PACIFIC GAS AND ELECTRIC COMPANY
San Bruno GT Line Rupture Investigation
Data Response

PG&E Data Request No.:	CPUC_100-11Rev01		
PG&E File Name:	SanBrunoGT-LineRuptureInvestigation_DR_CPUC_100-Q11Rev01		
Request Date:	March 21, 2011	Requester DR No.:	
Date Sent:	May 4, 2011, 2011	Requesting Party:	CPUC (ED)
		Requester:	Eugene Cadenasso

QUESTION 11

If PG&E spent less than the amount that the CPUC authorized for the GPRP or gas transmission program (see Item # 3), explain why. Additionally, indentify the amount underspent by year; and describe the disposition of the surplus funds.

ANSWER 11 - REVISED

As explained in several other data requests associated with this topic, PG&E initiated the Gas Pipeline Replacement Program (GPRP) in 1985 as a multiyear program to upgrade its gas transmission and distribution pipes. Initially, the GPRP focused on cast iron and pre-1931 steel distribution lines and transmission lines with joint configurations and girth welds that do not meet current standards. Two particular transmission girth weld types were targeted: oxy-acetylene gas welds and unshielded electric arc welds. The majority of the GPRP pipe identified for replacement was distribution mains and associated gas services. The program costs were recovered in PG&E's General Rate Cases. In the late 1990's, the remaining transmission pipeline in the GPRP was removed from the program and transitioned into programs in the gas transmission business where costs were recovered as part of PG&E's gas accord proceedings as part of transmission pipeline and safety work. Given the change in the program separating out transmission, PG&E will discuss spending in two relevant time periods: 1) 2000-2010 for the Gas Transmission Pipeline Safety and Maintenance Work, and 2) 1985 – 1999 for the original GPRP which included transmission pipelines.

Gas Transmission Pipeline Safety and Maintenance Work from 2000-2010

PG&E's spending on the Risk Management Program, Transmission Integrity Management Program, and other transmission pipeline safety and maintenance work relative to the imputed adopted funding targets is set forth in the response to Question 10.

In summary, PG&E spent $89 million more than the imputed targets for Transmission Pipeline Safety and Maintenance Work during this time period.

Gas Pipeline Replacement Program from 1985 – 1999

PG&E's spending on the GPRP relative to the imputed regulatory targets while transmission pipeline remained in the program (1985-1999) is set forth in the response to Question 9.

PG&E did not request funding for GPRP in the 1984 General Rate Case (GRC) but did spend a total of $107 million in 1985 and 1986 on the program. From 1987 to 1999, PG&E spent $183 million less than the imputed targets for GPRP. While PG&E did not spend the full amount of imputed regulatory targets during the early years of the program, PG&E still kept the program on schedule by replacing a percentage of miles of pipe consistent with time elapsed in the program. Indeed, the CPUC acknowledged this in several rate case decisions during this time frame. In its decision in PG&E's 1996 GRC, the Commission stated that, "[n]otwithstanding PG&E's underspending of budgeted funds in this program [GPRP]…, PG&E has kept the program on target."[1] In its decision in PG&E's 1999 GRC, the CPUC expressly found that the GPRP "has been and remains on schedule."[2] Specifically with regard to transmission pipeline, the Commission noted that, at the approximate halfway point in the program, PG&E had replaced 57% of all transmission pipeline in the GPRP.[3]

Attributing underspending amounts to specific sources by year is difficult as factors leading to the underspend affected multi-year periods. PG&E's reasons for underspending during the 1987 to 1999 period was primarily driven by the following factors:

- **Reduction of Program Costs:** When construction costs were lower than originally forecasted, PG&E underspent compared to the imputed regulatory targets. As the program matured, PG&E became more efficient in grouping work and staging crews. PG&E also developed and implemented several "trench-less" construction techniques which allowed work to be done without incurring the expense of cutting or replacing pavement. PG&E attempts to obtain efficiencies in specific programs while still keeping program goals on target.
- **Work Force Reduction Savings Passed on to Customers:** In addition to the specific cost reductions associated with the GPRP, one major factor that affected PG&E's spending starting in 1993 was external pressure to reduce costs generally, which culminated in a work force reduction.[4] PG&E spent less than the anticipated imputed regulatory targets because of the commitment of reducing customers' rates. The work force reduction resulted in customer savings while keeping the program goals on target.

---

1 Decision 95-12-055 (Dec. 20, 1995) at 56.

2 Decision 00-02-046 (Feb. 17, 2000), Finding of Fact No. 107.

3 *Id.* (mimeo) at 228.

4 See 1996 Test Year, Gas Report on Operations, PG&E, at 8-11.

- **Reallocation of Resources to Address Higher Priority Work:** PG&E also deferred some planned work under programs such as GPRP in order to immediately restore service and repair damaged facilities due to natural disasters such as the 1989 Loma Prieta earthquake and the Oakland Hills fire. In addition, PG&E deferred planned work in times of higher than expected new business activity.

Tracking specifically how surplus GPRP funds were ultimately used is not possible. Any surplus funds are pooled together and reallocated to high priority needs within the business. Such flexibility in allocating resources is consistent with the principle that a utility is generally provided discretion in the use of CPUC approved funds and is expected to manage budgets in accordance with changing business needs and priorities.

Finally, as shown in the table below, the recorded return on PG&E's gas department rate base was lower than the adopted rate of return for most of the years between 1987 and 1999. The table summarizes PG&E's return on gas rate base filed with the CPUC annually during these years. These results indicate that overall expense and capital expenditures during these years were higher than the imputed amounts.

Return on Gas Ratebase

	Authorized	**Recorded**	**Difference**	**Ratebase** *$ Millions*
1987	11.44%	11.70%	0.26%	1,674
1988	11.02%	11.26%	0.24%	1,788
1989	11.04%	10.70%	(0.34%)	1,969
1990	10.96%	11.98%	1.02%	2,197
1991	10.97%	12.32%	1.35%	2,385
1992	10.76%	10.45%	(0.31%)	2,595
1993	10.13%	9.84%	(0.29%)	2,740
1994	9.21%	6.50%	(2.71%)	2,690
1995	9.79%	8.78%	(1.01%)	2,689
1996	9.49%	3.35%	(6.14%)	2,742
1997	9.45%	6.10%	(3.35%)	2,839
1998	9.16%	6.88%	(2.28%)	3,577
1999	8.74%	8.42%	(0.32%)	3,514
Average	**10.17%**	**9.10%**	**(1.07%)**	

Source: Annual CPUC filing