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ALJ	:	Pulsifer
Witness	:	Bower

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2014

Administrative and General Expenses
Part 1 of 2

San Francisco, California
May 3, 2013

TABLE OF CONTENTS

SB_GT&S_0050263

SB_GT&S_0050265

ADMINISTRATIVE AND GENERAL EXPENSES

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E) forecasts of Administrative and General (A&G) expenses for Test Year (TY) 2014 and capital expenditures for 2012 through 2014.

The categories of A&G expenses cover general expenses not chargeable to a specific functional activity. A&G expenses are recorded in the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920 through 935. Many items comprise A&G expenses including outside services employed, injuries and damages, franchise taxes, regulatory commission expenses, miscellaneous general expenses, and maintenance of general plant. PG&E's A&G-related capital expenditures are for Information Technology (IT) initiatives proposed by specific A&G departments.

This exhibit addresses, among other things, all costs associated with the following PG&E Company A&G-related departments:

- Finance Organization (Exhibit PG&E-9, Chapter 2)
- Risk and Audit Department and Insurance Expenses (Exhibit PG&E-9, Chapter 3)
- Law Department and Related Costs (Exhibit PG&E-9, Chapter 6)
- PG&E Corporation and Pacific Gas and Electric Company Executive Offices; and Corporate Secretary Department (Exhibit PG&E-9, Chapter 7)
- A&G Ratemaking Adjustments (Exhibit PG&E-9, Chapter 10)

This exhibit also addresses PG&E Corporation-related costs in the following PG&E Company A&G-related departments:

- Human Resources Department and HR Technology (Exhibit PG&E-9, Chapter 4)
- Corporate Affairs – External Affairs Department (Exhibit PG&E-9, Chapter 9)

This exhibit addresses the IT expenses and capital expenditures for PG&E's Finance Organization (5 projects), Risk and Audit Department (4 projects), and Law Department (2 projects).

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations:

1. That $262,000 be removed from Finance Organization's costs:
    a. That $261,669 be removed from the Controller's Account 923 Outside Services external audit fees. DRA used a three year average to calculated test year 2014.
2. That $358,400 be removed from Finance Organization's IT expenses for test year 2014 to reflect DRA's IT witnesses recommendations.
3. That $473,000 be removed from 2013 IT capital expenditures to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.
4. That $2.830 million be removed from Finance Organization's IT capital expenditures for test year 2014.
    a. That $1.951 million be removed for the Accounting Convergence project that Security Exchange Commission has not adopted International Financial Reporting Standards; and
    b. That $878,500 be removed to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.
5. That $517,000 be removed from Risk and Audit Department's costs:
    a. That $226,928 be removed from VP Chief Risk Officer's Account 923 Outside Services Corporation for lack of supporting documentation as to why PG&E is forecasting costs;
    b. That $123,000 be removed from Corporate Security Account 920 Administrative & General Salaries to reflect the duplicate labor costs for retiring director and his/her replacement; and,
    c. That $166,667 be removed from Corporate Security's Account 923 Outside Services to normalize one-time expense for feasibility study.
6. That $50.279 million be removed from Enterprise Risk Management and Insurance Department's costs:
    a. That $3.048 million be removed from Property Insurance to reflect the use of 2012 recorded in calculating test year 2014 forecast;

b. That $49.232 million be removed from Excess Liability Insurance to reflect the use of 2012 recorded in calculating test year 2014 forecast the impact of DRA's Auditor's recommendation;

c. That $2.132 million be removed from Directors & Officers Insurance to reflect the use of 2012 recorded and Commission policy that ratepayers and shareholders share costs 50/50; and,

d. That $692,000 be removed from PG&E Corporation Property and Liability Insurance as is duplication of insurance costs already paid by ratepayers and is potential unwarranted subsidy of other non-regulated activities.

7. That $566,000 be removed for Risk and Audit Department's IT expenses for test year 2014 to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

8. That $82,000 be removed from Risk and Audit Department's IT capital expenditures for 2013 to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

9. That $21.6 million be removed from Risk and Audit Department's IT Capital expenditures:

   a. That $19.9 million be removed for Emergency Operation Center for which PG&E has no specific site identified for this project; and,

   b. That $1.7 million be removed from Risk and Audit Department's IT expenses for test year 2014 to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

10. That$1.797 million be removed from Law Department's costs:

   a. That $1.558 million be removed from Settlements and Judgments to reflect the removal of $7.125 million in employment discriminations suits before calculating four year average of $19.567 million; and,

   b. That $239,949 be removed from Third Party Claims to reflect the use of 2012 recorded adjusted to calculate a four year average of $14.649 million for test year 2014.

11. That$93,000 be removed from Law Department's IT expenses for test year 2014 to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

12. That$8,000 be removed from Law Department's IT capital expenditures for 2013 to reflect to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

13. That$$125,000 be removed from aw Department's IT capital expenditures for test year 2014 to reflect to reflect DRA's recommendation in Exhibit DRA-18 Shared Services & Information Technology Costs.

14. That$2.267 million be removed from PG&E Corporation and PG&E Executive Offices department costs:

   a. That $735,179 be removed from Chairman, CEO President's Office costs to reflect the use on 2012 recorded to calculate a three year average of $3.884 million;

   b. That $1.208 million be removed from President's Office 's costs to reflect the use of 2012 recorded in calculating a three year average of $2.849 million for test year 2014; and,

   c. That $324,301 be removed from Directors' Fees & Expenses to reflect the unreasonable expenses:

      i. That $181,669 be removed to reflect the use of three year average for Committee Fees;

      ii. That $76,635 be removed to reflect the use of three year average after removing unreasonable costs (excessive tips, transportation costs, Board general lodging, Board dinner expenses, outside speaker, director education, and candidate interviews);

      iii. That $66,000 be removed for unreasonable quarterly retainer increase of ten percent.

Table 16-1 compares DRA's and PG&E's TY2014 forecasts of the A&G Department expenses addressed in this exhibit:

Table 16-1
Administrative & General Expenses for TY2014
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (C)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Finance Organization	$ 44,871	$ 45,132	$ 261	0.6%
Bank Fees	$ 5,755	$ 5,755	$ -	0.0%
Remaining Vacation	$ 5,098	$ 5,098	$ -	0.0%
Risk and Audit Department	$ 18,662	$ 19,180	$ 518	2.8%
Property Insurance	$ 23,664	$ 26,711	$ 3,047	12.9%
Liability Insurance	$ 26,475	$ 77,837	$ 51,362	194.0%
PG&E Corporation Insurance	$ -	$ 693	$ 693	0.0%
Human Resources (PG&E Corp)	$ 789	$ 789	$ -	0.0%
Law Department	$ 51,733	$ 51,733	$ -	0.0%
Settlements and Judgments	$ 19,567	$ 21,125	$ 1,558	8.0%
Third Party Claims	$ 14,649	$ 14,888	$ 239	1.6%
PG&E Corp/PG&E CEO	$ 11,860	$ 13,803	$ 1,943	16.4%
Directors Fees and Expenses	$ 1,293	$ 1,617	$ 324	25.1%
	$ 224,415	$ 284,361	$ 59,946	26.7%

Table 16-2 compares DRA's and PG&E's 2014 forecasts of A&G Department-IT related expenses:

Table 16-2
A&G Department IT Expenses for 2014
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Finance Organization:				
Planning Simplification & Improvement	$ 73	$ 85	$ 12	16.28%
Data Integration & Analytics	$ 258	$ 300	$ 42	16.28%
Financial Application & System Updates	$ 1,871	$ 2,175	$ 305	16.28%
Finance Organization Total	$ 2,202	$ 2,560	$ 358	16.28%
Risk and Audit:				
Energy Trading & Risk Management Implementation	$ 602	$ 700	$ 98	16.28%
Risk Engine Consolidation	$ 258	$ 300	$ 42	16.28%
Position Reporting Centralization	$ 430	$ 500	$ 70	16.28%
Security Management System Implementation & Enhancements	$ 860	$ 1,000	$ 140	16.28%
Corporate Security Asset Management	$ 404	$ 470	$ 66	16.28%
Physical Security Incident Management	$ 172	$ 200	$ 28	16.28%
BC&EM Program	$ 323	$ 375	$ 53	16.28%
System & Software Upgrades	$ 430	$ 500	$ 70	16.28%
Risk and Audit Total	$ 3,479	$ 4,045	$ 566	16.28%
Law Organization:				
eDiscovery Program	$ 237	$ 276	$ 39	16.28%
Public Employee Safety & Claims Management	$ 334	$ 388	$ 54	16.28%
Law Organization Total	$ 571	$ 664	$ 93	16.28%
Grand Total IT Expenses	$ 6,251	$ 7,269	$ 1,018	16.28%

Table 16-3 compares DRA's and PG&E's 2014 forecasts of A&G Department-IT related capital expenditures:

Table 16-3
A&G Department IT Capital Expenses for 2012-2014
(In Thousands of Dollars)

Description	DRA Recommended			PG&E Proposed		
	2012	2013	2014	2012	2013	2014
Finance Organization:						
AccountingConvergence	$ 5,180	$ 1,800	$ -	$ 5,180	$ 2,093	$ 1,951
Planning Simplification & Improvement	$ 2,158	$ 247	$ 1,247	$ 2,158	$ 287	$ 1,450
Automated Close Process	$ -	$ 860	$ -	$ -	$ 1,000	$ -
Data Integration& Analytics	$ -	$ -	$ 2,967	$ -	$ -	$ 3,450
Financial Application& System Updates	$ 60	$ -	$ 1,183	$ 60	$ -	$ 1,375
Finance OrganizationTotal	$ 7,398	$ 2,907	$ 5,397	$ 7,398	$ 3,380	$ 8,226
Risk and Audit Department:						
Implement Real Estate	$ -	$ -	$ -	$ -	$ -	$ 13,000
Alternate Company Headquarters	$ -	$ -	$ -	$ -	$ -	$ 6,900
Credit/Risk Mgmnt Alignment	$ 1,600	$ -	$ -	$ 1,600	$ -	$ -
Energy Trading & Risk Mgmt Implementation	$ -	$ -	$ 5,160	$ -	$ -	$ 6,000
Risk Engine Consolidation	$ -	$ -	$ 2,580	$ -	$ -	$ 3,000
Positon Reporting Centralization	$ -	$ -	$ 1,720	$ -	$ -	$ 2,000
Security Mmgt System Implem. & Enhan.	$ -	$ -	$ 430		$ -	$ 500
Corporate Security Asset Management	$ -	$ -	$ 1,721		$ -	$ 1,720
Physical Security Incident Management	$ -	$ -	$ 430		$ -	$ 500
BC&EM Program	$ -	$ -	$ 129			$ 150
Other Work	$ 950	$ 602	$ -	$ 950	$ 700	$ -
Risk and Audit Department Total	$ 2,550	$ 602	$ 12,170	$ 950	$ 700	$ 33,770
Law Organization:						
eDiscovery Program	$ -	$ -	$ 688	$ -	$ -	$ 800
Public Employee Safety & Claims Management	$ -	$ 52	$ 77	$ -	$ 60	$ 90
Law Organization Total	$ -	$ 52	$ 765	$ -	$ 60	$ 890
Grand Total	$ 9,948	$ 3,560	$ 18,332	$ 8,348	$ 4,140	$ 42,886

III. GENERAL OVERVIEW

A&G expenses support and benefit all of PG&E's lines of business. There are three distinct types of A&G expenses. Department costs cover support services necessary for day-to-day operations and include services provided by the Finance, Law, Risk and Audit, Executive Offices, and Corporate Secretary organizations. Companywide A&G expenses include insurance premiums, settlements and judgments, fees and other similar costs. The final type of A&G expenses is associated with Information Technology and other capital projects.

PG&E's GRC process is based on a methodology of forecasting test year expenses is a base-year costs. After the A&G organizations complete their individual forecasts, PG&E makes adjustments to the ensure that only those costs that should properly be borne by ratepayers are included in its GRC request. PG&E allocates a portion of the forecasted costs to capital, removes costs associated with below-the-line activities and non-utility affiliates, and removes benefit costs associated with the labor of employees engaged in providing Non-Tariff Products and Services.

A. PG&E's Request

PG&E's A&G departments cost forecast is six percent higher than 2011 adjusted recorded costs. The majority of this increase is attributable to annual escalation over the three year period. The remaining increase addresses necessary initiatives to be implemented to support PG&E's 2014-2016 operational goals. PG&E's companywide A&G expenses 2014 forecast is 32 percent higher than 2011 adjusted recorded costs. This increase is largely driven by an increase in the costs of insurance premiums. IT and other capital projects consist of IT projects designed to support the A&G departments. In addition this includes the forecast for an alternate Emergency Operations Center.[1]

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[1] Ex. PG&E-9, p. 1-2.

