Application	:	A.05-12-002
Exhibit Number	:	DRA-14
Commissioner	:	Bohn
Admin. Law Judges	:	Kenney, Econome
Witness	:	Cabrera

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations Electric and Gas Distribution Electric Generation for Pacific Gas and Electric Company

General Rate Case
Test Year 2007

Common, General and Intangible Plant

San Francisco, California
April 14, 2006

COMMON, GENERAL and INTANGIBLE PLANT

I. INTRODUCTION

This Exhibit presents DRA's analysis and recommendations regarding PG&E's common, general and intangible capital expenditures. PG&E's presentation of these costs is contained in several exhibits with some Major Work Categories (MWCs) presented in multiple exhibits. The costs discussed in this Exhibit are presented in Exhibits PG&E-2 and PG&E-7. Specifically, this Exhibit presents DRA's analysis of the company's requests for (1) Fleet Services (MWC 04), (2) Corporate Real Estate (MWCs 78 and 79), and (3) Fleet Capital Tools and Equipment (MWC 05).

DRA did not review other common plant expenditures including intangible plant additions. DRA's Information Technology recommendations are presented in Exhibit DRA-11, therefore, the capital expenditures associated with IT are not discussed in this Exhibit.

Section II of this Exhibit summarizes the differences between DRA's and PG&E's recommended capital expenditures for the indicated MWCs. Section III discusses DRA's analysis of PG&E's request and the basis for its recommended adjustments for MWCs 04, 05, 78 and 79.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations for the indicated MWCs:

1. Fleet Services (MWC 04): DRA recommends adopted total capital expenditures of $59.908 million for 2006 and $72.899 million for 2007 compared to PG&E's request of $66.531 million for 2006 and $153.116 million for 2007. DRA recommends adjusting PG&E's forecast by $6.623 million in 2006 and $80.217 million in 2007.
2. Fleet Capital Tools & Equipment (MWC 05): DRA recommends adopted total capital expenditures of $523,000 for 2006 and

$519,000 for 2007 compared to PG&E's request of $943,000 for 2006 and $961,000 for 2007. DRA recommends adjusting PG&E's forecast by $420,000 in 2006 and $442,000 in 2007.

3. Corporate Real Estate-Buildings (MWC 78): DRA recommends total capital expenditures of $37.800 million in 2006 and $24.653 million in 2007 compared to PG&E's request of $46.054 million in 2006 and $51.152 million in 2007. DRA recommends adjusting PG&E's forecasts by $8.254 million in 2006 and $26.499 million in 2007.

4. Corporate Real Estate-Land (MWC 79): DRA recommends that PG&E's request of $500,000 for the proposed purchase of land in 2007 for a new service center be deferred to 2008.

Tables 14-1 and 14-2 compare DRA's recommended with PG&E's proposed estimates for those MWCs in which there are differences:

Table 14-1
Capital Expenditures for Common Plant
(Thousands of 2006 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
MWC 04 Fleet Services	$59,908	$66,531	$6,623	11.1%
MWC 05 Fleet Capital Tools	$523	$943	$420	80.3%
MWC 78 Buildings	$37,800	$46,054	$8,254	21.9%
MWC 79 Land	$0	$0	$0	0.0%
Totals	$98,231	$113,528	$15,297	15.6%

Table 14-2
Capital Expenditures for Common Plant
(Thousands of 2007 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
MWC 04 Fleet Services	$72,899	$153,116	$80,217	110.1%
MWC 05 Fleet Capital Tools	$519	$961	$442	85.2%
MWC 78 Buildings	$24,653	$51,152	$26,499	107.5%
MWC 79 Land	$0	$500	$500	0.0%
Totals	$98,071	$205,729	$107,658	109.8%

