

APR 21 1981

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ORIGINAL

Decision

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the Findings and Recommendations of Management Consultants Cresap, McCormick and Paget, Inc., made as a result of its Operations and Management Audit of Pacific Gas and Electric Company.

OII 80 (Filed August 19, 1980)

Robert Ohlbach and Daniel E. Gibson, Attorneys at Law, for respondent. Glen J. Sullivan and Allen R. Crown, Attorneys at Law, for California Farm Bureau Federation; John Blethen, Attorney at Law, for Toward Utility Rate Normalization (TURN); William B. Hancock, for Cut Utility Rates Today (CURT); M. A. Walters, for Local Union 1245, International Brotherhood of Electrical Workers, AFL-CIO; and Leonard Snaider, Deputy City Attorney, and Robert Laughead, P. E., for George Agnost, City Attorney, City and County of San Francisco; interested parties. James T. Quinn, Attorney at Law, and Martin Abramson, for the Commission staff.

O P I N I O N

On August 19, 1980 the Commission instituted an investigation on its own motion into the findings and recommendations set forth by Cresap, McCormick and Paget, Inc. (CMP) as the result of its management audit of the Pacific Gas and Electric Company (PG&E) for the purpose of developing a record in the following areas:

- 1. Duplication of personnel assignments, functions, lack of effective cost controls in some departments, such as between PG&E's General Office and its operating divisions.

2. PG&E's efforts to control energy theft.
3. PG&E's efforts to reduce outdated work rules.
4. PG&E's plant maintenance practices and whether greater operating productivity efficiencies are possible.
5. PG&E's meter-reading and customer-billing practices.
6. The effectiveness of PG&E's conservation and load management programs.
7. The recovery of the cost of the audit, and whether a followup phase of the management audit should be undertaken in order to better facilitate the accomplishment of needed changes.
8. Whether any other recommendation or order that may be appropriate to further the purpose of the management audit of PG&E should be undertaken in the lawful exercise of the Commission's jurisdiction.

Two days of public hearing were held before Administrative Law Judge Marcel Gagnon on September 10 and 11, 1980 to hear the testimony of CMP presented by the Commission staff and two days of public hearing were heard before Administrative Law Judge Mary Carlos on January 21 and 22, 1981, to hear the testimony of PG&E in response to the testimony of CMP. The matter was submitted on January 22 subject to the receipt of late-filed Exhibit 12 on February 6 and late-filed Exhibits 13 and 14 on February 20, 1981.

The audit conducted by CMP describes PG&E as it existed from September 1979 through January 1980. A final Management Audit Report containing 131 recommendations was issued on June 1, 1980 and is made a part of the record in this proceeding as Exhibit 2. PG&E agreed with 121 of the recommendations, expressed only partial concurrence with 6 and disagreement with 4 recommendations. The testimony of CMP addressed those recommendations with which PG&E expressed only partial concurrence or disagreement. It also addressed

the 6 subject areas specified in the order instituting investigation (OII).

Areas of Disagreement

PG&E disagrees with the following four recommendations:

1. The Project Meteorology Section of Gas Control should be transferred to the Electric Generation Planning Department.

PG&E believes that the present organizational arrangement is working well and that the proposed transfer of part of the meteorology function to another department would result in an overall loss of efficiency.

2. Steps should be taken to reduce outdated work rules.

PG&E states that outdated work rules are regularly phased out, either through bargaining with the union or through other means. The remaining work rules cited by CMP as "outdated" are necessary for safety and public service reasons.

3. The Comptroller's Department should institute a more open and formal approach to management development and succession.

PG&E believes that the present standardized structured approach to training and selection of candidates for promotion within the Comptroller's Department is satisfactory.

4. Mechanisms for priority-setting and for cost/benefit accountability should both require and permit increased responsibilities by Computer Systems and Services Users.

PG&E does not believe that changes in its priority-setting and cost/benefit accountability processes are needed to meet the CMP recommendation since these processes are based on sound financial principles and management concepts and involve users to a significant degree.

