Application	:	A.05-12-002
Exhibit Number	:	DRA-10
Commissioner	:	Bohn
Admin. Law Judges	:	Kenney, Econome
Witnesses	:	Bumgardner, Enderby, Godfrey, Hunter

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

Administrative and General Expenses

San Francisco, California
April 14, 2006

ADMINISTRATIVE AND GENERAL EXPENSES

DRA's testimony on PG&E's Administrative and General (A&G) expense levels for the test year is found in this exhibit. DRA's testimony explains why DRA has recommended different expenditure levels for each of PG&E's departments and business units utilizing the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts 920-935 and quantifies these differences in constant 2004 dollars, except where noted.

This exhibit is divided into Chapters 10-A through 10-Q, and the DRA witness for each, is as follows:

10-A	Administrative & General Introduction/Summary	T. Godfrey
10-B	Certain Executive Officers and Related Departments	T. Godfrey
10-C	Legal Costs	T. Godfrey
10-D	Safety Health & Claims Department & Other Costs	T. Godfrey
10-E	Finance Department Costs	T. Godfrey
10-F	Risk Management Department	T. Godfrey
10-G	Public Policy and Governmental Affairs	T. Godfrey
10-H	Human Resources	T. Godfrey
10-I	Performance Incentive Plan	T. Godfrey
10-J	A&G Associated with General Services and Other Support Costs	T. Godfrey
10-K	PG&E Corporation: Holding Company Issues	M. Bumgardner
10-L	Benefit Costs	S. Hunter
10-M	Employee Benefit Plan Trust Contribution and Investment and Benefit Finance Departments Costs	S. Hunter
10-N	Pension Costs	S. Hunter
10-P	Insurance and Injuries & Damages	M. Enderby
10-Q	Other and Miscellaneous A&G Expenses	M. Enderby

CHAPTER 10-A

ADMINISTRATIVE AND GENERAL EXPENSES: INTRODUCTION AND SUMMARY

I. INTRODUCTION

This chapter presents DRA's recommended expense levels for PG&E's 2007 Test Year (TY) Administrative and General (A&G) Expenses. The categories of A&G expenses cover general expenses not chargeable to a specific functional activity and are recorded in Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts 920 through 935. PG&E has requested a total of $834.134 million for Test Year 2007 A&G Expenses for its electric distribution, gas distribution, and electric generation.

II. SUMMARY OF RECOMMENDATIONS

DRA's estimate for PG&E's Test Year A&G expenses is $613.126 million, which is $221.008 million lower than PG&E's forecast of $834.134 million. The difference between the forecasted expense levels of DRA and PG&E is the result of DRA's alternative 2007 Test Year estimates of the various A&G activity expenses and program-by-program derived adjustments. Expenses discussed in this exhibit are expressed in constant 2004 dollars, except where otherwise indicated. DRA also recommends that in PG&E's next GRC, the Commission require PG&E to present its Application, workpapers, data responses, and all other supporting documentation to justify its test year forecast, in a clear and consistent manner by FERC Account.

DRA presents its estimates of Test Year 2007 A&G expenses by account, allocated to electric distribution, gas distribution, and electric generation in Table 10-A-1. Following that, Table 10-A-2 contains PG&E's estimates.

Table 10-A-1
DRA’s Estimate of
Administrative & General Expenses
(in Thousands of 2004 Dollars)

Description	FERC Account	Total Utility	Electric Distribution	Gas Distribution	Electric Generation
A&G Salaries	920	$145,589	$61,178	$34,258	$33,043
Office Supplies and Expenses	921	19,897	8,361	4,682	4,516
A&G Expenses Transferred Credit	922	(17,299)	(7,269)	(4,070)	(3,926)
Outside Services	923	71,632	30,101	16,855	16,258
Property & Liability Insurance	924	11,068	4,651	2,604	2,512
Injuries and Damages	925	82,532	34,681	19,420	18,732
Employee Pension and Benefits (P&B)	926	369,816	155,402	87,020	83,936
Regulatory Commission Expenses	928	0	0	0	0
Advertising & Misc Expenses	930	3,127	1,314	736	711
Total Operations		$686,361	288,418	161,504	155,782
Maintenance					
Maintenance of General Plant	935	8,409	3,534	1,979	1,910
Total A&G Expenses		$694,771	$291,952	$163,483	$157,691

Table 10-A-2
PG&E's Estimate of
Administrative & General Expenses
(in Thousands of 2004 Dollars)

Description	FERC Account	Total Utility[1]	Electric[2] Distribution	Gas[3] Distribution	Electric[4] Generation
A&G Salaries	920	$190,773	80,165	$44,890	$43,299
Office Supplies and Expenses	921	24,335	10,226	5,726	5,523
A&G Expenses Transferred Credit	922	(25,564)	(10,742)	(6,015)	(5,802)
Outside Services	923	132,008	55,471	31,062	29,961
Property & Liability Insurance	924	11,068	4,651	2,604	2,512
Injuries and Damages	925	82,532	34,681	19,420	18,732
Employee Pension and Benefits (P&B)	926	514,494	216,197	121,063	116,772
Regulatory Commission Expenses	928	0	0	0	0
Advertising & Misc Expenses	930	3,127	1,314	736	710
Total Operations		$932,771	$391,962	219,486	211,706
Maintenance					
Maintenance of General Plant	935	12,443	5,229	2,928	2,824
Total A&G Expenses		$945,214	$397,191	$222,413	214,530

[1] Exhibit (PG&E-2) Chapter 6, Table 6-3 page 6-13. Data excludes Capital, O&M, PG&E Corporation, Below the Line and Affiliates cost pools.

[2] Exhibit (PG&E-2) Chapter 6 Table 6-1 page 6-11

[3] Exhibit (PG&E-2) Chapter 6 Table 6-2 page 6-12

[4] PG&E RO workbook A&G.xls. Data excludes Capital, O&M, PG&E Corporation, Below the Line and Affiliates cost pools.

III. DISCUSSION

A. Translation of PG&E’s Administrative and General Expenses from its Internal SAP Accounting System to Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts

PG&E manages its A&G expenses and programs through its internal accounting system called SAP. PG&E estimated its test year forecast in its 2007 General Rate Case (GRC) A&G Study using its SAP system. PG&E’s SAP system combines expenses incurred for labor, non-labor, outside services, benefits and payroll taxes.

Before PG&E provides the data to the Commission for review, the expenses must be properly translated (separating the expenses) into the appropriate FERC Accounts. Decision 89-01-040 established standards for utility documentation for GRC filings. PG&E’s GRC Administrative and General Expenses for the test year should be organized by FERC Account (920 through 935) and provided to the Commission in a clear and consistent manner. PG&E’s workpapers, data responses and five years of historical data, which are utilized to substantiate and justify its GRC showing, should be organized by FERC Account. PG&E’s historical data should be separated accordingly by FERC account and be organized in the same manner as its GRC filing so that the expense levels can be compared, analyzed, and evaluated. Further, PG&E’s forecasted data must have a clear tie back and be traceable to base year data without difficulty. However, this was not the case with PG&E’s entire A&G showing.

DRA had difficulty with tracing historical dollars and matching expenses provided in PG&E’s data request responses with PG&E’s 2004 recorded adjusted and forecasted expenses presented in its 2007 GRC A&G Study. The reason for this difficulty was that PG&E did not always present the data in a consistent and transparent manner. PG&E presented some data separated by FERC accounts, as was requested, and other data in SAP dollars (including labor, non-labor, taxes, and benefits combined as one), some data in nominal dollars and some data in constant dollars. Providing data in such a manner made analysis and comparison of PG&E's A&G expenses unnecessarily difficult, and contributed to the volume of DRA discovery.

B. DRA's Discovery Problems in the A&G Area

DRA received untimely responses to the majority of its A&G data requests (dealing with Accounts 920 through 923), which made a thorough analysis of PG&E's test year forecast problematic and unnecessarily difficult.[5] In responses to requests from DRA to support and justify PG&E's test year forecast expense levels for A&G expenses, PG&E provided line item expense data from its SAP system that combined capital expenditures with operations and maintenance, below-the-line and PG&E Corporation expenses. This made it difficult for DRA to tie back and trace historical data and compare it to forecasted expense levels. DRA had difficulty determining which expenses had been removed from PG&E's A&G expenses, which expenses were O&M, which expenses belonged to PG&E Corporation, etc.

PG&E did not provide five years of historical data recorded in FERC Accounts 920, 921 and 923 for its Administrative and General expenses, in a consistent and comparable format so that its expense levels could be analyzed and compared to its 2007 test year forecast. The historical data PG&E provided for A&G expenses recorded in FERC Accounts 920, 921, and 923 did not include PG&E's historical Order Costs expenses by department and/or provider cost center (PCC)[6] for the years

[5] PG&E's responses to DRA's A&G data requests ranged from three weeks to three months late. In most cases, PG&E did not notify DRA prior to the due data to inform DRA that it would be late, PG&E usually contacted DRA on or after the due date, if at all, or when DRA called and/or sent e-mails inquiring about the status of the data request. PG&E would at times provide a new date to DRA when it stated that it would provide its responses, and PG&E would likewise miss those new established due dates without informing DRA.

[6] PG&E's Provider Cost Centers are departments or groups that perform work in an organization.

2000 through 2003[7]. This made it unnecessarily difficult for DRA to compare and analyze historical expense levels for the years 2000 through 2003[8] with PG&E's recorded adjusted 2004 expenses and forecasted 2005 through 2007 expense levels.[9] When DRA reviewed the historical expenses and identified significant increases in FERC accounts from one year to the next that were not explained in PG&E's testimony, workpapers or A&G Study, DRA sent data requests to PG&E asking for more detail. In response, PG&E stated that the data it had provided to DRA on its historical expenses were "not comparable" and this was due to "this inconsistency" of excluding its historical orders costs.[10]

In many instances, DRA forecasted PG&E's test year A&G expenses for FERC Account 920, 921, and 923 based on 2004 recorded adjusted information provided by PG&E. In its next GRC, the Commission should require that PG&E file its Application, workpapers, data responses, and all other supporting documentation

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[7] PG&E's Order Costs or Orders, are used to plan, collect and monitor costs for services that a PCC department provides or for products and services produced.

[8] In March 2006, PG&E provided supplemental responses for its Order Costs for the years 2000 through 2003, which had been excluded from the historical data provided to DRA in 2005. In a phone discussion in March 2006, PG&E described the information as a "dump" from its SAP Accounting System and said that the expenses had not been adjusted. Therefore, the expenses included costs that would not be included in PG&E's test year forecast. Unfortunately, DRA was not able to identify the expenses that should have been removed.

[9] In PG&E's response to ORA_ORA020—02SUPP01-1 and ORA_ORA020-02SUPP01-3, PG&E provided historical data which excluded its historical Order Costs expenses for the years 2000 through 2003. For PG&E's recorded adjusted data for 2004 and forecasted data for 2005 through 2007, PG&E included Order Costs data in its estimates.

[10] In data requests ORA-157 question 11-a and ORA-168 question 1-d, DRA requested information on expense increases from year to year that was identified on PG&E's spreadsheet that was supposed to display PG&E's historical expenses. PG&E's response to the data request was: "The question references two data series that are not comparable. The increase noted between 2003 and 2004 is due to this inconsistency. FERC accounts may include amounts from PCC costs and order costs, but the amounts for 2000 through 2003 in Attachment ORA_0020-02SUPP01-3 do not show orders costs. Attachment ORA_0020SUPP01-3 is based on the amounts in Attachment ORA_0020-02SUPP01-2…Orders data was not available by department for 2000-2003 for Utility departments or PG&E Corporation departments. Although there was a 2003 A&G Study, a different methodology was used to collect orders data. Therefore, orders data from the 2003 A&G Study can not be compared to data provided in the 2007 A&G Study."

to justify its test year forecast, in a clear, consistent and concise manner by FERC account. Furthermore, the test year forecast should be presented in a manner consistent and comparable to the historical five years of recorded data (as required by the rate case plan) for each functional area.

DRA's testimony on PG&E's A&G expense levels for the test year is found in this Exhibit. DRA's testimony explains why DRA has recommended different expenditure levels for each of PG&E's departments and business units utilizing FERC Accounts 920-935 and quantifies these differences in constant 2004 dollars, except where noted.

CHAPTER 10-B
CERTAIN EXECUTIVE OFFICERS AND RELATED DEPARTMENTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for Certain Executive Officers and Related Department Costs recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004, recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for Certain Executive Officers and Related Department Costs. PG&E forecasted $2.266 million of A&G expenses for Certain Executive Officers and Related Departments. The corresponding DRA estimate is $1.450 million.

This Department breaks down into 2 Provider Cost Centers (PCCs) as follows:

Thousands of 2004 Dollars

	PG&E	DRA
President and CEO (PCC 10405)	$1,450	$1,450
Corporate Secretary (PCC 10446.1)	816	0
Total	$2,266	$1,450

DRA provides a summary in Table 10-B-1 by FERC Account of its recommended expense levels for PG&E's expenses for Certain Executive Officers and Related Departments for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-B-1

Certain Executive Officers and Related Department Costs
(in Thousands 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$1,586	$1,201	$385	32.1%
921	407	188	219	116.5%
923	273	61	212	347.5%
Total	$2,266	$1,450	$816	56.3%

The following summarizes DRA's recommendations:

1. That PG&E's forecast of $1.450 million for its President and CEO expenses in PCC 10405 for Certain Executive Officers and Related Department Costs be adopted. The recorded costs for PCC 10405 appear to be reasonable and have been declining or have remained relatively flat from 2000 to 2004 and are expected to remain close to these levels in the test year.
2. That PG&E's forecast of $0.816 million for PG&E's Utility Corporate Secretary Department, PCC 10446.1, be disallowed. PG&E is requesting duplicate ratepayer funding for these activities in PG&E Corporation Vice President and Corporate Secretary PCC 20010.1.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 General Rate Case A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. PG&E's historical data provided to DRA for expenses recorded in FERC Accounts 920, 921, and 923 for Certain Executive Officers and Related Department Costs did not include adjusted historical Order Cost expenses by department and PCC for the years 2000 through 2003, which made it difficult to compare and analyze PG&E's recorded historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels. DRA used its best estimate, based on the information provided by PG&E, to forecast expense levels for the 2007 test year for Certain Executive Officers and Related Department Costs.

