significant.
9 Combined, the depreciation expenses associated with the LM/PC facilities would
10 increase from \$3.401 million in 2018 to \$32.155 million in 2019.⁵¹ PG&E describes
11 this proposal as a technical application of the straight-line remaining life adjustment
12 method detailed in Standard Practice (SP) U-4.⁵² The large magnitude of the
13 change, however, violates the basic purpose of SP U-4, which states, "a basic
14 depreciation objective is that of recovering the original cost of fixed capital (less
15 estimated net salvage) over the useful life of the property by means of an equitable
16 plan of charges to operating expenses or clearing accounts."⁵³

17 PG&E's proposal is not "an equitable plan of charges" that takes into
18 consideration the overall allocation of depreciation expense "over the useful life of
19 the property." PG&E's proposal is inequitable, because PG&E's strict application of
20 the remaining life method allocates depreciation expenses to ratepayers in 2019,
21 2020, and 2021 that are approximately ten times larger than the depreciation
22 expenses allocated to ratepayers in prior years. Depreciation expenses would be
23 re-allocated from a previous composite remaining life that spanned decades to a
24 new composite remaining life of 3 years. ORA opposes this overly strict application

⁵⁰ Ex. PG&E-02, Chapter 14B, p. 14B-12, lines 9, 17, and 24.

⁵¹ Page 14B-278 of the workpapers supporting Ex. PG&E-02, Ch. 14B, Table 14B-DM-1.

⁵² Ex. PG&E-02, Ch. 14B, p. 14B-11, Footnote 16.

⁵³ SP U-4: *Determination of Straight-Line Remaining Life Depreciation Accruals*, p. 5, Chapter 1, Paragraph 2.

1 of SP U-4 and recommends an alternative approach, described below. Ratepayers
2 in 2019, 2020, and 2021 should not bear disproportionate shares of the total
3 depreciation of the LM/PC facilities.

4 PG&E's proposal for accelerated depreciation would constitute a windfall to
5 the purchasing entity in the event that PG&E is able to sell the LM/PC facilities, as
6 described in testimony.⁵⁴ In response to a data request, PG&E affirms that its
7 primary intention is to sell the facilities as operating gas storage facilities.⁵⁵ This
8 potential sale implicates the net book value of the LM/PC facilities, as the
9 depreciation expense recognizes the gradual decline in plant quality over time.⁵⁶ If
10 book depreciation is accelerated prior to the sale of the facilities, then the net book
11 value will overstate the decline in plant quality, relative to the actual conditions of the
12 property. If the sale of the facilities concludes at a price that approximates the net
13 book value, the purchaser will receive a windfall, subsidized by ratepayers through
14 the accelerated depreciation accruals.

15 ORA recommends an alternative approach for the collection of the remaining
16 depreciation expenses associated with the LM/PC facilities. With respect to
17 Pleasant Creek, ORA recommends the Commission continue to depreciate plant at
18 currently authorized rates for the three years (2019-2021) of remaining life of this
19 plant. At the end of 2021, the remainder of the net book value of the Pleasant Creek
20 facilities should be converted to a regulatory asset and amortized over five years,
21 beginning in attrition year 2022. In total, the recovery of un-depreciated Pleasant
22 Creek plant would be spread over eight years (2019-2026).

23 With respect to Los Medanos, ORA's primary recommendation is that the
24 Commission continue to depreciate plant at currently authorized rates. This is
25 consistent with ORA's policy recommendations in Ex. ORA-11 (Stannik), which
26 include deferring consideration of the potential decommissioning of Los Medanos to
27 PG&E's next GT&S proceeding. If the Commission decides to adopt PG&E's

⁵⁴ Ex. PG&E-01, Ch. 11, p. 11-14, lines 4-7.

⁵⁵ PG&E response to data request ORA-PG&E-013-CL8, Question 4.

⁵⁶ 18 Code of Federal Regulations (CFR), Part 101.

1 proposal to decommission the Los Medanos facility beginning in 2022, the
2 Commission should adopt ORA's alternative recommendation. In that case, ORA
3 recommends the same treatment of the Los Medanos and Pleasant Creek facilities.
4 The Los Medanos facility should be depreciated at currently authorized rates for
5 three years (2019-2021). At the end of 2021, the remainder of the net book value of
6 the Los Medanos facility should be converted to a regulatory asset and amortized
7 over five years, beginning in attrition year 2022.

