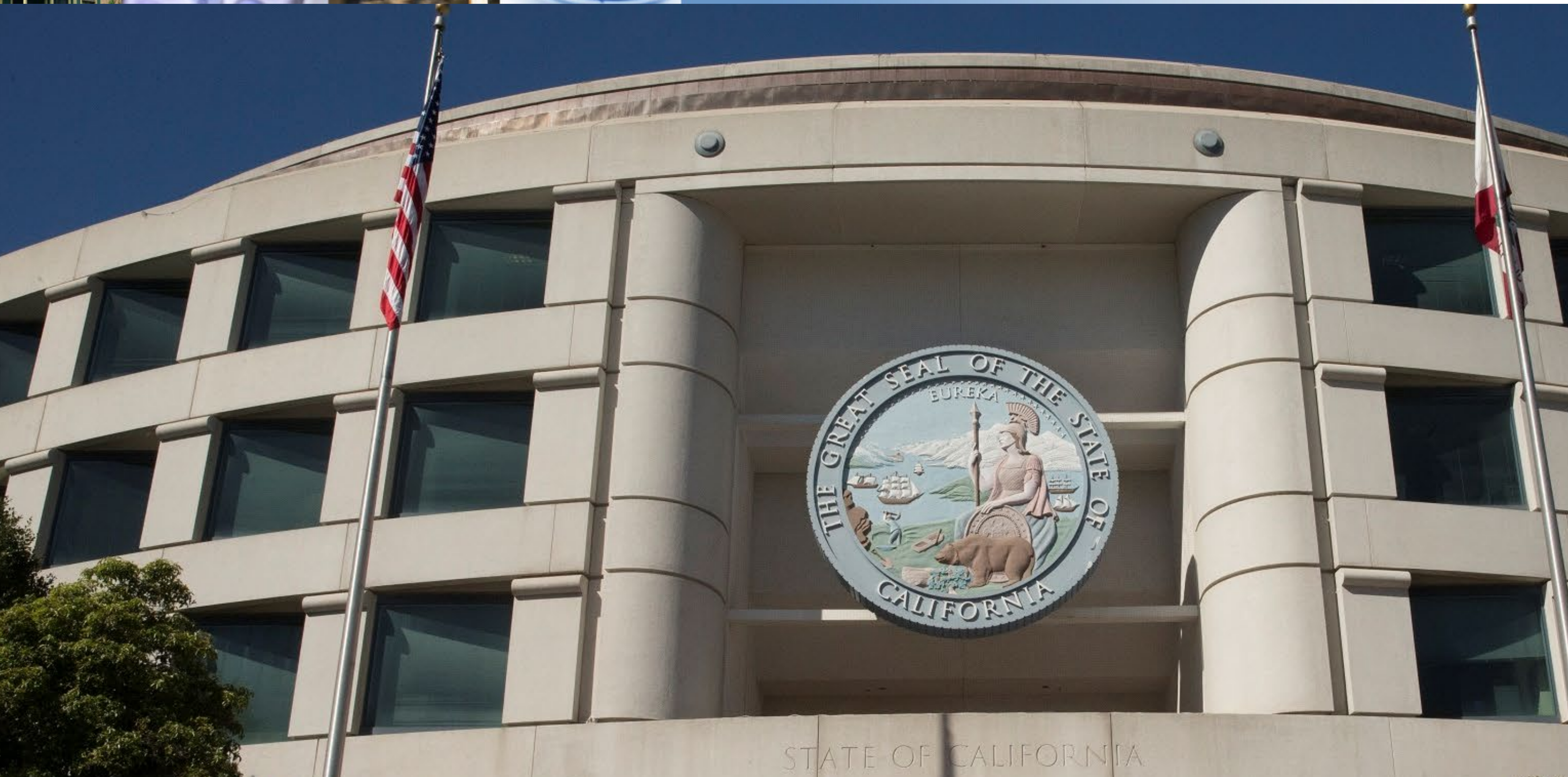

COST RECOVERY APPLICATION 23-06-008

GAS SAFETY AND ELECTRIC MODERNIZATION EXPENDITURES

PERFORMANCE AUDIT

Pacific Gas and Electric Company

January 1, 2022, through December 31, 2022

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 11, 2024

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Nancy Ta, Lead

Moses Ofurio, Staff

Jiai "Amy" Xu, Staff

A digital copy of this report can be found at:
Audit Reports by Industry (ca.gov)

You can contact our office at:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

July 11, 2024

Stephanie Williams
Chief Financial Officer and Controller, Pacific Gas and Electric Company
Vice President and Controller, PG&E Corporation
300 Lakeside Drive
Oakland, CA 94612

Dear Stephanie Williams:

Final Report Transmittal Letter—Audit of Pacific Gas and Electric Company's Gas Safety and Electric Modernization Accounts included in Application 23-06-008

The Utility Audits Branch of the California Public Utilities Commission has completed its audit of Pacific Gas and Electric Company's (PG&E) gas safety and electric modernization accounts included in Application (A.) 23-06-008. The final audit report is enclosed.