B. Office of the Utility President and CEO (PCC 10405)

DRA does not take issue with PG&E's forecasted expense level of $1,450,000 for PCC 10405 for its Office of the Utility President and CEO. The forecasted expense levels appear to be reasonable and the expenses have been declining or have remained relatively flat from 2000 through 2004 and are expected to remain this way during the test year.

PG&E's President and CEO is responsible for the overall executive management of the Utility and provides oversight of all Utility functions and management of all departments. During 2004, PG&E eliminated a position which reduced its staffing level from five to four. At the end of 2004 this department had a headcount of four employees: President and CEO, senior executive assistant, executive secretary, and senior administrative clerk. PG&E states that it would be hiring an assistant to the CEO in January 2006 bringing its head count back to five. PG&E states that its staffing level will remain at five through 2007. PG&E forecasted a reduction in expenses recorded in FERC Account 921 in the test year from 2004 expense levels. PG&E's expense level in the test year for FERC Account 923 shows a reduction in the test year from 2005 forecasted levels due to the removal of a one-time, non-recurring expense that will not be incurred in 2006 and 2007.

C. Utility Corporate Secretary Department (PCC 10446.1)

PG&E forecasts an expense level of $0.816 million for PCC 10446.1, PG&E's Utility Corporate Secretary Department (FERC Account 920 expenses of $384,000, FERC Account 921 expenses of $220,000, and FERC Account 923 expenses of $212,000). DRA recommends this $0.816 million be disallowed. PG&E is requesting duplicate funding for these activities in PG&E Corporation Vice President and Corporate Secretary PCC 20010.1 that will be recorded in FERC Account 923.

PG&E states on page 4-19 in Exhibit (PG&E-6) that "The Corporate Secretary of the Utility holds the same title for PG&E Corporation. The labor costs for the personnel performing corporate secretary functions for the Utility are charged to PG&E Corporation PCC 20010 and PCC 20011." Further, PG&E states that "the costs included in the Utility corporate secretary function are materials, services, and contract costs related to the preferred shareholders of the Utility and the support for retired executives of the Utility." On page 4-12 PG&E states that PG&E Corporation Vice President and Corporate Secretary "Maintains Utility and PG&E Corporation corporate document files" and "Oversees the storage, retrieval and disposal of all Utility and PG&E Corporation official corporate documents."

PG&E is requesting expenses in the test year under PCC 10446.1, Utility Corporate Secretary Department, for its Records Center which reports to the PG&E Corporation Vice President and Corporate Secretary Department PCC 20010.1. These services are listed on page 4-12 as services already being provided by PG&E Corporation Vice President and Corporate Secretary Department. PG&E's ratepayers should not be required to provide duplicate funding for two departments that are performing the same services and activities.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $1.450 million for Certain Executive Officers and Related Department Costs in the test year for PG&E.

CHAPTER 10-C
LEGAL COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Legal Department Costs (Legal) recorded to Federal Energy Regulatory Commission (FERC) Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for its Legal Department. PG&E forecasted $40.246 million of A&G expenses for its Legal Department. The corresponding DRA estimate for PG&E's Legal Department is $29.396 million.

PG&E's Legal Department breaks down into 2 Provider Cost Centers (PCCs) as follows:

Thousands of 2004 Dollars

	PG&E	DRA
Law Department (PCC 10448)	$39,764	$28,914
Vice President and General Counsel (PCC 10447)	482	482
Total	$40,246	$29,396

DRA provides a summary in Table 10-C-1 by FERC Account of its recommended expense levels for PG&E's Legal Department for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-C-1
Legal Department Costs
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$17,540	16,503	1,037	6.3%
921	1,432	1,351	81	6.0%
923	21,274	11,542	9,732	84.3%
Total	$40,246	$29,396	$10,850	36.9%

The following summarizes DRA's recommendations:

1. That PG&E's forecast for its VP and General Counsel (PCC 10447) of $0.482 million be adopted for the test year. The recorded costs in this department appear to be reasonable and have remained relatively stable from 2000 to 2004. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.
2. That DRA's estimates of $1.330 million for FERC Account 921 be adopted for PG&E's Law Department (PCC 10448). This is $0.081 million less than PG&E's test year forecast. DRA made a normalized adjustment to 2004 recorded adjusted expenses of $0.104 million recorded to FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.
3. That the Commission use PG&E's last recorded year expenses for a test year forecast for FERC Account 920 of $16.051 million for PG&E's Law Department (PCC 10448). This is $1.037 million less than PG&E's test year forecast. The use of the last recorded year expenses of $16.051 million for FERC Account 920 reflects the highest level of expenditures in this account over the last five years and is a reasonable method to derive the test year estimate. Further, DRA used the last recorded year expenses because it was the only year that recorded adjusted data was provided. PG&E did not provide recorded adjusted data for the years 2000 through 2003 to be compared and analyzed with similar 2004 data.
4. That DRA's estimates of $11.533 million for FERC Account 923 be adopted for PG&E's Law Department (PCC 10448). This is $9.732 million less than PG&E's test year forecast. DRA made an audit adjustment to 2004 recorded adjusted expenses for FERC Account 923 of $5.123 million for various litigation costs that should not be borne by the ratepayers.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. PG&E's historical data provided to DRA for expenses recorded in FERC Accounts 920, 921, and 923 for PG&E's Legal Costs did not include adjusted historical Order Cost expenses by department and PCC for the years 2000 through 2003, and therefore it was difficult for DRA to compare and analyze PG&E's historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels.[11] DRA used its best estimate based on the information provided by PG&E to forecast expense levels for the 2007 test year for PG&E's Legal Costs.

DRA did not take issue with PG&E's forecasted level of expenses of $0.482 million for its VP and General Counsel (PCC 10447). The recorded costs in this department appear to be reasonable and have remained relatively stable from 2000 to 2004. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

B. Utility Law Department (PCC 10448)

PG&E forecasted $39.764 million in the test year for its Law Department (PCC 10448). PG&E's Law Department provides legal services for the Utility. This

[11] In March 2006 PG&E provided its Order Costs for the years 2000 through 2003, which had been excluded from the historical data provided to DRA in 2005. In a phone discussion in March 2006, PG&E described the information as a "dump" from its SAP Accounting System and said that the expenses had not been adjusted. Therefore, the expenses included costs that would not be included in PG&E's test year forecast. Unfortunately, DRA was not able to identify the expenses that should have been removed. DRA still was not able to compare and analyze PG&E's historical expense levels.

department is organized into three categories: litigation, regulatory, and corporate. PG&E's Legal Department had 136.41 employees (attorneys and support staff) at the end of 2004. In the test year, PG&E expects to increase its staffing level to 147.3. PG&E's labor expenses recorded to FERC Account 920 fluctuated during the years 2000 through 2004.

DRA has differences with PG&E's forecast of $39.763 million. DRA utilized PG&E's 2004 recorded adjusted expenses as a basis for its test year estimates of $28.914 million for PG&E's Law Department (PCC 10448). This is an adjustment of $10.850 million to PG&E's test year forecast. The use of the last recorded year expenses of $16.051 million for FERC Account 920 reflects the highest level of expenditures in this account over the last five years and is a reasonable test year estimate. Further, DRA used the last recorded year expenses because it was the only year that recorded adjusted data was provided. PG&E did not provide recorded adjusted data for the years 2000 through 2003 to be compared and analyzed along with similar 2004 data.

Table 10-C-2 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-C-2

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	119.75	113.63	121.80	130.13	136.41	133
Labor Dollar	$12,441,050	$12,482,545	$13,860,952	$14,475,270	$15,593,495	$16,177,643

PG&E's average headcount during 2000 through 2004 was 124.34 with an average labor expense of $13.771 million. PG&E's 2004 expenses shown on page 5-15 in Exhibit (PG&E-6) of $16.051 million are $0.458 million higher than its actual labor expenses provided in its data response. In PG&E's response to data request ORA-207 question 1-c, PG&E shows its actual labor for 2004 of $15.593 million (with a head count of 136.41) and 2005 labor of $16.178 million (with a headcount of 133). DRA's test year estimate for FERC Account 920 of $16.051 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

DRA made a normalized adjustment of $103,570 to PG&E's 2004 recorded adjusted expenses in FERC Account 921 for ratemaking purposes. DRA's test year estimate is $1.330 million. The expenses removed were incurred for cash employee recognition awards and lunches, management and staff lunches, staff parties and/or celebrations, and entertainment activities.[12] DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.

In regards to employee lunches and recognition awards, the Commission has stated:

> Although SCE removed some of the disputed expenses for Shared Services Support, SCE contends that expenses for food vendor services, mentor luncheons, and employee awards are appropriate because they support valid business purposes. The disputed expenses support working lunches for the Vice President and managers, which, SCE contends, results in greater organizational effectiveness. They also support lunches for mentor programs that, according to SCE, strengthen the organization, provide for career enhancement, professional growth, and job effectiveness. Finally, SCE maintains that employee awards and recognition programs foster continuous improvement and achievement of long-term objectives, and create an environment of valued contribution that promotes employee retention. We find SCE's justification for the disputed expenses unconvincing. In particular, SCE has not adequately demonstrated that ratepayer funded lunches for executives and managers and for mentor program participants is necessary or appropriate. ORA's proposed reduction of $83,507 will be adopted. The

[12] Regarding other employee social programs that should not be funded by ratepayers, see pages 10-G-11 and 10-G-12 in this exhibit.

adopted non-labor expense for Shared Services' Support Group in Account 921 is $177,364. (D.05-04-037, page 173)

DRA takes issue with PG&E's test year forecast of $21.265 million for FERC Account 923. DRA's test year estimate is $11.533 million. DRA's forecasts includes an audit adjustment to PG&E's 2004 recorded adjusted expenses in FERC Account 923 of $5.123 million for various litigation costs that should not be borne by the ratepayers.**[13]**

DRA requested additional information on PG&E's increase in FERC Account 923 expenses between 2003 and 2004. DRA asked the following in data request ORA-157 question 11-a:

> PG&E's FERC Account 923 expenses for PCC 10448 were as follows: $609,000 for the year 2000, $1,289,000 for the year 2001, $1,786,000 for the year 2002, $1,597,000 for the year 2003, $24,515,000 for the year 2004, and are expected to be $22,758,000 in 2005, $21,615,000 in 2006, and $21,265,000 in 2007.
>
> Provide the documentation that identifies the specific line item increases between 2003 and 2004 and explains the purpose of the significant increases between the two years.

PG&E responded as follows:

> The question references two data series that were not prepared in a consistent manner. The large increase noted between 2003 and 2004 are due to this inconsistency. FERC accounts may include amounts from PCC costs and order costs, but the amounts for 2000 through 2003 in Attachment ORA_0020-02SUPP01-3 do not show orders costs. Attachment ORA_0020SUPP01-3 is based on the amounts in Attachment ORA_0020-02SUPP01-2…Orders data was not available by department for 2000-2003 for Utility departments or PG&E Corporation departments. Although there was a 2003 A&G Study, a different methodology was used to collect orders data. Therefore, orders data from the 2003 A&G Study cannot be compared to data provided in the 2007 A&G Study.

[13] The discussion pertaining to the audit adjustment of $5.123 million for FERC Account 923 is in DRA's Report on the Results of Examination, Chapter 4.

PG&E states on page 5-6 of Exhibit (PG&E-6) that "the increase in costs from 2004 to 2005 is caused by an increase of costs in several large matters, including litigations against the Department of Energy (DOE), the GRC proceeding and the Business Transformation." PG&E forecasted $3.300 million in 2005 through 2007 for its Business Transformation project and forecasted $1.300 million in 2005 and 2006 and $1.600 million in 2007 for its GRC proceeding. DRA requested additional information on PG&E's expected expenses of $3.300 million to be incurred for its Business Transformation program. DRA asked the following in data request ORA-067 question 1-f:

> Provide copies of contracts that details the work scope and breakdown of expected expenses for the work required by outside attorneys for PG&E's Business Transformation Program in the test year.

PG&E responded as follows:

> PG&E does not have contracts currently in place for test year work. In fact, it would be highly unusual to have such contracts in place this far in advance for legal services. While PG&E does not have the contracts or the work scope, it expects that it will continue to need outside attorneys to assist on labor and contract matters in the test year as it has in 2005.

DRA asked the following in data request ORA-157 question 5:

> Provide the detailed breakdown for all expenses that make up the expected $3,300,000. Note that the two large volumes of documentation do not include the expense breakdown of expenses as requested for the $3,300,000. If it is included, provide the specific tab so that DRA can independently calculate the $3,300,000 of expenses to be incurred for the program.