8 With respect to the ratemaking treatment of these regulatory assets, ORA
9 recommends PG&E receive no return on the amortization. This is consistent with
10 Commission precedent, including D.85-08-046, D.85-12-108, D.92-12-057, and
11 D.11-05-018, decisions which balance ratepayer and shareholder interests with
12 respect to various regulatory assets. D.11-05-018 looks to the showing of net
13 benefit (cost) for assets that become stranded (i.e., are no longer used and useful
14 plant) and to the cause of the stranding:

15 *Costs can be stranded in a number of different ways, but when they*
16 *become stranded due to Commission desires or actions that fact should*
17 *be taken into consideration when determining appropriate ratemaking...⁵⁷*
18 *... the fact that the SmartMeter program was determined to be cost*
19 *effective is significant. Because of this determination, there is no net*
20 *burden on ratepayers due to the early retirement of the electromechanical*
21 *electric meters. This is opposed to the circumstances in many of the cited*
22 *decisions where the Commission excluded plant that was not used and*
23 *useful from rate base. In most of those cases there was a net burden on*
24 *ratepayers because of the abandonment of a project or the shortened life*
25 *of the project. In such cases the burden was shared by ratepayers*
26 *(payment of the undepreciated balance over a shortened time period) and*

⁵⁷ D.11-05-018, p. 55, Section 5.6.1.

1 *shareholders (no rate of return on the undepreciated balance, but over a*
2 *shortened amortization period).*⁵⁸

3 In this case, the Commission has not expressed any desire or taken any action
4 directing PG&E to decommission the LM/PC facilities, and D.92-12-057 provides
5 precedent wherein the Commission denied a rate of return for a stranded asset,
6 even as it acknowledged that the Commission had “actively encouraged” the asset
7 in question.⁵⁹ The record also contains no evidence of any net benefit to ratepayers
8 that results from the decommissioning. Rather, PG&E’s testimony indicates that the
9 NGSS proposal reflects a choice between two net burdens of different magnitude:
10 retrofit the LM/PC facilities or commence their decommissioning in 2022.

11 The decommissioning of the LM/PC facilities is similar to other cases in which
12 the Commission balanced the burden between ratepayers and shareholders by
13 denying a rate of return on the undepreciated plant balance while granting a
14 shortened time period for recovery. As in the case of Unit 3 at PG&E’s Humboldt
15 Bay plant, the stranded asset results from regulatory action by a non-Commission
16 regulatory agency.⁶⁰ In addition, PG&E’s NGSS motivations that relate to the
17 declining economic viability of maintaining its gas storage facilities⁶¹ are similar to
18 the declining economic viability that stranded several SDG&E assets.⁶² ORA’s
19 recommendation is consistent with the controlling decisions from those cases.

20 **B. Decommissioning Expenses**

21 PG&E proposes to recover \$88.812 million in forecast decommissioning
22 expenditures for the LM/PC facilities by means of annual decommissioning

⁵⁸ D.11-05-018, p. 57, Section 5.6.2.

⁵⁹ D.92-12-057, 47 CPUC 2d, p. 265.

⁶⁰ D.85-08-046, 18 CPUC 2d, p. 592 et seq.

⁶¹ Ex. PG&E-01, Ch. 11, p. 11-6 at line 24 through p. 11-13 at line 4.

⁶² D.85-12-108, 20 CPUC 2d, p. 115, 142-143.

1 expenses of \$29.604 million over three years (2019-2021).⁶³ This includes \$64.890
2 million for Los Medanos and \$23.922 million for Pleasant Creek. This proposal
3 results in an inequitable allocation to ratepayers of these expenses over a three-year
4 span. ORA recommends the recovery of these expenses over a longer span of
5 years. ORA has reviewed the bases of PG&E's nominal forecasts and has no
6 substantive adjustments. Where necessary, ORA has adjusted PG&E's forecasts to
7 recognize an appropriate level of escalation.

8 With respect to Pleasant Creek, ORA recommends that the Commission
9 adopt an annual decommissioning expense of \$2.990 million. This allocates the
10 total sum of \$23.922 million on a straight-line basis over eight years (2019-2026).
11 This collection would be concurrent with the depreciation and regulatory asset
12 amortization of Pleasant Creek, as recommended in III.A. If the Pleasant Creek
13 facility is sold, all decommissioning expenses collected by PG&E should be returned
14 to ratepayers as a revenue requirement reduction allocated over the same length of
15 time as the collection of the funds. For example, if the facility is sold with an
16 effective date of January 1, 2021, then decommissioning expenses collected in 2019
17 and 2020 should be returned to ratepayers over the subsequent two years (2021-
18 2022).