Table 16-4
A&G Department Expenses and IT Expenses/Capital
(In Thousands of Dollars)

Description (a)	Recorded Adj. 2011 (b)	Test Year 2014 (C)	Amount TY>Rec. Adj. (d=c-b)	Percentage TY>Rec. Adj. (e=d/b)
Department Costs				
Finance Organization	$ 39,158	$ 45,133	$ 5,975	15%
Risk and Audit Department	$ 15,865	$ 19,179	$ 3,314	21%
Law Department	$ 54,778	$ 51,733	$ (3,045)	(5.56%)
PG&E Corp/PG&E CEO	$ 12,533	$ 13,803	$ 1,270	10%
Department Costs	$ 122,334	$ 129,848	$ 7,514	6%
Companywide A&G Expenses				
Bank Fees/Remaining Vacation	$ 14,846	$ 10,853	$ (3,993)	(26.90%)
Insurance	$ 51,323	$ 105,242	$ 53,919	105%
Settlements, Judgments, Third Party Claims	$ 48,839	$ 36,013	$ (12,826)	(26.26%)
Directors Fees and Expenses	$ 1,566	$ 1,617	$ 51	3%
Total Companywide A&G Exepnses	$ 116,574	$ 153,725	$ 37,151	32%
IT and Other Capital Projects				
Finance	$ 1,141	$ 8,226	$ 7,085	621%
Risk and Audit	$ 4,914	$ 33,770	$ 28,856	587%
Law	$ 24	$ 890	$ 866	3608%
CEO	$ 50	$ -	$ (50)	(100.00%)
Total IT and Other Captial Projects	$ 6,129	$ 42,886	$ 36,757	600%
IT Project Expenses				
Finance	$ 1,537	$ 2,560	$ 1,023	67%
Risk and Audit	$ 898	$ 4,045	$ 3,147	350%
Law	$ 240	$ 684	$ 444	185%
CEO	$ 290	$ -	$ (290)	(100.00%)
Total IT Project Expenses	$ 2,965	$ 8,230	$ 5,265	178%

B. Authorized vs. Recorded Expenses

In PG&E's 2011 GRC, the Commission ordered the utility to provide periodic compliance filings showing authorized and recorded expenses and capital expenditures, by Major Work Category (MWC), for electric distribution, electric generation, and gas distribution.[2]

[2] Decision (D.) 11-05-018, *mimeo*, Ordering Paragraph 42, at pp. 98-99.

DRA provides the following historical comparison of authorized versus recorded expenses for the cost categories addressed in this exhibit.

Table 16-5
2007-2011 Authorized vs. A&G Department Expenses
(In Thousands of Dollars)

Category	Year					
		2007	2008	2009	2010	2011
Finance	Authorized	$59,019.9	$59,686.7	$62,269.3	$63,894.0	$55,210.7
	Recorded	$65,840.2	$67,927.7	$59,061.0	$54,343.1	$57,446.8
Risk	Authorized	$23,620.2	$21,670.8	$24,920.7	$25,570.9	$21,222.9
	Recorded	$23,069.5	$21,230.4	$20,764.3	$18,427.4	$21,226.8
Law	Authorized	$59,502.5	$50,007.2	$60,921.4	$62,510.9	$47,997.3
	Recorded	$55,132.7	$49,628.7	$51,468.1	$56,305.6	$118,279.3
CEO	Authorized	$13,099.0	$13,459.6	$13,820.2	$14,180.7	$9,539.0
	Recorded	$21,715.9	$17,986.0	$10,546.0	$13,570.1	$16,847.1

Source: Authorized and Recorded data from Master Data Request Chapter 24

IV. DISCUSSION / ANALYSIS OF FINANCE ORGANIZATION COSTS

This section discusses PG&E's Finance Organization costs. The Finance Organization is responsible for functions such as raising capital, communicating with investors, providing financial forecasts, working with the other organizations within PG&E to plan and manage budgets, filing financial statements with the Securities and Exchange Commission (SEC) and other regulatory bodies, making all necessary tax filings with federal and state authorities and managing payment services for employee and vendors.

The Finance Organization consists of five sub-departments:

- SVP and CFO
- Business Finance
- Controller
- Investor Relations
- Treasury

The Finance Organization is forecasting department costs of $45.1 million, which is 15.1 percent higher than the 2011 recorded adjusted amount of $39.2 million, which primarily represents the cumulative impact of wage escalation from 2011 through 2014.

PG&E is forecasting Bank Fees of $5.755 million, which is 20.3 percent higher than the 2011 recorded adjusted amount of $4.782 million. The bank fees forecast for 2012-2014 were based on the actual expenses for 2011, adjusted for any planned capital structure changes and anticipated changes in contract terms.

Table 16-6
2007-2012 Recorded Data for Finance Organization
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 25,341	$ 27,062	$ 28,921	$ 25,889	$ 26,035	$ 26,666
921 Office Supplies	$ 2,270	$ 2,078	$ 1,787	$ 1,496	$ 1,365	$ 1,260
923 Outside Svc Utility	$ 16,978	$ 15,720	$ 11,108	$ 15,720	$ 15,720	$ 9,002
923 Outside Svc Corp	$ 1,174	$ 3,737	$ 3,585	$ 3,852	$ 3,559	$ 4,170
Total	$ 45,763	$ 48,597	$ 45,401	$ 46,957	$ 46,679	$ 41,098

Source: 2007-2011 data from Ex. PG&E-9, p. W p 2-1. 2012 data from DRA-PGE-108, Q4 Attachment 3

PG&E is forecasting Remaining Vacation of $5.098 million, which is a 54.35 percent decrease from 2011 recorded adjusted amount of $10.064 million. Remaining vacation represents the vacation liability to employee vacation benefits for all of PG&E. The remaining vacation calculation represents the difference between accrued vacation and vacation taken and/or paid out for all employees.

The following table summarizes PG&E's request and DRA's recommendation regarding test year expenses for the Finance Organization.

Table 16-7
Administrative & General Expenses for TY2014
Finance Organization
(In Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed	Amount PG&E>DRA	Percentage PG&E>DRA
SVP and CFO	$ 2,479	$ 2,479	$ -	0.00%
Business Finance	$ 8,018	$ 8,018	$ -	0.00%
Controller	$ 30,685	$ 30,947	$ 262	0.85%
Investor Relations	$ 1,024	$ 1,024	$ -	0.00%
Treasury	$ 2,665	$ 2,665	$ -	0.00%
Total	$ 44,871	$ 45,133	$ 262	0.58%
Bank Fees	$ 5,755	$ 5,755	$ -	0.00%
Remaining Vacation	$ 5,098	$ 5,098	$ -	0.00%
Total	$ 10,853	$ 10,853	$ -	0.00%
Finance Organization Grand Total	$ 55,724	$ 55,986	$ 262	0.47%

The Finance Organization is planning five IT projects to ensure compliance with new accounting regulations, maintain core financial systems, and improve the usability and enhance the capability of PG&E's core financial systems. PG&E forecasts $2.560 million for expenses in 2014, and $7.398 million for capital in 2012, $3.380 million for capital in 2013, $8.226 million for capital in 2014, $7.940 million for capital in 2015, and $6.812 million for capital in 2016. PG&E developed the costs forecast for each IT project using PG&E's application development concept estimating tool.[3]

The following table summarizes PG&E's request and DRA's recommendation regarding the Finance Organization IT expenses and capital expenditures.

[3] Ex. PG&E-7, Chapter 8.

Table 16-8
Administrative & General IT Expenses for 2014
Finance Organization
(In Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed[4]
	2014	2014
Accounting Convergence	$0	$0
Planning Simplification and Improvement	$73	$85
Automated Close Process	$0	$0
Data Integration and Analytics	$258	$300
Financial Application and System Updates	$1,871	$2,175
Total	$2,202	$2,560

Table 16-9
Administrative & General IT Capital Expenditures for 2012-2014
Finance Organization
(In Thousands of Dollars)

Description	DRA Recommended			PG&E Proposed		
	2012	2013	2014	2012	2013	2014
Finance Organization:						
Accounting Convergence	$ 5,180	$ 1,800	$ -	$ 5,180	$ 2,093	$ 1,951
Planning Simplification & Improvem	$ 2,158	$ 247	$ 1,247	$ 2,158	$ 287	$ 1,450
Automated Close Process	$ -	$ 860	$ -	$ -	$ 1,000	$ -
Data Integration& Analytics	$ -	$ -	$ 2,967	$ -	$ -	$ 3,450
Financial Application& System Upda	$ 60	$ -	$ 1,183	$ 60	$ -	$ 1,375
Finance Organization Total	$ 7,398	$ 2,907	$ 5,397	$ 7,398	$ 3,380	$ 8,226

A. Senior Vice President and Chief Financial Officer

The Senior Vice President (SVP) and Chief Financial Officer (CFO) office has overall responsibility for PG&E's financial functions.[5] The SVP and CFO's office also includes an assistant and a chief of staff that report directly to the SVP and CFO. The chief of staff is responsible for providing the analytics, metrics monitoring, and process improvement initiative support for the Finance Organization. The SVP

[4] Ex. PG&E-9, p. 2-31.

[5] Ex. PG&E-9, p. 2-3.

office consisted of four employees and there is no change in the number of employees forecasted for 2014. The SVP and CFO currently remain at PG&E Corporation.

The SVP and CFO office forecasted costs for 2014 are $2.479 million which represents 5.5 percent of the total Finance Organization request. The forecast is $0.6 million or 31.5 percent higher than the 2011 recorded adjusted amount of $1.885 million. The adjustments to recorded 2007 through 2011 included reorganization and what PG&E calls “the San Bruno Incident.” PG&E adjusted out $265,768 in 2010 and $1,251,968 in 2011 related to San Bruno.[6] The SVP and CFO consist of two sub-departments, CFO Immediate Office and Performance & Process Improvements. The following table shows the recorded adjusted costs:

Table 16-10
2007-2012 Recorded Data for SVP and CFO
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 – Admin & Gen Salaries	$147,722	$682,459	$858,363	$251,033	$318,448	$458,115
921 – Office Supplies & Ex.	$147,007	$756,917	$218,271	$37,185	$152,039	$34,585
923 – Outside Svs – Utility	$630,246	$503,237	$731,061	$142,121	$137,642	$734,782
923 – Outside Svs. – Corp	$1,792,829	$1,661,540	$1,529,377	$1,157,220	$1,276,809	$919,967
Total	**$2,717,805**	**$3,604,153**	**$3,337,072**	**$1,587,559**	**$1,884,938**	**$2,147,449**

Source: 2007-2011 data from Ex. PG&E-9, p. W p 2-21. 2012 data from DRA-PGE-108, Q4 Attachment 3

1. CFO Immediate Office

The CFO Immediate Office is forecasting $2.094 million which is 39.81 percent increase from the 2011 recorded adjusted amount of $1.498 million. The major cost driver is Outside Services-Corp. DRA has reviewed PG&E’s testimony and accompanying workpapers and does not oppose PG&E’s test year 2014 forecast.

2. Performance & Process Improvement

The Performance & Process Improvement section is forecasting $384,585 which is 0.57 percent decrease from the 2011 recorded adjust amount of $386,790.

[6] Ex. PG&E-9, workpapers p. WP 2-25.

The major reason for the lower costs is that PG&E is not forecasting any services to be provided by PG&E Corporation for the test year 2014.[7] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

B. Business Finance

The Business Finance Department is responsible for budgeting, financial planning, and forecasting activities for all of PG&E's organizations and communication of that information internally. The Business Finance Department is composed of the VP's office and three sections: Business Finance Services, Economic and Project Analysis, and Finance Process and Systems. The Business Finance Department's forecasted costs for 2014 are $8.017 million, which represents 17.8 percent of the total Finance Organization request. This forecast is $8.017 million which is a 19.4 percent increase from the 2011 recorded adjusted amount of $6.713 million. The adjustments to recorded 2007 through 2011 included reorganization. The Business Finance Department forecasted increase is primarily due to wage escalation, filling vacancies, and lower costs directly charged to the lines of business.

Table 16-11
2007-2012 Recorded Data for Business Finance
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 4,677	$ 5,372	$ 6,269	$ 6,295	$ 6,057	$ 6,235
921 Office Supplies	$ 831	$ 334	$ 345	$ 379	$ 278	$ 318
923 Outside Svc Utility	$ 5,269	$ 2,067	$ 392	$ 144	$ 289	$ 1,121
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ 89	$ 138
Total	$ 10,777	$ 7,774	$ 7,006	$ 6,818	$ 6,713	$ 7,812

Source: 2007-2011 data from Ex. PG&E-9, p. W p 2-21. 2012 data from DRA-PGE-108, Q4 Attachment 3

[7] See response to DRA-PG&E-003-DFB, Q. 13.

1. Economic & Project Analysis

The Economic and Project Analysis section is responsible for providing PG&E with financial and economic analysis services, advising senior management on major financial decisions, and developing and facilitating management and governance of projects. The Economic and Project Analysis section is forecasting $1.712 million which is a 31.03 percent increase form 2011 adjusted recorded costs of $1.306 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. Finance Process & Systems

The Finance Process & Systems section is responsible for providing the Finance Organization with operational support to enable efficient financial processes including access to systems and accurate financial information. Finance Process & Systems is forecasting $3.677 million which is a six percent increase from 2011 adjusted recorded costs of $3.446 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. Business Finance Services

The Business Finance Services section is responsible for the financial planning, forecasting, and reporting of every line of business within PG&E. Business Finance Services is forecasting $1.903 million which is a 25.58 percent increase from 2011 adjusted recorded costs of $1.516 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

4. VP Business Finance

The VP Business Finance section is responsible for overseeing the process to establish PG&E's and its lines of business operational and financial plans, working to evaluate, set, and adjust financial performance targets for operations and projects. In addition, to governs and reports financial performance for the lines of business and co-chairs the Executive Project Committee which oversees execution of all projects greater than $20 million.

VP Business Finance section was created in 2008 to provide for separate oversight of the Business Finance Group.[8] VP Business Finance is forecasting $724,650 which is 62.74 percent increase from 2011 adjusted recorded costs of $445,293. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

C. Controller

The Controller Department is primarily responsible for financial accounting and reporting, enterprise forecasting and monitoring, payment services to employees and vendors, and tax planning and compliance. The Controller's Department comprises the Vice President's office and five sections: Capital Accounting, Corporate Accounting, Financial Forecasting and Analysis, Payment Services, and Tax.

The Controller's Department forecasted costs for 2014 are $30.946 million which represents 68.6 percent of the total Finance Organization request. This forecast is $3.5 million or 12.6 percent higher than the 2011 recorded adjusted amount of $27.488 million. The increase is due primarily to wage escalation and a slightly higher escalation factor for external audit fees. The adjustments to recorded 2007 through 2011 included costs related to reorganization and the San Bruno disaster. PG&E adjusted out $1,325,813 in 2010 and $3,347,649 in 2011 related to San Bruno.[9]

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[8] See response to DRA-PG&E-185-DFB, Question 7.