PG&E responded as follows:

> PG&E interprets this question to refer to the $3,300,000 forecasted in the test year. Please see PG&E's response to ORA_0063-001f which explains that it is too far in advance to have contracts or a detailed breakdown of workscope and expense for the test year.

In the test year, PG&E will have projects and contracts that come to a close, and the funds that were being utilized to support those closed projects can be allocated to new projects, such as PG&E's Business Transformation Program. PG&E's 2004 recorded expenses provide sufficient funding in the test year.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $29.396 million for PG&E's Legal Department in the test year.

CHAPTER 10-D

SAFETY HEALTH AND CLAIMS DEPARTMENT & OTHER COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Safety Health and Claims Department and Other Costs (SH&C) recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded, adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for its SH&C Department. PG&E forecasted $14.187 million of A&G expenses for SH&C Department. The corresponding DRA estimate for PG&E's SH&C Department is $13.792 million. PG&E's SH&C Department breaks down into four Provider Cost Centers (PCCs) as follows:

Thousands of 2004 Dollars

	PG&E	DRA
SH&C Director's Immediate Office (PCC 11675)	$ (32)	$ (32)
Safety Engineering and Health (PCC 10452)	2,456	2,380
Workers' Compensation (PCC 10450)	7,452	7,176
Third Party Claims (PCC 10451.1	4,311	4,268
	$14,187	$13,792

DRA provides a summary in Table 10-D-1 by FERC Account of its recommended expense levels for PG&E's SH&C Department for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-D-1
Safety Health and Claims Department and Other Costs
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$10,516	$10,257	$259	2.5%
921	861	725	136	18.8%
923	2,810	2,810	0	0.0%
Total	$14,187	$13,792	$395	2.9%

The following summarizes DRA's recommendations:

1. That PG&E's forecast for the following departments and FERC Accounts be adopted: Safety, Health and Claims-Director's Immediate Office (PCC 11675) of ($32,000), Third Party Claims (PCC 10451.1) FERC Accounts 920 and 923 of $3,891,000, Workers' Compensation (10450) FERC Account 923 of $1,274,000, and Safety Engineering and Health Services FERC Account 923 of $703,000. The recorded costs appear to be reasonable and have been declining or have remained relatively flat during the last five years. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

2. That DRA's estimates for FERC Account 921 for the following departments be adopted: Safety Engineering and Health Services (10452) of $184,010, Third Party Claims (PCC 10451.1) FERC Account 921 of $377,927, and Workers' Compensation (10450) FERC Account 921 of $285,943. DRA made normalized adjustments to PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

3. That the Commission use PG&E's last recorded year expenses for the test year estimate of $5,616,000 for PG&E's FERC Account 920 for its Workers' Compensation Department (PCC10450). DRA's estimate is $214,000 lower than PG&E's test year forecast for FERC Account 920. PG&E's 2004 expenses reflect the highest level of expenditures for this account and is a reasonable level for the test year estimate.

4. That the Commission use PG&E's last recorded year expenses for the test year estimate of $1,493,000 for PG&E's FERC Account 920 for its Safety Engineering and Health Services (10452). DRA's estimate is $45,000 lower than PG&E's test year forecast for FERC Account 920. PG&E's 2004 expenses reflect the highest level of expenditures for this account and is a reasonable level for the test year estimate.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. DRA also reviewed several employee expense reports in PG&E's SAP accounting system at PG&E's office. PG&E's historical data for expenses recorded in FERC Accounts 920, 921, and 923 for PG&E's SH&C Department did not include adjusted historical Order Cost expenses by department and PCC for the years 2000 through 2003. Therefore it was difficult for DRA to compare and analyze PG&E's recorded historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels. DRA used its best estimate based on the information provided by PG&E to forecast expense levels for the 2007 test year for PG&E's SH&C Department.

DRA does not take issue with PG&E's forecasted expenses for Safety, Health and Claims-Director's Immediate Office (PCC 11675) of ($0.032) million, Third Party Claims (PCC 10451.1) FERC Accounts 920 and 923 of $3.891 million Workers' Compensation (10450) FERC Account 923 of $1.274 million and Safety Engineering and Health Services (PCC 10452) FERC Account 923 of $0.703 million. The recorded costs appear to be reasonable and have been declining or have remained relatively flat during the last five years. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

DRA made normalized adjustments to FERC Account 921 for ratemaking purposes. DRA's adjustments were to remove costs associated with cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, staff parties and entertainment activities, etc.[14] DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.[15] DRA's normalized adjustments reduced PG&E's test year forecast for FERC Account 921 for the departments mentioned below. DRA's estimates are: $285,943 for Workers Compensation (PCC 10450), $377,927 for Third Party Claims (PCC 10451.1) and $184,010 for Safety Engineering and Health Services (PCC 10452). In regards to employee lunches and recognition awards, the Commission has stated:

> Although SCE removed some of the disputed expenses for Shared Services Support, SCE contends that expenses for food vendor services, mentor luncheons, and employee awards are appropriate because they support valid business purposes. The disputed expenses support working lunches for the Vice President and managers, which, SCE contends, results in greater organizational effectiveness. They also support lunches for mentor programs that, according to SCE, strengthen the organization, provide for career enhancement, professional growth, and job effectiveness. Finally, SCE maintains that employee awards and recognition programs foster continuous improvement and achievement of long-term objectives, and create an environment of valued contribution that promotes employee retention. We find SCE's justification for the disputed expenses unconvincing. In particular, SCE has not adequately demonstrated that ratepayer funded lunches for executives and managers and for mentor program participants is necessary or appropriate. ORA's proposed reduction of $83,507 will be adopted. The adopted non-labor expense for Shared Services' Support Group in Account 921 is $177,364. (D.05-04-037, page 173)

[14] In ORA-165, DRA requested that PG&E provide a detailed and itemized list of expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate to make the normalized adjustments.

[15] Regarding other employee social programs that should not be funded by ratepayers, see pages 10-G-11 and 10-G-12 in this exhibit.

B. Safety Engineering and Health Services (PCC 10452)

PG&E forecasted $1.538 million for FERC Account 920 for its Safety Engineering and Health Services Department (PCC 10452). This department manages PG&E's OSHA compliance, incident investigations, and injury and illness prevention. PG&E's labor expenses recorded to FERC Account 920 have remained relatively stable during the last five years with an average headcount of 17.2. The average headcount for 2004 was 16.8. PG&E states on page 7-4 of Exhibit (PG&E-6) that its end of the year headcount for 2004 was 17 with one vacant position. PG&E's headcount is expected to be 18 in the test year.

DRA has differences with PG&E's test year forecast of $1.538 million for its Safety Engineering and Health Services Department FERC Account 920. DRA forecasted $1.493 million for PG&E's Safety Engineering and Health Services Department FERC Account 920 utilizing PG&E's last recorded year expenses as shown on page 7-20 in Exhibit (PG&E-6). The use of the last recorded year expenses for FERC Account 920 reflects the highest level of expenditures for this account and is a reasonable level for the test year estimate. PG&E's recorded adjusted labor expenses for 2004 of $1.493 million and its forecast labor expenses for 2005 of $1.521 million shown on page 7-20 in Exhibit (PG&E-6) conflict with its actual labor expenses provided in its data response to ORA-165 question 1-a. Table 10-D-2 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-D-2

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	19	16	17	17	17	18
Labor Dollar	$1,424,494	$1,241,690	$1,359,698	$1,339,696	$1,337,075	$1,449,242

Based on the information shown in Table 10-D-2, DRA's test year estimate of $1.493 million for FERC Account 920 is sufficient to support PG&E's workload in the test year.

C. Workers' Compensation (PCC 10450)

PG&E forecasted $5.830 million for FERC Account 920 for its Workers' Compensation Department (PCC 10450). This department manages claims for occupational injuries and illnesses. PG&E's labor expenses recorded to FERC Account 920 have fluctuated during the last five years with an average headcount of 77.23.[16] PG&E states on page 7-8 of Exhibit (PG&E-6) that its average headcount for 2004 was 82.2 and the end of the year headcount for 2004 was 79.4. PG&E states that its end of the year headcount for 2005 is forecasted to be 82.6. In the test year, PG&E's headcount is expected to increase to 83.

DRA has differences with PG&E's test year forecast of $5.830 million for its Workers' Compensation Department FERC Account 920. DRA forecasted $5.616 million for PG&E's Workers' Compensation Department FERC Account 920 utilizing PG&E's last recorded year expenses as shown on page 7-20 in Exhibit (PG&E-6). The use of the last recorded year expenses for FERC Account 920 reflects the highest level of expenditures for this account and is a reasonable level for the test year estimate. PG&E's recorded adjusted labor expenses for 2004 of $5.616 million and its forecast labor expenses for 2005 of $5.632 million shown on page 7-20 in Exhibit (PG&E-6), and the associated headcount mentioned on page 7-8, conflict with its actual labor and headcount provided in its data response to ORA-165 question 1-a. Table 10-D-3 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

[16] PG&E's labor expenses have fluctuated during the last five years and its expenses recorded to FERC Account 921 have declined over this same period from $1.575 million in 2000 to $0.355 million in 2004. The decline in non-labor expenses is due in part to PG&E's lower computer and telecommunications support and facility costs (page 7-8 in Exhibit (PG&E-6)).

Table 10-D-3

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	76.59	77.59	73.14	82.22	76.59	80.62
Labor Dollar	$4,375,621	$4,546,898	$4,463,064	$5,207,776	$5,132,790	$5,591,421

Based on the information shown in Table 10-D-3, PG&E's forecasted labor expense of $5.830 million for FERC Account 920 is not justified. DRA's test year estimate of $5.616 million for FERC Account 920 is sufficient to support PG&E's workload in the test year.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $13.792 million for PG&E's Safety Health and Claims Department in the test year.

CHAPTER 10-E

FINANCE DEPARTMENT COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Finance Department recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for its Finance Department. PG&E forecasted $24.213 million of A&G expenses for its Finance Department. The corresponding DRA estimate for PG&E's Finance Department is $19.230 million.

PG&E's Finance Department breaks down into 9 Provider Cost Centers (PCCs) as follows:

Thousands of 2004 Dollars

	PG&E	DRA
Sr. VP Treasurer & Chief Financial Officer (PCC 10409)	$ 808	$ 341
Business & Financial Planning (PCC 12573)	1,530	1,263
VP & Controller (PCC 10395)	4,248	2,492
Management Reporting (PCC 10396)	5,171	3,577
Corporate Accounting (PCC 10400)	3,549	3,496
Capital Accounting (PCC 10403)	2,277	1,826
Operations Accounting (PCC 12819)	1,708	1,708
Payroll (PCC 10399.1)	2,247	2,237
Accounts Payable (PCC 10398.1)	2,674	2,290
Total	$24,213	$19,230

DRA provides a summary in Table 10-E-1 by FERC Account of its recommended expense levels for PG&E's Finance Departments for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-E-1
Finance Departments
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$16,746	$14,259	$2,487	17.4%
921	1,668	1,551	117	7.5%
923	5,799	3,420	2,379	69.6%
Total	$24,213	19,230	$4,983	25.9%

The following summarizes DRA's recommendations:

1. That PG&E's forecast for its Business and Financial Planning Department (PCC 12573) FERC Account 923 of $0.127 million, Corporate Accounting Department (PCC 10400) FERC Accounts 920 and 923 of $3.293 million, Accounts Payable Department (PCC 10398.1) FERC Account 923 of $0.108 million, Payroll Department (PCC 10399.1) FERC Accounts 920 and 923 of $2.095 million, Capital Accounting (PCC 10403) FERC Account 923 of $0.062 million, Operations Accounting Department (PCC 12819) of $1.708 million, and VP and Controller Immediate Office (PCC 10395) for FERC Account 920 of $0.308 million, be adopted for the test year. The recorded costs in these departments appear to be reasonable and have been declining or have remained relatively flat from 2000 to 2004. PG&E estimates these expenses will remain relatively stable from 2004 levels through test year.

2. That the Commission use PG&E's last recorded year expenses for a test year forecast of $0.341 million for PG&E's FERC Account 923 for its SVP and Chief Financial Officer Immediate Office (PCC 10409). DRA's estimate is $0.467 million less than PG&E's forecast. PG&E has failed to provide sufficient information to support its expected increase in the test year to justify ratepayer funding for its labor and non-labor request.

3. That DRA's estimates for FERC Account 921 for the following departments be adopted: Business and Financial Planning Department (PCC 12573) of $67,398, VP and Controller Department (PCC10395) of

$80,655, Management Reporting Department (PCC 10396) of $548,358, Corporate Accounting Department (PCC 10400) of $203,090, Payroll Department (PCC 10399.1) of $142,431, Capital Accounting Department (PCC 10403) of $148,338, and Accounts Payable Department (PCC 10398.1) of $270,591. DRA made normalized adjustments to PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

4. That a forecast of $1.069 million for PG&E's Business and Financial Planning Department (PCC 12573) for FERC Account 920 be adopted. DRA's estimate is $0.264 million less than PG&E's test year forecast. PG&E's forecasted labor expenses of $1.333 million is not justified, based on information provided in its response to ORA-152 question 1-g which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005.

5. That the Commission use a three year average and adopt a test year estimate of $2.103 million for PG&E's VP and Controller Department (PCC 10395) FERC Account 923. DRA's estimate is $1.753 million less than PG&E's test year forecast. DRA's forecast is based on fluctuations in PG&E's expenses recorded to FERC Account 923.

