Docket:	:	A.12-11-009
Exhibit Number	:	DRA-23
Commissioner	:	Florio
ALJ	:	Pulsifer
Witness	:	Waterworth, J.Lee, Fok

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Examination for Pacific Gas and Electric Company General Rate Case

Test Year 2014

San Francisco, California
May 3, 2013

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SB_GT&S_0050588

RESULTS OF EXAMINATION

I. INTRODUCTION

This exhibit presents the Division of Ratepayer Advocates' (DRA) audit procedures and resulting audit findings and recommendations for Pacific Gas and Electric Company's (PG&E) Test Year (TY) 2014 General Rate Case (GRC). PG&E's financial and accounting records were last subject to review by DRA in connection with PG&E's TY 2011 GRC, Application (A.) 09-12-020. DRA's examination addressed: (1) PG&E's recorded historical data used in connection with forecasting PG&E's revenue requirement in its current application; and (2) recommends adjustments that may impact the forecast years.

DRA's examination of the Applicant's financial records was conducted in accordance with the authority and mandates set forth in the Public Utilities Code Section 309.5 and can be used to satisfy PU Code Sections 314 and 314.5. Requested revenue requirements in general rate cases typically are based on test year forecasts which stem from recorded financial data. The general objective of DRA's examination is an attempt to provide some level of reasonable assurance that the Applicant's financial data, on which forecasts can be built, is reliable and fairly stated pursuant to established Commission rules, regulations, and other relevant data.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

A. Summary of A&G Adjustments (Examiner: Waterworth)

Based on the procedures performed herein, this DRA examiner recommends the following adjustments to Administrative and General (A&G) expense, and one to Electric Distribution Major Work Category (MWC) IF:

- A reduction of $11.1 M in 2011 to General Liability Insurance (FERC Account 925) relating to the San Bruno Incident,
- A reduction of $17.844 M in 2011 to MWC IF, relating to CEMA costs that are embedded in recorded expenses that are pending

the approval of a Settlement Agreement by the Commission in A.11-09-014 which will provide for recovery outside the GRC process,

- Reductions of $0.867 M for 2010, $1.026 M for 2009, $2.011 M for 2008, and $2.278 M for 2007 to FERC Account 923 for Tax Consulting costs, relating to the formulaic manner in which income taxes are computed for rate-making purposes,
- Reductions to FERC Account 923 for Board of Director costs relating to burden of proof issues in the amounts of $1.566 M for 2011, $1.322 M for 2010, and $0.990 M for 2009,
- A 2011 reduction of $78 K to FERC Account 923 for Internal Audit Report costs relating to burden of proof issues.

See discussion at Section IV relating to this examiner's recommendations and procedures performed supporting the examiner's findings.

B. Summary of O&M Adjustments (Examiner: Lee)

Based on the procedures performed herein, this DRA Financial Examiner has no recommendations. See discussion at Section V relating to the procedures performed supporting the examiner's findings.

C. Summary of Utility Plant Adjustments (Examiner: Fok)

Based on the procedures performed herein, this DRA Financial Examiner has no recommendations to Utility plant, except for the Allowance for Funds Used During Construction (AFUDC), discussed in Exhibit DRA-20 (Tax Expenses and Other Financial Matters).

See discussion at Section VI relating to the procedures performed supporting the examiner's findings.

III. EXAMINATION OVERVIEW

DRA's examination focused on PG&E's compliance with Commission-established rules and regulations, and the ratemaking effects of PG&E's proposed revenue requirement. Financial Examiners employ a variety of procedures, based on each examiner's judgment of the accounts assigned to them for review. The scope of the examination can also vary based on the examiner's judgment. This dynamic approach allows an examiner the ability to be efficient, as not all accounts may require the same level of review given the relative risk associated with the account. Some Federal Energy Regulatory Commission (FERC) accounts rarely require adjustments given the manner in which forecasting is done, the nature of the account, the way costs are recorded to the account, etc. Typically, all examiners make recorded financial data selections from selected areas of PG&E's accounting books and records, perform analytical review, conduct witness interviews, review corporate minutes of PG&E's Board of Director's meetings, review PG&E's internal audit reports, and review external auditor's work papers.

The following sections of this exhibit will be devoted primarily to discussion of individual audit procedures, and the adjustments DRA recommends.