We issued the draft audit report on June 14, 2024. PG&E's response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations within 45 calendar days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to: UtilityAudits@cpuc.ca.gov.

We appreciate PG&E's assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Nichelle Jackson, Program and Project Supervisor, at (916) 503-6096.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: Kimberly Chang, Senior Manager, Regulatory Proceedings, PG&E
Patrick Douglas, Case Manager, Principal, Regulatory Proceedings, PG&E
Gregory Holisko, Case Manager, Principal, Regulatory Proceedings, PG&E
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the gas safety and electric modernization (GSEM) expenditures, requested in Pacific Gas and Electric Company's (PG&E) Application (A.) 23-06-008.

Our audit objective was to determine whether expenditures[1] recorded in the gas safety and electric modernization accounts[2] and included in PG&E's A.23-06-008 for cost recovery, are sufficiently supported, incremental in nature, directly attributable to allowable activities in the designated accounts, and in compliance with applicable Public Utilities (PU) Code sections, CPUC Decisions, PG&E's policies and procedures, and other relevant criteria.

Based on the procedures performed, samples tested, and evidence gathered, we found instances of misstated and overstated costs for PG&E's recorded expenditures[3] in the GSEM accounts for the period January 1, 2022, through December 31, 2022. These instances are quantified in the Summary Schedule of Audit Results and described in the Findings and Recommendations section of this audit report.

The audit findings are summarized as follows:

- **Finding 1: Overstated Expenditures for In-Line Inspection Memorandum Account (ILIMA) of $4,012,885**

  PG&E recorded unallowable costs, related to first time inspections in the ILIMA, thereby overstating the expenditures for ILIMA by $4,012,885.

- **Finding 2: Misstated Revenue Requirement Requested for Gas Statutes, Regulation, and Rules Memorandum Account (GSRRMA)**

  A portion of the requested $820,341 revenue requirement is misstated due to inaccurate forecasting of the operating date for capital additions. The Construction Work in Progress (CWIP) of $1,008,029 were capital additions and put into service in October of 2023 instead of June of 2023, as PG&E had estimated. PG&E did not provide an updated Results of Operation (RO) model to determine the portion of the requested $820,341 revenue requirement that is misstated.

- **Finding 3: Unsubstantiated Expenditures for ILIMA of $468,789**

  PG&E could not substantiate and provide justification for costs recorded in ILIMA totaling $468,789. Specifically, PG&E could not explain why ratepayers should cover the costs paid to Vendor B to maintain idle equipment on site due to delays caused by Vendor A's damaged tool, thereby overstating the expenditures for ILIMA by $468,789.

[1] Expenditures include Expenses and Capital Expenditures.
[2] See Background section for a list of the accounts and the recorded cost years.
[3] To ensure the accuracy of the expenditures, we obtained relevant information for the revenue requirement data.

- **Finding 4: Unallowable and Overstated Employee Related Expenditures, Totaling $40,032**

  Measurement and Control Station Over Pressure Protection Memorandum Account (MCOPPMA):
  - PG&E could not substantiate the allocation of employee lodging to MCOPPMA. Specifically, PG&E allocated a portion of lodging expenditures from employees working on multiple projects in the same area but are attributable to different accounts, thereby overstating MCOPPMA by $32,596.

  Gas Storage Balancing Account (GSBA):
  - PG&E recorded a lodging stay that was cancelled, thereby overstating GSBA by $900.
  - PG&E recorded unallowable costs, related to the purchase of tools for a new employee for activities unrelated to the GSBA, thereby overstating GSBA by $6,536.

We issued a draft report on June 14, 2024. PG&E responded by letter dated July 1, 2024, agreeing with the audit results except for Finding 3 and proposing revisions to the description of Finding 4. PG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

General Rate Case (GRC)/Gas Transmission and Storage (GT&S) Proceeding

GRCs are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs in customer rates among different customer classes. Applications are filed by utility companies to seek authorization or relief (e.g., authorization to increase rates or budgets, interim rate relief, etc.). Utility companies periodically submit applications to CPUC to request to collect a certain amount of revenue from its customers. CPUC approves the utility companies' revenue requirements, which is the amount that each utility company can collect from its customers. The revenue requirement is based on the cost of operating, maintaining, and financing the infrastructure used to run the utility company, and the cost of its procured fuel and power. For the last 20 years, CPUC has addressed PG&E's backbone and local transmission and storage costs and rates in a separate proceeding from the GRC called the PG&E GT&S proceeding[4].

- On November 11, 2017, PG&E filed its 2019 test year GT&S for rates to become effective January 1, 2019 (A.17-11-009). CPUC's Decision (D.) 19-09-025, issued September 23, 2019, adopted $1.332 billion for PG&E's 2019 revenue requirement to provide gas transmission and storage services. The decision also adopted a third attrition year (2022).

- On December 13, 2018, PG&E filed its 2020 test year GRC for rates to become effective January 1, 2020 (A.18-12-009). CPUC's D.20-12-005, issued on December 11, 2020, adopted $9.102 billion for PG&E's 2020 revenue requirement.