6. That a forecast of $2.858 million for PG&E's Management Reporting Department (PCC 10396) for FERC Account 920 be adopted. DRA's estimate is $1.400 million less than PG&E's test year forecast. PG&E's labor forecast of $4.258 million is not justified, based on information provided in its response to ORA-152 question 1-g which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005.

7. That the Commission use a five year average and adopt a test year estimate of $170,400 for PG&E's FERC Account 923 in its Management Reporting Department. DRA's estimate is $169,000 less than PG&E's test year forecast. DRA's forecast is based on fluctuations in PG&E's expenses recorded to FERC Account 923. 2004.

8. That a forecast of $1.616 million for PG&E's Capital Accounting Department for FERC Account 920 be adopted. DRA's estimate is $0.436 million less than PG&E's test year forecast. PG&E's labor forecast of $2.052 million is not justified, based on information provided in its response to ORA-152 question 1-g which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005.

9. That a forecast of $1.911 million for PG&E's Accounts Payable Department (PCC 10398.1) for FERC Account 920 be adopted. DRA's estimate is a $0.379 million decrease in PG&E's test year forecast. PG&E's labor forecast of $2.290 million is not justified, based on information provided in its response to ORA-152 question 1-g which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. DRA reviewed several employee expense reports in PG&E's SAP accounting system at PG&E's office.

DRA does not take issue with PG&E's forecasted level of expenses for the following Finance Departments: Business and Financial Planning (PCC 12573) for FERC Account 923 with a forecast of $0.127 million; Corporate Accounting Department (PCC 10400) FERC Accounts 920 and 923 with a forecast of $3.293 million; Accounts Payable Department (PCC 10398.1) FERC Account 923 with a forecast of $0.108 million; Payroll Department (PCC 10399.1) FERC Accounts 920 and 923 with a forecast of $2.095 million; Capital Accounting Department (PCC 10403) FERC Account 923 with a forecast of forecast $0.062 million; Operations Accounting Department (PCC 12819) with a forecast of $1.708 million, and VP and Controller (PCC 10395) FERC Account 920 of $0.308 million. The recorded costs in these departments appear to be reasonable and have been declining or have remained relatively stable from 2000 to 2004. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

DRA disagrees with PG&E's test year forecast for the following: PCC 10409 Senior Vice President and Chief Financial Officer with a forecast of $0.808 million, PCC 12573 Business and Financial Planning Department FERC Accounts 920 and 921 with a forecast of $1.403 million, PCC 10395 Vice President and Controller Department FERC Accounts 921 and 923 with a forecast of $3.940 million, PCC 10396 Management Reporting Department with a forecast of $5.171 million, PCC 10400 Corporate Accounting Department FERC Account 921 with a forecast of $0.255 million, PCC 10403 Capital Accounting Department FERC Accounts 920 and 921 with a forecast of $2.215 million, PCC 10399.1 Payroll Department FERC Account 921 with a forecast of $0.152 million, and PCC 10398.1 Accounts Payable Department FERC Accounts 920 and 921 with a forecast of $2.566 million.

B. Normalized Adjustments

DRA made normalized adjustments to PG&E's 2004 recorded expenses in FERC Account 921 for ratemaking purposes. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, staff parties and celebrations, and entertainment activities.[17] DRA reviewed several employee expense reports in PG&E's SAP accounting system at PG&E's office. DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.[18]

In regards to employee lunches and recognition awards, the Commission stated:

> Although SCE removed some of the disputed expenses for Shared Services Support, SCE contends that expenses for food vendor services, mentor

[17] DRA requested that PG&E provide a detailed and itemized list of expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses in data request ORA-74. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate in making the normalized adjustments.

[18] Regarding other employee social programs that should not be funded by ratepayers, see pages 10-G-11 and 10-G-12 in this exhibit.

> luncheons, and employee awards are appropriate because they support valid business purposes. The disputed expenses support working lunches for the Vice President and managers, which, SCE contends, results in greater organizational effectiveness. They also support lunches for mentor programs that, according to SCE, strengthen the organization, provide for career enhancement, professional growth, and job effectiveness. Finally, SCE maintains that employee awards and recognition programs foster continuous improvement and achievement of long-term objectives, and create an environment of valued contribution that promotes employee retention. We find SCE's justification for the disputed expenses unconvincing. In particular, SCE has not adequately demonstrated that ratepayer funded lunches for executives and managers and for mentor program participants is necessary or appropriate. ORA's proposed reduction of $83,507 will be adopted. The adopted non-labor expense for Shared Services' Support Group in Account 921 is $177,364. (D.05-04-037, page 173)

DRA's normalized adjustments reduced PG&E's test year forecast for FERC Account 921 for the departments mentioned below. DRA's test year estimates for FERC Account 921 for these departments is as follows: $67,398 for Business and Financial Planning Department (PCC 12573), $80,655 VP and Controller Department (PCC10395), $548,358 for Management Reporting Department (PCC 10396), $203,090 for Corporate Accounting Department (PCC 10400), $142,431 for Payroll Department (PCC 10399.1), $148,338 for Capital Accounting Department (PCC 10403), and $270,591 for Accounts Payable Department (PCC 10398.1).

C. Senior VP and Chief Financial Officer Immediate Office (PCC 10409)

PG&E forecasted $808,000 in the test year for its Senior VP and Chief Financial Officer Immediate Office (PCC 10409). This department manages the financial performance, oversees the external relations of the company and advises its boards of directors. PG&E stated on page 8-7 of Exhibit (PG&E-6) that its "headcount in PCC 10409 was reduced from three at the beginning of 2005 to one at the end of 2005" and that "the current manager of capital and expense programs position is being transferred to another department in 2006 and this position will be eliminated, so the headcount in PCC 10409 will be reduced from one to zero and is expected to stay at zero for the end of 2006 and beyond." PG&E's labor expenses have declined each year for the last five years from $1.263 million in 2004 to zero in 2006. PG&E's non-labor expenses recorded in FERC Account 921 also declined during this time period. PG&E forecasted an increase in outside services expenses recorded in FERC Account 923 of $0.798 million in the test year.

DRA has differences with PG&E's forecast of $0.808 million. DRA utilized PG&E's last recorded year expenses for a test year forecast of $0.341 million for FERC Accounts 923 for PG&E's Senior VP and Chief Financial Officer Immediate Office (PCC 10409). DRA's forecast is $0.467 million lower than PG&E's TY forecast.[19] Although PG&E states that its headcount has been reduced to zero and is expected to remain that way in the test year, PG&E's testimony shows expenses of $11,000 for labor and non-labor expenses in the test year.[20] In data request ORA-152 Question 1-e, DRA requested that PG&E provide documentation that would justify and explain its request. PG&E provided the following: "The Senior Vice President (SVP) and Chief Financial Officer (CFO) (PCC 10409) department's forecast costs in FERC Account 920 relate to labor costs embedded in the SAP view of materials, not to the cost of employees in PCC 10409. Departments forecast their costs in SAP dollars. As shown on page 2-348, the department does not forecast any dollars in SAP cost element "Labor" for 2006 and 2007. This is consistent with the statement made in testimony that "the headcount in PCC 10409 will be reduced from one to zero and is expected to stay at zero for the end of 2006 and beyond".

[19] DRA's forecast of $0.341 million includes expenses of $35,000 that should have been booked below the line. PG&E stated in its response to ORA-074 Question 1-b that the $35,000 was miscoded and that it would remove the $35,000 from its test year forecast.

[20] In PG&E's response to data request ORA-152 question 1-g, PG&E provided a spreadsheet with recorded labor dollars and headcount at the end of the year for the years 2000 through 2005. PG&E shows zero for labor dollars and for headcount for the year 2005 for PCC 10409. PG&E's 2005 forecast for PCC 10409 is $438,000 (page 8-34 in Exhibit (PG&E-6).

PG&E's expenses recorded in FERC Account 923 have declined significantly over the past four years from $9.741 million in 2001, $5.192 million in 2002, $1.629 million in 2003, and $0.376 million in 2004. In data request ORA-074 question 1-b and question 1-j-4, DRA requested information on PG&E's forecasted expenses for FERC Account 923 that were expected to increase PG&E's expenses over 2004 recorded levels.

DRA asked the following:[21]

> "Provide a spreadsheet that shows a detailed and itemized breakdown of each forecasted test year expense that are expected to increase and be recorded in FERC Account 923 (separated out by the 9 PCCs). Include supporting documentation that shows the calculations and the name of the outside vendors/consultants and the purpose of each expense, and the ratepayer benefit."

And:

> "PG&E expects outside services/consultant expenses recorded in FERC Account 923 to increase over 2004 levels for PCC 10409. Provide a spreadsheet that shows the breakdown of the calculations for these forecasted expenses. Provide the documentation that supports and explains the purpose of each expense and the name of the vendor/consultant."

PG&E provided a spreadsheet in each response that included a list of the expected expenses along with the vendor name totaling $766,370 (provided in SAP dollars only) with a brief, one line statement for the purpose of the expense and the ratepayer benefit. PG&E did not provide any documentation that demonstrated how it calculated the numbers listed on the spreadsheet or what it utilized as a basis for the numbers in the spreadsheet (i.e., invoices, budgets, contracts, other documentation its management relied upon to determine its estimates, etc.). PG&E's expenses have been decreasing every year in FERC Account 923 and PG&E did not incur any

[21] DRA issued data request ORA-074 on November 16, 2005. PG&E provided a response to question 1-b on December 29, 2005 and provided a response to question 1-j-4 on January 12, 2006.

expenses in 2004 for seven of the nine line items listed in its spreadsheet that PG&E claims are expected to increase its expenses over 2004 levels in the test year.

An example of the type of expenses PG&E has included in its forecast for outside services is the following. PG&E include $250,000 for Applied Planning consultants in its forecast for FERC Account 923 (DRA has included this adjustment in its forecast). PG&E did not incur any expenses in 2004 for its Applied Planning. In PG&E's response to ORA-074 1-j-5, PG&E stated that its Applied Planning was established in 2003 to identify, analyze, and develop strategies to resolve important utility business policy issues and to provide a framework for introducing issues to a committee of senior officers. PG&E did not prepare a "quantified cost/benefit analysis" for its Applied Planning. PG&E incurred $237,400 for "the initial costs of establishing applied planning" in 2003. DRA believes that this is a one-time non-recurring expense. The consultant interviewed management in order to assess needs and to develop procedures for PG&E. PG&E claims that there is "no formal staffing" for Applied Planning only an informal Steering Committee, Core Team and an Advisory. Therefore, DRA relied upon PG&E's historical 2004 data to forecast its estimates for PG&E's Senior VP and Chief Financial Officer Immediate Office.

D. Business and Financial Planning Department (PCC 12573)

PG&E forecasted $1.333 million for its Business and Financial Planning Department (PCC 12573) FERC Account 920 in the test year. This department provides financial planning and economic analysis to its management staff. PG&E states that it had a staffing level of 12 at the end of 2004 and in the test year it plans to have a staffing level of 13.

DRA has differences with PG&E's forecast for FERC Account 920 for its Business and Financial Planning Department (PCC 12573). DRA utilized PG&E's last recorded year expenses as a basis and forecasted $1.069 million for the test year.

This is $0.264 million less than PG&E's test year forecast. PG&E's labor expenses increased each year between 2000 and 2003, and in 2004, PG&E's labor expenses decreased to $1.069 million. PG&E's labor forecast of $1.333 million is not justified. On page 8-34 in Exhibit (PG&E-6) PG&E shows 2004 labor as $1.305 million and its 2005 forecast as $1.267 million. Table 10-E-2 shows PG&E's actual headcount and associated labor dollar for the years 2000 through 2005.

Table 10-E-2

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	1	12.77	12.78	14.83	9.98	9.81
Labor Dollar	$141,120	$1,160,358	$1,258,762	$1,502,231	$1,068,618	$1,036,936

PG&E's amounts shown in its testimony for 2004 and 2005 are higher than PG&E's actual labor expenses. PG&E's actual labor expenses shown in PG&E's response to data request ORA-152 question 1-g have been stable for the last two years after the elimination of positions. DRA's test year estimate for FERC Account 920 of $1.069 million is sufficient for PG&E to meet its staffing needs and department obligations in the test year.

E. Vice President and Controller Immediate Office (PCC 10395)

PG&E forecasted $3.856 million for its Vice President and Controller Immediate Office (PCC 10395) FERC Account 923 in the test year. PG&E's Vice President and Controller Immediate Office manage the Utility's financial and regulatory accounting and reporting functions.

DRA takes issue with PG&E's forecast for outside services of $3.856 million for FERC Account 923. DRA used a three year averaging methodology (2002 of $1.463 million, 2003 of $1.313 million, and 2004 of $3.533 million) to forecast PG&E's FERC Account 923 of $2.103 million for the test year which reflects the historical fluctuations in this FERC account. PG&E's expenses in FERC Account 923 have fluctuated during the last five years. PG&E's expenses were $0.606 million in 2000, $0.964 million in 2001, $1.463 million in 2002, $1.313 million in 2003, and $3.533 million in 2004. PG&E states on page 8-13 of Exhibit (PG&E-6) that its "costs forecast for 2005 is $203,000 less than 2004 adjusted costs, mainly due to higher charges from Deloitte & Touche in 2004 due to residual bankruptcy work and the start-up work on Sarbanes-Oxley attestation." DRA's test year estimate for FERC Account 923 of $2.103 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

F. Accounts Payable (PCC 10398.1)

PG&E forecasted $2.290 million for its Accounts Payable Department (PCC 10398.1) FERC Account 920 in the test year. This department has four sections (Purchase Order Payments, Non-Purchase Order Payments, Payee Services and Control, and Records Management) which are responsible for making payments to vendors and employees and managing source documents. In 2004, the department had a headcount of 36, but eliminated three positions due to the department implementing an automated on-line system for employee expense reports and more vendors utilizing electronic billing methods. At the end of 2004 PG&E's headcount was 33, and this staffing level is expected to remain in the test year.