IV. ADMINISTRATIVE AND GENERAL EXPENSES

A. Purpose and Scope of A&G Examination

The purpose of DRA's examination is to review and verify that data segregated from the utility's financial records is reasonably reliable. Additionally, DRA reviews other financial and non-financial documents and/or work papers, addresses pre-identified issues, addresses analyst specific requests, evaluates adherence to recognized policies, assesses compliance with Commission established rules and regulations, and notes whether historic data is recorded in accordance with Generally Accepted Accounting Principles (GAAP) and/or any applicable regulatory accounting standards. The examination attempts to detect potential adjustments impacting forecasts, and provide parties with some level of assurance that data presented in the Application can be relied upon for ratemaking purposes. Any noted adjustments identified may or may not impact the forecasted requests as forecasting methodologies differ by FERC Account and the individual analyst's reliance on such results.

The scope for the A&G examination primarily covered the base year (2011). Typically, the base year is examined given that many of the forecasting methodologies use the base year, and in many instances the base year's balance is the highest recorded. However, based on DRA's analytical review procedures, additional years were selected for specific FERC accounts subject to transactional testing. Usually these additional years were those where the balance was greater than the base year possibly indicating items of a non-recurring nature contained within the recorded balance.

B. Control and Compilation Assessments

The purpose in assessing the financial controls, over the recording of data to PG&E's records, is to ensure proper recording of data to PG&E's company-wide account categories. The GRC Application data is then extracted from this company-wide corporate data. Thus, ensuring proper recording of data to PG&E's general ledger is important as that is the basis for the Application data. Based on its review, DRA is unaware of any material issues that would affect the proper recording of data to PG&E's general ledger.

DRA conducted interviews and held meetings in order to understand and assess the methodology used to allocate recorded general ledger financial data to the various FERC Accounts and to determine whether the methodology is appropriate. The purpose of the assessment review is to determine whether significant flaws existed in the compilation of the data, and whether an examination could even be performed. Upon completion of its assessment, DRA took no issue with the process.

Given the manner in which PG&E compiles its data, and the use of MWC's rather than FERC based accounts, DRA made selections from PG&E's recorded data as opposed to recorded/adjusted data shown in testimony. This resulted in 4,633 transactional testing selections, considerably more than made in other utility rate cases. Given the volume of selections, DRA held meetings with PG&E subject matter experts (SME), asking them to provide a description of the goods or services, and why the cost was considered recurring for ratemaking purposes.

DRA then selected a sample of the invoices verifying whether PG&E's SMEs provided accurate descriptions of the costs and recurring conclusion. Despite the large volume of selections, the advantage to this case was that it allowed DRA to make selections that were related to the San Bruno accident which occurred in September 2010. Typically, these selections would be removed from recorded/adjusted data presented in testimony. Further, the large volume of selections allowed DRA to review a greater cross section of invoices attempting to detect direct San Bruno costs that PG&E may have missed.

C. FERC Account 925 – General Liability

During the course of its analytical review, DRA identified a significant general liability insurance increase of $11.1M from 2010 to 2011. DRA asked PG&E for an explanation for this increase. PG&E's response is as follows:

> "The increase in general liability insurance from 2010 to 2011 is based on insurance industry concerns about the age of infrastructure in the U.S., in general, and in California, in particular. In addition, significant losses for the insurance industry affect excess liability premiums. This includes costs of the San Bruno accident as well as other losses worldwide."[1]

Based on the response DRA asked:

> Pursuant to PG&E's response to Q.3 l., PG&E explained the increase in general liability insurance was due to aging infrastructure issues particularly in California, and losses in the insurance industry affecting excess liability premiums. Please provide all documentation and/or correspondence that show the previous costs for this type of insurance (2010) and the new costs (2011) that prove PG&E's explanation for the increase.[2]

[1] PG&E's response to DRA-PG&E-LMW-006, Q.3.I.

[2] DRA-PG&E-LMW-012, Q.2.c.

PG&E's response is as follows:

> "PG&E's insurance providers do not specify in their quotes what drives increases or decreases to premiums. PG&E's response regarding the drivers of the increase is based on the Company's and its broker's experience and knowledge of the insurance market. PG&E has included reference materials that discuss this topic in its workpapers. (See PG&E-9) WP 3-164 through 3-167). The costs of PG&E's liability insurance for 2010 and 2011 are shown in PG&E's workpapers (Exhibit (PG&E-9) WP 3-149)."[3]

Based on this response DRA asked:

> Please provide any and all evidence, information and documentation that PG&E relies to support its statement in Response to DRA-PG&E-LMW-6 Q.3.I. that "The increase in general liability insurance from 2010 to 2011 is based on insurance industry concerns about the age of infrastructure in the U.S., in general, and in California, in particular."[4]

PG&E responded:

> "The statement referenced above was one of many factors PG&E identified in its response to DRA-PG&E-LMW-6-Q.3.I. It is based on generally available industry information. PG&E has provided examples of such information in its workpapers (e.g., see WP 3-164 and WP 3-167 which discuss general liability insurance in the utility sector). Those articles were authored by Marsh Inc., a global insurance brokerage firm which has a special Power & Utilities Practice. Marsh's practice monitors the insurance market for trends and concerns specifically related to the energy and utility industry."[5]

Based on PG&E's above responses, the only evidence PG&E can provide is two articles from insurance brokers that speak to the reasons for the increase. PG&E provides no evidence that the San Bruno incident did not trigger the industry

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[3] PG&E's response to DRA-PG&E-LMW-012, Q.2c.