[9] Ex. PG&E-9, workpapers p. WP 2-52.

Table 16-12
2007-2012 Recorded Data for Controller's Department
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011
Controller	$913	$5,664	$5,612	$3,911	$5,553
Financial Forecasting & Analysis	$2,376	$2,475	$2,627	$1,535	$1,372
Payroll Service	$7,023	$9,689	$7,684	$4,976	$4,136
Corporate Accounting	$11,738	$6,930	$7,334	$9,218	$8,568
Capital Accounting	$2,641	$2,506	$2,623	$2,709	$2,795
Tax	$8,665	$7,872	$6,132	$5,219	$5,061
Total	$33,359	$35,139	$32,015	$27,570	$27,488

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 2--1.

1. Vice President, Controller, and Utility Chief Financial Officer (Controller)

The Controller section's responsibilities include oversight of all parts of the Controller's Department and management of the Utility CFO responsibilities.[10] PG&E is forecasting $5.831 million which is five percent higher than the 2011 recorded adjust amount of $5.554 million. PG&E says it has adjusted out all costs for Account 923 Outside Services – Corp.[11] PG&E says the adjustment was the result of PG&E's reorganization in 2009 where 183 employees were moved from PG&E Corporation to the PG&E- Utility since virtually all of their work was for utility operations.[12] The recorded costs are now reflected in PG&E's Controller's adjusted recorded costs for 2007 through 2011. PG&E's test year 2014 forecast includes $95,627 for Outside Services-Corporation. However, since PG&E provides no testimony as to the services the $95,627 would provide to benefit the ratepayers. DRA recommends that $95,627 be removed from test year 2014 forecast.

In 2008, PG&E moved the cost of the annual external financial statement audit by Deloitte and Touché from Corporate Accounting to VP Controller. The 2007 audit fees of $3,705,655 are still included in Corporate Accounting. Deloitte and Touché Audit fees were $3,617,840 (2008), $3,877,675 (2009), $4,039,370 (2010),

[10] Ex. PG&E-9, page 2-10 and 2-11.

[11] Ex. PG&E-9, workpapers, p. WP 2-51.

[12] Ex. PG&E-9, workpapers, p. WP 2-58.

and $4,026,550 (2011).[13] The 2012 Deloitte and Touché audit fees were $4,164,437[14] which is a three percent increase from 2011 recorded audits fees of $4,026,550. PG&E's Finance Organization does not forecast Outside Services costs at the vendor level. The forecasted services costs for 2012-2014 are done at the sub-department level and are based on historical trends for this type of cost and known adjustments.[15] It is unclear as to how much of the $5,259,872 in expenses forecasted for 2014 relates to estimated Deloitte and Touché audit fees. Using PG&E's explanation for variance[16] for Account 923 Outside Services-Utility, DRA has calculated the Deloitte and Touché audit fees forecasted for 2014 to be approximately $4,529,550. DRA has calculated a three year average (2010-2012) of $4,022,887 and applied an annual three percent increase for 2013 and 2014 to arrive at its 2014 forecast. This results in a forecast $4,267,881 for Deloitte and Touché 2014 audit fees DRA recommends that $261,669 be removed from Account 923 Outside Services – Utility.

2. Financial Forecasting & Analysis

The Financial Forecasting and Analysis section is responsible for planning and forecasting PG&E's overall financial performance. In addition, this section manages the Utility's capital structure, identifies the Utility's financial needs, and provides a financing plan to the Treasury Department.[17] PG&E is forecasting $2.205 million which is 60.7 percent higher than the 2011 recorded adjust amount of $1.372 million. . DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast

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[13] See response to DRA-PG&E-058, Question 16a and 16b.

[14] See response to DRA-PG&E-185, Question 11.

[15] See response to DRA-PG&E-058, Question 16c.

[16] Ex. PG&E-9, workpapers, p. WP 2-58 lines 3, 7, and 11.

[17] Ex. PG&E-9, p. 2-15.

3. Payroll Service

The Payroll Service section provides timely and accurate payments to employees, vendors, and other third parties and maintains compliance with all employment tax reporting and payment requirements, administers employee expense reimbursements, and maintains records associated with Company Credit Cards and Purchasing Cards.[18] PG&E is forecasting $5.502 million which is 33 percent higher than the 2011 recorded adjusted amount of $4.13 million. DRA has reviewed PG&E's testimony and accompanying workpapers and t does not oppose PG&E's test year 2014 forecast

4. Corporate Accounting

The Corporate Accounting section maintains the financial records for PG&E and is responsible for the preparation of external financial reports and providing research, analysis and advice on the accounting impacts of regulatory developments, significant business transactions, and implementation of PG&E's accounting policies.[19] PG&E is forecasting $9.091 million which is six percent higher than the 2011 recorded adjusted in the amount of $8.568 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast

5. Capital Accounting

The Capital Accounting section is responsible for providing timely and efficient accounting of PG&E's fixed assets, establishing the capitalization policies for PG&E and providing capital recovery analysis for regulatory filings.[20] PG&E is forecasting $3.375 million which is 20.7 percent higher than the 2011 recorded adjust amount of $2.795 million. DRA has reviewed PG&E's testimony and accompanying workpapers does not oppose PG&E's test year 2014 forecast.

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[18] PG&E-9, p. 2-16.

[19] Ex. PG&E-9, p. 2-12.

[20] Ex. PG&E-9, p. 2-12.

6. Taxes

The Tax section is responsible for all federal and state income tax matters and all property and sales/use tax matters.[21] PG&E is forecasting $4.942 million which is 2.4 percent lower than the 2011 recorded adjusted amount of $5.062 million. One of DRA's Auditors has made recommendations to reduce Outside Services recorded costs for 2007 through 2011.[22] After comparing the adjusted 2011 costs of $364,112 to PG&E's forecast of $379,618, PG&E's 2014 forecast is only five percent higher than the adjusted 2011 figure. This appears to be reasonable. DRA does not oppose PG&E's test year 2014 forecast.

D. Investor Relations

The Investor Relations Department structures and facilitates PG&E's communications with investors regarding financial performance and future expectations, including information about key milestones, regulatory decisions or proposed decisions, operational risks and other issues.[23] PG&E is forecasting $1.024 million which is one percent higher than the 2011 recorded adjusted amount of $1.015 million.

Table 16-13
2007-2012 Recorded Data for Investor Relations
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 – Admin & Gen Salaries	$342.4	$366.3	$316.3	$276.0	$215.5	$308.5
921 – Office Supplies & Ex.	$83.1	$40.7	$45.8	$122.1	$100.9	$58.8
923 – Outside Svc – Utility	$140.9	$150.6	$119.3	$66.4	$48.8	$34.7
923 – Outside Svc. – Corp	$782.1	$461.1	$668.9	$646.9	$649.2	$401.4
Total	$1,348.5	$1,018.7	$1,150.3	$1,111.5	$1,014.5	$803.5

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 2-61. 2012 data from DRA-PG&E-108, Question 4 Attachment 3.

[21] Ex. PG&E-9, p. 2-19.

[22] Ex. DRA-23, Results of Examination.

[23] Ex. PG&E-9, p. 2-21.

1. 920 – Administrative & General Salaries

Investor Relations is forecasting $357,464 for A&G Salaries, which is a 65 percent increase from 2011 adjusted recorded costs of $215,519.[24] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. 921 – Office Supplies Expenses

Investor Relations is forecasting $174,234 for Office Supplies, which is a 72.5 percent increase from 2011 adjusted recorded costs of $100,983.[25] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. 923 – Outside Services - Utility

Investor Relations is forecasting $105,112 for Outside Services – Utility, which is a 115 percent increase from 2011 adjusted recorded costs of $48,817.[26] DRA has reviewed PG&E's testimony and accompanying workpapers and takes does not oppose PG&E's test year 2014 forecast.

4. 923 – Outside Services - Corporation

Investor Relations is forecasting $387,457 for Outside Services – Corporation, which is a 42 percent decrease from 2011 adjusted recorded costs of $549,224.[27] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

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[24] Ex. PG&E-9, workpapers p. WP 2-61.

[25] Ibid.

[26] Ibid.

[27] Ibid.

E. Treasury

The Treasury Department is responsible for optimizing and structuring PG&E's capital structure, executing all financing transactions, and ensuring sufficient liquidity to support the business, corporate, and strategic objectives.[28] PG&E is forecasting $3.665 million which is 27.1 percent higher than the 2011 recorded adjusted amount of $2.096 million. The Treasury Department is comprised of three sections: Banking and Money Management, Investments and Benefit Finance, and Strategic Analysis.

Table 16-14
2007-2012 Recorded Data for Treasury
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011
Banking and Money Mgmt.	$982.2	$787.6	$1,585.9	$1,906.7	$1,930.7
Investment and Benefits	$$191.6	$272.9	$306.2	$198.2	$163.7
Strategic analysis	$0	$0	$0	$0	$1.7
Total	$1,173.8	$1,060.5	$1,892.1	$2,104.9	$2,096.1

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 2-72

1. Banking and Money Management

The Banking and Money Management section is responsible for executing financing transactions necessary for investments in infrastructure to serve PG&E's customers.[29] PG&E is forecasting $2.131 million which is 10.4 percent higher than the 2011 recorded adjusted amount of $1.931 million. DRA has reviewed PG&E's testimony and accompanying workpapers and takes does not oppose PG&E's test year 2014 forecast.

2. Investment and Benefits

The Investment and Benefits section is responsible for ensuring appropriate funding and investment management of all external trust assets maintained by PG&E, including PG&E's Retirement Plan, Post-Retirement Benefits Other Than

[28] Ex. PG&E-9, p. 2-23.

[29] Ex. PG&E-9, p. 2-24.

Pensions (PBOPS) medical and life insurance plans as well as Long-Term Disability (LDT) plan.[30] Investment and Benefits is forecasting $198,546 which is a 21.3 percent increase from 2011 adjusted recorded costs of $163,687. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. Strategic Analysis

The Strategic Analysis section was originated as a financial analysis group embedded with in Corporate Strategic and Development (CSD). CSD Organization was disbanded in 2011.[31] Strategic Analysis is forecasting $289,615 which is an increase from 2011 adjusted recorded costs of $1,653. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

F. Bank Fees and Remaining Vacation

1. Bank Fees

Bank Fees represent the fees charged for depository, disbursement, custody, and trustee-related services.[32] PG&E is forecasting banks fees of $5.754 million which is a 20 percent increase from 2011 adjusted recorded costs of $4.782 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. Remaining Vacation

Remaining vacation represents the vacation liability related to employee vacation benefits for the entire company.[33] PG&E is forecasting remaining vacation $5.098 million which is 49 percent decrease from 2011 adjusted recorded costs of

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[30] Ex. PG&E-9, p. 2-24.

[31] Ex. PG&E-9, p. 2-26.

[32] Ex. PG&E-9, p. 2-27.

[33] Ibid.

$10.064 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

G. Finance Organization – Information Technology Projects

The Finance Organization plans five Information Technology (IT) projects to which it says are to ensure compliance with new accounting regulations, maintain core financial systems, and improve the usability and enhance the capability of PG&E's core financial systems. PG&E is forecasting $2.6 million for expense in 2014, and $7.4 million for capital expenditures in 2012, $3.4 million in 2013, $8.2 million in 2014, $7.9 million in 2015, and $6.8 million in 2016. The IT expenses costs are forecasted in MWC JV (Maintain Application and Infrastructure) and IT capital costs are forecasted in MWCV 2F (Build Applications and Infrastructure).

1. IT Expenses

The Finance Organization is forecasting IT expenses of $2.56 million in 2014 which is 66.6 percent higher than the 2011 recorded adjusted amount of $1.537 million.[34] The Finance Organization's 2014 IT expenses are for three projects: Planning Simplification and Improvement ($85,000), Data Integration and Analytics ($300,000), and Financial Application and System Updates ($2.175 million). PG&E developed the cost forecast for each IT project using its application development concept estimating tool. DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs. Based on the recommendations contained in that exhibit, DRA recommends that $358,400 be removed from test year 2014 forecast.

2. IT Capital Expenditures

The Finance Organization is forecasting IT capital expenditures of $8.226 million in 2014 which is 620.9 percent higher than the 2011 recorded adjusted amount of $1.141 million.[35] The Finance Organization's 2014 IT capital

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[34] Ex. PG&E-9, p. 2-31, Table 2-3.

[35] Ex. PG&E-9, p. 2-31, Table 2-4.

expenditures are for five projects: Accounting Convergence ($1.951 million), Planning Simplification and Improvement ($1.45 million), Automated Close Process ($0),[36] Data Integration and Analytics ($3.45 million) and Financial Application and System Updates ($1.75 million). PG&E developed the cost forecast for each IT project using its application development concept estimating tool. DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs.

PG&E is forecasting $1.951 million for IT Project Accounting Convergence which is to implement changes to the PG&E's accounting system to comply with pending Security Exchange Commission (SEC) requirements to adopt the new accounting and reporting standards. This project is a continuation of the International Financial Reporting Standards (IFRS) project begun under the previous general rate case period.[37] The SEC has not yet adopted the new international accounting and reporting standards.[38] The IFRS have not been adopted yet in the United States for use over General Accepting Accounting Principles.[39] The SEC initially proposed mandatory reporting under IFRS in 2014, however, the SEC has since postponed implementation of IFRS.[40] This project was funded in PG&E's last general rate case so there is no need to grant additional project funding in this GRC for this project. DRA recommends that $1.951 million be removed from Finance Organization's capital IT projects for the test year 2014. For the remaining IT capital projects, DRA recommends that an additional $878,500 be removed from the

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[36] PG&E is forecasting $1.0 million in 2013 and $3.5 million in 2015.