PG&E has described the reasons (summarized above) for its disagreement in 2 letters dated July 3 and September 8, 1980, marked as Exhibits 3 and 4. CMP responded to these reasons by

outlining the basis for each CMP recommendation in oral direct testimony. Although PG&E did not cross-examine the CMP witnesses on these issues, it presented its own witness, Bruce Nesbit, who responded to the testimony of the CMP witnesses with respect to these 4 items. The net result is that CMP is unwilling to change its recommendations and PG&E is unwilling to accept these 4

The stated purpose of this proceeding was to secure additional facts and information regarding the implementation of the CMP recommendations. It was not a general investigation of PG&E rates, charges, service, or operations. Consistent with this stated purpose, we now have the information that PG&E has exercised its management discretion and does not plan to implement these 4 recommendations. We will not require herein that PG&E do otherwise. We will, however, expect the staff to examine these areas during periodic reviews of PG&E operations pursuant to an application for general rate relief to determine the effect of PG&E's decision not to implement these 4 recommendations.

#### Areas of Partial Agreement

PG&E identified six CMP recommendations with which it only partially concurred:

1. The principle of functional supervision should be applied within districts and all Gas personnel should be under the line supervision of the Gas Superintendent.

PG&E agrees with the assessment of need for stronger supervision of Gas employees working at remote headquarters, but believes it better to achieve this by strengthening the existing functional supervision rather than by changing the reporting relationship as CMP recommends.

2. A Budget and Analysis Department should be established, responsible for administration and overall coordination of the budget process.

PG&E concurs with the finding that "budgeting activities are not adequately managed" but reserves judgment on the specific organizational placement of the budgeting and analysis functions.

3. Guidelines for EDP equipment acquisition and development should be refined to capitalize on the opportunities identified earlier.

PG&E concurs with the need to refine guidelines. However, it believes that the Computer Systems and Services Department's 5-Year Plan amply provides for acquisition and development of central computer equipment.

4. Gas-purchasing responsibilities should be consolidated under Gas Supply.

PG&E concurs with the desirability of organizational consolidation of the gas-purchasing function but believes that the consolidation would more appropriately be accomplished within the Natural Gas Corporation subsidiary and not within the PG&E Gas Supply Department as recommended by CMP.

5. The productivity measurement system developed by Electric T&D, currently implemented in the De Sabla Division, should be modified and extended throughout electric operations.

PG&E concurs with the need to modify and expand the productivity measurement but believes that use of this system for interdivision performance comparisons and personnel performance appraisals because of differing work environments and potential data inaccuracies.

6. PG&E should modify several aspects of its approach to evaluating conservation program cost-effectiveness.

PG&E concurs with the portions of the recommendation regarding development of quantitative measures of environmental costs and the need for sensitivity analysis of key planning variables, but considers the remainder of the recommendation not generally feasible to implement at this time.

As with the 4 areas of disagreement, PG&E discussed the 6 areas of partial agreement in Exhibits 3 and 4, CMP's panel of witnesses reviewed and commented, through oral testimony, on PG&E's reasons for partial disagreement. PG&E's witness Nesbit, in turn, responded to the CMP testimony. No net change in either position

occurred. As with the 4 areas of disagreement, PG&E has, in declining to implement portions of 6 additional recommendations, exercised its management judgment. We will not substitute our judgment for PG&E's and direct it to do otherwise than it has decided with respect to these 6 areas of partial agreement. We will expect staff to examine these areas in its periodic reviews of PG&E to determine the effect of PG&E's decision to implement only parts of these 6 recommendations.

PG&E's Action Plans for Implementing  
CMP's Recommendations

PG&E has devised 127 action plans for those CMP recommendations with which it concurs or partially concurs. These action plans also address the 6 subject areas set forth on page 2 of OII 80. Of the 40 specific recommendations relating to these 6 subject areas, PG&E has prepared action plans for 39. It rejects the recommendation that "steps should be taken to reduce outdated work rules".