[4] DRA-PG&E-LMW-015, Q.1.

[5] PG&E's response to DRA-PG&E-LMW-015, Q.1.

to focus on California; and, in particular, the increased risk to PG&E associated with the incident.

It is a widely held and accepted tenet that when events such as San Bruno occur, this highlights a form of risk that triggers insurance companies to raise rates. In PG&E's case, the liability associated with the specific incident, in particular, and the associated losses magnify the risk. This fact is evidenced by PG&E's own work papers where their insurance broker notes:

> LOSSES DRAW SCRUTINY
> 'Losses in the energy sector, particularly with respect to oil and gas pipelines – transmission or distribution of gas as well as petroleum-have drawn the attention of underwriters. Insurers are generally looking for increased premium rates for insureds that engage in such operations ***especially those that have presented losses to insurers.***"[6]

Although evidence in such situations is not conclusive one way or another, there is an overwhelming amount of general information and evidence that the San Bruno incident had a greater impact on the increase in insurance premiums in contrast to PG&E's general assertions that the reasons for the increase are related to a generalized industry wide nature.

The fact that a significant incident (San Bruno) occurred and claims made supports strong consideration of an adjustment related to the ensuing increase in insurance expenses. The overwhelming evidence and timing of the insurance increase strongly signify that the San Bruno incident is a major contributor to the ensuing general liability insurance increase. DRA did look beyond the incident to whether there were other related and/or unrelated factors. In this case, PG&E's corporate behavior may have also been a risk factor. PG&E's actions are noted per a SF Gate article below:

[6] Ex. PG&E-9, WP 3-167.

PG&E diverted safety money for profit, bonuses
Reports: Utility diverted safety funds into profit
Eric Nalder, Chronicle Staff Writer
Published 4:00 am, Friday, January 13, 2012

"Pacific Gas and Electric Co. diverted more than $100 million in gas safety and operations money collected from customers over a 15-year period and spent it for other purposes, including profit for stockholders and bonuses for executives, according to a pair of state-ordered reports released Thursday.

An independent audit and a staff report issued by the California Public Utilities Commission depicted a poorly led company well-heeled in its gas operations and more concerned with profit than safety.

The documents link a deficient PG&E safety culture - with its "focus on financial performance" - to the pipeline explosion in San Bruno on Sept. 9, 2010, that killed eight people and destroyed 38 homes.

The "low priority" the company gave to pipeline safety during the three years leading up to the San Bruno blast was "well outside industry practice - even during times of corporate austerity programs," said the audit by Overland Consulting of Leawood, Kan.

Making money

But PG&E wasn't hurting for cash, according to the audit. From 1999 to 2010, the company collected $430 million more from its gas-transmission and -storage operations than the revenue authorized by the California Public Utilities Commission, which sets the rates the company can charge its customers.

"PG&E chose to use the surplus revenues for general corporate purposes" rather than improved gas safety, the Overland audit said.

The audit was unable to trace exactly how PG&E spent the diverted money. But in a separate report on the San Bruno explosion released Thursday, the utilities commission staff noted that in the three years leading up to the San Bruno explosion, the company spent $56 million annually on an incentive plan for executives and "non-employee directors," including stock awards, performance shares and deferred compensation.

"A cursory review reveals that a significant portion, in the millions, has been awarded to the CEO," the commission staff report said in a reference to former PG&E head Peter Darbee, who retired last year.

Cutting corners

By cutting back on pipeline-replacement projects and maintenance, laying off workers, using cheaper but less effective inspection techniques and trimming other pipeline costs, PG&E saved upward of 6 percent of the money designated for pipeline safety, maintenance and operations programs, the Overland audit said.

Meanwhile, on the revenue side, transmission pipeline operations were "very profitable" for PG&E since March 1998, the audit said.

Assemblyman Jerry Hill, D-San Mateo, whose district includes San Bruno, called the company's diversion of customers' money "criminal behavior."

"When you divert funds intended for maintenance and safety to profits, there is nothing clearer," Hill said. "It is criminal."

Hill noted that the San Mateo County district attorney, the state attorney general and the U.S. attorney's office are conducting a joint investigation of the San Bruno disaster. He said he would talk to them about incorporating the Overland audit in their probe.