[37] Ex. PG&E-9, workpapers, p. WP 2-101.

[38] See response to DRA-PG&E-174, Question 1.

[39] See response to DRA-PG&E-166, Question 1.

[40] See response to DRA-PG&E-166, Question 1b.

Finance Organization's test year 2014 forecast to reflect DRA's recommendation regarding PG&E's IT estimating tool.[41]

V. DISCUSSION / ANALYSIS OF RISK & AUDIT DEPARTMENT COSTS and INSURANCE EXPENSES

This section discusses PG&E's Risk and Audit Department costs. Risk and Audit organization is responsible for overseeing PG&E's risk management, internal audit, compliance, ethics, and corporate security. Specifically, Risk and Audit Department assists management in improving processes and controls; reducing the risk of non-compliance with legal, regulatory, and financial requirements to acceptable levels; helping PG&E manage the risk of loss due to fraud, theft, and major emergencies, and monitoring and mitigating market, liquidity, and credit risk.

The Risk and Audit Department consists of the five sub-departments:

- Vice President's Immediate Office (CRO IO)
- Internal Audit
- Market and Credit Risk Management
- Corporate Security
- Enterprise Risk Management and Insurance Department

The Risk and Audit department is forecasting department costs of $19.180 million which is a 21 percent increase from the 2011 adjusted recorded costs of $15.9 million. The increase is due to increased staffing of 13.3 Full-Time Equivalents (FTEs) and represents $1.2 million in wage escalation.

PG&E is forecasting Property and Liability Insurance of $105.241 million, which is 105 percent higher than the 2011 recorded adjusted amount of $51.324 million. According to PG&E, the increase is due to a variety of factors including continued concerns about wildfires risk in California, the large nuclear property claim at Crystal River, concerns regarding the age of infrastructures following the San

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[41] Ex. DRA-18, Shared Services & Information Technology Costs.

Bruno accident, and the major catastrophic losses that have occurred worldwide, such as the earthquake and tsunami in Japan, floods in Thailand, the British Petroleum oil spill, earthquake in New Zealand and severe weather outbreaks in the United States.[42]

The following table summarizes PG&E's request and DRA's recommendation regarding test year expenses for the Risk & Audit Department and Insurance Expenses.

Table 16-15
Administrative & General Expenses for TY2014
Risk & Audit Department Costs and Insurance Expenses
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
VP Chief Risk Officer	$ 752	$ 979	$ 227	0.00%
Credit Risk	$ 5,380	$ 5,380	$ -	0.00%
Internal Audit	$ 6,356	$ 6,356	$ -	0.00%
Insurance	$ 1,926	$ 1,926	$ -	0.00%
Corp Security	$ 4,248	$ 4,538	$ 290	6.82%
Total Risk and Audit Department	$ 18,662	$ 19,179	$ 517	2.77%
Property Insurance	$ 23,664	$ 26,712	$ 3,048	12.88%
Liability Insurance	$ 26,475	$ 77,838	$ 51,363	194.01%
PG&E Corp Insurance	$ -	$ 692	$ 692	100.00%
Total Insurance	$ 50,139	$ 105,242	$ 55,103	109.90%

The Risk and Audit Department says that it is planning eight IT projects to support its organization's objectives. PG&E forecasts $4.045 million for IT expenses in 2014, and $2.550 million for IT capital expenditures in 2012, $700,000 for capital in 2013, $33.770 million[43] in 2014, $8.070 million in 2015, and $6.220 million in

[42] Ex. PG&E-9, p. 3-11.

[43] These costs include the capital forecast for the IT portion of the alternate EOC.

2016. PG&E developed the costs forecast for each IT project using PG&E's application development concept estimating tool.[44]

The following table summarizes PG&E's request and DRA's recommendation regarding the Risk and Audit Department's IT expenses and capital expenditures.

Table 16-16
Administrative & General IT Expenses for 2014
Risk and Audit Department
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Risk and Audit:				
Energy Trading & Risk Management Implementation	$ 602	$ 700	$ 98	16.28%
Risk Engine Consolidation	$ 258	$ 300	$ 42	16.28%
Positon Reporting Centralization	$ 430	$ 500	$ 70	16.28%
Security Managemnt System Implementaiton & Enhancements	$ 860	$ 1,000	$ 140	16.28%
Corporate Security Asset Management	$ 404	$ 470	$ 66	16.28%
Physical Security Incident Management	$ 172	$ 200	$ 28	16.28%
BC&EM Program	$ 323	$ 375	$ 53	16.28%
System & Software Upgrades	$ 430	$ 500	$ 70	16.28%
Risk and Audit Total	$ 3,479	$ 4,045	$ 566	16.28%

44 Ex. PG&E-7, Chapter 8.

Table 16-17
Administrative & General Capital Expenditures for 2012-2014
Risk & Audit Department Costs and Insurance Expenses
(In Thousands of Dollars)

Description	DRA Recommended			PG&E Proposed		
	2012	2013	2014	2012	2013	2014
Risk and Audit Department:						
Implement Real Estate	$ -	$ -	$ -	$ -	$ -	$ 13,000
Alternate Company Headquarters	$ -	$ -	$ -	$ -	$ -	$ 6,900
Credit/Risk Mgmnt Alignment	$ 1,600	$ -	$ -	$ 1,600	$ -	$ -
Energy Trading & Risk Mgmt Implementation	$ -	$ -	$ 5,160	$ -	$ -	$ 6,000
Risk Engine Consolidation	$ -	$ -	$ 2,580	$ -	$ -	$ 3,000
Positon Reporting Centralization	$ -	$ -	$ 1,720	$ -	$ -	$ 2,000
Security Mmgt System Implem.& Enhan.	$ -	$ -	$ 430		$ -	$ 500
Corporate Security AssetManagement	$ -	$ -	$ 1,721		$ -	$ 1,720
Physical Security Incident Management	$ -	$ -	$ 430		$ -	$ 500
BC&EM Program	$ -	$ -	$ 129			$ 150
Other Work	$ 850	$ 700	$ -	$ 950	$ 700	$ -
Risk and Audit Department Total	$ 2,450	$ 700	$ 12,170	$ 950	$ 700	$ 33,770

A. Vice President's Immediate Office and Chief Risk Officer

The Vice President (VP) Chief Risk and Audit Officer (CRO) provides the oversight, management and administrative functions for the entire Risk and Audit Department.[45] PG&E is forecasting $979,487 which is 29.0 percent higher than the 2011 recorded adjusted amount of $759,068. The adjustments to recorded 2007 through 2011 expenses include those associated with reorganization and the San Bruno Incident. PG&E adjusted out $88,096 in 2010 and $598,150 in 2011 related to San Bruno to arrive at the recorded adjusted amounts.

[45] Ex. PG&E-9, p. 3-3.

Table 16-18
2007-2012 Recorded Adjusted Data for CRO
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 485,396	$ 547,129	$ 448,288	$ 399,662	$ 421,826	$ 313,591
921 Office Supplies	$ 36,833	$ 26,358	$ 46,403	$ 102,547	$ 69,201	$ 22,141
923 Outside Svc Utility	$ 93,654	$ 184,650	$ 31,640	$ 44,135	$ 268,042	$ 731,994
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ -	$ 91,331
	$ 615,883	$ 758,137	$ 526,331	$ 546,344	$ 759,069	$ 1,159,057

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 3-20. 2012 data from DRA-PG&E-108, Question 4 Attachment 4.

1. 920 – Administrative & General Salaries

CRO is forecasting $392.234 million which is a 7.2 percent decrease from 2011 adjusted recorded of $421.826 million.[46] PG&E's adjustments to Account 920 for 2007 through 2011 relate to the reorganization from PG&E Corporation to PG&E the Utility. In addition, $8,508 was adjusted out of 2010 costs related to San Bruno. CRO does not anticipate any change in staffing for the test year 2014. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. 921 – Office Supplies Expenses

CRO is forecasting $7.312 million which is an 89 percent decrease from 2011 adjusted recorded costs of $69.201 million.[47] PG&E's adjustments to Account 921 for 2007 through 2011 relate to the reorganization from PG&E Corporation to PG&E the Utility. In addition, $4,935 was adjusted out of 2010 and $547 was adjusted in 2011 for costs related to San Bruno. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

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[46] Ex. PG&E-9 workpapers, p. WP 3-20.

[47] Ibid.

3. 923 – Outside Services - Utility

CRO is forecasting $353,013 which is a 32 percent increase from 2011 adjusted recorded costs of $268,042.[48] PG&E's adjustments to Account 923 - Utility for 2007 through 2011 relate to the reorganization from PG&E Corporation to PG&E the Utility. In addition, $74,652 and $598,697 was adjusted out of 2010 and 2011, respectively, for costs related to San Bruno. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

4. 923 – Outside Services - Corporation

CRO is forecasting $226,928 which is a major increase from 2011 adjusted recorded costs of zero.[49] PG&E's adjustments to Account 923 - Corp for 2007 through 2011 relate to the reorganization from PG&E Corporation to PG&E the Utility. Actual recorded costs for the years 2007 through 2011 are embedded in PG&E's adjusted recorded costs for Accounts 920, 921, and 923-Utility. PG&E's testimony does not provide any compelling supporting documentation as to why it is forecasting costs for Account 923-Corp for the test year 2014. Therefore, DRA recommends that $226,928 be removed from test year 2014 forecast.

B. Market and Credit Risk Management Department

The Market and Credit Risk Management Department (M&CRM) provides services PG&E describes as "critical" to PG&E's operations and that PG&E says enable PG&E to "...measure, monitor, and mange risks arising from the multi-billion gas and electric procurement function."[50] PG&E anticipates M&CRM will need to increase staffing by two employees. PG&E is forecasting $5.379 million which is 23.0 percent higher than the 2011 recorded adjusted amount of $4.373 million.

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[48] Ex. PG&E-9, workpapers, p. WP 3-20.

[49] Ibid.

[50] Ex. PG&E-9, p. 3-6.

Table 16-19
2007-2012 Recorded Data for M&CRM
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 2,446,933	$ 3,085,779	$ 3,125,505	$ 3,013,154	$ 3,817,938	$ 3,628,657
921 Office Supplies	$ 454,490	$ 197,041	$ 258,600	$ 313,004	$ 343,233	$ 336,294
923 Outside Svc Utility	$ 201,575	$ 409,868	$ 110,077	$ 8,028	$ 211,886	$ 861,786
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ -	$ -
	$ 3,102,998	$ 3,692,688	$ 3,494,182	$ 3,334,186	$ 4,373,057	$ 4,826,737

Source: 2007-2011 data from Ex. PG&E-9 workpapers, p. WP 3-31. 2012 data from DRA-PG&E-108, Question 4 Attachment 4.

1. 920 – Administrative & General Salaries

M&CRM is forecasting $4,889,169 which is a 28.6 percent increase from 2011 adjusted recorded costs of $3,817,938.[51] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. 921 – Office Supplies Expenses

M&CRM is forecasting $344,727 which is a 0.44 percent increase from 2011 adjusted recorded costs of $343,233.[52] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. 923 – Outside Services - Utility

M&CRM is forecasting $145,705 which is 31.23 percent decrease from 2011 adjusted recorded costs of $211,886.[53] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

[51] Ex. PG&E-9, workpapers p. WP 3-31.

[52] Ex. PG&E-9, workpapers WP. 3-31.

[53] Ex. PG&E-9, workpapers WP 3-31.

C. Internal Audit

Internal Audit Department is comprised of three sub-departments: Financial Controls and Compliance, Internal Auditing, and Compliance and Ethics. The department currently has 28 employees and does not anticipate any change to staffing in 2014.[54] PG&E is forecasting $6.356 million which is seven percent higher than the 2011 recorded adjusted amount of $5.867 million.

1. Compliance and Ethics

The Compliance and Ethics Department is responsible for developing and providing programs to enable PG&E to operate ethically and in compliance with legal and regulatory requirements.[55] PG&E is forecasting $1.787 million which is 0.7 percent higher than the 2011 recorded adjusted amount of $1.477 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. Internal Auditing Department

Internal Auditing is responsible for all internal audit services and performs both financial and operations audits.[56] Internal Auditing has 28 employees and does not anticipate any change to staffing in 2014. PG&E is forecasting $3.945 million which is 3.5 percent higher than the 2011 recorded adjusted amount of $3.568 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. Financial Controls and Compliance

The Financial Controls and Compliance Department is responsible for monitoring and reporting on PG&E Corporation and PG&E the Utility's effectiveness

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[54] Ex. PG&E-9, p. 3-4.

[55] Ex. PG&E-9, p. 3-5.

[56] Ex. PG&E-9, p. 3-4.

related to Sections 302 and 404 of the Sarbanes-Oxley (SOX) Act.[57] Financial Controls and Compliance Department says it will increase staffing in 2014 with two additional employees. PG&E is forecasting $923,930 which is 42.3 percent higher than the 2011 recorded adjusted amount of $649,336. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

D. Enterprise Risk Management and Insurance Department (Administrative Costs)

The Enterprise Risk Management (ERM) and Insurance Department assists the Lines of Business (LOB) in identifying, Evaluating, and mitigating the operational and enterprise risks and to provide oversight by monitoring the status of PG&E's risk management activities. The ERM and Insurance Department minimizes the adverse financial impact of catastrophic property and casualty losses by using insurance to transfer residual financial risks.[58] The ERM and Insurance Department's staffing will increase from nine employees in 2011 to 12 employees in 2014. PG&E is forecasting $1.926 million which is 47 percent higher than the 2011 recorded adjusted amount of $1.311 million.