The amounts authorized in the GRC, and in this case, the GT&S proceeding, serve as the basis for utility companies to determine incremental cost, which can be claimed for recovery between GRC cycles/GT&S proceedings.

Balancing Accounts and Memorandum Accounts

A balancing account is a regulatory accounting method used to ensure the recovery in rates of specified expenditures authorized by CPUC. A balancing account tracks the difference between actual expenditures associated with the balancing account and authorized for recovery by CPUC, and the revenues collected within customer rates to cover those specific expenses. The primary purpose of a balancing account is to ensure that a utility company recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function, but not more or less.

A memorandum account is an accounting method that, after approval by CPUC or upon statutory notice, may be used by a utility company to record various expenses it incurs. The utility company may later seek authorization from CPUC to recover the recorded amounts by passing them on to consumers in rates. The establishment of a memorandum account does not guarantee that the utility company will recoup the tracked amount, but a utility company is precluded from recovering amounts not booked to a memorandum account. Memorandum accounts allow CPUC to consider recovery of utility company expenses that have occurred in the past without incurring retroactive ratemaking.

[4] Beginning with PG&E's 2023 GRC, those costs will be included in the GRC.

A.23-06-008: Wildfire and Gas Safety Costs Application, Gas Safety and Electric Modernization Accounts

On June 15, 2023, PG&E filed A.23-06-008, an application for recovery of recorded expenditures in balancing and memorandum accounts related to wildfire and gas safety. This audit specifically addressed the gas safety and electric modernization accounts, and the years expenditures were recorded to each of the accounts are as follows:

Gas Safety Accounts

1. In Line Inspection Memorandum Account (ILIMA) (2022)
2. Internal Corrosion Direct Assessment Memorandum Account (ICDAMA) (2022)
3. Gas Statutes, Regulations, and Rules Memorandum Account (GSRRMA) (2022)
4. Transmission Integrity Management Program Memorandum Account (TIMPMA) (2022)
5. Measurement and Control Station Over Pressure Protection Memorandum Account (MCOPPMA) (2022)
6. Critical Documents Program Memorandum Account (CDPMA) (2022)
7. Gas Storage Balancing Account (GSBA) (2022)
8. Line 407 Memorandum Account (L407MA) (2022); and
9. Dairy Biomethane Pilot Memorandum Account (DBPMA) (2019-2022).

Electric Modernization Accounts

10. Distribution Resources Plan Tools Memorandum Account (DRPTMA) (2022)
11. Avoided Cost Calculator Update Memorandum Account (ACCUMA) (2022)
12. Distributed Energy Resources Distribution Deferral Account (DERDDA) (2021-2022)[5]; and,
13. AB 841 Transportation Electrification Memorandum Account (AB841MA) (2021-2022).

PG&E's recorded costs are outlined in the table below:

Gas Safety and Electric Modernization Accounts: Recorded Costs[6]

Balancing Account/ Memorandum Account	Recorded Costs: Expense	Capital	Total
ILIMA	91,952,154	-	91,952,154
ICDMA	1,083,059	-	1,083,059
GSRRMA	9,759,621	1,008,337	10,767,958
TIMPMA	279,038	-	279,038
MCOPPMA	-	13,984,337	13,984,337
CDPMA	1,892,851	-	1,892,851
GSBA	8,637,619	92,656,180	101,293,799
L407MA	-	159,515	159,515
DBPMA	-	3,019,846	3,019,846
ACCUMA	206,939	-	206,939
DRPTMA	4,814,498	2,895,591	7,710,089
DERDDA	1,622,866	-	1,622,866
AB841MA	-	4,156,422	4,156,422
Total	120,248,645	117,880,228	238,128,873

[5] PG&E erroneously indicated 2017-2022 for DERDDA in the application background, however, supporting documents in PG&E's testimonials and exhibits, and underlying accounting data are for 2021-2022.

[6] PG&E's A.23-06-008, Table 3: Gas Safety and Electric Modernization Accounts: Recorded Costs

Gas Safety and Electric Modernization Account Purposes

For each applicable balancing or memorandum account, a preliminary statement outlines the purpose of the account, operation of the account, and review and disposition procedures to recover costs recorded in the balancing and memorandum accounts, among other matters. PG&E's balancing and memorandum accounts[7] applicable for this audit include the following:

Account	Tariff Name Gas/Electric	Purpose of Account
ILIMA	EU (Gas)	Tracks the revenue requirement associated with the actual capital expenditures for Traditional In-Line Inspection (ILI) upgrade projects above the total authorized 48 projects (12-project per year pace), and actual expenses incurred for the associated initial Traditional ILI runs, and Direct Examination & Repair resulting from the initial runs, and expenses associated with all reassessments.
ICDAMA	EV (Gas)	Tracks actual expenses incurred for the Internal Corrosion Direct Assessment Program.
GSRRMA	EL (Gas)	Tracks incremental costs to comply with any new federal or state statutes, regulations and rules, or new or changed interpretation by a regulatory body of statutes, regulations and rules.
TIMPMA	DP (Gas)	Tracks costs associated with any new transmission integrity management statutes or rules, or new or changed interpretation by a regulatory body of transmission integrity management statutes or rules, effective after January 1, 2015.
MCOPPMA	ET (Gas)	Tracks the revenue requirement associated with capital expenditures for the Measurement and Control Station Over-Pressure Protection Program.
CDPMA	DT (Gas)	Tracks actual expenses related to updating existing station documents or creating new documentation to meet the standard set in Utility Standard TD-4551S for all Measurement and Control facilities and Compression and Processing facilities built on or before December 31, 1955.
GSBA	EJ (Gas)	Tracks actual expenses and capital revenue requirement based on actual capital expenditures over the 2019 GT&S rate case compared to the revenue requirement based on the adopted capital expenditures for PG&E's natural gas storage facilities, excluding Gill Ranch.
L407MA	DN (Gas)	Tracks the revenue requirement associated with the actual capital expenditures incurred for the construction of the Line 407 project, above $180.8 million as authorized by CPUC in D.19-09-025, PG&E's 2019 GT&S rate case.
DBPMA	EH (Gas)	Tracks actual operational & maintenance expenses and the capital-related revenue requirement associated with the actual capital costs incurred for utility-owned pipeline infrastructure up to the bid amounts.
DRPTMA	HF (Electric)	Tracks incremental costs incurred to implement demonstration project tools on Integration Capacity Analysis and Locational Net Benefit Analysis associated with the Distribution Resources. Also, track debits and credits, both capital and expense, associated with implementing the Grid Needs Assessment, Distribution Deferral Opportunity Report, and the Data Access Portal.
ACCUMA	HA (Electric)	Tracks PG&E's portion of costs reimbursed to CPUC or their contractor for updating the Avoided Cost Calculator and providing technical assistance or research for the purpose of advancing future refinement of cost-effective methods.
DERDDA	GZ (Electric	Tracks actual costs incurred for (1) the Utility Regulatory Incentive Pilots program and (2) Distributed Resources Plan Distribution Investment Deferral Framework projects.
AB841MA	IU (Electric)	Tracks incremental costs associated with the design and deployment of electrical distribution infrastructure on the utility side of the customer's meter for customers installing separately metered infrastructure to support electric vehicle charging stations.

[7] PG&E's public website regarding PG&E Tariff Books contains the applicable preliminary statements.

Audit Authority

UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, on November 1, 2023, CPUC issued an Assigned Commissioner's Scoping Memo and Ruling announcing that "the Commission's Utility Audit Branch will immediately conduct an audit of the gas safety and electric modernization costs."

Objectives and Scope

Our audit objective was to determine whether expenditures[8] recorded in the gas safety and electric modernization accounts[9] and included in PG&E's A.23-06-008 for cost recovery, are sufficiently supported, incremental in nature, directly attributable to allowable activities in the designated accounts, and in compliance with applicable PU Code sections, CPUC Decisions, PG&E's policies and procedures, and other relevant criteria.

Methodology

In planning our audit, we gained an understanding of the gas safety and electric modernization account activities, PG&E's operations, and identified relevant criteria by reviewing applicable PU Code sections, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and interviewing PG&E's personnel.

We conducted a risk assessment, including evaluating whether PG&E's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, performing walkthroughs, and testing transactions. Deficiencies in internal controls that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from PG&E's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we:

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the applicable balancing and memorandum accounts.

- Reviewed PG&E's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to the applicable balancing and memorandum accounts.

- Reviewed and reconciled expenditures recorded in PG&E's accounting system to the balances reported in the gas safety and electric modernization accounts and included in PG&E's A.23-06-008 for accuracy and completeness.

[8] Expenditures include Expense and Capital Expenditures.
[9] See Background section for a list of the accounts and the recorded cost years.

- Assessed significance by performing an analysis of expenditure data and evaluating balancing account and memorandum account requirements.

- Assessed whether any prior external and internal audit reports were significant to the audit objectives to identify potential risks relevant to the current engagement. We reviewed UAB's Balancing Account Audit for the period January 1, 2021, through December 31, 2021, and determined there were potential risks relevant to the audit objective. Therefore, we considered these risks during our risk assessment process. We did not verify PG&E's corrective action plan because it was not submitted until May 24, 2024, to UAB. Therefore, the corrective action plan will be reviewed and tested during our next audit of PG&E.

- Obtained an understanding of PG&E's key internal controls relevant to the gas safety and electric modernization accounts included in A.23-06-008, such as classifying and recording, monitoring, approving, and reporting expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:

    - interviewing key personnel and administering an internal control questionnaire;

    - reviewing PG&E's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of expenditure data;

    - performing a walkthrough of the GSBA and GSRRMA RO model to (1) verify that inputs of recorded costs are net of adopted amounts to ensure recorded costs are incremental, and (2) that input factors, such as state and federal tax rate, depreciation factors, and cost of capital percentages, are supported; and

    - assessing reliability of overhead allocated by tracing transactions to the overhead basis and rate.