However, it is unclear whether PG&E broke any criminal statutes governing its behavior at the time, unless there was fraud.

The utilities commission staff report said that under state law and agency regulations, PG&E could spend less than what it was authorized to spend "because the commission is generally precluded from asking for the money back if the company overestimated its revenue requirement."

The Legislature passed a law last year, sponsored by Hill and others, that requires a utility to account for any under-spending and explain where every dollar went.

'Truly unconscionable'

"It is truly unconscionable that PG&E was allowed by the CPUC to steal ratepayer monies that should have been spent on safety and, instead, was put in the pockets of PG&E shareholders," said Rep. Jackie Speier, D-Hillsborough, who represents the devastated San Bruno neighborhood. "All these monies identified in the audit should be returned to ratepayers, presumably as a credit against the work that PG&E should have done, but didn't."

PG&E officials declined to comment on specifics of the two reports.

"Our No. 1 priority is to make our system the safest in the nation," said PG&E President Chris Johns.

No new money

The utilities commission issued the documents as part of a process that could lead to millions of dollars in fines. In addition, the commission recommended changes in how PG&E spends money on gas-system maintenance and pipeline replacement.

Before PG&E "seeks additional ratepayer funds," the commission said, it should:

-- Allocate $95.4 million that the company under-spent on capital expenditures since 1997 - including pipeline replacement - for those purposes.

-- Use the $430 million in additional revenue it collected since 1999 "to fund future transmission and storage operations."

-- Use $39.3 million that it collected but failed to spend for pipeline-transmission operations and maintenance since 1997 for those purposes.

Those recommendations put the commission and PG&E on a collision course.

In August, PG&E outlined a plan to modernize its gas-transmission lines in response to the San Bruno disaster. Included was money to replace 185 miles of pipe segments in PG&E's 5,700-mile gas-transmission system and to upgrade 200 miles of other segments unable to accommodate a modern inspection tool known as a "smart pig."

The company pegged the price at $2.2 billion and said 90 percent of that would be paid by gas customers through rate increases, with the rest covered by company investors.

Meeting new rules?

On Wednesday, PG&E issued a statement promising that it won't dun customers for any expense required to upgrade its gas system to meet existing federal and state standards.

"That said, let's be just as clear about what PG&E is proposing," the company added. "The vast majority of the pipeline safety work going forward is not about correcting issues from the past. It's about meeting

> entirely new standards being established by the California Public Utilities Commission."
>
> PG&E estimated that the average residential customer will pay $1.93 per month more through 2014 to finance the work.
>
> A Chronicle investigation published in March revealed that in 2000, PG&E sharply curtailed a program started in the mid-1980s to replace hundreds of miles of aging gas-transmission pipe. Records obtained by The Chronicle showed the decision was made by PG&E and approved by the utilities commission's safety chief.
>
> The Overland audit noted that PG&E's replacement of transmission pipelines for safety purposes all but ceased in 2000."

This is now a dated article, where PG&E has not presented any defense for the claims made, and other facts may offer different viewpoints. However, it is PG&E's burden, in this GRC, to show the increase in insurance rates was not due to San Bruno; and, that PG&E's corporate behavior was not responsible for the increase in insurance premiums. PG&E has not made that showing nor presented sufficient evidence to show that the San Bruno incident was not a significant factor contributing to the increase. PG&E associated none of the general liability increase to San Bruno and made no accounting or related adjustment to the San Bruno incident. DRA recommends that the Commission reduce the 2011 FERC Account 925 by $11.1M.

D. MWC IF – Electric Emergency Recovery

As part of its review relative to proper removal of Catastrophic Event Memorandum Account (CEMA) recovery costs, DRA found that PG&E did not reduce its Electric Emergency Recovery (MWC IF) for expenses requested for recovery in CEMA Application A.11-09-014. PG&E claims it is awaiting a final decision on the case, prior to making any adjustment. An adjustment is appropriate for the expenses for which PG&E will receive recovery outside the GRC process. An all-party settlement agreement has been reached allowing for a reasonable estimation of the cost recovery. In the event the Commission changes the settlement figures, then the Commission can recognize that in the final GRC decision and adjust accordingly. DRA considers an adjustment to be appropriate. Pursuant to the all-party settlement motion, $17.844 M of CEMA expense recovery was agreed upon. The settlement utilizes a "black box" settlement approach for determining the level of expense recovery. For purposes of simplicity, ease, and to avoid a convoluted estimation process, DRA recommends the entire expense recovery amount be applied to 2011 given this year represents a majority of the costs and MWC IF. Considering this evidence, DRA recommends that the Commission reduce MWC IF by $17.844 M for 2011.