Table 16-20
2007-2012 Recorded Data for M&CRM
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 960,032	$ 933,741	$ 885,014	$ 914,036	$ 1,018,887	$ 1,330,477
921 Office Supplies	$ 162,617	$ 67,441	$ 74,480	$ 68,136	$ 68,749	$ 179,165
923 Outside Svc Utility	$ 143,167	$ 156,285	$ 391,482	$ 83,496	$ 218,736	$ 129,039
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ 4,158	$ 5,201
	$ 1,265,816	$ 1,157,467	$ 1,350,976	$ 1,065,668	$ 1,310,530	$ 1,643,882

[57] Ex. PG&E-9, p. 3-4 and 3-5.

[58] Ex. PG&E-9, p. 3-8.

1. 920 – Administrative & General Salaries

ERM is forecasting $1,632,029 which is a 60.18 increase from 2011 adjusted recorded costs of $1,018,887.[59] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. 921 – Office Supplies Expenses

ERM is forecasting $344,727 which is a 0.44 percent increase from 2011 adjusted recorded costs of $343,233.[60] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. 923 – Outside Services - Utility

ERM is forecasting $145,705 which is a 31.23 percent decrease from 2011 adjusted recorded costs of $211,886.[61] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

4. Insurance (Administrative Costs)

The Insurance Department is responsible for administrating PG&E's insurance coverage. PG&E says it is expanding its ERM team by adding three additional staff in test year 2014. PG&E says this expanded role is to manage risk at PG&E and manage the new Operational Risk Management Program (ORMP). PG&E's workpapers indicated that this project is not mandated.[62] PG&E's ratepayers should not be asked to fund non-mandated programs. Since PG&E has not provided sufficient justification for this proposed increase in labor costs for this project, DRA recommends that $573,000 in labor cost be removed from the test year 2014 forecast.

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[59] Ex. PG&E-9, workpapers p. WP 3-55.

[60] Ex. PG&E-9, workpapers p. WP 3-31.

[61] Ex. PG&E-9, workpapers p. WP 3-31.

[62] Ex. PG&E-9, workpapers p. WP 3-95.

E. Corporate Security

PG&E says that its Corporate Security Department (CSD) is responsible for providing professional and costs-effective security, Business Continuity and Emergency Management (BC&EM) planning, and life safety support to protect PG&E's critical facilities, assets, customers, the general public, and employees.[63] PG&E proposes to increase CSD staffing from 27 employees in 2011 to 33.3 FTE employees in 2014. PG&E is forecasting $4.538 million for TY 2014 which is 30.3 percent higher than the 2011 recorded adjusted amount of $3.483 million.

1. 920 – Administrative & General Salaries

CSD is forecasting $2,903,377 which is a 45.16 percent increase from 2011 adjusted recorded costs of $2,183,726.[64] CSD plans to increase staffing by 6.3 FTEs from 2011 to 2014, comprising: 2.3 in 2012, 1 in 2013, and 3 in 2014. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose this portion of PG&E's test year 2014 labor forecast.

CSD also plans to add one director in 2013 with security technology expertise to support the use of technology and data analytics in security operations.[65] According to PG&E, "This new director will replace the current senior director of Corporate Security who will be retiring. PG&E is plans to hire the director in 2013 in advance of that retirement for succession planning purposes."[66] The labor costs associated with the current senior director of Corporate Security is embedded in 2011 adjusted recorded costs. CSD is forecasting an increase in 2013 labor costs of $264,000 which includes the anticipated new director. Therefore, the labor forecast for test year 2014 includes both the retiring director and his/her replacement. Ratepayers should not be asked to fund labor costs for the retiring director and

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[63] Ex. PG&E-9, p. 3-7.

[64] Ex. PG&E-9, workpapers p. WP 3-67.

[65] Ex. PG&E-9, p. 3-8.

[66] See response to DRA-PG&E-180-DFB, Question 4.

his/her replacement in the test year 2014. DRA recommends that $123,000[67] be removed from test year 2014 labor costs.

2. 921 – Office Supplies Expenses

CSD is forecasting $383,245 which is a 21.74 percent decrease from 2011 adjusted recorded costs of $489,714.[68] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. 923 – Outside Services - Utility

CSD is forecasting $985,262 which is a 21.69 percent increase form 2011 adjusted recorded costs of $809,651.[69] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

F. Capital Project – Alternate Emergency Operations Center

PG&E has identified a potential seismic risk that could impact emergency operations. In particular its primary facilities at 77 Beale Street in San Francisco and its alternate Company headquarters and Emergency Operations Center (EOC) in the San Ramon Valley Conference Center are both located such that certain earthquake scenarios could ender both facilities partially or totally unusable for a period of time.

PG&E says that to mitigate this risk, it plans to establish an alternate EOC at a location outside the greater Bay Area.[70] The alternate EOC will provide immediate occupancy to critical business activities in the event facilities in the Bay Area are impacted.[71] For this project, PG&E forecasts $19.9 million in capital for this project in 2014, comprising $13 million for the building portion for the project and $6.9 million for the IT portion of the project. The capital costs are forecasted in

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67 Ex. PG&E-9, workpapers p. WP 3-75 line 5.

68 Ex. PG&E-9, workpapers p. WP 3-67.

69 Ibid.

70 PG&E's plan is to have a location which outside the nine Bay Area counties.

71 Ex. PG&E-9, p. 3-10.

MWC 23 (Implement Real Estate Strategy) and MWC 2F (Build IT Applications and Infrastructure) that includes the costs for the new buildings and the purchase and installation of furniture, office equipment, and IT Infrastructure.

1. ACHQ Expense

As part of the EOC project, PG&E is forecasting $250,000 in expense to fund a feasibility study[72] for an alternate PG&E headquarters (ACHQ). The consultant is supposed to identify the essential personnel to be located at an alternate headquarters facility in the event PG&E's General Office buildings are not available for extended period. Once the study is complete in 2014, PG&E will be able to determine the size of the alternate headquarters and develop a proposal to establish the facility. PG&E is not forecasting construction costs for the ACHQ in this general rate case.[73] This feasibility study is a one-time expense, and therefore, should be normalized for the test year. DRA recommends that $166,667 (two-thirds of the $250,000 expense) be removed from Account 923 Outside Services-Utility test year 2014 forecast.

2. EOC Capital Expenditure

PG&E is forecasting $13 million for the building portion of a new Alternate EOC outside of the nine bay area counties and $6.9 million in IT costs for the test year 2014. No specific site has been identified for this Alternate EOC and PG&E has not purchased land for it.[74] The last major earthquake in the San Francisco Bay Area was the Loma Prieta earthquake in 1989.

PG&E stated that the reason it has not considered an Alternate EOC or alternate Company Headquarters before now is:

> "Since the 1989 Loma Prieta earthquake and the 1992 Northridge earthquake in Southern California, PG&E's focused on (1) retrofitting and reinforcing existing facilities and (2) establishing

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[72] Ex. PG&E-9, p. 3-10.

[73] See response to DRA-PG&E-177-DFB, Q. 4.

[74] See response to DRA-PG&E-010-DFB, Q. 17.

more formalized control centers and commend systems to manage information and control assets and resources after a catastrophic event. Based on lessons learned from these two significant earthquakes, PG&E elected to use existing facilities for the emergency operations center (EOC). PG&E recognized that the primary EOC (in the General Office in San Francisco) and the alternate facilities (at the San Ramon training facility) were within 30 miles of one another. This was not considered to be a significant risk at the time because both facilities were scheduled for seismic reinforcement. In addition, the distance between the two locations was consisted with common industry practices at the time, and siting decisions focused on the potential impact of an earthquake on the San Andreas Fault.

An examination of the seismic risk as part of the Enterprise Risk Management Program starting in 2006, and additional examinations by PG&E's Geosciences Department of the impact of all faults in the San Francisco Bay Area, let PG&E to recognize that the structural integrity of facilities was only one risk component to consider. Additional risks lay with surrounding infrastructure (transportation infrastructure to access facilities, as well as water, sewage and other infrastructure needed to operate the facilities). These analyses prompted further consideration of the location of the alternate facilities.

Key event anniversaries often trigger new research or restatements of potential impacts from catastrophic events. The Hayward Fault last experienced a major earthquake in 1868and geologic history indicates that major quakes have occurred on the fault about every 140 years. In 2008, many scientific assessments of potential damage were published around the 140th anniversary of the magnitude 7 earthquake. Information from these reports and American Geophysical Union technical sessions contributed to PG&E's current understanding of the potential impact of a major rupture on the Hayward faults."[75]

Now PG&E is seeking ratepayer funding for a new Alternate EOC but does not have a specific site for it.[76] The Commission should not make ratepayers fund this capital project at this time

[75] See response to DRA-PG&E-177, Question 6.

[76] See response to DRA-PG&E-010, Question 17 and DRA-PG&E-177, Question 7.

PG&E says that, "[i]n conjunction with [the Alternate EOC] project, PG&E also forecast $0.25 million in expenses to fund a feasibility study for an alternate Company Headquarters."[77] PG&E says it is not requesting funding for its Alternate Company Headquarters until after it has completed a feasibility study. Since neither the alternate EOC nor the Alternate Company Headquarters has a specific location, it is not reasonable to ask ratepayers to fund $19.9 million in construction costs at this time. DRA recommends that the Commission reject PG&E's request for $19.9 million in capital costs in test year 2014.

G. Property and Liability Insurance

PG&E maintains property insurance coverage to limit large, unforeseeable losses of its assets due to catastrophes such as fires, earthquakes and floods. PG&E also maintains liability insurance to protect against third-party claims alleging bodily injury, property damage, or wrongful acts by PG&E and its Boards of Directors and Officers. PG&E is forecasting $105.186 million in expenses for property and liability insurance in 2014, which is 105 percent higher than the 2011 recorded adjusted amount of $51.323 million. PG&E asserts that the increase is due to a variety of factors, "...including continued concerns about wildfire risk in California, the large nuclear property claim at Crystal River, concerns regarding the age of infrastructure following the San Bruno accident, and the major catastrophic losses that have occurred worldwide, such as the earthquake and tsunami in Japan, floods in Thailand, the British Petroleum oil spill, earthquake in New Zealand and severe weather outbreaks in the U.S."[78] The following table shows the adjusted recorded costs:

[77] Ex. PG&E-9, p. 3-10.

[78] Ex. PG&E-9, p. 3-11.

Table 16-21
2007-2012 Recorded Property and Liability Insurance Expense
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
Non-Nuclear	$13,903	$13,721	$13,744	$14,527	$15,235	$16,758
Nuclear Property	$ (2,867)	$ (2,945)	$ (476)	$ 3,984	$ 865	$ 4,126
D&O	$ 4,325	$ 3,335	$ 3,252	$ 2,911	$ 2,569	$ 2,511
Liability	$10,255	$10,287	$13,678	$20,903	$32,003	$33,579
Property Insur. Corp	$ 4	$ -	$ 3	$ 3	$ 1	$ 1
Liability Insur. Corp	$ 109	$ 124	$ 172	$ 1,584	$ 650	$ 545
	$25,729	$24,522	$30,373	$43,912	$51,323	$57,520

Source: 2007-2011 data from Ex. PG&E-9, p. WP 3-149. 2012 data from DRA-PGE-110, Q1Supp02.

Table 16-22 compares DRA's and PG&E's 2014 forecasts of property and liability insurance:

Table 16-22
Property and Liability Insurance Expense for TY 2014
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Non-Nuclear Property	$ 18,473	$ 21,521	$ 3,048	0.00%
Nuclear Property	$ 5,191	$ 5,191	$ -	0.00%
D&O	$ 1,256	$ 3,387	$ 2,132	169.77%
Liability	$ 25,219	$ 74,451	$ 49,232	195.22%
Property Insurance (PGE Corp)	$ -	$ 1	$ 1	0.00%
Liability Insurance (PGE Corp)	$ -	$ 691	$ 691	0.00%
	$ 50,139	$ 105,242	$ 55,103	109.90%

1. Property Insurance

PG&E's maintains non-nuclear property insurance and nuclear property insurance. PG&E's Non-Nuclear Property Insurance provides coverage for the costs of repair and/or replacement of damage property from perils as storms, earthquakes and fires at PG&E's non-nuclear facilities.[79] PG&E is forecasting $21.1 million in expenses for 2014, which is 41.3 percent higher than the 2011 recorded adjusted amount of $15.235 million. According to PG&E, this increase is driven by two factors: 1) overall price increases in the marketplace due to the large number of significant property claims including the major flood and earthquake damage that occurred globally in 2011; and, 2) PG&E's continuation to upgrade and replace its asset base.

PG&E forecasted a 17 percent ($17.852 million) increase in property insurance for 2012, a 12 percent ($19.950 million) increase in 2013, and an eight percent ($21.521 million) increase in 2014. PG&E's 2012 recorded non-nuclear insurance was $16.757 million.[80] This is a ten percent increase over the 2011 recorded cost of $15.235 million. The recorded 2012 non-nuclear property insurance is seven percent lower than PG&E's 2012 forecast of $17.852 million and 28 percent lower than test year 2014 forecast of $21.521 million. DRA has reviewed PG&E's forecast and responses to data requests and concludes that it is reasonable to use the recorded 2012 property insurance as the basis for forecasting the test year 2014. Therefore, DRA forecasts a six percent increase (to $17.762 million) in 2013, and four percent increase (to $18.473 million) in test year 2014. DRA forecasts $18.473 million in test year 2014 expenses for non-nuclear property insurance. Therefore, DRA recommends that PG&E's request be reduced by $3.048 million.

PG&E's Nuclear Property Insurance provides coverage for the cost of repair and/or replacement of damage property from perils such as storms, earthquakes and fires at PG&E's nuclear facilities, decontamination and stabilization following a catastrophic nuclear accident, and reimbursement for business interruptions at an undamaged facility in the even a plant is shut down.[81] PG&E purchases nuclear

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[79] Ex. PG&E-9, p. 3-12.