- Traced GT&S authorized amounts utilized in PG&E's A.23-06-008 to D.19-09-025.

- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Performed testing of expenditures[10] by selecting a non-statistical sample of transactions, as follows:

[10] Expenditures include Expense and Capital Expenditures

Account & GRC Activity	Total Expenditures Tested	Total Expenditures Recorded in 2022	Percent Tested
Gas Safety Accounts			
ILIMA	13,404,912	91,952,154	14.58%
GSRRMA	1,024,285	10,767,958	9.51%
GSBA	9,406,134	101,293,799	9.29%
MCOPPMA	1,340,520	13,984,337	9.59%
Gas Safety Total	**25,175,851**	**217,998,248**	**11.55%**
Electric Modernization Accounts			
DRPTMA	697,514	7,710,089	9.05%
AB841MA	307,988	4,134,073	7.45%
Electric Modenization Total	**1,005,502**	**11,844,162**	**8.49%**
Totals	**$ 26,181,353**	**$ 229,842,410**	**11.39%**

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in PG&E's accounting records to supporting documentation and determined whether costs were accurate, attributable to its respective balancing or memorandum account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures by:
    - tracing expenditures to invoices to ensure the expenditure (1) was incurred within 2022, (2) agreed to the invoice amount, and (3) was calculated accurately;
    - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was for an authorized activity;
    - confirming payments were made for the expenditures and the amount agreed to the respective invoices; and
    - verifying the activities occurred for a subset of samples by reviewing, among others:
        - assessment completion notification forms;
        - vendor's results and analysis reports;
        - images of work performed from daily inspection reports;
        - daily field weld summary reports; and
        - inspection logs and permits.
- Recalculated PG&E's GSEM recorded expenditures utilizing audited data.

We did not audit PG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that PG&E reported, incurred, and supported its incremental costs in accordance with the applicable criteria. We considered PG&E internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found instances of misstated and overstated costs for PG&E's recorded expenditures[11] in the GSEM accounts for the period January 1, 2022, through December 31, 2022. These instances are quantified in the Summary Schedules of Audit Results and described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

Our prior Balancing Account audit report covering the period of January 1, 2021, through December 31, 2021, issued on April 10, 2024, disclosed nine audit findings. A corrective action plan was submitted on May 24, 2024, and the review of the implementation of corrective actions will occur in a follow-up review or audit.

Views of Responsible Officials

We issued a draft report on June 14, 2024. PG&E responded by letter dated July 1, 2024, agreeing with the audit results with the exception of Finding 3 and proposing revisions to the description of Finding 4. PG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of PG&E and CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on CPUC's website at [Audit Reports by Industry (ca.gov)].

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

[11] To ensure the accuracy of the expenditures, we obtained relevant information for the revenue requirement data.

FINDINGS AND RECOMMENDATIONS

Finding 1: Overstated Expenditures for ILIMA of $4,012,885

Condition:
PG&E overstated the ILIMA expenditures by $4,012,885. During our substantive testing, we selected samples related to Order 84019481 and requested supporting documentation to confirm services performed were related to the reassessment of a pipeline. PG&E's supporting documents revealed that Order 84019481 and 84019482, related to I-590, Line-132 Mile Point (MP) 0.00-31.93 is a partial reinspection project. The MP 0.00-4.30 and 11.55-31.93 are re-inspections, and the MP 4.31-11.54 are first-time inspections. Consequently, expenditures related to first time inspections are not allowable expenditures for ILIMA, as summarized below:

- Order 84019481, totaling $15,221,191: The vendor performed services to 40 dig sites, 9 of the 40 dig sites were determined to be first-time inspection. Based on the proportionate share of the cost for the 9 dig sites and to account for overhead costs, 24 percent of the total cost for the order should be excluded, amounting to $3,653,086.

- Order 84019482, totaling $2,705,256: The vendor performed services to 8 dig sites, 1 of the 8 dig sites were determined to be a first-time inspection. Based on the proportionate share of the cost for the 1 dig site and to account for overhead costs, 13.3 percent of the total cost for the order should be excluded, amounting to $359,799.

Based on the aggregated amounts noted above, PG&E overstated recorded expenditures totaling $4,012,885 for ILIMA[12].

Criteria
PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to CPUC.

Advice Letter 4288-G filed on August 5, 2020, for Tariff Changes to Gas Preliminary Statement Part EU – ILIMA, among others. PG&E's ILIMA Preliminary Statement states, in part, that:

> The purpose of the ILIMA is to (…) track expenses associated with all reassessments.

Cause:
PG&E's internal processes and procedures were not consistently implemented to ensure accurate tracking of expenditures.

Effect:
Failure to properly account for expenditures recorded in ILIMA leads to an inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are properly reviewed to ensure the accuracy of the costs that are recoverable from ratepayers. Furthermore, an overstatement of costs can inflate forecasted amounts in GRCs, as the prior years' costs often influence the authorized revenue requirement.