The action plans are set forth in Exhibit 9 and include the recommendation, the department involved, the specific objective, the standards, a summary of responsibility/authority for implementation, and a timetable. PG&E testified that implementation action has already begun on approximately 116 of the action plans. Sixteen were completed in 1980 and 67 more are scheduled for completion in 1981. The longest term recommendation has a scheduled completion date of December, 1985. There has been some slippage in the completion dates of some action plans, ranging from a few months to almost 2 years. PG&E states that the action plans were initially fairly highly summarized and had not been looked at in detail as to the steps that would be needed to implement them. In many cases, the plans were found to be much more complex and more time-consuming than originally anticipated. In addition, PG&E has been examining the possibility of deferring some of the expenditures for additional people, programs, and costs associated with the action plans. PG&E states that it is basically not equipped to handle 127 action plans simultaneously at maximum

implementation speed and that it would probably be unwise to do so because it would tend to divert efforts from normal day-to-day operations in other productivity improvements which are being put in place. The extension of final completion dates on some action plans does not necessarily mean that all action has been deferred in the interim, PG&E testified.

Progress Reports

The staff has recommended that PG&E be required to furnish comprehensive and informative progress reports, tailored to each individual project on a 4-month basis covering the action plans for the following subject areas:

1. Studies on Work or Productivity Measurement in the following departments:
  - a. Customer Service Department
  - b. Engineering Department
  - c. General Construction Forces
  - d. T&D Electric Distribution
  - e. Gas Operations
  - f. Fossil Plant Maintenance
  - g. Auto Maintenance and Repairing
2. Development of Standard Practices or Clear Rules for:
  - a. Awarding Engineering Contracts
  - b. Use of General Construction Personnel for Division-type Work
  - c. Use of Outside Contractors
  - d. Contracting Auto Maintenance
  - e. Purchasing Automotive Parts and Equipment
  - f. G. M. Reviews

3. Studies to Develop and Install:
  - a. STAR Telephone Equipment
  - b. Computerized Meter Rerouting Program
  - c. Optical Scanning for Billing
  - d. Cost Estimating Activity Within Engineering Department
  - e. Automobile Parts and Equipment Inventory Controls
  - f. Management Techniques for Fossil Plant Maintenance
  - g. Companywide Budgeting
4. State-of-the-art Studies on Alternate Meter-Reading Technologies
5. All Programs for Preventing Energy Theft
6. Modifications to Pittsburg Power Plant Unit No. 7.

For the other areas covered by the CMP recommendations the staff asks for the same type of progress reports to be filed once a year until each recommendation is fully implemented. According to staff, the proposed progress reports should include the end product of all action plans, whether they be standard practices, company directives, revised organizations, or other final documents. The reports should also include any reports by consultants hired in conjunction with or subsequent to the management audit to help formulate or implement an action plan.

PG&E filed written comments on the staff proposal concurring generally with the staff recommendation for progress reports 3 times a year in specified areas and annually in all others. PG&E points out that it has adopted a comprehensive system of written "action plan" reports to assure itself that implementation of the CMP recommendations is proceeding satisfactorily and proposes to rely on these action plans as the core of the periodic reports requested by staff, thereby reducing the need for preparation of duplicative parallel reports for regulatory reporting purposes.



PG&E has already submitted summary action plans as an exhibit in these proceedings which are used by company officers and the management committee to monitor and control implementation of the CMP recommendations. For the more complex action plans, which PG&E does not identify, detailed supplemental action plans are developed and used by middle management to control implementation. PG&E states that these working level action plans are more detailed than the executive level action plans, setting forth itemized, step-by-step analysis of tasks to be performed, assignment of responsibilities, approximate costs involved, program schedules, percentage of completion, and time spent by individual employees. PG&E believes that the use of these working level action plans, coupled with the executive level action plans, will be adequate to allow the staff to meet its regulatory monitoring responsibilities. It suggests that if, after a reasonable trial and informal efforts at problem solving, this reporting procedure proves inadequate, then the staff could propose that the Commission order revised reporting procedures.