E. FERC Account 923 – Outside Services Employed

1. Outside Tax Consultants

During Southern California Edison's (SCE) TY 2012 GRC, DRA made an argument that removed the costs for tax consultants given the static, formulaic nature in which taxes are determined for rate making purposes. Precedent for removal in this rate case has been set forth in D.12-11-051 (SCE) as follows:

> "DRA argues most tax consulting services are non-recurring and primarily benefit shareholders because tax expense for ratemaking is static and consulting expertise is more relevant to the complicated aspects of post-GRC taxation reflected in the fluctuating effective rates found at the utility and holding company level.
>
> In addition, states DRA, work arising from audits or avoided penalties and interest relate to tax returns, not the tax expense forecast for ratemaking. If an audit results in a lower tax rate, then SCE can offset costs rather than forecast what may be non-recurring costs. Finally, DRA asserts that SCE's in-house tax staff should be able to handle routine tax matters such as historic deductions and forecasting for ratemaking.
>
> SCE argues DRA oversimplifies the tax work required for a GRC, and is mistaken to distinguish costs for consultants. Furthermore, SCE contends that sustained tax positions benefit ratepayers in future years.
>
> The Tax Department's functions (tax modeling, legal research, following changes in tax law, return filing, audit defense, etc.) are essential to the company's compliance with existing tax laws. However, SCE did not adequately explain the trend of substantial increases in Outside Services (28% in 2009) when many activities are

routine and its own tax professionals, both lawyers and accountants, have a duty to keep current with applicable laws and ratepayers fund continuing education.

Although Account 923 historic costs have trended upward since 2006, we are persuaded that tax-related outside services are included which primarily benefit shareholders of SCE and EIX by lowering effective rates below the rates used for forecasting purposes. Thus, SCE's forecast is excessive and should be reduced to exclude "as-needed" non-recurring and effective tax rate consulting costs."

As PG&E's tax consultants may act in a similar capacity as SCE's, DRA requested PG&E to provide proof, by invoice, that all recorded tax consulting expenses for the years 2007 to 2011 are beneficial to ratepayers. DRA's request is as follows:

In response to DRA-PG&E-LMW-13, PG&E provided a listing by vendor and amount for tax related consulting expenses per GRC2014-Ph-I_DR_DRA_ Aud013LMW-Q01-06Atch02. DRA discussed with PG&E the possibility these costs could be reviewed by vendor, proving these costs should be included for ratemaking purpose; however, the same vendor may perform different tasks. Thus, for each invoice representing the costs of the vendor, please provide/answer the following:

a. Why these costs are considered recurring,

b. What benefits these costs provided to ratepayers considering tax recovery for ratemaking purposes is primarily driven by a formulaic approach, and the rate payer receives no benefit.[7]

PG&E provided responses to 2011 tax consulting costs, showing how those costs benefitted ratepayers. However, attachment GRC2014-Ph-I-DR-DRA-Aud013LMW-Q01-06Atch02 shows costs by vendor, and years covering 2007 to 2011. Based on the SCE GRC precedent, and PG&E's failure to provide explanations why the tax consulting costs are beneficial to ratepayers for the years

[7] DRA-PG&E-LMW-025, Q.18.

2007 to 2010, DRA recommends that the Commission remove 2010 costs of $0.867 M, 2009 costs of $1.026 M, 2008 costs of $2.011 M, and 2007 costs of $2.278 M.

2. Board of Director's Cost Removal

As part of DRA's examination, it reviewed PG&E's Board of Directors (BOD) Minutes from 2009 to 2011. During the course of this review, DRA noted several pages of redacted information. In order to perform a full review that allows a complete assessment of whether any information will yield an adjustment, DRA requires full access to the information contained within the BOD minutes. Upon DRA's request that the redacted portions be shown, PG&E invoked the attorney client privilege. DRA does not challenge PG&E's claim of attorney client privilege, but asserts PG&E failed to meet its burden of proof. As evidenced by D.09-02-035, the decision in SCE's 2009 GRC, there is precedence for removal of costs where a utility has failed to meet its burden of proof by failing to provide requested supporting documentation. The language in the D.09-02-035 is as follows:

> "DRA reviewed internal audits conducted from 2003 through August 2007 by SCE's Audit Services Department (ASD). In the course of this review, SCE asserted attorney-client privilege and on that basis refused to allow DRA to review 36 audits. DRA does not challenge SCE's assertion of attorney-client privilege. However, DRA could not determine the reasonableness of these audits for ratemaking purposes. For this reason, DRA concludes that SCE's showing is deficient and recommends disallowance of $1.996 million (25%) of 2006 recorded audit costs. In 2006, SCE completed 160 audits and DRA requested to review 12 reports designated as privileged. SCE later determined that only 11 privileged audit reports existed for 2006.
>
> SCE asserts it has provided DRA with access to over 90% of the audit reports. SCE argues it has "satisfied its burden of proof by making all of its non-privileged audit reports, representing more than 90% of its audits, available for review by DRA."
>
> Since DRA does not challenge SCE's assertion of attorney-client privilege, the Commission need not address the reasonableness of the assertion. Thus, the issue is whether SCE has met its burden of proof. Since SCE chose to assert its claim of attorney-client privilege, it must meet its burden of proof in some other way. SCE argues that it met its burden of proof by giving DRA access to over 90% of the audits.

> If, out of all the audits, 90% were randomly picked and reviewed, and if the review found that the randomly picked audits were reasonable, one could reasonably infer that the remaining 10% of the audits were reasonable. However, since the audits SCE chose to withhold from review were not randomly picked, the results of the review of the non-privileged audits can not reasonably be applied to the withheld audits. Thus, SCE's provision of over 90% of the audits to DRA does not mean that the costs of the remaining privileged audits are reasonable. Therefore, SCE has not demonstrated that its privileged audits are reasonable for ratemaking purposes. For this reason, the costs of the privileged audits will be disallowed for 2006.
>
> DRA proposes a reduction of 25% of the 2006 audit costs. However, 159 audits were conducted in 2006, of which 11 (6.9%) were privileged. Therefore, a reasonable disallowance for 2006 would be 6.9% of such costs."

PG&E's refusal to provide access to the redacted portion of the Board Minutes constitutes a similar failure to meet its burden of proof. As a result, DRA recommends that the Commission remove 2011 Board of Director costs of $1.566 M, 2010 costs of $1.322 M, and 2009 costs of $0.990 M.

3. Internal Audit Report Cost Removal

As part of DRA's examination, it reviewed PG&E's Internal Audit Reports. For 3 of these internal audits, DRA was denied review based on attorney client privilege. DRA does not challenge PG&E's assertion of attorney client privilege, but asserts PG&E failed to meet its burden of proof. For the same rationale as noted in 2, above, DRA recommends that the Commission remove $78,000 in 2011 internal audit report costs for the reports not provided.

V. OPERATIONS AND MAINTENANCE EXPENSES

DRA's audit of PG&E's O&M expenses covered calendar years 2009-2011. The audit approach for this review included an examination of the general ledger integrity. DRA tested a sample of 681 expense items, focusing on 2011 recorded data (see Table 23-1) with the related supporting documents and disclosures (e.g., invoices, control sheet, and other source data). These tests were conducted in order to determine the accuracy and reasonableness of PG&E's compiled financial data. Documents were reviewed for dates of services and the type of services performed. DRA also reviewed the service contracts for 2009-2011 from major service providers.

The three tables below show balances from 2007 to 2011, and provide historic data for 2011 which is the year DRA focused their selection procedures. Table 23-1 presents the 2007-2011 recorded data for PG&E's Gas Distribution, Electric Distribution and Energy Supply O&M. Table 23-2 presents PG&E's 2011 actual vs. adopted/budgeted costs by major work category (MWC) for Gas Distribution and Electric Distribution O&M. Table 23-3 presents PG&E's 2011 actual vs. adopted/budgeted costs by major work category (MWC) for Energy Supply O&M. The adopted amounts in tables 23-2 and 23-3 are the total by category. The actual and budgeted amounts are listed by MWC.

Table 23-1
2007-2011 Recorded Data for Operations and Maintenance Expenses
(in Thousands of Dollars)