[80] See response to DRA-PG&E-110-DFB, Question 1.

[81] Ex. PG&E-9, p. 3-13.

property insurance from the industry mutual Nuclear Electric Insurance Limited (NEIL).[82] Prior to 2010 and then again in 2011, NEIL paid distributions to its members based on an annual assessment of NEIL's financial condition and ability to pay losses. These distributions actually exceeded the premiums paid by PG&E, resulting in a negative or low cost of nuclear insurance. NEIL is forecasting that it will pay no distributions for 2012-2014.[83]

PG&E is forecasting $5.2 million which is 500 percent higher than the 2011 recorded adjusted amount of $0.865 million. The increase is based on a small increase in PG&E's nuclear asset values and NEIL's forecast that it will make no nuclear distributions from 2012-2014. DRA does not oppose PG&E's nuclear insurance forecast for test year 2014 of $5.2 million.

2. Excess Liability Insurance

Excess Liability Insurance provides coverage for claims from third parties alleging personal injury or property damage.[84] PG&E is forecasting $71.96 million in expenses for 2014, which is a 143 percent increase from the 2011 adjusted recorded costs of $29.618 million. According to PG&E, the increase is based on insurance industry concerns about the age of infrastructure in the U.S., in general, and in California, in particular.[85] Significant losses for the insurance industry affect excess liability premiums. This includes costs of the San Bruno accident as well as other losses worldwide.

PG&E's excess liability insurance increased 53 percent in 2010 and again in 2011. PG&E forecasted a 45.5 percent increase in 2012 ($46.593 million), a 46 percent increase in 2013 ($67.932 million), and a 10 percent increase in 2014 ($74.451 million). PG&E's 2012 recorded excess liability insurance was $33.579

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[82] Ex. PG&E-9, p. 3-11.

[83] Ex. PG&E-9, p. 3-13.

[84] Ex. PG&E-9, p. 3-14.

[85] Ex. PG&E-9, p. 3-14.

million.[86] This is an 18.8 percent increase over the 2011 recorded cost of $32.003 million. The recorded 2012 excess liability insurance is 28 percent lower than PG&E's 2012 forecast of $46.593 million and 122 percent lower that test year 2014 forecast of $74.451 million.

PG&E's excess liability insurance increased significantly in 2010 and 2011 at levels well above prior years. The increase in 2012 moderated significantly compared to the two prior years. DRA concludes that the last recorded expenses from 2012, equal to $33.579 million, should be the basis for forecasting the test year 2014 expense. With that, DRA forecasts a four percent increase in 2013, to $34.922 million, and a four percent increase in test year 2014, to $36.319 million. The four percent increase is slightly higher than the wage escalation rate that PG&E uses in this GRC. DRA removed $11.1 million on the DRA Auditor's recommendation.[87] DRA forecasts test year 2014 excess liability insurance $25.219 million. DRA removed $11.1 million on the DRA Auditor's recommendation.[88] Therefore, DRA recommends that PG&E's test year 2014 excess liability insurance expenses be reduced by $49.232 million.

3. Directors and Officers Liability

The Directors and Officers (D&O) liability program provides coverage for claims alleging wrongful acts such as breach of fiduciary duty by PG&E's directors or officers. PG&E is forecasting $3.387 million in D&O expenses for 2014, which is 31.8 percent higher than the 2011 recorded adjusted amount of $2.569 million.

PG&E's recorded D&O insurance expense for the period 2007 through 2011 was $4.325 million, $3.335 million, $3.252 million, $2.911 million, and $2.569 million. The D&O insurance cost has decreased approximately 41 percent during that five year time frame. The recorded D&O Insurance expense is showing a downward trend while PG&E is forecasting $3.387 million for test year 2014, a 31.84 percent

[86] See response to DRA-PG&E-110-DFB, Q. 1 Supp02.

[87] See Ex. DRA-23.

[88] See Ex. DRA-23.

(or $818,000) increase over recorded 2011 expense. The 2012 last recorded costs were $2.511 million[89] which is only a two percent decrease over the 2011 recorded costs of $2.569 million. With a down ward trend, it is not reasonable to allow a 32 percent increase in D&O insurance. Therefore, DRA recommends that the 2012 recorded be used as the basis for forecasting PG&E's 2014 D&O insurance expenses.

The next issue to address is PG&E's request that the Commission authorize it to include 100 percent of its D&O insurance costs in rates. In its 1996 decision resolving the GRC application of Southern California Edison Company (SCE),[90] the Commission found it appropriate to allocate 50% of the Directors Officers insurance costs to shareholders to reflect the benefits they received from this insurance. In its decision resolving PG&E's TY 1999 GRC, the Commission allowed PG&E to recover half of its Directors and Officers insurance costs from ratepayers, while the other half was to be recovered from shareholders.[91] The Commission's reasoning was that the Directors and Officers insurance benefited both the utility's shareholders and ratepayers. In its 2004 decision resolving the GRC of Southwest Gas Corporation, the Commission stated:

> However, D&O insurance protects directors and officers from activities that benefit both shareholders and customers. Therefore, we will adopt an amount for D&O insurance that allocates the costs of D&O insurance equally between shareholders and customers.[92]

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[89] See response to DRA-PG&E-110-DFB, Q1Supp02.

[90] Re Southern California Edison Company (1996) 64 CPUC2nd 241, 319; d.96-01-011.

[91] Application of Pacific Gas and Electric Company (TY 1999 GRC) (2000) D. 00-02-046, mimeo p. 305.

[92] D. 04-03-034, mimeo, pp. 32 and 33.

The Proposed Decision from San Diego Gas & Electric Company/Southern California Gas Company's 2012 GRC states:

> "On the issue of whether the directors and officers liability should be borne mostly by SDG&E and SoCalGas, or if 50% of the costs should be borne by Sempra's shareholders, we agree with DRA and FEA. Although this type of insurance is used to attract and retain executives, the Applicants acknowledge that such insurance protects Sempra's Board members and officers from catastrophic losses, which is a benefit that accrues to shareholders, rather than ratepayers. For that reason, of the $3.515 million allocated to the two utilities, SDG&E and SoCalGas should each be allocated 50% of this amount, i.e., $879,000 each."[93]

The Commission's policy regarding D&O insurance is for ratepayers and shareholders to equally share in the costs. PG&E has not provided any compelling arguments that would warrant the Commission changing its policy. Therefore, DRA that the Commission only require ratepayers to fund one-half of the $2.511 million, or $1.256 million for PG&E's test year 2014 D&O Insurance expense.

4. PG&E Corporation Property and Liability Insurance

PG&E Corporation is insured under several insurance programs that provide the same type of coverage for property and liability risks as the Utility (e.g., protection for claims from third parties alleging personal injury or property damage, and coverage for the cost of repairing or replacing damage from an earthquake).[94] PG&E is requesting that ratepayers fund $692,000 in 2014 for this expense.

PG&E says that PG&E Corporation performs the majority of its work for PG&E – Utility. While this may or may not be true, ratepayers should not be asked to fund additional property and liability insurance for PG&E Corporation. Ratepayers already fund PG&E – Utility's property and liability insurance, which includes property, D&O, and excess liability insurance. Having ratepayers fund these same types of insurance costs for PG&E Corporation is duplication of costs and potential

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[93] See Proposed Decision page 981, issued March 29, 2013.

[94] Ex. PG&E-9, p. 3-16.

unwarranted subsidy of other non-regulated activities of PG&E Corporation. Therefore, DRA recommends a forecast of $0 which is less than PG&E's test year 2014 insurance forecast.

H. Risk and Audit Department – Information Technology Projects

The Market and Credit Risk Management section of the Risk and Audit Department is forecasting the need for four IT projects: (1) Energy Trading and Risk Management (ETRM) Implementation; (2) Risk Engine Consolidation; (3) Position Reporting Centralization; and (4) Data Consolidation.[95] PG&E is forecasting $1.5 million in expense in 2014, and $2.6 million for capital expenditures in 2012, $11.0 million in 2014, $5.0 million in 2015, and $4.0 million in 2016.

In addition to the IT work forecasted with the Alternate EOC in 2014, the Corporate Security Department is planning four IT projects to make necessary enhancements to PG&E's physical security and life safety programs. PG&E is forecasting $2.0 million expense for 2014, and $2.9 million for capital expenditures in 2014, $3.1 million in 2015, and $2.2 million in 2016.[96]

1. IT Expenses

The Risk and Audit Department's total IT expense forecast for test year 2014 is $4.045 million and is reflected in MWC JV Maintain IT Applications and Infrastructure.[97] PG&E developed the cost forecast for each IT project using its application development concept estimating tool. DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs. Based on the recommendations contained that exhibit, DRA recommends that $566,000 be removed from test year 2014 for the Risk and Audit Department's IT expense.

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[95] Ex. PG&E-9, p. 3-17.

[96] Ex. PG&E-9, p. 3-19.

[97] Ex. PG&E-9, Table 3-5, p. 3-23.

2. IT Capital Expenditures

The Risk and Audit Department's total IT capital forecast for test year 2014 is $33.770 million and is reflected in MWC 23 Implement Real Estate Strategy ($13 million) and MWC 2F Build IT Applications & Infrastructure ($20.77 million).[98] The MWC 23, Implement Real Estate Strategy ($13 million) and $6.9 million of the $33.77 million in MWC 2F, Build IT Applications & infrastructure relates to the AEOC which is addressed above.

PG&E developed the cost forecast for each IT project using its application development concept estimating tool. DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs. DRA has reviewed PG&E's testimony and accompanying workpapers takes exception to PG&E's forecasted capital expenditures. DRA's recommends that $21.842 million be removed from test year 2014 Risk and Audit Department's IT capital expenditures. DRA recommends that $11.928 million be adopted for test year 2014.

VI. DISCUSSION / ANALYSIS OF LAW DEPARTMENT and RELATED COSTS

This section discusses PG&E's Law Department and Related Costs. The Law Department reports to PG&E's Senior Vice President (SVP) and General Counsel and, according to PG&E, "…is essential for representing PG&E in all of its regulatory and legal matters, as well as providing advice and counsel to support the safe and reliable operations of PG&E's business."[99] PG&E's 2014 forecast reflects the addition of the Information Management Compliance Department. Collectively, the Law Department, General Counsel's Immediate Office, and Information Management Compliance Department are referred to as the Law Department.

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[98] Ibid.

[99] Ex. PG&E-9, p. 6-1.

PG&E is forecasting Law Department costs of $51.733 million in 2014, which is (5.6 percent) lower than the 2011 recorded adjusted amount of $54.778 million.[100] PG&E says that "[t]he primary changes to the forecast are escalation of wages for the Law Department employees and a reduction in forecasted outside services."[101]

PG&E is forecasting $21.125 million in 2014 for settlements and judgments and $14.888 million for third-party claims payments.'[102]

The following table summarizes PG&E's request and DRA's recommendation regarding test year expenses for the Law Department and Related Costs.

Table 16-23
Administrative & General Expenses for TY2014
Law Department and Related Costs
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
SVP General Counsel	$ 1,359	$ 1,359	$ -	0.00%
Law	$ 49,815	$ 49,815	$ -	0.00%
Information Management	$ 559	$ 559	$ -	0.00%
Total	$ 51,733	$ 51,733	$ -	0.00%
Settlements & Judgments	$ 19,567	$ 21,125	$ 1,558	0.00%
Third Party Claims	$ 14,649	$ 14,888	$ 239	1.63%
Total	$ 34,216	$ 36,013	$ 1,797	5.25%

The Law Department is forecasting two IT projects for 2014-2016, the Legal eDiscovery Program and the Public and Employee Safety and Claims Management Program. PG&E forecasts $664,000 in expenses in 2014, $60,000 in capital expenditures for 2013, $890,000 for 2014, $1.27 million for 2015, and $750,000 in

[100] Ex. PG&E-9, p. 6-12, Table 6-1.

[101] Ex. PG&E-9, 6-1.

[102] PG&E says that Settlements, Judgments, Third-Party Claims are exclusive of San Bruno claims. (Ex. PG&E-9, pp. 6-9—6-10.)

capital for 2016. PG&E developed the costs forecast for each IT project using PG&E's application development concept estimating tool.[103]

The following table summarizes PG&E's request and DRA's recommendation regarding the Law Department's IT expenses and capital expenditures.

Table 16-24
Administrative & General IT Expenses for 2012-2014
Law Department and Related Costs
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
eDiscovery Program	$ 237	$ 276	$ 39	16.28%
Public Employee Safety & Claims Management	$ 334	$ 388	$ 54	16.28%
Law Organization Total	$ 571	$ 664	$ 93	16.28%

Table 16-25
Administrative & General Capital Expenditures for 2012-2014
Law Department Costs and Insurance Expenses
(In Thousands of Dollars)

Description	DRA Recommended			PG&E Proposed		
	2012	2013	2014	2012	2013	2014
eDiscovery Program	$ -	$ -	$ 688	$ -	$ -	$ 800
Public Employee Safety & Claims Management	$ -	$ 52	$ 77	$ -	$ 60	$ 90
Law Organization Total	$ -	$ 52	$ 765	$ -	$ 60	$ 890

A. SVP and General Counsel IO

The SVP and General Counsel is responsible for the overall management of PG&E's Law Department.[104] PG&E is forecasting $1.358 million for 2014, which is a 23.43 percent decrease from 2011 adjusted recorded costs of $1.774 million. The adjustments to recorded 2007 through 2011 included reorganization and San Bruno.

[103] Ex. PG&E-7, Chapter 8.

[104] Ex. PG&E-9, p. 6-6.