III. DISCUSSION

A. Fleet Services (MWC 04)

PG&E is asking the Commission to adopt its forecasts for Fleet Services in the amount of $153.1 million for the 2007 test year. Included in this total forecast is $106.4 million for owned vehicle equipment replacement, $36.2 million for rental equipment replacement, or elimination of long term rentals, plus $10.5 million for environmental compliance costs. PG&E's reasons for its forecast of capital expenditures are to: (1) provide safe, reliable responsive service to customers in a cost-effective manner; and (2) comply with the environmental regulations requiring utilities to reduce their overall proportion of fossil fueled vehicles and emissions from their diesel-powered vehicles. PG&E's request is also made in order to address an accumulating backlog of aging equipment as well as to achieve its goal of eliminating the costs of long-term rentals.[1]

DRA examined PG&E's testimony, supporting workpapers, and responses to DRA data requests. DRA studied PG&E's overall historical expenditures from 2000 to 2005 including the historical unit purchases of each category of vehicle included in its forecast of owned vehicle replacements. DRA recommends total capital

[1] Exhibit PG&E-7, Chapter 4.

expenditures for MWC 04 of $59.908 million in 2006 and $72.899 million in 2007. The recommended total capital expenditures are comprised of three cost categories: (1) owned vehicle replacements, (2) rental replacements, and (3) environmental compliance costs. Each of these cost categories are discussed below.

DRA recommends adjusting the 2006 and 2007 forecasts for owned vehicle replacements by $6.623 million in 2006 and $47.453 million in 2007. DRA's recommended capital expenditures for owned vehicle replacements in 2006 and 2007 are based upon a four-year average of historical (and 2006 forecasted) expenditures, from 2002-2005 and 2003-2006, respectively, adjusted for inflation. There is no corroborating evidence or unusual and extraordinary circumstances supporting the forecasted sharp increase in unit replacements or any other support to substantiate the concentration of capital spending in the years 2007-2009.

The number of units proposed to be replaced in 2007 is dramatically higher than the average units replaced from 2000-2005 for vehicle categories of 01-05.[2] In general, PG&E's forecast of owned vehicle replacement tended to be "top heavy" with the greatest amount of forecasted purchased units going to the equipment categories generally showing the smallest amount of historical replacement with no persuasive evidence to demonstrate why future replacements are forecasted to be dramatically out of line with past performance. For example, categories 01 and 02 show a six year average replacement of 79 and 389 units per year, respectively.[3] For 2007, PG&E forecasted 219 units, and 1,050 units to be replaced for categories 01 and 02, respectively.

PG&E seeks to eliminate the cost of long-term rentals. DRA does not oppose PG&E's ambitious goal if it will lower costs. However, there is no justification for lumping the costs associated with this potential cost savings move in the 2007 test year. PG&E's estimate of rental replacement costs is analogous to its owned vehicle

[2] This excludes incremental costs for environmental mandate compliance or rental replacements.

[3] PG&E's response to Data Request ORA-134, Question 4, and ORA-216, Question 5a.

replacement forecast, that is, rental replacement costs are also based on per unit forecasted costs. DRA does not support inclusion of all of the forecasted dollars in one year and recommends that they be spread over the rate case cycle of three years. Three years appears to be more realistic a time period given that the policy of eliminating long term rentals is new and untested. PG&E does not propose to completely eliminate vehicle and equipment rentals; it still expects to rent on a short-term basis. However, PG&E proposes to convert long-term rentals into PG&E-owned equipment because rentals are a more expensive option over time. According to PG&E, the conversion of long-term rentals to owned assets will reduce costs by $2.1 million annually.[4] The proposed one year period of time to carry out this plan raises the question of whether the Fleet Services management infrastructure is able to absorb such an ambitious plan. Spreading the recovery time to three years mitigates this concern, and reflects a realistic implementation period. DRA recommends adjusting Rental Replacements by $24.137 million resulting in recommended expenditures of $12.069 million in 2007 compared to PG&E's request of $36.206 million.

Included in the Fleet Services forecast are costs associated with compliance with environmental mandates. PG&E included mandates from both California and federal law in its environmental mandate compliance capital expenditure forecasts. DRA accepts the forecasts associated with the state mandated environmental provisions of $1.210 million in 2006 and $1.880 million in 2007. The state mandated provisions have identifiable time lines and compliance deadlines and the forecasted costs associated with the state rules are reasonably supported.