The staff filed a response to PG&E's comments indicating that it thought that while the "executive level" action plans might serve as introductory outlines of the various action programs, they were too sparse and formalized to adequately inform. It went on to state, however, that the working level plans might be more helpful, provided they are clear, informative, and comprehensive. The staff believes that working level type action plans are required for all the areas of special concern on a 4-month basis and at least something akin to working level plans annually for all other areas. Staff notes that without an adequate system of reporting, the Commission and PG&E's ratepayers could not be assured that the CMP recommendations had ever been translated into effective action.

Pittsburg Unit No. 7 Power Plant

The staff has included Pittsburg Unit No. 7 in its areas of special concern for which it wishes to see progress reports every 4 months. PG&E agrees to provide progress reports to the extent that action on the Pittsburg Power Plant Unit No. 7 is the result of any CMP recommendation, but believes that other activities at Pittsburg Power Plant which are not directly related to CMP recommendations are beyond the scope of OII 80 and no reports on such activities would be appropriate. The staff objects to any artificial demarcation of efforts at Pittsburg Power Plant Unit No. 7 into "CMP" and "Non-CMP" related actions.

The CMP recommendation in question reads as follows:

"A Concerted, Two-Phase Effort Should Be Undertaken Expeditiously To Install State-Of-The-Art Fossil Plant Management Techniques And To Center Accountability For Performance." The recommendation indicates that the following activities should be undertaken at the general office level, and a comprehensive plan of action should be prepared for implementing required improvements:

1. Fossil Plant Manpower Planning
2. Maintenance Productivity Measurement And Control
3. Preventive Maintenance Programs
4. Supervisory Skills Training
5. Major Maintenance And Outage Planning

CMP notes "The action plan should include a clear description of staffing needs (skill types and levels), support requirements (recruiting and systems development), capital improvements (accurate oil-metering equipment), implementation responsibility, and an accelerated, detailed schedule for accomplishment." The recommendation does not refer to Pittsburg Power Plant Unit No. 7 by name, but is directed at all thermal generation.

We appreciate the staff's concern for seeing improvements at Pittsburg Power Plant Unit No. 7; however, we believe that a comprehensive review of the performance of this plant is more appropriately taken

up in a general rate case where we would expect to see rate-associated recommendations made in conjunction with such a review. We will, however, require PG&E to report on Pittsburg Power Plant Unit No. 7 separately from other thermal generating plants when reporting on the action plans resulting from any CMP recommendation and we will require that these progress reports on the implementation of such recommendations every 4 months.

Timing of Progress Reports

PG&E proposes the first progress report be filed in July 1981 with subsequent reports on areas of special interest due November 1981 and March 1, 1982, and years thereafter until completion. Progress reports for all other items on an annual basis would be due on March 1. PG&E states that the proposed March 1 date for the submission of annual reports should assure that these reports will fully describe all actions during the previous calendar year.

The staff did not comment on the timing of reports.

CURT believes that the first report should be filed within 30 days of the decision in this matter. CURT is concerned about slippage in implementation of action plans and is concerned about letting a 4- to 5-month period pass before PG&E files its first progress report.

An annual report which encompasses the entire preceding calendar year is desirable. We do not wish, however, to delay overlong the initial filing of progress reports and we will therefore provide that the first report on areas of special concern will be due June 1, 1981; the next report due October 1; and the third report and the annual report due February 1, 1982. This schedule should still permit a complete review of the prior calendar year activities in the annual report, while alleviating CURT's concerns about delay. This schedule will have the additional benefit of having the annual progress report due sufficiently early in the year for staff and interested parties to make use of it in their review of PG&E's biannual general rate case filings.

Any changes in the reporting schedule or requirements should be the subject of a motion served on all parties to OII 80.

PG&E suggests that a single copy of the progress reports be filed to eliminate the costs of handling and reproduction which could accompany a requirement for multiple copies. CURT objects to this suggestion stating that unless it and any other interested party is aware of the reports it will have no way of evaluating PG&E's progress on behalf of the ratepayer. We will require that PG&E file 3 copies of all progress reports with the Commission's Revenue Requirements Division, Attention: Assistant Director, Engineering Analysis. Staff will be responsible for ensuring that 1 copy is promptly filed in the formal file in OII 80 where it will be available for review by the public, including CURT. Since CURT will be aware of the schedule for filing such progress reports it can review them on a timely basis. The 2 remaining copies will be for staff use as working copies.