PG&E adjusted out $1,483 in 2011 related to Sa Bruno. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

Table 16-26
2007-2012 Recorded Data for SVP and General Counsel
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
Outside Svc. - Corp	$1,751	$1,060	$1,148	$1,332	$1,774	$1,009

Source: 2007-2011 data from Ex. PG&E-9, p. 6-12. 2012 Table 6-1

B. Law Department

The Law Department's substantive legal activities fall into three categories: Litigation regulatory, and contracts and corporate services.[105] In its workpapers PG&E lists three "Sub-Departments" of "Law" as: Law Department, Third Party Claims, and Law Workers Compensation.[106] The total test year 2014 forecast for all three sub-departments is $49.814 million which is a six percent decrease from 2011 adjusted recorded costs of $53.003 million. PG&E says that "[t]he adjustments to recorded 2007 through 2011 included reorganization and the San Bruno costs. PG&E has adjusted out $8.014 million in 2010 and $56.026 million in 2011 related to San Bruno.[107]

[105] Ex. PG&E-9, p. 6-2.
[106] Ex. PG&E-9, workpapers, p. 6-27.
[107] Ex. PG&E-9, workpapers p. WP 6-31.

Table 16-27
2007-2012 Recorded Data for Law Department
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 22,124,526	$ 22,281,457	$ 21,930,095	$ 21,872,615	$ 22,433,275	$ 23,312,176
921 Office Supplies	$ 2,178,346	$ 2,061,728	$ 1,832,981	$ 1,620,690	$ 1,970,668	$ 2,014,549
923 Outside Svc Utility	$ 23,765,038	$ 19,020,985	$ 21,447,411	$ 19,657,415	$ 28,599,458	$ 116,343,394
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 48,067,910	$ 43,364,170	$ 45,210,487	$ 43,150,720	$ 53,003,401	$ 141,670,119

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 6-27. 2012 data from DRA-PG&E-108, Question 4 Attachment 7.

1. Law Department

The Law Department is forecasting $44.512 million in expenses for 2014 which is a seven percent decrease from 2011 adjusted recorded costs of $48.051 million.[108] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. Third Party Claims (Staffing)

[The Third Party Claims Section is forecasting $3.762 million in expenses for 2014, which a six percent increase from 2011 adjusted recorded costs of $3.542 million.[109] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

3. Workers Compensation (Staffing)

The Workers Compensation Section is forecasting $1.539 million in expenses for 2014, which is a nine percent increase form 2011 adjusted recorded costs of $1.408 million.[110] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

[108] Ex. PG&E-9, workpapers p. WP 6-27.

[109] Ibid.

[110] Ibid.

C. Information Management Compliance

PG&E formed a new department, Information Management Compliance, to strengthen its records management and compliance activities. The new department was formed in 2012;[111] therefore, there are no adjusted recorded costs for the period 2007 through 2011. Information Management Compliance is forecasting $559,344 in expenses for the test year 2014. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

D. Litigation/Settlements and Third Party Claims

The Law Department records two types of costs in Account 925 Injuries and Damages: (1) settlements and judgment costs as part of litigation function, and (2) claims payments to third parties alleging personal injury, property damage and economic loss as a result of PG&E's operations.[112] According to PG&E, all costs related to the San Bruno have been excluded from PG&E's 2014 GRC.[113] The Law Department is forecasting $36.013 million in these types of expenses for 2014, which is a 24.39 percent increase from 2011 adjusted recorded costs of $48.839 million. The Law Department has adjusted out cases and issues, including San Bruno, that PG&E determined to adjust out of recorded costs.[114]

1. Settlements and Judgments

The Law Department is forecasting settlement and judgments of $21.125 million in 2014, which is a 42.7 percent decrease from 2011 adjusted recorded costs of $36.870 million. PG&E's forecast is based on a four year average of adjusted actual costs for 2008-2011. PG&E's settlement and judgment adjusted costs for 2008-2011 totaled $84.5 million and averages to $21.125 million. PG&E's adjusted

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[111] Ex. PG&E-9, p. 6-7.

[112] Ex. PG&E-9, p. 6-9.

[113] Ibid.

[114] Ex. PG&E-9, workpapers p. WO 6-83.

costs for 2007-2011 include settlements for employment litigation of approximately $7.125 million. DRA recommends that costs related to employment and discrimination cases should be removed before forecasting for the Test Year 2014. This is consistent with long-standing Commission.

When an employment or discrimination case either results in a judgment against the utility or the utility chooses to settle such a case, the costs incurred by the utility should not be borne by the ratepayers. In 1980, FERC issued an Accounting Release (AR) 12 which specifically questions:

> What is the proper accounting treatment for expenditures made by the utility, resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree?

The FERC Release AR-12 answers the question by stating:

> The Uniform System of Accounts provides that all charges to utility operating expenses accounts must be just and reasonable. Expenditures f=of the nature mentioned above that can be readily identified and quantified should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate nonoperating expense accounts.

To DRA's knowledge, this Commission has followed AR-12 since it was issued. In D.92549, the Commission decided to exclude from test year results all costs which SCE incurred in an affirmative action suit which the Commission assumed would shortly be settled, explaining the position was in harmony with FERC in AR-12.[115] In D. 96-01-011, the Commission, again held that costs incurred in meritorious employment discrimination suits should not be charged to ratepayers as they are non-operating expenses.[116] In its most recent GRC, SCE asked the Commission again to change the policy. The Commission upheld its stating:

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[115] SoCal Edison Company (1980) 5 CPUC 2d 39; D.92549; 1980 Cal PUC Lexis 1296*48.

[116] In Re Southern California Edison Company (1996) D. 96-01-011, 1996 Cal. PUC Lexis 23.

> As to settlement of discrimination claims, we decline to alter our longstanding policy on this issue because the risks of a potentially adverse verdict still drive any settlement. Unchecked ratepayer recover could result in a loss of vigilance in preventing discriminatory practices.[117]

DRA has removed a total of $7.125 million from 2008 through 2011 adjusted recorded costs. After removing these costs DRA calculates a four average of $19.567 million. Therefore, DRA recommends that $1.558 million be removed from test year 2014 forecast of $21.125 million. DRA recommends a test year 2014 forecast for Settlement and Judgments of $19.567 million.

2. Third Party Claims

The Law Department is forecasting $14.888 million in 2014, which is a 24.39 percent increase from 2011 adjusted recorded costs of $11.969 million.[118] PG&E says that the Law Department has adjusted out cases and issues, including San Bruno, that PG&E determined to adjust out of recorded costs.[119] PG&E's forecast is based on a four year average of adjusted actual costs for 2008-2011. PG&E's Third Party Claims adjusted costs for 2008-2011 totaled $59.644 million and averages to $14.888 million. PG&E's 2012 recorded costs, adjusted for San Bruno,[120] were six percent decrease from PG&E's forecast of $14.888 million. DRA calculated a four year average using 2009-2012 which results in a forecast of $14.649 million. DRA recommends a test year 2014 forecast for Third Party Claims of $14.649 million.

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[117] Decision on Test Year 2012 General Rate Case for Southern California Edison Company (2012) D.12-11-051, mimeo, pp. 491-492.

[118] Ex. PG&E-9, p. 6-9.

[119] Ex. PG&E-9, p. 6-9.

[120] See response to DRA-PG&E-111, Q. 1 Supplemental 1 Confidential.

E. Law Information Technology Projects

The Law Department is forecasting two IT projects for 2014: the Legal eDiscovery Program and the Public and Employees Safety and Claims Management Program.[121] PG&E forecast $664,000 in expenses and $890,000 in capital expenditures for test year 2014.

1. IT Expenses

PG&E is forecasting $276,000 for the eDiscovery IT project[122] and $388,000 for Public and Employee Safety Claims Management Program.[123] PG&E developed the cost forecast for each IT project using its application development concept estimating tool.[124] DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs. Based on the recommendations contained in that exhibit, DRA recommends that $93,000 be removed from PG&E's test year 2014 forecast.

2. IT Capital Expenditures

PG&E is forecasting $800,000 for the eDiscovery IT project[125] and $90,000 for Public and Employee Safety Claims Management Program.[126] DRA addresses this estimating tool in Exhibit DRA-18 Shared Services & Information Technology Costs. Based on the recommendations contained in that exhibit, DRA recommends that $8,000 be removed from 2013 and $125,000 be removed from test year 2014 forecast.

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[121] Ex. PG&E-9, p. 6-10.

[122] Ex. PG&E-9, workpapers p. WP 6-65.

[123] Ex. PG&E-9, workpapers p. WP 6-74.

[124] Ex. PG&E-9, p. 6-10.

[125] Ex. PG&E-9, workpapers p. WP 6-65.

[126] Ex. PG&E-9, workpapers p. WP 6-74.

VII. DISCUSSION / ANALYSIS OF PG&E CORPORATION and PACIFIC GAS AND ELECTRIC COMPANY EXECUTIVE OFFICES; and CORPORATE SECRETARY DEPARTMENT COSTS

This section discusses PG&E Corporation, Pacific Gas And Electric Company executive offices, and Corporate Secretary Department costs. PG&E says that "PG&E Corporation's Chairman of the Board (Chairman), Chief Executive Officer (CEO) and President is responsible for the executive leadership of Pacific Gas and Electric Company (PG&E or the Company) and PG&E Corporation."[127] According to PG&E, since PG&E is the sole subsidiary of PG&E Corporation, "…the activities of the Chairman, CEO and President focus solely on the core business of PG&E."[128]

PG&E's President oversees all PG&E functions and utility performance. The chief responsibility of PG&E's President is to ensure that PG&E's lines of business (LOB) deliver safe, reliable, affordable, customer-focused gas and electric service.

PG&E's Corporate Secretary Department supports the Boards of Directors of PG&E and PG&E Corporation and their respective committees; provides governance, reporting, shareholder and other necessary services for PG&E and PG&E Corporation; and manages director fees and expenses for the PG&E and PG&E Corporation Boards of Directors."[129]

PG&E is forecasting department costs of $13.8 million in 2014, which is a ten percent increase from the 2011 adjusted recorded costs of $12.5 million.[130] In addition, PG&E is forecasting Directors Fees and Expenses of $1.617 million in 2014, which is a three percent increase from the 2011 adjusted recorded costs of $1.566 million. The increase is due to the anticipated of an additional Board member by 2014 and increase in quarterly retainer amounts.

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[127] Ex. PG&E-9, p. 7-1.

[128] Ex. PG&E-9, p. 7-1.

[129] Ex. PG&E-9, p. 7-1.

[130] Ex. PG&E-9, 7-2.

The following table summarizes PG&E's request and DRA's recommendation regarding test year expenses for PG&E Corporation and PG&E Company Executive Offices; and Corporate Secretary Department Costs.

Table 16-28
Administrative & General Expenses for TY2014
PG&E Corporation and PG&E Company Executive Offices; and Corporate Secretary Department Costs
(In Thousands of Dollars)

	DRA	PG&E	Amount	Percentage
Description	Recommended	Proposed	PG&E>DRA	PG&E>DRA
(a)	(b)	(c)	(d=c-b)	(e=d/b)
Chairman	$ 3,884	$ 4,619	$ 735	18.93%
President	$ 3,577	$ 4,785	$ 1,208	33.76%
Corporate Secretary	$ 4,399	$ 4,399	$ -	0.00%
Department Total	$ 11,860	$ 13,803	$ 1,943	16.38%
Directors' Fees & Expenses	$ 1,293	$ 1,617	$ 324	25%
Grand Total	$ 13,153	$ 15,420	$ 2,267	17.24%

The CEO Organization consists of three sub departments:

- Chairman, CEO and President's Office
- President's Office
- Corporate Secretary

A. Chairman, CEO and President's Office

PG&E Corporation's Chairman, CEO and President is responsible for the executive leadership of PG&E and PG&E Corporation.[131] In September 2011, PG&E Corporation's Board of Directors elected Mr. Anthony F. Earley, Jr. as Chairman of the Board, CEO and President of PG&E Corporation. PG&E is forecasting $4.619 million which is a 1.2 percent increase from 2011 adjusted recorded costs of $4.565 million.

[131] Ex. PG&E-9, p. 7-2.

Table 16-29
2007-2012 Recorded Data for Chairman, CEO & President's Office
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
Chairman, CEO & Pres.	$3,833	$3,450	$4,088	$4,141	$4,565	$2,936

Source: 2007-2011 data from Ex. PG&E-9, p. 7-11. 2012 data from DRA-PG&E-108, Question 4 Attachment 8

DRA reviewed PG&E's testimony and accompanying workpapers and opposes PG&E's test year forecast.

PG&E's 2012 recorded costs were $2,936 million[132] which is 35 percent lower than the 2012 forecast of $4.551 million. DRA concludes that it is appropriate to use a three year average, 2010-2012, to calculate the test year 2014 forecast. DRA used a three year average which results in a test year 2014 forecast of $3.884 million. DRA recommends that $735,179 be removed from PG&E's Chairman, CEO and President's Office test year 2014 forecast.

B. President's Office

PG&E's Executive Office is comprised of the immediate office of PG&E's President, the Utility Strategic Planning group, and the Utility Performance Improvement Department.[133] PG&E's President's Office is forecasting $4.785 million of expenses in 2014, which is a 29.68 percent increase from 2011 adjusted recorded costs of $4.277 million.[134]

[132] See response to DRA-PG&E-108, Question 4 Attachment 8.

[133] Ex. PG&E-9, p. 7-3.

[134] Ex. PG&E-9, p. 7-4.