The forecasted costs to meet federal compliance mandates are nebulous. The federal compliance mandates stem from the Energy Policy Act of 1992 (EPAct) and are included in the total $10.5 million (2007) forecasted incremental capital costs for environmental mandate compliance. Generally, the EPAct requires that of the total light duty motor vehicles acquired by PG&E, 90% of the replacements for model

[4] PG&E response to Data Request ORA-34, Question 3c.

years 2000 and after shall be alternative fueled vehicles.[5] Therefore, environmental incremental costs are a function of how many new vehicles are purchased by PG&E. The total EPAct related forecasted costs are $0 for 2006 and $8.627 million for 2007. This Exhibit will not discuss the EPAct law in detail. However, it is relevant to discuss three issues as they are the foundation for DRA's recommended adjustments: (1) EPAct provides for certain incentives, or credits for replacement of vehicles over 8,500 pounds (gross vehicle weight or GVW),[6] (2) PG&E forecasted capital costs for vehicles over 8,500 GVW in its application but stated that it is uncertain that PG&E will purchase vehicles that will qualify for the credit,[7] and (3) environmental costs are estimated on an incremental basis, per vehicle unit purchased. DRA examined the forecasted incremental costs for environmental compliance mandates under the EPAct[8] to explore the possibility that the incremental costs may have already been included in the vehicle replacement forecasts, thus creating a double counting of the same unit costs. DRA contacted PG&E to inquire about this possibility and discovered that approximately $6.582 million has been included twice in certain vehicle types.[9]

DRA recommends that PG&E's forecast of environmental compliance capital expenditures be adjusted by a total of $8.627 million in 2007 comprised of (1) $6.582 million for the overstated per unit costs, and (2) 2.045 million, or the amount forecasted for EPAct compliance mandates related to vehicles over 8,500 GVW which PG&E is uncertain it will incur.

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[5] Exhibit PG&E-7, workpapers, page 4-388.

[6] PG&E decided not to incorporate a cost savings forecast (associated with the EPAct credits) into this general rate case application. See PG&E's response to Data Request ORA-144, Question 1b.

[7] PG&E response to Data Request ORA-144, Question 1b.

[8] See Exhibit PG&E-7, Workpapers Supporting Fleet Services.

[9] Phone conversation with PG&E witness on March 24, 2006.

Tables 14-3 and 14-4 summarize DRA's recommended with PG&E's proposed estimates for each of the three cost categories included in MWC 04, Fleet Services:

Table 14-3
Capital Expenditures for Fleet Services
(Thousands of 2006 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Owned Vehicle Replacements	$58,698	$65,321	$6,623	11.3%
Rental Replacements	$0	$0	$0	0.0%
Environmental Compliance	$1,210	$1,210	$0	0.0%
Totals	$59,908	$66,531	$6,623	11.1%

Table 14-4
Capital Expenditures for Fleet Services
(Thousands of 2007 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Owned Vehicle Replacements	$58,950	$106,403	$47,453	80.5%
Rental Replacements	$12,069	$36,206	$24,137	200.0%
Environmental Compliance	$1,880	$10,507	$8,627	458.9%
Totals	$72,899	$153,116	$80,217	110.1%

B. Fleet Capital Tools and Equipment (MWC 05)

MWC 05 is used throughout several of PG&E's capital expenditure requests for common plant. For example, PG&E's presentation for Fleet Services includes MWC 05 as a separate cost category called Fleet Capital Tools and Equipment. In addition, MWC 05 appears in Exhibits PG&E-7, Chapter 3, (Utility Operations Support), Chapter 5 (Supply Chain-Materials Handling and Inventory), and Chapter 7 (Corporate Real Estate). This Exhibit does not discuss any other of PG&E's MWC 05 forecasts appearing in other cost elements.