DRA has differences with PG&E's forecast for FERC Account 920. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $1.911 million for the test year for FERC Account 920. This is $0.379 million less than PG&E's test year forecast. PG&E's labor expenses have declined each year between 2000 and 2004. The reduction in expenses was due in part to PG&E's implementation of its automated on-line system for employee expense reports and more vendors utilizing electronic billing. PG&E's labor forecast of $2.290 is not justified. On page 8-37 in Exhibit (PG&E-6) PG&E shows 2004 labor as $2.262 million and its 2005 forecast as

$2.270 million. Table 10-E-3 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-E-3

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	56	47	43	37	33	32
Labor Dollar	$2,819,100	$2,492,984	$2,275,023	$2,111,378	$1,911,009	$1,860,449

PG&E's labor costs shown in its testimony for 2004 and 2005 are higher than PG&E's actual labor expenses. PG&E's actual labor expenses shown in PG&E's response to data request ORA-152 question 1-g were $1.911 million for 2004 (with a headcount of 33) and $1.860 million for 2005. PG&E's 2004 expenses shown on page 8-36 in its testimony are $0.351 million higher than its actual labor expenses provided in its data response. DRA's test year estimate for FERC Account 920 of $1.911 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

G. Capital Accounting (PCC 10403)

PG&E forecasted $2.052 million for its Capital Accounting Department (PCC 10403) FERC Account 920 in the test year. This department has two sections (Capital Recovery and Plant Accounting) which are responsible for providing accounting for PG&E's fixed assets. PG&E states that its Capital Accounting Department had an average and targeted headcount of 25 in 2004 and it expects this staffing level in the test year. PG&E "estimated that approximately 12 percent of the departments' costs could be eliminated in the absence of ongoing capital projects."[22]

[22] Page 8-27 in Exhibit (PG&E-6).

DRA has differences with PG&E's forecast for FERC Account 920. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $1.616 million for the test year for FERC Account 920. This is $0.436 million less than PG&E's test year forecast. PG&E's labor expenses were relatively stable between 2000 and 2003 and in 2004 PG&E's labor expenses decreased by $1.252 million to $1.616 million. This decrease in labor was due in part to PG&E's estimated 12 percent reduction in the departments' costs for the elimination of ongoing capital projects. PG&E's labor forecast of $2.052 million is not justified. On page 8-36 in Exhibit (PG&E-6) PG&E shows 2004 labor as $2.052 million and its 2005 forecast as $1.986 million. Table 10-E-4 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-E-4

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	40	40.95	39.92	41	22	23
Labor Dollar	$2,610,677	$2,828,730	$2,804,702	$2,868,212	$1,615,902	$1,830,883

PG&E's labor costs shown in its testimony for 2004 and 2005 are higher than PG&E's actual labor expenses. PG&E's actual labor expenses shown in PG&E's response to data request ORA-152 question 1-g were $1.616 million for 2004 (with a headcount of 22) and $1.831 million for 2005. PG&E's 2004 expenses shown on page 8-36 in its testimony are $0.315 million higher than its actual labor expenses provided in its data response. DRA's test year estimate for FERC Account 920 of $1.616 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

H. Management Reporting (PCC 10396)

PG&E forecasted $4.598 million in the test year for its Management Reporting Department PCC (10396) FERC Accounts 920 and 923. PG&E's Management

Reporting Department is responsible for facilitating PG&E’s annual budgeting process, delivering strategic information on financial performance to its senior management, supporting its cost account system, and supporting financial system applications. PG&E had a staffing level of 32 employees at the beginning of 2004. During 2004 the department reorganized and five employees transferred into Management Reporting from other PCCs within the Finance Department. Management Reporting also eliminated two positions and transferred a position to another PCC during 2004. In the test year, PG&E expects the staffing level to remain at 38.

DRA has differences with PG&E’s forecast for FERC Account 920. DRA utilized PG&E’s last recorded year expenses as a basis and forecasted $2.858 million for the test year for FERC Account 920. This is $1.400 million less than PG&E’s test year forecast. PG&E’s labor expenses fluctuated slightly between 2000 and 2003 and in 2004, PG&E’s labor expenses increased by $1.314 million to $2.858 million. PG&E’s labor forecast of $4.258 million is not justified. On page 8-35 in Exhibit (PG&E-6) PG&E shows 2004 labor as $4.322 million and its 2005 forecast as $4.044 million. Table 10-E-5 shows PG&E’s headcount and associated labor dollar for the years 2000 through 2005.

Table 10-E-5

PG&E’s Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	25.46	22.32	23	21	36.90	37.43
Labor Dollar	$1,760,338	$1,535,031	$1,684,861	$1,544,161	$2,857,850	$3,062,569

PG&E’s amounts shown in its testimony for 2004 and 2005 are higher than PG&E’s actual labor expenses. PG&E’s actual labor expenses shown in PG&E’s response to data request ORA-152 question 1-g were $2.858 million for 2004 (with a headcount of 36.90) and $3.063 million for 2005 (with a headcount of 37.43).

PG&E's 2004 expenses shown on page 8-35 in its testimony are $1.464 million higher than its actual labor expenses provided in its data response. DRA's test year estimate for FERC Account 920 of $2.858 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

DRA utilized a five year average and forecasted $170,400 for PG&E's FERC Account 923 in its Management Reporting Department. PG&E's expenses have fluctuated during the last five years in FERC Account 923. PG&E's expenses were $157,000 in 2000, $161,000 in 2001, $145,000 in 2002, $56,000 in 2003, and $333,000 in 2004. PG&E states in its A&G study workpapers, Exhibit (PG&E-6) on page 2-483 that it expected to incur $350,000 for staff augmentation to support its SAP accounting system. PG&E reorganized its Management Reporting Department and increased its staffing level which is sufficient staffing in the test year to address its workload.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $19.230 million for PG&E's Finance Department in the test year.

CHAPTER 10-F
RISK MANAGEMENT DEPARTMENT

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Risk Management Department recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for its Risk Management Department. PG&E forecasted $5,542,000 of A&G expenses for its Provider Cost Center (PCC 12078) for its Risk Management Department. The corresponding DRA estimate for PG&E's Risk Management Department is $4.028 million.

DRA provides a summary in Table 10-F-1 by FERC Account of its recommended expense levels for PG&E's Risk Management Department for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-F-1
Risk Management Department (PCC 12078)
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$3,933	$2,436	$1,497	61.5%
921	855	838	17	2.0%
923	754	754	0	0.0%
Total	$5,542	$4,028	$1,514	37.6%

The following summarizes DRA's recommendations:

1. That PG&E's forecast for FERC Account 923 for its Risk Management Department (PCC 12078) of $0.754 million be adopted for the test year. The recorded costs appear to be reasonable. PG&E estimates these expenses will remain at these levels through the test year.

2. That DRA's estimates of $0.838 million for FERC Account 921 for PG&E's Risk Management Department (PCC 12078) be adopted. DRA made a normalized adjustment of $0.017 million to PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

3. A forecast of $2.436 million for FERC Account 920 for PG&E's Risk Management Department (PCC 12078) be adopted. DRA's estimate is a $1.497 million adjustment to PG&E's test year forecast of $3.933 million. PG&E's forecasted labor expenses of $3.933 million are not justified, based on information PG&E provided in its response to ORA-166 question 1-a, which showed PG&E's actual end of the year headcount and associated labor dollars for the years 2000 through 2005.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. The historical data PG&E provided to DRA for expenses recorded in FERC Accounts 920, 921, and 923 for PG&E's Risk Management did not include adjusted, historical Order Cost expenses by department and PCC for the years 2000 through 2003. Therefore, it was difficult for DRA to compare and analyze PG&E's recorded historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels. DRA used its best estimate based on the information provided by PG&E to forecast expense levels for the 2007 test year for PG&E's Risk Management Department.

B. Risk Management (PCC 12078)

PG&E forecasted $5.542 million in the test year for its Risk Management Department (PCC 12078). This department is organized into four areas: Credit Risks Management, Quantitative Analysis, Risk Control, and Risk Reporting. These sections manage PG&E's wholesale credit risk, set credit limits, develops processes for measuring credit risk, and monitors portfolio limits. PG&E's Risk Management Department had 25 employees at the end of 2004. In the first quarter of 2005 PG&E reorganized its Risk Management Department into two sections: Credit and Risk Reporting and Risk Analysis. Due to its reorganization, in the test year PG&E plans to have a staffing level of 28, by hiring another Director and two Credit Analysts.[23]

DRA does not take issue with PG&E's forecasted level of expenses of $0.754 million for FERC Account 923. The expense level in this account is forecasted to decrease from $2.521 million in 2004 to $0.754 million in the test year due in part to the removal of one-time costs. DRA disagrees with PG&E's forecast of $3.933 million for FERC Account 920 and $0.855 million for PG&E's Risk Management Department. Although PG&E's forecast of $3.933 million shows a decrease from its 2004 levels of $5.361 million, the forecast is excessive based on information PG&E provided in its response to data request ORA-166 question 1-a. In the data response, PG&E provided its actual end of the year headcount and associated labor dollars for the years 2000 through 2005. Table 10-F-2 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

[23] In 2005 PG&E hired the Director for its new section, Risk Analyst and Control, and one Credit Analyst.

Table 10-F-2

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	11.06	11.18	13.62	23	25	21
Labor Dollar	$778,915	$823,910	$1,037,874	$1,865,078	$2,060,081	$1,896,664

Based on the information shown in Table 10-F-2, PG&E's forecasted labor expenses of $3,933,000 for a headcount of 28 employees for FERC Account 920 are not justified. PG&E's recorded adjusted labor expenses for 2004 shown on page 13-11 in Exhibit (PG&E-6) is $5,361,000 which is $3,300,919 over the 2004 actual labor expenses shown in Table 10-F-2. PG&E's labor forecast for 2005 shown on page 13-11 in Exhibit (PG&E-6) is $3,295,000, which is $1,398,336 over the 2005 actual labor expenses shown in Table 10-F-2. PG&E has forecasted a staffing level of 28 employees to address its expected increase in workload. DRA forecasted $2,435,881 for PG&E's FERC Account 920 in the test year. DRA's forecast is $1,497,119 less than PG&E's test year forecast of $3,933,000. DRA derived its forecast estimate by utilizing PG&E's actual 2004 labor dollars shown in Table 10-F-2, with a headcount of 25, of $2,060,081 and the annual rates for the three new positions which PG&E provided in its data response to ORA-166 question 1-a of $375,800.[24]

DRA made a normalized adjustment to PG&E's FERC Account 921 of $17,387 for PG&E's 2004 recorded expenses for ratemaking purposes to remove costs associated with cash and non-cash employee recognition awards and lunches, and management and staff lunches and dinners.[25] DRA also reviewed several

[24] The annual salary rate that PG&E provided in its response to data request ORA-166 question 1-a, included benefits.

[25] DRA requested that PG&E provide a detailed and itemized list of expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses in data request ORA-166. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate to make the normalized adjustments.

employee expense reports in PG&E's SAP accounting system at PG&E's office. DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.[26]

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $4.028 million for PG&E's Risk Management Department in the test year.

[26] Regarding Commission treatment of employee lunches and recognition awards, and other employee social programs, that should not be funded by ratepayers, see pages 10-G-11 and 10-G-12 in this exhibit.

CHAPTER 10-G

PUBLIC POLICY AND GOVERNMENTAL AFFAIRS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Public Policy and Governmental Affairs Department (Public Policy) recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast test year expenses for its Public Policy Department. PG&E forecasted $30.479 million of A&G expenses for its Public Policy Department. The corresponding DRA estimate for PG&E's Public Policy Department is $21.941 million.

PG&E's Public Policy Department breaks down into thirteen Provider Cost Center (PCCs) Departments as follows:

Thousands of 2004 Dollars

	PG&E	DRA
Immediate Office of the Sr. VP (PCC 10512)	$ 406	$ 365
SVP of Regulatory Relations Department (PCC 10421.1)	1,314	1,277
Regulatory Relations Department (PCC 10407)	1,593	1,519
Operations Revenue Requirement Department (PCC 10611)	5,956	4,519
Energy Revenue Requirement Department (PCC 10408)	4,584	4,181
Regulatory Strategy and Analysis Department (PCC 12741)	891	874
VP of Governmental Relations Department (PCC 10305.1)	1,532	993
Area Public Affairs Department (PCC 12243.1)	3,338	2,871
VP Civic Partnership and Community Initiatives (12853)	791	0
VP of Communications Department (PCC 10311.1)	1,052	1,005
Internal Communications Department (PCC 10304)	6,284	2,272
External Comm. & Advertising Dept (PCC 10315.1)	243	0
Media Relations Department (PCC 10314)	2,495	2,065
Total	$30,479	$21,941

DRA provides a summary in Table 10-G-1 by FERC Account of its recommended expense levels for PG&E's Public Policy Departments for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-G-1
Public Policy and Governmental Affairs Department
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$20,320	$17,850	$2,470	13.8%
921	3,165	1,779	1,386	77.9%
923	6,995	2,312	4,683	202.5%
Total	$30,480	$21,941	$8,539	38.9%

The following summarizes DRA's recommendations:

1. PG&E's forecast for the following Public Policy and Governmental Affairs Departments and FERC Accounts be adopted: Regulatory Strategy and Analysis (PCC 12741) FERC Account 920 of $0.812 million, SVP Public Policy and Governmental Affairs Immediate Office (PCC 10512) FERC Accounts 920 and 923 of $0.353 million, SVP Regulatory Relations (PCC10421.1) FERC Accounts 920 and 923 of $1.165 million, Regulatory

Relations (PCC 10407) FERC Account 920 of $1.399 million, VP Communications (PCC 10311.1) FERC Accounts 920 and 923 of $0.890 million, and VP Governmental Relations (PCC 10305.1) FERC Account 923 of $0.023 million. The recorded costs in these departments appear to be reasonable and have been declining or have remained relatively flat over the last five years. PG&E estimates these expenses will remain relatively stable from 2004 levels through the test year.