[12] PG&E identified additional costs of $330,701 related to the effected dig site that would be unallowable in the ILIMA. Additional testing was not performed on the $330,701, as a portion of the costs may not be included in this application. However, PG&E should remove those costs from the ILIMA.

Recommendations:
PG&E should file errata of its testimony to reduce ILIMA expenditures by $4,012,885 and conduct further review of the ILIMA to ensure that all recorded costs not related to the reassessment of pipelines are identified and removed from the account. In addition, PG&E should ensure its staff are aware of the relevant internal protocols, are properly trained, and follow them consistently to ensure expenditures are recorded accurately in the correct accounts.

Finding 2: Misstated Revenue Requirement Requested for GSRRMA

Condition:
PG&E requested revenue requirement for GSRRMA for 2023 through 2026 totaling $820,341, based on a June 2023 operative date for capital additions of $1,008,029. A portion of the requested revenue requirement is misstated due to inaccurate forecasting of the operating date for capital additions.

PG&E recorded capital expenditures of $1,008,029 classified as Construction Work in Progress (CWIP) for the period of January 1, 2022, through December 31, 2022. When PG&E filed its A.23-06-008 in June 2023, PG&E included the CWIP of $1,008,029, as capital addition in the GSRRMA Results of Operation (RO) model for June 2023, as PG&E estimated the capital addition to be operative at the time of the filing. However, PG&E's supporting evidence indicated that the actual operative date is October 2023, and not June 2023 as PG&E had estimated.

PG&E did not provide an updated RO Model for an October 2023 operative date. Therefore, we could not determine the portion of the requested $820,341 revenue requirement that is misstated.

Criteria:
PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to CPUC.

Causes:
PG&E calculated the revenue requirement using the best estimate at the time of the filing, and, therefore, did not utilize the actual operative date. PG&E lacks sufficient procedures to ensure that amounts included in the RO model are for capital additions already in service.

Effect:
Requesting recovery of amounts prior to their operative date leads to an inaccurate representation of the revenue requirement. It is critical that the costs requested for recovery are complete to ensure transparency and accuracy of the costs recoverable from ratepayers.

Recommendations:
PG&E should review its application to ensure that capital additions included in the RO model are for actual operative date, and file errata to update the corrected revenue requirement for GSRRMA and any other accounts, if applicable. In addition, PG&E should review and strengthen its processes to ensure amounts included in the RO model are for capital additions already in service.

Finding 3: Unsubstantiated Expenditures for ILIMA of $468,789

Condition:
During our substantive testing, PG&E could not substantiate cost totaling $468,789. The costs incurred were mainly because of a damaged tool leading to additional costs to accommodate the delay of the project. Vendor A identified their tool was damaged by another operator 10 days prior to the planned execution of the project. Consequently, PG&E already had equipment on site from Vendor B to proceed with the project, and due to the delay from Vendor A's damaged tool, PG&E paid Vendor B additional funds to maintain the idle equipment on site until Vendor A's tool was operative. PG&E did not provide a reasonable explanation as to why ratepayers should cover these costs.

Criteria
PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to CPUC.

Cause:
PG&E failed to attribute the cause of the damage and exercise its rights to recover from the party responsible for the additional costs incurred for the delays the damaged tool caused.

Effect:
Failure to properly account for expenditures recorded in ILIMA leads to an inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are properly reviewed to ensure transparency and accuracy of the costs that are recoverable from ratepayers. Furthermore, an overstatement of costs can inflate forecasted amounts in GRCs, as the prior years' costs often influence the authorized revenue requirement.

Recommendations:
PG&E should file errata of its testimony to reduce ILIMA expenditures by the $468,789 identified in this audit and should perform additional review of the account to ensure that other costs that resulted from the delay to the project are removed from the application. Further, PG&E should review and update its contracting policies to clearly communicate the right to recover costs incurred due to the actions or inactions of a vendor.

Finding 4: Unallowable and Overstated Employee Related Expenditures Totaling $40,032

Condition:
PG&E overstated employee related expenditures in MCOPPMA and GSBA totaling $32,596 and $7,436, respectively. During our testing, we noted the following:

- PG&E was unable to substantiate how $32,596 in employee related lodging expenditures were allocated to MCOPPMA. PG&E noted a portion of lodging expenditures were allocated to MCOPPMA due to employees working on multiple projects in the same area but were attributable to different accounts. However, PG&E did not provide support for the allocation methodology for recorded costs in MCOPPMA.

- PG&E charged the amount of $900 to the GSBA for a lodging stay that was cancelled. In addition, PG&E charged a total of $6,536 for the purchase of work tools for a new employee for activities not related to the GSBA.

Criteria:
PU Code sections 581, 582, and 584 require that the utility company provide timely, complete, and accurate data to CPUC.

Cause:
PG&E lacks adequate monitoring and oversight resulting in erroneous charges recorded in the affected accounts.

Effect:
Failure to properly account for employee-related expenditures recorded in MCOPPMA and GSBA leads to an inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are properly reviewed to ensure transparency and accuracy of the costs that are recoverable from ratepayers. Furthermore, an overstatement of costs can inflate forecasted amounts in GRCs, as the prior years' costs often influence the authorized revenue requirement.

