PACIFIC GAS AND ELECTRIC COMPANY
General Rate Case 2011 Phase I
Application 09-12-020
Data Response

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SUBJECT: DETAILS ON VARIOUS CAPITAL LOADERS/OVERHEADS

QUESTION 5

For many capital projects, it is often the case that capitalized labor costs constitute a significant portion of the overall total cost of the project. In PG&E's RO computer model, DRA can clearly see where A&G expenses have been reduced to reflect capitalized administrative/supervisory expenses. However, a similar reduction mechanism does not exist for the capitalized portion of non-A&G expenses.

a. When PG&E develops its estimates for future capital projects, how does it derive the forecasted amount for capitalized labor costs?

b. Explain how PG&E ensures that the labor portions of forecasted <u>expenses</u> are reduced by the forecasted <u>capitalized</u> labor amounts.

c. Stated another way, how can DRA verify that forecasted labor costs are not being double counted (i.e. the expensed labor portion and the capitalized labor portion adding up to more than 100% of the total labor)?

ANSWER 5

A&G labor expenses recorded in Account 920 are, by definition, costs that are "not chargeable directly to a particular operating function" (see definition of FERC Account 920 in 18 CFR 101). Utilities use Account 922 to transfer an allocated portion of A&G labor to construction costs. However, where labor costs are directly chargeable to an operating expense account or capital expenditure, no allocation is necessary.

PG&E's expense forecasts are based on the volume of operating and maintenance work to be performed and include both labor and materials costs. The forecast labor effort is for the expense work only and does not need to be allocated between expense and capital. (The expense Major Work Categories (MWCs) are designated with two letters, e.g. HN.)

Similarly, the forecast of capital expenditures is based on the nature and scope of the capital (construction) work to be performed and includes both labor and materials costs. The forecast labor component is for the capital work only, and does not contain an allocation of operating and maintenance expense labor. (The capital MWCs are designated with two numbers, e.g. 08.) Additional detail is provided below:

a. PG&E's 2011 GRC capital expenditure forecast was not based on separate derivations of capitalized costs for labor, material, contract, etc. Rather, PG&E's 2011 GRC capital expenditure forecasts were made at a major work category level (MWC) and were derived using a variety of methods. For example, some work was estimated using a unit and unit-cost method (i.e., the forecast equals the number of units of work multiplied by the unit cost) where the unit cost reflects the total financial cost of performing the work (i.e., labor, material, contract costs, etc.). In other cases, the capital expenditure forecasts were based on total historical expenditures, which also would reflect total financial costs.

b. For non-A&G costs, PG&E separately forecasts expenditure requirements for expense and capital at the MWC level. Thus, PG&E forecasts the work that needs to be done and the associated costs – including both labor and materials – whether expense or capital. There is no need to reduce the labor portions of forecast expenses to account for labor effort dedicated to capital projects. Stated otherwise, the labor component for expense and capital functions are part of the overall forecast for specific MWCs and expense and capital MWCs are forecast independently. This is consistent with how PG&E prepared and presented its 2003 and 2007 GRCs.

c. See answer (b) above.