19 With respect to Los Medanos, ORA's primary recommendation is that the
20 Commission adopt an annual decommissioning expense of \$6.058 million. This
21 recommendation follows from ORA's policy recommendation in Ex. ORA-11 to defer
22 consideration of the decommissioning of the Los Medanos facility to PG&E's next
23 GT&S proceeding. In order to preserve the option of decommissioning the Los
24 Medanos facility at the conclusion of the seven-year compliance grace period
25 described in the most recent draft regulations from the California Division of Oil,
26 Gas, and Geothermal Resources (DOGGR)⁶⁴ while equitably allocating the costs of

⁶³ Pages 14B 280-281 of the workpapers supporting Ex. PG&E-02, Ch. 14B.

⁶⁴ California Division of Oil, Gas, and Geothermal Resources. February 12, 2018.
*Requirements for California Underground Gas Storage Projects: First Revised Text of
Proposed Regulations.* Available at

(continued on next page)

1 future decommissioning, ORA recommends that recovery of decommissioning
2 expenses for the Los Medanos facility begin in TY 2019. For purposes of estimating
3 an appropriate expense level, ORA assumes that the final DOGGR regulations will
4 include a seven-year compliance grace period and enter into effect by the start of
5 2019. Under this schedule, the hypothetical decommissioning of the Los Medanos
6 facility would occur in 2026 and 2027, with additional environmental remediation
7 activities in 2028 and 2029.

8 ORA escalates PG&E’s decommissioning forecasts to these years, using the
9 escalation rates provided by PG&E for its decommissioning forecasts.⁶⁵ In total,
10 ORA escalates PG&E’s original forecast of \$64.890 million to \$72.693 million. ORA
11 estimates an annual expense of \$6.058 million for a twelve-year period. Specifically,
12 ORA assumes that the Los Medanos facility will remain in service during the seven-
13 year pendency of the DOGGR compliance grace period. In 2026, the facility will
14 begin decommissioning, while any remaining net book value would be converted to
15 a regulatory asset and amortized over five years. Annual decommissioning
16 expenses of \$6.058 million would allocate the facility’s decommissioning costs on a
17 straight-line basis, concurrent with the twelve-year depreciation and regulatory asset
18 amortization of the facility.

19 If the Commission adopts ORA’s recommendation to begin collecting
20 decommissioning expenses while deferring final decision-making on the
21 decommissioning itself, then PG&E will have collected millions in decommissioning
22 expenses for Los Medanos by its next GT&S proceeding. These funds should be
23 held in reserve as an offset to rate base during the remainder of this GT&S cycle. In

(continued from previous page)

http://www.conservation.ca.gov/dog/general_information/Pages/UGSRules.aspx.

See Section 1726.3(d)(1); and California Division of Oil, Gas, and Geothermal Resources. March 26, 2018. *Requirements for California Underground Gas Storage Projects: Second Revised Text of Proposed Regulations*. Available at the link above.

⁶⁵ See page WP 13-65 of the workpapers supporting Ex. PG&E-02, Ch. 13. For 2026 onwards, ORA uses 2.85%, which is the average of the annual rates from 2018-2025.

1 the next GT&S proceeding, the Commission should consider the final disposition of
2 these funds. If the Los Medanos facility is sold before the next GT&S proceeding,
3 these funds should be returned to ratepayers as a revenue requirement reduction
4 allocated over the same span of time as the collection of the funds.

5 If the Commission decides to adopt PG&E's proposal to decommission the
6 Los Medanos facility beginning in 2022, the Commission should adopt ORA's
7 alternative recommendation. The Commission should adopt an annual
8 decommissioning expense of \$8.111 million, which would allocate the total
9 decommissioning forecast of \$64.890 million on a straight-line basis over eight
10 years. This collection would be concurrent with the eight-year depreciation and
11 regulatory asset amortization of the facility. If the Los Medanos facility is sold, these
12 funds should be returned to ratepayers as a revenue requirement reduction
13 allocated over the same length of time as the collection of the funds.