GAS DISTRIBUTION					
MWC Description	**2007**	**2008**	**2009**	**2010**	**2011**
System Operations Gas Control	5,859	6,748	6,221	6,988	7,062
Mapping and Records	1,174	1,445	1,058	770	970
Integrity Management Program	-	-	-	-	24,670
Pipe,Meter & other Preventative Maint.	52,827	60,882	83,537	59,045	59,883
Leak Survey & Repair	24,491	55,393	131,567	75,104	57,047
Gas Field Services & Response	51,400	52,888	58,893	62,493	76,876
New Business & Work at the Request of Others	7,593	5,618	8,273	6,144	6,149
Tech. Training & Research & Development	1,024	458	304	101	6
Gas Operations Technology Costs	21	-	844	384	519
Gas Operatns bldg proj, AGA Fees & PAS 55 Certif	1	359	(269)	378	(254)
2014 GRC Exhibit 2	144,390	183,791	290,428	211,407	**232,928**
Reclass of Customer Care and IT Decentralization Costs					(79,500)
Budget Compliance Report					153,428
ELECTRIC DISTRIBUTION					
MWC Description	**2007**	**2008**	**2009**	**2010**	**2011**
Elec. Operations Technology	277	1,506	2,255	2,366	2,186
applied Tech. Services	719	771	834	1,006	1,028
Elec. Mapping & Records Management	5,596	5,341	4,301	3,477	3,364
Elec Dist. Maintenance	101,295	100,360	78,427	90,554	114,593
Pole Test & Treat, Restoration & Joint Utilities Coord.	12,756	12,515	9,807	6,382	6,550
Vegetation Management	150,143	150,226	150,065	150,203	161,567
New Business & Work at the Request of Others	31,535	33,033	26,040	14,190	15,215
Elec. Emergency Recovery	69,459	101,829	101,572	124,331	156,382
Dist. System Operations	47,994	49,445	54,277	55,117	54,243
Substation Asset Strategy	30,952	31,148	30,707	29,677	33,077
Dist. Planning, Operations, & Power Quality	17,579	20,307	21,277	19,789	19,603
Dist. Automation & System Protection	2,094	1,566	1,845	2,166	2,081
Elec Dist. Support Activities	81	532	285	436	374
2014 GRC Exhibit 2	470,480	508,579	481,692	499,694	**570,263**
Reclass of Customer Care and IT Decentralization Costs					(16,700)
Budget Compliance Report					553,563
ENERGY SUPPLY					
MWC Description	**2007**	**2008**	**2009**	**2010**	**2011**
Hydro Operations	106,260	114,407	116,688	122,028	133,028
Unclear Operations	282,967	297,264	330,852	298,055	314,207
Fossil & Other Generation Operations	11,063	11,806	25,967	25,019	45,786
Energy Procurement Administration	30,864	36,380	48,791	50,228	50,099
2014 GRC Exhibit 2	431,154	459,857	522,298	495,330	**543,120**
Reclass of Standard Costs and Share Services Costs					(10,500)
Budget Compliance Report					532,620

Table 23-2 2011 Recorded Data for Operations and Maintenance Expenses Actual v.s. Adopted (in Thousands of Dollars)				
MWC Description	**Adopted**	**Budget**	**Actual**	**Actual v.s. Adopted**
Gas Distribution				**Over/(Under)**
Leak Survey		18,609	20,115	
Locate & Mark		26,978	27,227	
Cathodic protection		8,748	13,916	
Preventive Maintenance (Gas)		19,173	16,866	
Corrective Maintenance (Gas)		39,550	37,828	
Gas Dist Planning, Operations Engineering,& System		6,108	7,123	
Gas R&D,Meter Protection, Implement Regulatory Change,& Mapping		1,550	(572)	
Gas Expense WRO Activities		4,467	6,226	
Distribution Integrity Management Program		19,500	24,699	
Total Gas		144,683	153,428	N/A
Electric Distribution				
Support, Patrols and Inspections		41,391	44,313	
Maintenance of Other Equipment		3,274	2,353	
Poles-Inventory/test and treat		12,000	6,550	
Tree Trimming Balancing Account		161,500	161,567	
New Customer Connection Service Inquiry Activities		6,160	6,194	
Work Requested by Others (WRO)		10,433	9,170	
Operate and Maintenance Substations		33,323	33,077	
Distribution Automation and Protection Support		2,295	2,376	
Operate Electric Distribution		41,242	33,681	
Electric Distribution Operations Technology		755	749	
Corrective Maintenance (Gas)		71,684	78,851	
Major Emergency		57,332	82,654	
Electric Engineering and Planning		21,870	19,603	
Operations Distribution - Electric Mapping		4,744	3,360	
Provide Utility Performance Improvement Services		1,761	751	
Preventive maintenance and Equipment Repair, Network		6,585	8,041	
Preventive maintenance and Equipment Repair, Overhead		43,517	41,693	
Preventive maintenance and Equipment Repair, U/ground		15,151	18,580	
Total Electric		535,017	553,563	N/A
Total Gas Distribution and Electric Distribution	**680,000**	**679,700**	**706,991**	**26,991**