#### Recovery of Expenses

The staff recommends that PG&E be allowed to request recovery through the rate process for expenses which are directly tied to the management audit. PG&E states that these expenses are as follows: \$696,842 for fees paid to CMP for the audit and report preparation, \$13,933 for CMP's experts' appearance and testimony in this proceeding and \$17,544 for administrative expenses in support of CMP for items such as secretarial assistance and rental furniture. PG&E may request \$728,319 as part of its showing in its presently ongoing general rate case Application (A.) 60153. Such nonrecurring expenses should be amortized over a period of 2 years, so that the amortization will be completed at the conclusion of the rate life of the decision in A.60153.

Findings of Fact

1. CMP has performed a management audit of PG&E and has prepared a report containing 131 recommendations.
2. PG&E agrees with 121 recommendations, partially agrees with 6 recommendations, and disagrees with 4 recommendations.
3. PG&E has filed summary action plans for implementing those recommendations it agrees or partially agrees with.
4. Twenty-four areas have been identified by the staff as areas of special concern.
5. Periodic progress reports are necessary to monitor the progress PG&E is making toward complete implementation of those recommendations it agrees or partially agrees with.
6. More frequent progress reports are required for the areas identified as those of special concern.
7. Pittsburg Power Plant Unit No. 7, although not specifically segregated from other thermal generating plants in CMP's recommendations, has been identified as an area of special concern by the staff.
8. PG&E has filed executive level action plans which are summary in form for implementing those recommendations it agrees with or partially agrees with.
9. PG&E has incurred a total of \$728,319 in expenses associated with the management audit which are reasonable.

Conclusions of Law

1. PG&E should be required to furnish progress reports 3 times a year on areas of special concern and annually on all other recommendations with which PG&E agrees or partially agrees on the dates set forth in the order below.
2. Action on implementation of any CMP recommendation relating to Pittsburg Power Plant Unit No. 7 should be reported separately from action taken on the remainder of such recommendations.

3. Progress reports on areas identified as those of special concern should include at a minimum both the executive level and the working level action plans.

4. Progress reports on all other recommendations should be comprehensive and sufficiently detailed to permit a determination that the CMP recommendations are being implemented in a timely manner.

5. PG&E should be authorized to include in its current A.60153 a request to amortize the expenses incurred as a direct result of the CMP audit in a sum not to exceed \$728,319 to be amortized over a period of 4 years.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) shall file 3 copies of progress reports on the implementation of those recommendations of Cresap, McCormick and Paget, Inc. (CMP) with which it agrees or partially agrees on the following basis:

- a. Progress reports on those areas of concern identified by staff in Exhibit 10 shall be filed 3 times a year on June 1, October 1, and February 1 with the first report being due June 1, 1981.
- b. Progress reports on all other CMP recommendations shall be filed on February 1 and shall include all activities in the prior calendar year.
- c. Progress reports on areas of concern shall include (but need not be limited to) both working level and executive level action plans.
- d. Progress reports on all other recommendations shall be comprehensive in nature and shall include details to the same extent that working level action plans include.
- e. All progress reports shall be filed with the Revenue Requirements Division, Attention: Martin Abramson. A copy of all progress reports shall be immediately placed in the formal file in OII 80 by the Revenue Requirements Division, Assistant Director, Engineering ✓

2. PG&E is authorized to include in A.60153 a request to amortize over a period of 4 years or more expenses incurred as a direct result of the CMP audit in an amount not to exceed \$728,319.

This order becomes effective 30 days from today.

Dated APR 21 1981, at San Francisco, California.

John S. Guyon  
President  
Richard J. DeWitt  
Lawrence J. ...  
Victor ...  
Francis ...  
Commissioners