14

1 ORA's primary and alternative decommissioning expenses are summarized in
 2 Table 14B-6:

Table 14B-6
Pleasant Creek and Los Medanos Decommissioning Expenses
Test Year 2019
(in Thousands of Dollars)

Description	ORA Recommended				PG&E Proposed ⁶⁶		
	2019	2020	2021	2022	2019	2020	2021
Primary ORA Recommendation							
Pleasant Creek Decommissioning	\$2,990	\$2,990	\$2,990	\$2,990	\$7,974	\$7,974	\$7,974
Los Medanos Decommissioning	\$6,058	\$6,058	\$6,058	\$6,058	\$21,630	\$21,630	\$21,630
Total	\$9,048	\$9,048	\$9,048	\$9,048	\$29,604	\$29,604	\$29,604
Alternative ORA Recommendation							
Pleasant Creek Decommissioning	\$2,990	\$2,990	\$2,990	\$2,990	\$7,974	\$7,974	\$7,974
Los Medanos Decommissioning	\$8,111	\$8,111	\$8,111	\$8,111	\$21,630	\$21,630	\$21,630
Total	\$11,101	\$11,101	\$11,101	\$11,101	\$29,604	\$29,604	\$29,604

3 **C. Plant Additions After 2016**

4 PG&E proposes to include \$23.6 million in capital additions over five years
 5 (2017-2021) within its accelerated depreciation expenses for the LM/PC facilities.⁶⁷
 6 ORA proposes \$17.390 million in capital additions for the LM/PC facilities. In
 7 discovery, ORA determined that the forecast of \$23.6 million includes several
 8 planning orders that were incorrectly mapped to the LM/PC cost center and excludes
 9 various amounts that were incorrectly mapped to other cost centers. Since capital

⁶⁶ Table 14B-GD-2 on page WP 14B-281 of the workpapers supporting Ex. PG&E-02, Chapter 14B.

⁶⁷ Ex. PG&E-02, Ch. 14B, p. 14B-12, line 17.

1 additions to the LM/PC facilities would be subject to accelerated depreciation under
2 PG&E’s proposal, ORA makes the following adjustments to the forecast of LM/PC
3 capital additions:

- 4 • ORA replaces 2017 forecasts with 2017 recorded data, including re-
5 allocations from other cost centers. For example, the recorded amount
6 for Planning Order 5772498 increases to \$1.644 million from its
7 original forecast of \$0.462 million, and the recorded amount for
8 Planning Order 5772565 increases to \$1.464 million from its original
9 forecast of \$0.339 million. These activities pertain to the plugging and
10 abandonment of Los Medanos Well 18D and the repair of the Los
11 Medanos Ginochio 3-7 well. Large portions of these amounts were
12 originally forecast under Planning Order 5763735, which forecasted
13 well reworks at the program level. Planning Order 5763735 was
14 mapped to McDonald Island.⁶⁸
- 15 • ORA removes Planning Order 5772564, which was re-allocated to a
16 well rework at PG&E’s McDonald Island facility. The 2017 forecast for
17 this project was \$0.209 million, and the 2017 recorded value for this
18 project was \$3.183 million.⁶⁹
- 19 • ORA removes Planning Order 5521205, which is related to the
20 installation of cathodic protection test stations in the Local
21 Transmission cost center. The 2018 forecast for this project was
22 \$0.964 million. In discovery, PG&E describes this forecast as
23 erroneously mapped to the LM/PC cost center.⁷⁰
- 24 • ORA removes Planning Order 5725778, which is related to the refund
25 of unspent funds that were prepaid by a counterparty for a cancelled
26 pipeline project. The 2017 forecast for this project was \$0.063 million.
27 In discovery, PG&E describes this forecast as erroneously mapped to
28 the LM/PC cost center.⁷¹

⁶⁸ PG&E response to data request ORA-PG&E-061, Question 2.

⁶⁹ PG&E response to data request ORA-PG&E-061, Question 2.

⁷⁰ PG&E response to data request ORA-PG&E-047-CL8, Question 2(d).

⁷¹ PG&E response to data request ORA-PG&E-061-CL8, Question 1.