Table 23-3 2011 Recorded Data for Operations and Maintenance Expenses Actual v.s. Adopted (in Thousands of Dollars)				
MWC Description	**Adopted**	**Budget**	**Actual**	**Actual v.s Adopted Over/(Under)**
New Nuclear Generation				
Manage Environmental Operations		2,767	2,577	
Manage DCPP Business		10,889	9,360	
DCPP Loss Prevention		36,098	40,241	
Operate DCPP Plant		84,636	88,131	
Maintain DCPP Plant Assets		106,472	110,474	
Enhance DCPP Personnel Performance		23,529	16,131	
Maint DCPP Plant Config., Procure DCPP Materials &Svcs		44,986	46,093	
Total New Nuclear Generation	**328,800**	**309,377**	**313,007**	**(15,793)**
Power Generation				
Business/Mis. Expense (Hydro)		2,488	3,720	
Manage Environment Operations (Hydro)		4,803	5,342	
Maintain Hydro Reservoirs,Dams & Waterways (Hydro)		23,382	21,781	
Habitat and Species Protection (Hydro)		130	101	
Perform Reimbursable Work for Others (Hydro)		(588)	(508)	
Implement Environment Projects (Hydro)		800	338	
Long Term Service Agreement (Fossil)		14,598	6,567	
Operate Hydro Generation, Misc Expense (Hydro)		38,864	37,740	
Maintain Hydro Generation Equipment (Hydro)		25,406	27,233	
Maintain Hydro Buildings, Grounds & Infrastructure (Hydro)		9,621	10,929	
Regulatory Compliance Hydro Generation (Hydro)		33,621	28,312	
Operate Fossil Generation (Fossil)		13,760	12,448	
Maintain Fossil Generating Equipment (Fossil)		11,623	13,111	
Maint Fossil Generation Bldgs, Grounds & Infrast (Fossil)		2,346	2,015	
Maint Alternative Generation Generating Equipmt (Fossil)		102	49	
Total Power Generation (Hydro & Fossil)	**193,900**	**180,956**	**169,178**	**(24,722)**
Energy Procurement				
Support		3,011	2,495	
Acquire and Manage Electric Supply		46,980	44,143	
Gas procurement		4,031	3,797	
Total Energy Procurement	**60,500**	**54,022**	**50,435**	**(10,065)**
Total Power Generation & energy Procurement	**583,200**	**544,355**	**532,620**	**(50,580)**
O&M Grand Total	**1,263,200**	**1,224,055**	**1,239,611**	**(23,589)**

The audit sample covered the following areas and included the types of service referred to in each section below.

A. Gas Distribution

- Installation and maintenance of Gas leaks and emergency systems.
- Pilot re-lights.
- Fumigation activities.
- Gas meter regulator replacement.
- Electric start/stop/shut-off installation and testing.
- Operation system & maintenance.
- Support the exposed pipeline.
- Damage repair, inspection, and install EMS (Elec. Marker System) in exposed underground infrastructure.
- GTS (Gas Transmission Systems Inc.) transmission gas compliance reviews.
- Inspection, replacement, and new construction of copper lines.
- Procurement & construction management services for national gas pipeline, compressors station.
- Liquid & crude pipelines.
- Transmission supplies.
- Project control services, planning, outsourcing consulting Inspection licenses, tools and supplies, etc.

B. Electric Distribution

- Electric services of electric transmission and distribution replacement and above-ground lines, various tree services.
- Pipeline welds Inspection.
- Excavating & grading etc.

C. Hydro Operations

- Hydro services of rotor pole disassembly, inspection, reassembly, repair and testing.
- Consulting from Structural Integrity for analyzing, preventing, and controlling structural and component failures.
- Mechanical & structural engineering consulting.

- Smart Grid Modernization annual research portfolio, etc.

D. Nuclear, Fossil and Other Operations

- Various nuclear licenses from U.S. NRC to ensure the safe use of radioactive materials for beneficial civilian purposes while protecting people and the environment.
- Refuel effort/Reliability/Mobilization and laboratory works.
- Chemical materials.
- Tools purchased.
- Evaluate, plan and installation of jumper.
- Containment fan cooler evaluation and revised coil calculation, etc.

E. Energy Procurement

- Various consulting labor costs and contractor costs related to 2010 LTPP scenario analysis, wind farm siting and projects and interconnection support, and participate in evidentiary cases.

VI. UTILITY PLANT

The scope of DRA's plant examination covered the calendar year 2011. Only Plant in service was included in the examination and Accumulated Depreciation was reviewed but not examined in detail. In addition, and outside the general procedures conducted by all DRA examiners, the following specific procedures were applied to Utility Plant:

- Substantive testing of numerous expenditures selected from general ledger accounts and traced to the supporting documents.
- Plant accounting system and procedures.
- Capital Budgeting procedures.
- Capital work orders and selected accounting transactions and source documentation.
- Interviews of PG&E's directors and witnesses were conducted to obtain an overview of the selected categories, budget control, and their recorded expenses.

Based on the procedures performed herein, DRA has no recommendations to Utility plant, except for the Allowance for Funds Used During Construction (AFUDC) discussed in Exhibit DRA-20 (Tax Expenses and Other Financial Matters).