Table 16-30
2007-2012 Recorded Data for President's Office
(In Whole of Dollars)

Description	2007	2008	2009	2010	2011	2012
920 Admin & General	$ 2,282,826	$ 2,719,506	$ 914,881	$ 2,642,137	$ 2,980,651	$ 2,925,756
921 Office Supplies	$ 634,020	$ 441,478	$ 184,499	$ 333,567	$ 447,451	$ 685,415
923 Outside Svc Utility	$ 8,934,942	$ 5,094,833	$ 250,110	$ 596,816	$ 261,846	$ 190,687
923 Outside Svc Corp	$ -	$ -	$ -	$ -	$ -	$ -
	$ 11,851,788	$ 8,255,817	$ 1,349,490	$ 3,572,520	$ 3,689,948	$ 3,801,858

Source: 2007-2011 data from Ex. PG&E-9, workpapers p. WP 7-1. 2012 data from DRA-PG&E-108, Question 4 Attachment 8

1. 920 – Administrative & General Salaries

The President's Office is forecasting $4.037 million in labor for test year 2014.[135] This is a 35 percent increase from 2011 adjusted recorded costs of $3.689 million. DRA has reviewed PG&E's testimony, accompanying workpapers, responses to data requests and takes exception. The President's Office 2012 recorded costs were $2.924 million which is 17 percent lower than PG&E's 2012 forecast of $3.683 million. DRA concludes that it is appropriate to use a three year average, 2010-2012, to calculate the test year 2014 forecast. DRA used a three year average which results in a test year 2014 forecast of $2.849 million. DRA recommends that $1.188 million be removed from the PG&E's President's Office test year 2014 forecast.

2. 921 – Office Supplies Expenses

The President's Office is forecasting $378,330 in non-labor expense for the test year 2014.[136] This is a 15.45 percent decrease from 2011 adjusted recorded costs of $447,451. DRA has reviewed PG&E's testimony, accompanying workpapers and data request response and does not oppose PG&E's forecast.

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135 Ex. PG&E-9, workpapers p. WP 7-25.

136 Ibid.

3. 923 – Outside Services - Utility

The President's Office is forecasting $369,589 in outsides services for the test year 2014.[137] This is a 41.15 percent increase from 2011 adjusted recorded costs of $261,846. DRA has reviewed PG&E's testimony, accompanying workpapers, responses to data requests and takes exception to PG&E's request. The President's Office 2012 recorded costs were $190,687 which 61 percent lower than PG&E's 2012 forecast of $494,042. Given the fact that there have been wide fluctuations in outsides services during the record period 2007-2012, DRA recommends using a three year average to forecast outside services for the test year 2014. DRA has calculated a three year average of $349,783. DRA recommends that $19,806 be removed from the President's Office Outside Services forecast for test year 2014.

C. Corporate Secretary

The Corporate Secretary Department is responsible for corporate governance, reporting and shareholder services for PG&E and PG&E Corporations.[138] Corporate Secretary Department is forecasting $4.39 million which is a three percent increase from 2011 adjusted recorded costs of $4.277 million. DRA has reviewed PG&E's testimony and accompany workpapers and does not oppose PG&E's forecast.

D. Directors Fees and Expenses

PG&E's Board of Directors currently consists of 13 directors and PG&E Corporations Board of Directors currently consists of 12 directors. Of the 13 directors of PG&E, 11 are outside directors and two are officers (PG&E President and PG&E Corporation Chairman, CEO and President). Each outside director receives quarterly retainers for service on the Board as well as fees for attendance at Board meetings, Board committee meetings, and shareholder meetings. In

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[137] Ibid.

[138] Ex. PG&E-9, p. 7-7.

addition, outside directors are reimbursed for reasonable expenses incurred for participating in Board meetings, Board committee meetings, shareholders meetings, and other activities undertaken on behalf of PG&E or PG&E Corporation.[139] PG&E is forecasting Directors Fees and Expenses of $1.617 million which is a three percent increase from 2011 adjusted recorded costs of $1.566 million.

DRA has reviewed the 2007 through 2011 directors' fees and expenses[140] and takes exception to excessive tips, transportation costs, Board general lodging, Board dinner expenses, outside speaker, director education, and candidate interviews. DRA removed $42,821 of unreasonable reimbursable expenses from 2007 through 2011 before calculating a three year average for these reimbursable expenses. DRA forecasts a ten percent increase in reimbursable expenses for test year 2014; therefore, DRA recommends reimbursable expenses of $140,999.

PG&E is forecasting Directors quarterly retainers of $15,125 for the test year, which totals to $726,000 for 12 directors. Quarterly retainers were $12,500 in 2007 and 2008. PG&E increased the quarterly retainers to $13,750, ten percent, in 2009. PG&E is forecasting quarterly retainers of $15,125, for test year 2014. PG&E has not justified another ten percent increase in Directors' quarterly retainers DRA recommends that the quarterly retainers continue at $13,750. This includes the embedded increase of ten percent in 2007 and 2009. This results in test year 2014 forecast of $660,000. DRA recommends $66,000[141] less in quarterly retainers than PG&E for test year 2014.

DRA recommends a forecast of $1,474,249 for Directors Fees and Expenses in test year 2014. The following table compares PG&E's forecast to DRA's:

[139] Ex. PG&R-9, p. 7-10.

[140] See response to DRA-PG&E-005, Question 39 Attachment 1.

[141] PG&E's forecast of $726,000 minus DRA's forecast of $660,000 which equals $66,000 adjustment.

Table 16-31
Directors Fees and Expense for TY2014
PG&E Corporation Costs
(In Whole of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Directors Retainers	$ 660,000	$ 726,000	$ 66,000	10%
Board and Committee Fees	$ 491,583	$ 523,250	$ 31,667	6%
Directors Expenses	$ 140,999	$ 217,634	$ 76,635	54%
Total	$ 1,292,583	$ 1,466,884	$ 174,301	13%

VIII. DISCUSSION / ANALYSIS OF PG&E CORPORATION COSTS IN OTHER A&G DEPARTMENTS

This section discusses PG&E Corporation costs in other A&G departments not addresses in in this exhibit, but addressed in Exhibit DRA-17, such as Human Resources Department and the Corporate Affairs-External Affairs Department. PG&E Corporation did not provide any services to the Regulatory Relations Department and the Corporate Affairs – Communications Department during the period 2007 through 2011. Therefore, these two departments do not include forecasts for 2014 for PG&E Corporation services.

PG&E is forecasting Human Resources Department costs, FERC Account 923 Outside Services – Corporation, $789,000, which is 37.6 percent lower than 2011 recorded adjusted amount of $1.264 million.

PG&E is forecasting Corporate Affairs – External Affairs Department costs, FERC Account 923 Outside Services – Corporation, $1.919 million, which is 4.92 percent higher than 2011 recorded adjusted amount of $1.829 million.

The following table summarizes PG&E's request and DRA's recommendation regarding test year expenses for PG&E Corporation Costs addressed in Other A&G Departments.[142] These forecasts are reflected in Exhibit DRA-17 (Administrative & General Expenses, Part 2 of 2).

Table 16-32
Administrative & General Expenses for TY2014
PG&E Corporation Costs in Other A&G Departments
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed[143] (c)
Human Resources	$789	$789
Corporate Communications-External Affairs	$1,919	$1,919
Total	$2,708	$2,708

A. Human Resources Department

The Human Resources Department (HR) is comprised of seven sections, of which only four sections had services provided by PG&E Corporation during the period 2007 through 2011: 1) SVP Human Resources, 2) Compensation, 3) Talent Management, and 4) HR Delivery.[144] HR is forecasting $788,957 which is a 37.59 percent decrease from 2011 adjusted recorded costs of $1.264 million. PG&E Corporation is not forecasting costs for Compensation, Talent Management and HR Delivery for test year 2014.

[142] PG&E Company (utility) A&G expenses for the Human Resources Department, Regulatory Relations Department, Corporate Affairs-Communications Department, and Corporate Affairs-External Affairs Department are discussed in Ex. DRA-17. PG&E Corporation A&G expenses for these departments are discussed in this exhibit.

[143] Ex. PG&E-9, p. 4-46 and p.9-13.

[144] Ex. PG&E-9, workpapers p. WP 4-1 and 4-2.

Table 16-33
2007-2012 Recorded Data for HR Outside Services-Corporation
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011	2012
SVP Human Resources	$1,243,611	$1,135,721	$ 952,380	$ 959,514	$1,264,236	$ 2,433,365
Compensation	$ 646,719	$ 490,920	$ 117,447	$ 43,973	$ -	$ -
Talent Management	$2,099,935	$ 732,541	$ 1,068	$ 48,011	$ -	$ -
HR Delivery	$ 752,652	$ 296,934	$ -	$ -	$ -	$ -
	$4,742,917	$2,656,116	$1,070,895	$1,051,498	$1,264,236	$ 2,433,365

Source: 2007-2011 data from Ex. PG&E-9, p. WP-4-1 and WP 4-2. 2012 data from DRA-PG&E-108, Question 4, Attachment 5.

1. SVP Human Resources

The Senior Vice President HR (SVPHR) provides the direction, oversight and HR strategy for PG&E and PG&E Corporation.[145] SVPHR is forecasting $788,957 in 2014, which is a 37.59 percent decrease from 2011 adjusted recorded costs of $1.264 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

B. Corporate Affairs-External Affairs

Corporate Affairs-External Affairs is responsible for building and maintaining successful working relationships with community stakeholders and government officials.[146] This section only addresses services provided to PG&E- the Utility by PG&E Corporation. Corporate Affairs-External is forecasting $1.918 million in 2014, which is a 4.93 percent increase from 2011 adjusted recorded costs of $1.829 million.

1. SVP Corporate Affairs

The SVP of Corporate Affairs is responsible for developing, executing, overseeing, and managing PG&E's external affairs activities including a broad

[145] PG&E-9, p. 4-3.

[146] Ex. PG&E-9, p. 9-1.

spectrum of internal and external communications activities to provide information on PG&E's products and services to PG&E's customers.[147] SVP is forecasting $1.293 million in 2014, which is 16.25 percent increase from 2011 adjusted recorded costs of $1.112 million. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

2. Federal Affairs

Federal Affairs Department represents PG&E before Congress and federal agencies, and develops and enhances relationships with various stakeholders at eh national level to support PG&E's safety practices, operational goals, customer service, and the environment.[148] Federal Affairs is forecasting $626,444 in 2014, which is a 26.56 percent decrease from 2011 adjusted recorded costs of $716,853. DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

IX. DISCUSSION / ANALYSIS OF A&G RATEMAKING ADJUSTMENTS

This section discusses the methodologies used to make the ratemaking adjustments to recorded costs, capitalization of construction related costs, reductions to exclude Below-The-Line activities, and SAP to FERC translation.

"PG&E adjusts A&G expenses for ratemaking purposes in three ways.

First, PG&E capitalizes some A&G costs. The purpose of the capitalization adjustment is to properly classify expenses associated with construction projects as capital costs. This adjustment does not reduce the A&G revenue requirement forecast as a whole. Rather, it spreads recovery of those costs over a multi-year period as opposed to including them as expenses recoverable in the 2014 Test Year.

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[147] Ex. PG&E-9, p. 9-2.

[148] Ex. PG&E-9, p. 9-5.

Second, PGE removes additional costs from the A&G forecast, which are not properly allocated to costumers in the GRC. Specifically, PG&E removes costs from its forecast related to below-the-line (BTL) activities, and employee benefits associated with Non-Tariffed Products and Services (NTP&S). In contrast to the adjustment for capitalization, the reduction of these items does reduce the overall revenue requirement forecast.

Finally, PG&E translates the total adjusted A&G expenses from SAP dollars to Federal Energy Regulatory Commission (FERC) accounts as required by the Commission."[149]

A. Capitalization Adjustments

To properly reflect costs of ongoing and new construction, work supporting construction activities not directly charged to construction orders must be accounted for in capital and removed from expense.[150] PG&E capitalizes overhead construction costs. PG&E calculates a capitalization factor for labor, materials and supplies (M&S), and other A&G expenses such as Remaining Vacation, Workers Compensation, Benefits, Short-Term Incentive Plan (STIP), and Third-Party Claims. PG&E is forecasting the following capitalization factors:

Table 16-34
Capitalization Factors

Factor	FERC Account	Percent
Labor	920	11.87%
Material and Supplies	921	10.08%
Remaining Vacation	922	39.91%
Workers Compensation	925	39.91%
Benefits	926	39.91%
STIP	922	29.35%
Third-Party Claims	925	21.70%

149 Ex. PG&E-9, p. 10-1.

150 Ex. PG&E-9, p. 10-2.

1. Capitalization of Corporate Services Department Costs

Each of PG&E's Corporate Services Department determines the amount of its work that its department uses in support of capital projects and calculates a composite A&G capitalization rate for labor and for M&S. The labor capitalization factor is then applied to that Corporate Services Department's A&G salaries, FERC Account 920, which results in the amount of capitalized labor that becomes a transfer credit (FERC Account 922). Similarly, each Corporate Services Department's M&S capitalization factor is then applied to that Corporate Services' A&G Office Supplies, FERC Account 921, which results in the amount of capitalized M&S that becomes transfer credit. DRA has viewed PG&E's capitalization method and does not oppose PG&E's forecast.

2. Capitalization of Companywide A&G Expenses

Similar to the capitalization of Corporate Services department costs, PG&E capitalizes certain companywide A&G expenses and third-party claims that are associated with new or ongoing construction activities.[151] DRA has reviewed PG&E's testimony and accompanying workpapers and does not oppose PG&E's test year 2014 forecast.

B. Reductions for BTL and Non-Utility Affiliates

PG&E reduces its GRC forecast to exclude below-the-line (BTL) activities as well as non-utility affiliate work.[152] Normal utility operations are above-the-line and recoverable in rates. The Commission's directs that certain other costs be borne solely by shareholders, not ratepayers. These are classified as BTL. DRA agrees with POG&E's stated method of reviewing the last recorded year to determine the percentage of benefits that were recorded as BTL and applying that to the forecasted expenses.

[151] Ex. PG&E-9, p. 10-4.

[152] Ex. PG&E-9, p. 10-6.