DRA examined PG&E's testimony, supporting workpapers, historical expenditures, and responses to DRA data requests. PG&E's requests for this cost category in Exhibits PG&E-7, Chapter 3, (Utility Operations Support), Chapter 5 (Supply Chain-Materials Handling and Inventory), and Chapter 7 (Corporate Real

Estate) were reasonably supported and DRA accepts the forecasted capital expenditures in those Exhibits. However, DRA recommends adjustments to Fleet Capital Tools & Equipment consistent with DRA's recommendations for MWC 04, Fleet Services. PG&E is requesting capital expenditures of $943,000 in 2006 and $961,000 in 2007 representing a sharp increase in expenditures as compared to historical expenditures. DRA recommends capital expenditures of $523,000 in 2006 and $519,000 in 2007 based upon a four-year average of historical (and 2006 forecasted) expenditures, from 2002-2005 and 2003-2006, respectively, adjusted for inflation.

C. Corporate Real Estate-Buildings (MWC 78)

DRA examined PG&E's testimony, supporting workpapers and responses to DRA data requests. In addition to overall historical expenditures, DRA also reviewed historical spending for certain specific projects listed in the supporting workpapers under: (1) projects over $1 million; and (2) Other projects. When reviewing specific projects, DRA observed projects with little or no historical expenditures in which PG&E forecasted expenditures starting in test year 2007 and 2008. DRA inquired about the status of these planned projects, asking whether or not they were funded, scheduled, and whether governmental approvals had been obtained. For example, Project 5708078 SF SC Seismic Solution shows a December 31, 2006 operative date, historical expenditures of $213,000 in 2005 and zero for 2004. PG&E, however, forecasted $7.3 million of spending in 2006 and zero in 2007. DRA inquired on the status of this project and found that actual construction is scheduled to begin January 1, 2007 and completed by December 31, 2007, and a building permit to be applied for and obtained by December 31, 2006.[10] In this instance, structural engineering design is 95% complete, according to PG&E, and began on January 1, 2006. This project is an example which DRA considers reasonably supported, albeit delayed to 2007. In

[10] PG&E's response to Data Request ORA-197, Question 7a.

this project, there is the presence of pre-construction activity (structural and architectural design, pre-construction investigation, etc.) on which to base this conclusion. Another project, the Fresno Service Center, was also reasonably supported with the presence of activity, partial completion, a project schedule, governmental approvals, etc..[11]

In contrast to the above two examples, the following projects (operative dates in parenthesis) lack any activity, have no historical spending, do not have governmental approval or permits obtained[12] and most notably, due to funding limitations, based on PG&E's facility assessment criteria and utility prioritization model, were not funded in 2006. Therefore, the expected start dates were shifted by PG&E from 2006 to 2007: [13]

Table 14-5
PG&E's 2007 Forecast
Unfunded Planned Projects
(in thousands of dollars)

1. Gilroy New Service Center (10/1/08)	$ 9,753
2. Replace/Consolidate GO Standby Generators (13/31/07)	3,576
3. 77 Beale Bldg Mgmt Cntr Sys Replacement (12/31/07)	4,660
4. Bldgs-VP Ops Facilities (no Opt. Date)[14] 15,275	
5. Operational Bldg Projects (no Opt. Date)	2,167
6. Capital Compliance (no Opt. Date)	2,167
Total	$37,598

[11] PG&E's response to Data Request ORA-197, Question 7b.

[12] Where PG&E has not initiated projects, it has not requested permits or other governmental approvals. PG&E response to Data Request ORA-197, Question 7h.

[13] PG&E's response to Data Request ORA-197, Questions 7c, 7d, 7e, 7f, 7g, 7h.

[14] Some projects within this category received funding, as listed in PG&E's response to Data Request ORA-197, Question 7f Attachment f2.