2. That DRA's forecast estimates for PG&E's Public Policy and Governmental Affairs Departments FERC Account 921 be adopted for the following departments: $112,398 for SVP Regulatory Relations (PCC10421.1), $120,188 for Regulatory Relations (PCC 10407), $114,692 for VP Communications (PCC 10311.1), $61,799 for Regulatory Strategy and Analysis (PCC 12741), $11,869 for SVP Public Policy and Governmental Affairs Immediate Office (PCC 10512), $177,129 for Internal Communications (PCC 10304), and $45,087 for VP Governmental Relations (PCC 10305.1). DRA's forecast includes normalized adjustments to PG&E's 2004 recorded adjusted expenses for PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

3. That the Commission use PG&E's last recorded year expenses for a test year forecast of $2.095 million for PG&E's FERC Accounts 920 and 923 for its Internal Communications Department (PCC 10304). PG&E did not provide sufficient information to justify its request for additional funding in the test year of approximately $4.000 million over 2004 recorded adjusted expenses. PG&E reorganized and downsized its Internal Communications Department in 2004. DRA's estimate of $2.095 million is sufficient for PG&E to meet its workload and staffing needs in the test year.

4. That the Commission use PG&E's last recorded year expenses for a test year forecast of $0.925 million for FERC Account 920 for its VP Governmental Relations Department (PCC 10305.1). DRA's test year estimate for FERC Account 920 of $0.925 million (which includes a labor increase of $0.441 million over 2002 expense levels) is sufficient for PG&E to meet its department obligations in the test year. If PG&E properly records below-the-line expenses in the test year, DRA's estimate of $0.925 million should be sufficient for PG&E to address its workload. PG&E's employees in this department do not complete time cards or track or record their time worked on specific projects, so an audit trail was not created to analyze data and verify if appropriate allocations were used.

5. That the Commission use PG&E's last recorded year expenses for a test year forecast of $2.065 million for its Media Relations Department (PCC

10314). DRA's test year estimate includes a normalized adjustment of $21,506 for FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. The recorded expenses have been relatively flat during the last five years. DRA's estimate, which includes a labor forecast of $1.579 million, reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate. PG&E has been able to manage its workload in its Media Relations Department by maintaining a staffing level of 18 employees for the last six years.

6. That the Commission use PG&E's last recorded year expenses for a test year forecast of $4.181 million for PG&E's Energy Revenue Requirements Department (PCC 10408). DRA's test year estimate includes a normalized adjustment of $80,717 for FERC Account 921for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. DRA's estimate, which includes a labor forecast of $3.695 million, reflects PG&E's staffing level and labor costs over the last two years (2004 and 2005) and is a reasonable test year estimate.

7. That the Commission use PG&E's last recorded year expenses for a test year forecast of $2.871 million for PG&E's Area Public Affairs Department (PCC 12243.1). DRA's test year estimate includes a normalized adjustment of $103,791 for FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. DRA's test year estimate, which includes a labor forecast of $2.496 million, is sufficient for PG&E to meet its workload in the test year. If PG&E properly records below-the-line expenses in the test year, DRA's estimate of $2.871 million should be sufficient for PG&E to address its workload in the test year.

8. PG&E's employees in its Area Public Affairs Department do not complete time cards or track or record their time worked on specific projects, so an audit trail was not created to analyze data and verify if appropriate allocations were used. PG&E's expenses forecasted for its Energy Tour, Greenlining Partnership Council project, and its Strategic Travel and Events fund should be booked below-the-line and funded by its shareholders. These appear to be goodwill, imaging building, and networking and/or lobbying activities that should not be charged to ratepayers.

9. That the Commission use PG&E's last recorded year expenses for a test year forecast of $4.519 million for PG&E's Operations Revenue Requirements Department (PCC 10611). DRA's test year estimate includes a normalized adjustment of $52,105 for FERC Account 921 for ratemaking

purposes to remove costs that were inappropriately charged to ratepayers. The use of the last recorded year expenses reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate. DRA's test year estimate of $4.519 million (which includes a labor forecast of $4.008 million) is sufficient for PG&E to address its workload in the test year.

10. That the Commission disallow PG&E's request of $0.791 million and recommends zero funding for PG&E's VP Civic Partnership and Community Initiatives Department (PCC 12853). PG&E created this department in 2005 "in order to better represent the company to external leaders and customers". It is inappropriate for ratepayers to fund PG&E's image building projects that protect and enhance PG&E's reputation and other goodwill activities.

11. That the Commission disallow PG&E's request of $0.243 million and recommends zero funding for PG&E's External Communications and Advertising Department (PCC 10315.1) for FERC Account 923. PG&E records all expenses incurred for this department below-the-line. PG&E states that its "advertising function is used to develop brand image advertising" and "corporate identity policy management services". It is inappropriate for ratepayers to fund "brand image advertising" and is an expense that should remain below-the-line in the test year.

12. That the Commission require PG&E's Public Policy and Governmental Affairs Department to conduct a time tracking study for its next GRC. PG&E does not maintain documentation that would allow an audit to verify that its employees are charging specific activities and time appropriately and that would validate the accuracy of its allocation between ratepayers and shareholders. Implementing a time tracking system would provide a more reliable and consistent means for recording, tracking and auditing employee activities, time spent on various projects, and allocation splits.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. PG&E's historical data provided to DRA for expenses recorded in FERC Accounts 920, 921, and 923 for PG&E's Public Policy did not include adjusted historical Order Cost expenses by department and PCC for the years 2000 through 2003. Therefore it was difficult for DRA to compare and analyze PG&E's recorded historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels. DRA used its best estimate based on the information provided by PG&E to forecast expense levels for the 2007 test year for PG&E's Public Policy Department.

DRA does not take issue with PG&E's forecasted level of expenses for the following Public Policy Departments and FERC Accounts: Regulatory Strategy and Analysis (PCC 12741) FERC Account 920 with a forecast of $0.812 million,[27] SVP Public Policy and Governmental Affairs Immediate Office (PCC 10512) FERC Accounts 920 and 923 with a forecast of $0.353 million, SVP Regulatory Relations (PCC10421.1) FERC Accounts 920 and 923 with a forecast of $1.165 million, Regulatory Relations (PCC 10407) FERC Account 920 with a forecast of $1.399 million, VP Communications (PCC 10311.1) FERC Accounts 920 and 923 with a forecast of $0.890 million, and VP Governmental Relations (PCC 10305.1) FERC Account 923 with a forecast of $0.023 million. The recorded costs in these departments appear to be reasonable and have been declining or have remained relatively flat from 2000 to 2004. PG&E estimates these expenses will remain relatively stable from 2004 levels through the test year.

B. Time Tracking System

DRA discovered that PG&E does not have a formal time tracking system in place to capture and record its Public Policy and Governmental Affairs Department

[27] In 2004, PG&E created its Regulatory Strategy and Analysis Department (PCC 12741) and transferred employees from other areas within the Public Policy Departments to staff the department. Page 14-15 in Exhibit (PG&E-6).

costs and activities to ensure that "all" costs incurred are being properly assigned, charged and/or allocated between ratepayers and shareholders. Given that PG&E's Public Policy Department does not have a reliable and consistent time tracking system in place to record and track employee activities, PG&E's ratepayers may be overly burdened with excessive charges. According to PG&E, not "all departments track time and employee hours for the purpose of determining PCC allocations. Different departments utilize different methodologies to allocate PCC costs to A&G, PG&E Corp, Below the Line, and Operations and Maintenance (O&M) during 2004".[28]

DRA is particularly concerned about PG&E's Vice President of Governmental Relations Department (PCC 10305.1), its Area Public Affairs Department (PCC 12243.1), and its VP Civic Partnership and Community Initiatives (PCC 12853), because the employees in these departments do not complete time cards or track or record their time in any particular manner. This is problematic because the mission of the Governmental Relations organization is to participate in the development of public policy, as it concerns the Utility, at all levels of state and local government. PG&E's Governmental Relations staff is responsible for community involvement, local government initiatives, and political contributions throughout the service territory and the employees in the Government Relations staff monitor legislation and regulations and ensure active involvement in local communities. On page 14-19 of Exhibit (PG&E-6) PG&E states that the "Area Public Affairs' mission is to position and protect the interest of PG&E by interacting in the development of public policy at the local government level".

Most of the activities performed by PG&E's Governmental Relations staff supports and benefit PG&E and its shareholders more than they benefit PG&E's ratepayers. There are instances when PG&E's Governmental Relations staff engages in activities that do not benefit the ratepayers at all, yet captive ratepayers are being

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[28] PG&E's response to data request 151 question 1-c.

charged. PG&E allocates 70 percent to 100 percent of the activities performed by its Governmental relation staff to its ratepayers regardless of the particular activity or the amount of hours its employees devote to it (i.e. the activity performed is a below the line cost and should be charged 100 percent to shareholders, but instead PG&E would allocate approximately 20 percent to shareholders and unfairly allocates 80 percent of the below the line activity to ratepayers).**[29]** Table 10-G-2 shows the percent utilized by department for the allocation split of Above- the-Line expenses charged to ratepayers for activities of its Governmental relation staff according to PG&E.

Table 10-G-2
PG&E's Governmental Relations Organization
Expense Allocations

PCC	Department	Above-the-Line % charged to Ratepayers
10305.1/10305	VP Government Relations	70.61%
10305.1/10306	Political Resources	34%
10305.1/12706	State Agency Relations	100%
12243.1/12243	Local Gov Rel -Area 1	78%
12243.1/12244	Local Gov Rel -Area 2	78%
12243.1/12245	Local Gov Rel -Area 3	78%
12243.1/12246	Local Gov Rel -Area 4	78%
12243.1/12247	Local Gov Rel -Area 5	78%
12243.1/12248	Local Gov Rel -Area 6	78%
12243.1/12514	Local Gov Rel -Area 7	78%
12243.1/12514	Local Gov Rel -Area 8	78%
12243.1/10892	External Relations	84.12%

[29] In PG&E's response to data request ORA-151 question 1-j, PG&E provided the percent of costs above the line that is charged to ratepayers.

PG&E states that the "below-the-line percentage of External Relations is lower than that of Area Public Affairs and Governmental Relations because External Relations generally does not lobby government officials; its focus is on education"[30]. In regards to lobbying activities, which are not to be funded by ratepayers, the Commission stated in D.96-01-011 at page 129:

> Account 426.4 describes lobbying expenses as activities conducted for the purpose of influencing public officials' decisions. It does not limit lobbying expenses to those activities occurring directly with the public officials…We do not believe that influencing the decisions of public officials through staff members of regulatory agencies should be funded by ratepayers any more than direct contact with these public officials.

FERC Account 426.4 defines lobbying activities as follows:

> This account shall included expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations. (D.96-01-011 page 129)

To determine the hours charged and labor costs incurred for its employee activities on various pieces of legislation it worked on in 2004, and how those activities benefited ratepayers, DRA asked PG&E the following:

> Provide a spreadsheet that shows an itemized list (by PCC) of "all" legislation (local, state, and federal) and the associated employee and /or consultant hours/costs charged to ratepayers by PG&E in 2004 that **was not charged as below the line expenses** and were utilized as a basis to forecast test year expenses (including but not limited to educating officials, researching,

[30] Page 14-20 in Exhibit (PG&E-6).

> monitoring, reporting, tracking, lobbying activities, contributions, etc.). Include a brief description of the legislation along with an explanation of the ratepayer benefit for each piece of legislation.

PG&E's response was as follows:

> The VP Governmental Relations and Area Public Affairs departments do not maintain individual timesheets, nor itemized lists by PCC pertaining to educating officials, researching, monitoring, reporting, lobbying activities, and contributions. Therefore, PG&E cannot provide an itemized list of employee and/or consultant costs related to legislative activities that were not charged below the line in 2004. However, provided below is overall the percentage of all costs allocated above the line in 2004 for the requested PCCs. These percentages are applied to contractors (consultants) as well as direct PCC costs.

Based on the above, PG&E does not maintain documentation that would allow an audit to verify that its employees are charging specific activities and time appropriately, and that would validate the accuracy of its expense allocation between ratepayers and shareholders. Implementing a time tracking system would provide a more reliable and consistent means for recording, tracking and auditing employee activities, time spent on various projects, and allocation splits for PG&E' Public Policy and Governmental Affairs Department. PG&E should be required to conduct a time tracking study for its next GRC.

C. Normalized Adjustments

DRA made normalized adjustments to PG&E's 2004 recorded adjusted expenses in FERC Account 921 for ratemaking purposes. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, staff parties and celebrations, entertainment activities, Chamber of Commerce fees, various council membership fees, donations, etc.[31] DRA also reviewed several employee expense reports in

[31] In data request ORA-68, DRA requested that PG&E provide a detailed and itemized list of

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PG&E's SAP accounting system at PG&E's office.[32] DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.