Recommendations:
PG&E should file errata of its testimony to reduce MCOPPMA and GSBA expenditures by $32,596 and $7,436, respectively. In addition, PG&E should strengthen its review processes to ensure that expenditures are substantiated and allowable to be recorded to the applicable account presented for recovery. Furthermore, PG&E should ensure its staff are aware of the relevant internal protocols, are properly trained, and follow them consistently to ensure expenditures are recorded accurately.

SUMMARY SCHEDULE OF AUDIT RESULTS

Table 1: PG&E's Gas Safety and Electric Modernization Accounts Summary of Recorded Costs with Audit Adjustments

Balancing or Memorandum Account Name	Recorded Expense	Recorded Capital Expenditures	Total Recorded Cost	Audited Amount	Audit Adjustment	Finding Reference
ILIMA	$ 91,952,154	$ -	$ 91,952,154	$ 87,470,480	$ 4,481,674	Finding 1&3
ICDMA	1,083,059	-	1,083,059	1,083,059	-	
GSRRMA	9,759,621	1,008,337	10,767,958	10,767,958	-	Finding 2*
TIMPMA	279,038	-	279,038	279,038	-	
MCOPPMA	-	13,984,337	13,984,337	13,951,741	32,596	Finding 4
CDPMA	1,892,851	-	1,892,851	1,892,851	-	
GSBA	8,637,619	92,656,180	101,293,799	101,286,363	7,436	Finding 4
L407MA	-	159,515	159,515	159,515	-	
DBPMA	-	3,019,846	3,019,846	3,019,846	-	
ACCUMA	206,939	-	206,939	206,939	-	
DRPTMA	4,814,498	2,895,591	7,710,089	7,710,089		
DERDDA	1,622,866	-	1,622,866	1,622,866	-	
AB841MA	-	4,156,422	4,156,422	4,156,422		
Total	$120,248,645	$117,880,228	$238,128,873	$233,607,167	$ 4,521,706	

* Capital Expenditures of $1,008,029 classified as CWIP for the period of January 1, 2022, through December 31, 2022 with estimated operating date of June 2023.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

Pacific Gas and Electric Company
300 Lakeside Drive
Oakland, Ca, 94612-3534

July 1st, 2024

Ms. Angie Williams, Director
Utility Audits, Risk and Compliance Division

Subject: Pacific Gas and Electric Company's Response to the Utility Audit Branch (UAB) of the California Public Utilities Commission (CPUC) Performance Audit of Pacific Gas and Electric Company's Gas Safety and Electric Modernization Accounts included in Application (A.) 23-06-008 for the period of January 1, 2022, through December 31, 2022 (UAB Audit).

Dear Ms. Williams:

Pacific Gas and Electric Company (PG&E) received the draft UAB Audit on June 14, 2024. PG&E takes this opportunity to submit comments concerning the Findings and Recommendations of the Audit.

Finding 1: Overstated Expenditures for ILIMA of $4,012,885

PG&E accepts this recommendation and will file errata to remove $4,012,885 from the In Line Inspection Memorandum Account (ILIMA). In addition, PG&E has completed a full review of all orders in the ILIMA to ensure that no other first-time assessments are included in the ILIMA. This review confirmed that the only orders containing first time assessments were the two orders identified in Finding 1. The recommendations regarding internal protocols and training will be addressed in PG&E's corrective action plan.

Finding 2: Misstated Revenue Requirement Requested for GSRRMA

PG&E accepts the recommendations and will file errata to update the revenue requirement calculation for GSRRMA and account for the actual operative date for the GSRRMA order for capital additions of $1,008,029.

Finding 3: Unsubstantiated Expenditures for ILIMA of $468,789

PG&E does not agree with this finding or the related recommendations. The damaged In Line Inspection (ILI) tool is a unique tool that is customized to operators and the risk of a delay due to damage is an accepted operator risk. PG&E therefore believes any costs associated with delays are a legitimate cost associated with this project. Given the delay, PG&E minimized the cost impact on the project. As explained in discovery response PGE-GSEM-Audit-DR 003 Follow-up – Sample 17-Q01Supp02 (Attached), the $468,789 project costs are reasonable and appropriate because storing the tank manifold system and pumps on site during the project delay are less expensive and more beneficial to ratepayers than demobilizing the equipment and remobilizing when the ILI tool was repaired and available. PG&E's decision to store the rented equipment on site until the tool was repaired was the least expensive option.

Finding 4: Unallowable and Overstated Employee Related Expenditures totaling $40,032

PG&E accepts the recommendations and will file errata of its testimony to reduce MCOPPMA and GSBA expenditures by $32,596 and $7,436, respectively. The lodging charges in the MCOPPMA were incurred by PG&E team members actively working on multiple projects concurrently, including order number

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74047186 (Tellis Gin Reg Station Overpressure Protection, which is within scope of the MCOPPMA) and order number 84020303 (L-301G MP 0.00-24.68 ILI IMED DIGS in Moss Landing which is not within the scope of the MCOPPMA). Therefore, PG&E believes the lodging charges related to the Tellis Gin project are legitimate; however, as stated in discovery response PGE-GSEM-Audit-DR 003 Follow-up-MCOPMMA Sample 16-Q01 (Attached), PG&E is unable to substantiate how the lodging costs were divided between these two projects and therefore agrees the lodging costs should be removed from the MCOPPMA.