DRA examined the historical spending for projects 4, 5 and 6 in Table 14-5 for the years 2000-2005 in order to assess the likelihood of PG&E spending the requested amounts associated with those projects (above table). Projects 1-3 in Table 14-5 do not have a history, so there is nothing to compare forecasted expenditures against. DRA found that projects 4-6 (above) had historical spending for the years 2000-2005 sharply lower than PG&E's requests for 2006 and 2007, with no corroborating evidence to support the sharp increase in capital expenditures. For all of the above projects, DRA found the project descriptions, justifications and estimating methods equivocal, general, and focused more on what the project may accomplish and not its justification and why it is probable they will be built.[15]

DRA recommends that PG&E's forecasted capital expenditures for 2006 and 2007 be adjusted by (1) eliminating the forecasted capital expenditures for projects 1-3 (above) and (2) recommending forecasted capital expenditures based upon actual historical spending for projects 4-6 (above). The latter recommendation is based on a four-year average of historical (and 2006 forecasted) expenditures, from 2002-2005 and 2003-2006, respectively, for each of the indicated projects, adjusted for inflation. This approach results in total adjustments of $8.254 million in 2006 and $26.499 million in 2007.

D. Corporate Real Estate-Land (MWC 79)

PG&E's corrected request for land purchases in test year 2007 amounts to $500,000. This amount is requested in Chapter 7 of Exhibit PG&E-7 under MWC 79, Land Management and is summarized in Table 7-25, line 3. The workpapers, however, show a total of $10.5 million for Land Management comprising of the aforementioned $500,000 purchase, plus a second one for $10 million. This latter $10 million entry is an error and PG&E did not include it in its requested expenditures for

[15] See Exhibit PG&E-7, workpapers supporting Chapter 7, Corporate Real Estate.

land. [16] The $10 million proposed purchase is for the relocation of the Livermore service center. However, the correct forecast for Land Management is $500,000; the $10 million expenditure for the Livermore service center was not included in the written testimony. PG&E further explained that it eliminated the Livermore service center (as well as the Modesto service center) Land Management request for funding because these property purchases were for future expansion and they would be classified as plant held for future use.[17] The $10 million purchase for the Livermore service center and the $4.2 million purchase for the Modesto service center were incorrectly included in the tables in the workpapers.[18] Pursuant to PG&E's response to DRA's data request,[19] PG&E stated that it is no longer requesting funding for these projects in this 2007 general rate case.[20]

The $500,000 proposed purchase is to purchase a site for the planned relocation of the Lemoore Service Center to another location in or around the city of Lemoore. PG&E explained that the land is needed because the existing service center site is too small to meet the current needs of it operations serving the surrounding community, and that the site is too small for construction materials and trucks, and entering and exiting the facility is difficult. The price was forecasted based upon recent land prices in the Lemoore area and the estimated acres required to develop a new service center in the Lemoore area.

Property held for future use is the amount of investment in property and plant which is not being used currently by a utility to provide service. For example, land can be purchased, when available, for potential future use such as a service center or

[16] PG&E's response to Data Request ORA-197, Questions 2 and 4a.

[17] The workpapers include a proposed land purchase for the Modesto service center in year 2009 in the amount of $4.2 million.

[18] PG&E's response to Data Request ORA-197, Question 2.

[19] PG&E's response to Data Request ORA-197, Questions 2 and 4a.

[20] PG&E's response to Data Request ORA-197, Question 4a.

an office building. The criteria that DRA must follow in deciding whether to include or exclude such property is one based upon: (1) whether the specific land has been identified and purchased for development; and (2) if purchased, does the land have an expected in-service date within a reasonable time period? With regard to the former question, PG&E has not purchased the land for the proposed Lemoore service center ($500,000 forecast). In regard to the latter question, DRA observes that the Lemoore project is listed with other projects generally expected to be completed within one year (projects under $1 million), or a reasonable amount of time. The issue here is that the land has not been purchased, and that the project is questionable.

DRA inquired whether the land has been purchased or whether pertinent permits and approval been secured. At this time, PG&E is forecasting the purchase of the land in 2007. Therefore, it has not yet been acquired. Further, no permits and governmental approvals have been secure. Permits and appropriate approvals are expected to be secured in 2008 when the service center is forecasted to be constructed.[21]

DRA studied the project's justification statement in the workpapers and did not find the need for the service center unreasonable. However, DRA recommends that the $500,000 forecast not be allowed in 2007 because, at this time, there is no compelling evidence to substantiate its inclusion in the test year.

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[21] PG&E's response to Data Request ORA-197, Question 5a.