In regards to Chamber of Commerce fees, the Commission stated:

> We have a long-standing policy not to allow recovery in rates of dues to chambers of commerce and service clubs. In Pacific Tel. & Tel. Co. v. Public Util. Comm. (1965) 62 Cal.2d 634, 669, the California Supreme Court upheld this policy. We apply this policy here and grant DRA's recommendation not to fund $82,000 for chamber of commerce dues. We also concur with DRA's second recommendation [not to fund $19,000 for certain membership dues] because Edison did not meet its burden of proof in demonstrating how these organizations relate to the utility's business and offer ratepayer benefits. (D.96-01-011, 64 CPUC2d 241, 316.)

In regards to employee lunches and recognition awards, the Commission has stated:

> Although SCE removed some of the disputed expenses for Shared Services Support, SCE contends that expenses for food vendor services, mentor luncheons, and employee awards are appropriate because they support valid business purposes. The disputed expenses support working lunches for the Vice President and managers, which, SCE contends, results in greater organizational effectiveness. They also support lunches for mentor programs that, according to SCE, strengthen the organization, provide for career enhancement, professional growth, and job effectiveness. Finally, SCE maintains that employee awards and recognition programs foster continuous improvement and achievement of long-term objectives, and create an environment of valued contribution that promotes employee retention. We find SCE's justification for the disputed expenses unconvincing. In particular,

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expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate in making the normalized adjustments.

[32] The day before the due date to data request ORA-151, PG&E objected to question 1-d stating that the request was burdensome and suggested that DRA come up with an alternative. DRA offered to review the requested information at PG&E' office. In the question, DRA asked: Provide copies of employee expenses reports (i.e. the documents required to be filled out by employees in order to be reimbursed for legitimate utility business expenses) for 2004 (recorded adjusted expenses) for all employees reporting to the 13 PCCs.

> SCE has not adequately demonstrated that ratepayer funded lunches for executives and managers and for mentor program participants is necessary or appropriate. ORA's proposed reduction of $83,507 will be adopted. The adopted non-labor expenses for Shared Services' Support Group in Account 921 are $177,364. (D.05-04-037, page 173)

In regards to other employee social activities, in D.93-12-043 at page 75, the Commission stated:

> SoCalGas seeks $1.505 million for Disneyland trips, Christmas turkey checks, employee volunteer program information and retiree gift checks and luncheons. DRA opposes all of this funding on the basis that Commission policy does not allow ratepayer funding for social activities and charitable donations. SoCalGas argues that these expenses are not charitable and argues that its last general rate case decision, which allowed such expenses, is precedential. We are not as concerned as DRA or SoCalGas with the precedent associated with funding employee social activities. We are more concerned with current economic circumstances. SoCalGas' employees have generous benefits included in their employment contracts. Disneyland trips and Christmas turkey checks may be reasonable employee benefits but ratepayers should not be required to pay for them. SoCalGas, of course, may continue to offer these benefits at shareholder expense. We deny funding in this account for employee social activities.

For the reasons stated above, DRA's normalized adjustments reduced PG&E's test year forecast for FERC Account 921 for the various departments as follows: $112,398 for SVP Regulatory Relations (PCC10421.1); $120,188 for Regulatory Relations (PCC 10407); $114,692 for VP Communications (PCC 10311.1); $61,799 for Regulatory Strategy and Analysis (PCC 12741); $11,869 for SVP Public Policy and Governmental Affairs Immediate Office (PCC 10512); $177,129 for Internal Communications (PCC 10304); and $45,087 for VP Governmental Relations (PCC 10305.1).[33]

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[33] A large amount of DRA's normalized adjustment for VP Governmental Relations (PCC 10305.1) was associated with costs incurred for local, regional and statewide Chamber of Commerce and various council fees. In PG&E's data response to TURN_0004-017, PG&E provided a list of Chamber of Commerce dues that were charged above the line in 2004 of $142,938 (the expenses were not separated by PCCs). DRA reviewed this list, and the Chamber of Commerce fees listed for the associated cities on the spreadsheet provided to TURN are different from the list DRA utilized to make its normalized adjustment for PG&E's Chamber of Commerce dues and council fees for

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D. VP Civic Partnership and Community Initiatives (PCC 12853)

PG&E forecasted $791,000 for its VP Civic Partnership and Community Initiatives (PCC 12853). PG&E created this department at the end of 2005 and expects to have a staffing level of 17 employees in the test year.[34] PG&E states that seven of the positions will be booked below the line.[35] PG&E created this department "in order to better represent the company to external leaders and customers".[36] PG&E's VP Civic Partnership and Community Initiatives will have the following responsibilities:

- Deliver and monitor PG&E sponsored community programs;
- Manage and monitor a charitable contributions program;
- Manage PG&E's volunteering program for its employees; and
- Act as a consultant to other internal organizations on activities that have an external relations impact.

DRA recommends zero ratepayer funding for PG&E's VP Civic Partnership and Community Initiatives Department. It is inappropriate for ratepayers to fund PG&E's image building projects that protect and enhance PG&E's reputation and other goodwill activities.[37] PG&E states that "15.88 percent of all costs for External Relations, 100 percent of cost related to employees working on Charitable Contributions, and 49 percent of the vice president's and the assistant's time" will be booked below the line. However, the employees in PG&E's VP Civic Partnership

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ratemaking purposes. DRA did not include the expenses of $142,938 in its adjustment, however, the costs should be removed as well from the test year forecast.

[34] PG&E's VP Civic Partnership and Community Initiatives was not included in its NOI filing.

[35] PG&E's response to data request 151 question 1-a.

[36] PG&E's A&G Study workpapers, page 2-986 of Exhibit (PG&E-6) Chapter 2 Volume 2 of 3.

[37] PG&E's response to data request 151 question 1-k.

and Community Initiatives Department would not complete time cards or track or record their time, which would make auditing of hours for time spent on various activities, to ensure appropriate allocation splits between ratepayers and shareholders, difficult.

It is important to recognize that PG&E's VP Civic Partnership and Community Initiatives Department is a newly created department that is devoted exclusively to representing PG&E's corporate interest. The activities of this department should be funded 100 percent by PG&E's shareholders. DRA recommends total disallowance of PG&E's test year request of $791,000 for its VP Civic Partnership and Community Initiatives Department.

In regards to enhancing the corporate image, the Commission stated the following:

> SoCalGas owns computer equipment and software at the Museum of Science and Industry in Los Angeles which is used for displaying exhibits that increase visitors' awareness of the value of energy resources. The exhibits are designed to capture the attention of school children in grade levels 6 through 9. DRA recommends that the capitalized expenditures of $1.303 million should be disallowed for ratemaking purposes and removed from the 1990 test year rate base for reasons including that the exhibits are image-enhancing in nature and provide no substantive benefits to the ratepayers. DRA argues that to the extent that ratepayers are ultimately billed for the exhibits which are deceptively presented to be free, they should be allowed to decide for themselves whether such programs are desirable or not. According to DRA, SoCalGas gives the impression it is providing a free service when it is not. Therefore, DRA recommends that SoCalGas should charge its expense for public relations and/or corporate image enhancement to its stockholders. SoCalGas argues that the exhibit provides the ever-important message of conservation to approximately four million people a year for a minimal cost to the ratepayer. It is an extremely cost-effective method for conveying the conservation message. SoCalGas believes it is creative and interesting to an audience in a way that can influence that audience's energy practices. Furthermore, SoCalGas believes that the expenditures for the exhibit were properly capitalized. According to SoCalGas, its accounting treatment for the exhibit was appropriate and the costs are reasonable in light of the benefits that ratepayers receive. We conclude that the exhibits serve the primary purpose of

enhancing the corporate image. Accordingly, we will not allow this expenditure as a ratemaking expense. (D.90-01-016 35 CPUC 2d. 121)

E. Internal Communications (PCC 10304)

PG&E forecasted $6.284 million for its Internal Communications Department (PCC 10304) in the test year. This department is responsible for delivering information to employees, executives, and retirees on various issues relating to PG&E. PG&E reorganized its Internal Communications Department in 2004 and as a result eliminated eight positions. This reduced PG&E's headcount from seventeen to nine employees.[38] At the end of 2004, the department had a headcount of six. In the test year PG&E plans to increase its staffing level to nineteen. PG&E provided a list of projects that will increase expenses recorded to FERC Account 923 by $3.357 million over 2004 recorded adjusted expenses in the test year.[39]

DRA has differences with PG&E's forecast of $6.284 million. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $2.095 million for FERC Accounts 920 and 923 for the test year for PG&E's Internal Communications Department. DRA's test year estimate is $4.0 million lower than PG&E's test year forecast. PG&E's expenses were relatively stable between 2000 and 2003 with expenses of $1.428 million in 2000, $1.485 million in 2001, $1.650 million in 2002, and $1.474 million in 2003.[40] In 2004, PG&E's expenses increased to $2.225 and PG&E expects to increase its expenses by $4.058 million in the test year with a forecast of $6.284.

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[38] In PG&E's response to data request ORA-151 question 1-h, PG&E states that its Internal Communications Department had 16 positions and after the elimination of eight positions it increased its staffing by one with a rotational employee, bringing its headcount to nine. Later in 2004, two more employees transferred out of the department and one employee resigned. At the end of 2004, PG&E's Internal Communications Department had 6 employees.

[39] PG&E's response to data request ORA-151 question 1-h.

[40] PG&E's Attachment ORA_ORA020-02SUPP01-3.

PG&E reorganized and downsized its Internal Communications Department in 2004. PG&E states that "benchmarking and other research indicated that this department needed a different set of skills than those existing in the department" so it eliminated eight positions.[41] PG&E then decided that it wanted to significantly increase its internal communications between its management/leadership staff and employees. A listing of projects and associated costs, which lacks documentation that shows the breakdown of costs and the basis for each estimate does not necessarily mean that there needs to be increased staffing and outside consulting costs of approximately $4.0 million. Further, providing communication on the company from PG&E's management staff to its employees is not a new task.

PG&E did not provide documentation that explained and demonstrated why its staffing, that existed in the department prior to the elimination of positions, could not be trained to meet its internal communication needs or what skills they lacked in regards to the new skills its benchmarking and other research indicated that was needed. PG&E did not provide documentation that showed the workload of its staff, that existed prior to the reorganization and elimination of positions, and the expected increase in workload to support its assertion that its workload is increasing and additional staffing and contract workers is required. PG&E did not provide a breakdown of costs and forecast estimates or the basis for each estimate. When PG&E eliminated its staffing, there were probably projects that were also eliminated or closed and the funding that was utilized for those eliminated or closed projects can be allocated to its new projects in the test year. PG&E's current staffing level for its Internal Communications Department is 11. PG&E's request for additional funding in the test year of approximately $4.0 million over 2004 recorded adjusted expenses is not justified. DRA's test year estimate of $2.095 million, which includes a labor

[41] Page 14-27 in Exhibit (PG&E-6).

forecast of $1.014 million, should be sufficient to address its internal communication needs in the test year.[42]

F. VP Governmental Relations (PCC 10305.1)

PG&E forecasted $1.155 million for its VP Governmental Relations Department FERC Account 920. This department is responsible for participating in the development of public policy, as it concerns the Utility, at all levels of state and local government, in order to "protect the integrity and financial well being of the Utility".[43] The department has three sections: VP Immediate Office, Political Resources, and State Agency Relations.[44]

DRA takes issue with PG&E's forecast of $1.155 million for FERC Account 920 for its VP Governmental Relations Department (PCC 10305.1). DRA utilized PG&E's last recorded year expenses as a basis and forecasted $0.925 million for the test year for PG&E's). This is $0.230 million lower than PG&E's test year forecast. PG&E's labor expenses were relatively flat from 2000 to 2002 with expenses of $0.560 million in 2000, $0.467 million in 2001, and $0.483 million in 2002. In 2003, PG&E's labor expenses increased significantly to $1.192 million and then decreased in 2004 to $0.925 million. On page 14-44 in Exhibit (PG&E-6) PG&E shows 2004 labor as $0.732 million and its 2005 forecast as $0.819 million.

[42] DRA's test year estimate for FERC Account 923 of $1.081 million for PG&E's Internal Communications Department, which is based on PG&E's last recorded year expenses, is a $ 0.991 million increase over 2003 expense levels of $0.090 million.

[43] Page 14-16 in Exhibit (PG&E-6).

[44] PG&E's employees in its State Agency Relations Department charge 100% of their time to ratepayers. This department "manages the relationship between the Utility and various state agencies (other than the CPUC). This includes tracking emerging policy issues, developing internal consensus, responding to inquiries from and directives of these agencies, advocating customer and business interests before state agencies and regulatory compliance" (page 14-17 in Exhibit (PG&E-6)). PG&E's employees in the Political Resources Department charge 34% of their time to ratepayers. This department provides centralized management and administrative support that serves the entire Governmental Relations organization. The VP Immediate Office manages the overall administration of the department and charges 70.61% of the time of employees to ratepayers.

PG&E's actual labor expenses shown in a response to data request ORA-151 question 1-a, are $0.925 million for 2004 and $0.970 million for 2005. DRA's test year estimate for FERC Account 920 of $0.925 million (which includes a labor increase of $0.441 million over 2002 expense levels) is sufficient for PG&E to meet its staffing needs and workload in the test year. It is also consistent with recent historical expenditures. DRA has concerns with PG&E's labor and non-labor expenses including costs incurred for activities that should have been booked below-the-line at 100 percent. Since PG&E's employees in its VP Governmental Relations Department do not complete time cards or track or record their time worked on specific projects, an audit trail was not created to analyze data and verify if appropriate allocations were used.