- 1 • ORA removes Planning Order 5769870, which is related to the
2 removal of regulation from a gas meter set at a customer’s
3 cogeneration facility. The 2017 forecast for this project was \$0.038
4 million. In discovery, PG&E describes this forecast as erroneously
5 mapped to the LM/PC cost center.⁷²
- 6 • ORA includes Planning Order 5772767, which is related to the
7 plugging and abandonment of Los Medanos Well 8C. The 2017
8 recorded amount for this project was \$1.217 million. Planning Order
9 5772767 was mapped to the cost center for all storage services rather
10 than the LM/PC cost center. Forecasts for this work were included in
11 Planning Order 5763735, in addition to the original forecast of \$0.102
12 million for Planning Order 5772767.⁷³

13 Including the above adjustments, ORA adjusts the sum of LM/PC capital
14 additions to \$26.366 million. Of this amount, ORA opposes the forecast of capital
15 expenditures related to three well reworks and retrofits in 2018, including activities at
16 two Pleasant Creek wells and one Los Medanos well. PG&E’s forecast for these
17 expenditures is \$8.976 million. ORA forecasts one Los Medanos well rework and
18 retrofit in 2018. In total, ORA recommends \$17.390 million in capital additions for
19 the LM/PC facilities.

20 PG&E’s forecast includes work at four wells, two at each of Los Medanos and
21 Pleasant Creek, in 2018.⁷⁴ ORA forecasts the rework and retrofit of one well at Los
22 Medanos in 2018. Forecast capital additions for the other three well reworks and
23 retrofits are not reasonable or necessary in 2018.

24 As of the writing of ORA’s testimony, the DOGGR regulations are not final.
25 DOGGR anticipates its regulations will become effective on October 1, 2018.⁷⁵
26 DOGGR released its proposed regulations on May 19, 2017, specifying that

⁷² Ibid.

⁷³ PG&E response to data request ORA-PG&E-069-CL8, Question 1.

⁷⁴ PG&E response to data request ORA-PG&E-013-CL8, Question 3, Attachment 1.

⁷⁵ State of California Department of Conservation. *Active Rulemaking*. Webpage. Available at <http://www.conservation.ca.gov/index/Pages/rulemaking.aspx>. Accessed 25 June 2018.

1 nonconforming wells should be brought into compliance or else plugged and
2 abandoned, rather than “phased out of use.”⁷⁶ DOGGR released revisions of these
3 regulations on February 12, 2018, and March 26, 2018.⁷⁷ These two revisions
4 maintained the option to plug and abandon wells, and they added a seven-year
5 grace period for bringing nonconforming wells into compliance. Under those
6 revisions, PG&E faces no regulatory requirement to begin retrofitting its wells until
7 the first year after the final regulation becomes effective.

8 Although these regulations are not final, the draft text is currently the best
9 indication of the compliance obligations that PG&E will face. PG&E states that it
10 began consideration of the decommissioning of the LM/PC facilities as an alternative
11 means of compliance as early as 2015.⁷⁸ Under the most recent draft, PG&E can
12 achieve compliance either by retrofitting its noncompliant wells or by retiring them
13 from service. Below, ORA discusses PG&E’s proposed capital additions for
14 Pleasant Creek, followed by PG&E’s proposed capital additions for Los Medanos.

15 With respect to Pleasant Creek, PG&E’s forecast of the reworks and retrofits
16 of two wells is inconsistent with its proposal to decommission the Pleasant Creek
17 facility, beginning in 2022. ORA does not oppose the closure and decommissioning
18 of Pleasant Creek. PG&E’s rationales for the NGSS proposal include the avoidance
19 of costly upgrades required for compliance with new DOGGR regulations.⁷⁹ PG&E
20 proposes to begin those same upgrades and recover the costs through incremental

⁷⁶ California Division of Oil, Gas, and Geothermal Resources. May 19, 2017. *Requirements for California Underground Gas Storage Projects: Text of Proposed Regulations*. Available at http://www.conservation.ca.gov/dog/general_information/Pages/UGSRules.aspx. See Section 1726.3(c)(1).

⁷⁷ California Division of Oil, Gas, and Geothermal Resources. February 12, 2018. *Requirements for California Underground Gas Storage Projects: First Revised Text of Proposed Regulations*. Available at http://www.conservation.ca.gov/dog/general_information/Pages/UGSRules.aspx. See Section 1726.3(d)(1); and California Division of Oil, Gas, and Geothermal Resources. March 26, 2018. *Requirements for California Underground Gas Storage Projects: Second Revised Text of Proposed Regulations*. Available at the link above. See Section 1726.3(d)(1).

⁷⁸ PG&E response to data request ORA-PG&E-061-CL8, Question 3.

⁷⁹ Ex. PG&E-01, Ch. 11, p. 11-4 et seq.