In addition, we recommend the description of Finding 4 listed on pages two and twelve be revised as follows.

<u>Original Language:</u>
p. 2 – "PG&E could not substantiate the allocation of employee lodging to MCOPPMA. Specifically, PG&E allocated a portion of lodging expenditures from employees working on multiple projects in the same area but are attributable to different accounts, thereby overstating MCOPPMA by $32,596."

p. 12 – "PG&E was unable to substantiate how $32,596 in employee related lodging expenditures were allocated to MCOPPMA. PG&E noted a portion of lodging expenditures were allocated to MCOPPMA due to employees working on multiple projects in the same area but were attributable to different accounts. However, PG&E did not provide support for the allocation methodology for recorded costs in MCOPPMA."

<u>Revised language:</u>
PG&E noted a portion of lodging expenditures were attributable to MCOPPMA due to employees working on multiple projects in the same time period. However, PG&E was unable to substantiate how $32,596 in employee related lodging expenditures were allocated to the project in scope of the MCOPPMA.

The recommendations regarding internal protocols and training will be addressed in the corrective action plan.

Conclusion

PG&E appreciates the work performed by the UAB and looks forward to the final audit report. If there are any follow up questions concerning this response, please contact David Levie (David.Levie@pge.com).

Sincerely,

Stephanie Williams
Vice President, Controller, Utility Chief Financial Officer
Pacific Gas & Electric Company
300 Lakeside Drive
Oakland, CA 94612-3534

Enclosures:
(1) Finding 3 Reference:
Wildfire and Gas Safety Costs - PGE-GSEM_Audit-DR 003 Follow-up-ILIMA Sample 17-Q01Supp02.pdf
(2) Finding 4 Reference:
Wildfire and Gas Safety Costs - PGE-GSEM_Audit-DR 003 Follow-up-MCOPPMA Sample 16-Q01.pdf

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cc: Kimberly Chang, Senior Manager, Regulatory Proceedings, PG&E
Patrick Douglas, Case Manager, Principal, Regulatory Proceedings, PG&E
Gregory Holisko, Case Manager, Principal, Regulatory Proceedings, PG&E
Steve Koenig, Manager, Business Finance Regulatory Support, PG&E
Nancy Pratt, Business Finance Analyst, Expert, Business Finance Regulatory Support, PG&E
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Nancy Ta, Public Utilities Regulatory Analyst IV, UAB, CPUC
Moses Ofurio, Senior Management Auditor, UAB, CPUC
Jiai "Amy" Xu, Associate Management Auditor, UAB, CPUC

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate PG&E's comments submitted on July 1, 2024. We reviewed PG&E's response to the draft audit report. We are providing our assessment of PG&E's responses in the same order listed in the response letter.

Finding 1: Overstated Expenditures for ILIMA of $4,012,885

PG&E agrees with the finding and recommendations. PG&E will file errata of its testimony to remove the $4,012,885 from the ILIMA and will address recommendations related to internal controls in its corrective action plan.

The finding and recommendations remain unchanged.

Finding 2: Misstated Revenue Requirement Requested for GSRRMA

PG&E agrees with the finding and recommendations. PG&E will file errata to update the revenue requirement calculation for the GSRRMA.

The finding and recommendations remain unchanged.

Finding 3: Unsubstantiated Expenditures for ILIMA of $468,789

PG&E did not agree with the finding, noting the damaged tool and the risk of delay due to damage is an accepted operator risk, and that any costs associated with delays are a legitimate cost associated with this project.

While we understand the viewpoint that delays may result in additional project costs and the approach taken may have been less expensive, we disagree that all costs associated with delays should be considered legitimate costs borne by ratepayers. At a minimum, PG&E should review and update its contracting policies to clearly communicate the right to recover costs incurred due to the actions or inactions of a vendor.

In addition, we reviewed PG&E's response PGE-GSEM-Audit-DR 003 Follow-up – Sample 17-Q01Supp02 during the audit, and we provided PG&E with our analysis of the unsubstantiated costs on June 4, 2024. No additional response or documentation was received in response to our analysis.

The finding and recommendations remain unchanged.

Finding 4: Unallowable and Overstated Employee Related Expenditures, Totaling $40,032

PG&E agrees with the finding and recommendations. PG&E will file errata of its testimony to reduce MCOPPMA and GSBA expenditures by $32,596 and $7,436, respectively.

In response to PG&E's recommendation to revise the finding description on pages two and twelve, we determined that PG&E proposed revised language is essentially similar to the original and does not contain any new factual information; therefore, the finding and recommendations remain unchanged.