1 depreciation expenses for the Pleasant Creek facility. In response to discovery,
2 PG&E admits, “[p]rojects to retrofit the wells with tubing and packer and cement
3 between the production and inner casing are to keep the wells in compliance with
4 the revised regulations from DOGGR, which PG&E expects to become effective
5 sometime in 2018.”⁸⁰ The decommissioning of the Pleasant Creek facility obviates
6 the need to rework and retrofit wells at the facility. The brief remaining life does not
7 justify the costs of reworking and retrofitting the wells.

8 PG&E does not show that its proposed Pleasant Creek reworks and retrofits
9 are necessary to address incremental safety and reliability issues not otherwise
10 addressed by its maintenance program or obviated by the decommissioning plan.

11 Under PG&E’s NGSS, injections would cease after October 31, 2019.⁸¹ If and when
12 Pleasant Creek converts from a storage facility to a production facility, it will operate
13 at lower pressures as remaining customer gas is produced. Lower operating
14 pressures would further ameliorate safety risks over the facility’s remaining life.

15 PG&E has recently reworked several wells and offers no evidence that these
16 recently reworked wells are insufficient to provide for the safe operation of the
17 Pleasant Creek facility over PG&E’s proposed three-year remaining life. PG&E
18 clarifies in discovery that a rework typically suffices to maintain a well for 10 to 15
19 years.⁸² At Pleasant Creek, PG&E has three wells that were reworked in 2010 or
20 2011. The potential Pleasant Creek decommissioning date is within the range of 10
21 to 15 years of these reworks.

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⁸⁰ PG&E response to data request ORA-PG&E-047-CL8, Question 2(b).

⁸¹ Ex. PG&E-01, Ch. 11, p. 11-13, lines 21-27.

⁸² PG&E response to data request ORA-PG&E-036-CL8, Question 1(c).

Table 14B-7
Recent Pleasant Creek and Los Medanos Well Reworks⁸³

Facility	Well	Capital In-Service Date
Pleasant Creek	PC 3-2	08/24/2011
Pleasant Creek	PC 3-3	08/25/2011
Pleasant Creek	PC 3-4	07/01/2010

1 With respect to Los Medanos, ORA recommends the rework and retrofit of
2 one well, in contrast to PG&E’s forecast of two wells. This is consistent with ORA’s
3 recommendation in ORA-11 to defer final decision-making on the closure and
4 decommissioning of Los Medanos to the next GT&S proceeding.

5 The final DOGGR regulations have not been issued, and PG&E faces no
6 compliance obligation until the year after the final regulations become effective. In
7 testimony, PG&E states its expectation that the final DOGGR regulations will go into
8 effect in 2018.⁸⁴ PG&E includes its forecasted capital additions for two Los
9 Medanos well reworks and retrofits in its RO Model by way of monthly amounts
10 beginning in January 2018. Since DOGGR does not anticipate its regulations will
11 become effective until the fourth quarter of 2018, ORA forecasts one Los Medanos
12 well rework and retrofit, in contrast to PG&E’s proposal of two. ORA’s
13 recommendation addresses the uncertain prospect that the DOGGR regulations
14 may yet be finalized in late 2018 or in 2019 and provides ratepayer funding of one
15 2018 well rework and retrofit.

⁸³ PG&E Response to data request ORA-PG&E-064, Question 1, Attachment 1.

⁸⁴ Ex. PG&E-01, Ch. 11, page 11-6, lines 6-7.

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WITNESS QUALIFICATIONS

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My name is Christian Lambert. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA) as a Public Utilities Regulatory Analyst in the Energy Cost of Service and Natural Gas Branch.

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I received a Master of Public Policy degree from the University of California-Berkeley and a Bachelor of Science in Foreign Service degree from Georgetown University. Since joining ORA in 2017, I have worked on:

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- Application (A.) 17-05-004, the Bear Valley Electric Service Test Year 2018 General Rate Case, where I was responsible for analyzing depreciation;
- A.17-05-008, SDG&E's Mobilehome Park Utility Upgrade Program application, where I was responsible for analyzing SDG&E's proposed program modifications; and
- A.17-10-007/008, the SDG&E and SoCalGas Test Year 2019 GRC, where I was responsible for analyzing SDG&E's and SoCalGas's depreciation, rate base (including working cash), and mobilehome park upgrade program.

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Prior to joining ORA, I worked on energy and environmental policy issues for local governments and policy think tanks while earning a graduate degree. I was a graduate student assistant with the California Public Utilities Commission's Energy Division in 2015.

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This completes my prepared testimony.