In 2004, PG&E's State Government Relations Office tracked 504 measures and took active positions on 56 of the measures. PG&E states that it "raised significant issues on numerous other measures directly with the authors and/or staff, but did not take formal positions for various reasons" (PG&E's data response to ORA-151 question 1-j). These activities appear to be mainly associated with protecting PG&E's interest and lobbying PG&E's positions. It is clear that these activities are not exclusively for the benefit of ratepayers to the extent that 100 percent of the department activities should be charged to ratepayers. Further, if PG&E properly allocates expenses incurred, based on the specific activity, between its ratepayers and shareholders, there should be sufficient funding in the test year. PG&E's request for additional funding, to the extent that it exceeds DRA's test year estimate, for its VP Governmental Relations Department should be denied.

G. External Communications and Advertising (PCC 10315.1)

PG&E forecasted $243,000 for its External Communications and Advertising Department (PCC 10315.1) in FERC Account 923. This department provides external communications and implements advertising campaigns for PG&E

Corporation, the Utility and subsidiaries to inform customers of PG&E's position on current issues. PG&E states further that the "advertising function is used to develop brand image advertising" and "corporate identity policy management services."[45]

DRA recommends zero ratepayer funding for PG&E's External Communications and Advertising Department. "The Commission does not allow recovery from ratepayers of institutional or goodwill advertising." (D.01-06-077 n197). Therefore, it is inappropriate for ratepayers to fund "brand image advertising." PG&E states in its response to data request ORA-151 question 1-c that "All PCC costs for this department are allocated below the line." PG&E also states that 100 percent of all advertising for this department are booked below the line.[46] In 2004, PG&E booked its storm safety radio advertisement order below the line (charged to shareholders) because all advertising for this department is booked below the line. For its GRC filing, PG&E states that it will have similar advertising and has changed the recording of this expense to FERC Account 923 (above the line) and plans to charge the advertising 100 percent to ratepayers. DRA believes that PG&E correctly recorded this expense for its storm radio advertising below the line, where the expense belongs, in 2004.[47] Ratepayer funding for PG&E's External Communications and Advertising Department should be zero.

H. Media Relations (PCC 10314)

PG&E forecasted $2.495 million for its Media Relations Department (PCC 10314) in the test year. This department provides information regarding various utility issues and crisis to the media, and through the media, to the public. PG&E states on page 14-30 in Exhibit (PG&E-6) that the average headcount in 2004 was 20

[45] Page 14-28 in Exhibit (PG&E-6).

[46] Pages 2-1074 through 2-1076 Exhibit (PG&E-6) Chapter 2 Volume 2 of 3.

[47] PG&E is requesting ratepayer funding in the test year for its Media Relations Department (PCC 10314) which addresses "storms season communications" (Page 14-29 Exhibit (PG&E-6).

employees. PG&E plans to increase its staffing level to address the growth in the Central Valley region and its workload associated with its "new expanded issues and area of customer interest."[48]

DRA made a normalized adjustment to PG&E's 2004 recorded adjusted expenses recorded to FERC Account 921 of $21,506 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, and management and staff lunches and dinners. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $2.065 million for the test year for PG&E's Media Relations Department. DRA's test year estimate is a $0.430 million decrease to PG&E's test year forecast. The recorded expenses have been relatively flat during the last five years. PG&E's expenses were $1.972 million in 2000, $1.826 million in 2001, $2.073 million in 2002, $2.001 million in 2003, and $2.089 million in 2004.[49]

On page 14-46 in Exhibit (PG&E-6) PG&E shows 2004 labor as $1.579 million and its 2005 forecast as $1.735 million. These amounts are higher than PG&E's actual figures. In a response to data request ORA-151 question 1-a, PG&E shows actual labor for 2004 of $1.475 million and 2005 of $1.548 million.   DRA's estimate, which includes a labor forecast of $1.579 million, reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate. Further, PG&E has been able to manage its workload in its Media Relations Department by maintaining a staffing level of 18 employees for the last six years, and this level should be sufficient to meet its responsibilities in the test year.[50]

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[48] Page 14-30 in Exhibit (PG&E-6).

[49] PG&E's FERC Account 923, which records expenses for outside services, fluctuated over the last five years, but averages out at $220,000 for this time period. The last recorded year expenses for FERC Account 923, which DRA utilized as a basis for its test year estimate, is $247,000.

[50] PG&E provided its staffing level and associated labor dollars for the years 2000 through 2005 in its response to data request ORA-151 question 1-a.

I. Energy Revenue Requirements Department (PCC 10408)

PG&E forecasted $4.584 million for its Energy Revenue Requirements Department (PCC 10408) in the test year. This department provides case and project management for PG&E's rate cases dealing with regulation of the electric and gas markets. The department has two sections: Electric Restructuring Cost Recovery and the Gas Revenue Requirements. In 2004, PG&E reorganized its Energy Revenue Requirement Department to align its resources with workload. PG&E states that the "realignment also allowed for rotational development opportunities and cross-training of employees across different departments in the organization."[51] Due to the reorganization, PG&E eliminated several positions and transferred six employees to its Operations Revenue Requirements Department (PCC 10611) and transferred two more employees to another department. In the test year PG&E expects a staffing level of 50 employees, which is an increase of one employee from its 2004 staffing level of 49 employees.

DRA has differences with PG&E's forecast of $4.584 million. DRA made a normalized adjustment to PG&E's 2004 recorded adjusted expenses recorded to FERC Account 921 of $80,719 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, and entertainment activities. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $4.181 million for the test year for PG&E's Energy Revenue Requirements Department. DRA's test year estimate is a $0.403 million decrease in PG&E's test year forecast. DRA's estimate, which includes a labor forecast of $3.695 million, reflects PG&E's staffing level and labor costs over the last two years (2004 and 2005) and is a reasonable test year estimate. On page 14-43 in Exhibit (PG&E-6) PG&E shows 2004 labor expenses of $4.183

million and its 2005 labor forecast as $3.824 million. PG&E's testimony and discovery responses are conflicting. These amounts are higher than PG&E's actual labor expenses. In PG&E's response to data request ORA-151 question 1-a, PG&E shows its actual labor for 2004 of $3.695 million and 2005 labor of $3.603 million. PG&E's recorded labor expense shown on page 14-43 of $4.183 million is $0.488 million over its actual amount of $3.695 million. PG&E's headcount at the end of 2004 was 50.18, and PG&E expects its headcount to be at 50 in the test year.

PG&E's staffing level is currently at 50 and is sufficient to address its workload in the test year. PG&E reorganized its departments and reduced its staffing level to be more efficient in managing its resources. PG&E's test year estimates do not reflect this increase in efficiency. In addition, when PG&E reduced its staffing, there should have also been projects that were completed and/or closed and the funding utilized for those completed projects can be allocated to PG&E's projects expected in the test year.

J. Area Public Affairs (12243.1)

PG&E forecasted $3.338 million for its Area Public Affairs Department (PCC 12243.1) in the test year. PG&E states that the mission of its Area Public Affairs Department is to "position and protect the interest of PG&E by interacting in the development of public policy."[52] In 2004, PG&E streamlined this department and eliminated three positions and transferred four positions out of the department, which decreased its staffing level from 38 to 30 by the end of 2004. In the test year, PG&E plans to increase its staffing level to 38. PG&E's expenses are also expected to

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51 Page 14-14 in Exhibit (PG&E-6)

52 PG&E's testimony on page 14-19 in Exhibit (PG&E-6).

increase to address its new Energy Tour program, Greenlining Partnership Council project, and its Strategic Travel Fund for Strategic Events.[53]

DRA made a normalized adjustment to PG&E's 2004 recorded adjusted expenses recorded to FERC Account 921 of $103,791 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, and entertainment activities. PG&E's expenses that are supposed to be incurred for its Energy Tour, Greenlining Partnership Council project, and its Strategic Travel and Events fund should be booked below-the-line and funded by its shareholders. These functions appear to be goodwill, image building, networking and/or lobbying activities that should not be charged to ratepayers.

DRA utilized PG&E's last recorded year expenses as a basis and forecasted $2.871 million for the test year for PG&E's Area Public Affairs Department. This is $0.467 million below PG&E's test year forecast. PG&E's labor expenses increased each year between 2000 and 2003 from $2.035 million in 2000, $2.410 million in 2001, $2.723 million in 2002, and $2.804 million in 2003. After PG&E's reorganization of its Area Public Affairs Department in 2004, its labor expenses decreased to $2.496 million in 2004. On page 14-44 in Exhibit (PG&E-6) PG&E shows 2004 labor as $2.297 million and its 2005 labor forecast as $2.232 million.

[53] Energy Tour: PG&E is requesting funding to support its Energy Tour project in which it will take elected officials, community leaders and other stakeholders on tours of its facility. The requested funding is for a trained guide to conduct the tours instead of using PG&E's operations staff, printing of hand-outs, bus rental with a driver, and refreshments. The Greenlining Partnership Council: PG&E sponsors community leaders to attend meetings to discuss issues of concern and to advise PG&E about consumer protection, minority procurement, diversity employment and charitable contributions. The Strategic Travel Fund and Strategic Events: PG&E is seeking ratepayer recovery for its established fund to support its travel and expenses incurred for its strategic events which includes attending meetings and events with League of CA cities, CSAC, association of public works directors, hosting education workshops for cities, facilities tours, and speaking at community chamber and regional organizations.

PG&E's actual labor expenses shown in a response to data request ORA-151 question 1-a, is $2.496 million for 2004 with a head count of 30 and $2.419 million for 2005 with a headcount of 29. DRA's test year estimate for FERC Account 920 of $2.496 million is sufficient for PG&E to meet its staffing needs and department obligations in the test year.

Although DRA is utilizing PG&E's 2004 expenses as a basis for its estimates, DRA has concerns with 2004 labor and non-labor expenses including costs incurred for activities that should have been booked 100 percent below-the-line. PG&E's employees in its Area Public Affairs Department do not complete time cards or track or record their time worked on specific projects. PG&E does not maintain documentation that would allow an audit to verify that its employees are charging specific activities and time appropriately and that would validate the accuracy of its expense allocations between ratepayers and shareholders. PG&E currently allocates 78 percent of the departments expenses to ratepayers, regardless of the activity performed.

PG&E streamlined its Area Public Affairs Department and reduced its staffing level, and has been able to manage its workload with its current staffing level of 30, and this staffing level should be sufficient in the test year. PG&E "intentionally held vacant for all of 2005" six positions and was able to meet the responsibilities of the department. PG&E plans to increase its staffing level by adding "five more personnel to provide for enhanced outreach to local communities" and to "handle newly identified priorities" such as its "Energy Tour" project.[54]

PG&E's Governmental Relations staff is responsible for community involvement, local government initiatives, and political contributions throughout the

[54] Page 14-20 in Exhibit (PG&E-6) and pages 2-976 and 2-977 in Exhibit (PG&E-6) Chapter 2 Volume 2 of 3.

service territory and the employees in the Government Relations staff monitor legislation and regulations and ensure active involvement in local communities. Many of the activities of the Area Public Affairs department do not benefit ratepayers. If PG&E properly allocates expenses incurred, based on the specific activity, between its ratepayers and shareholders, there should be sufficient funding in the test year. PG&E's request for additional funding, over DRA's estimate of $2.871 million, in the test year should be denied.

K. Operations Revenue Requirements (PCC 10611)

PG&E forecasted $5.956 million for its Operations Revenue Requirements Department (PCC 10611) in the test year. This department provides case and project management for PG&E's rate cases dealing with asset investment and operating expenses. The department is organized into five sections: General Rate Case, A&G Expense Recovery, Regulatory and Financial Data Management, Operations Proceedings, and Forecasting and Regulatory Analysis. In 2004, PG&E reorganized its Operations Revenue Requirement Department "to better align resources with workload, as well as cross-train employees in various regulatory areas." Due to the reorganization, PG&E was able to streamline its operations and eliminated 10 positions.[55] Later in 2004, PG&E created approximately 11 new positions.[56] At the end of 2004 PG&E had a staffing level of 48. In the test year PG&E proposes to hire 10 more employees, increasing its staffing level to 58. PG&E also proposes to increase its outside services for contract staff in the test year.[57]

DRA's forecast for this department is $4.519 million compared to PG&E's forecast of $5.956 million. First, DRA made a normalized adjustment to PG&E's

[55] Page 14-11 Exhibit (PG&E-6)

[56] Pages 2-875 and 2-876 Exhibit (PG&E-6) Chapter 2 Volume 2 of 3.

[57] PG&E's expenses recorded to FERC Account 923 was $296,000 in 2004 and is forecasted to be $1.126 million in the test year.

2004 expenses recorded to FERC Account 921 of $52,105 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, and entertainment activities. DRA utilized PG&E's last recorded year expenses as a basis and forecasted $4.519 million for the test year. DRA's test year estimate is $1.437 million below PG&E's test year forecast. The use of the last recorded year expenses reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate. PG&E's recorded expenses were $2.056 million in 2000, $1.512 million in 2001, $1.932 million in 2002, $4.078 million in 2003, and $4.467 million in 2004. On page 14-46 in Exhibit (PG&E-6) PG&E shows 2004 labor as $3.904 million and its 2005 forecast as $4.204 million. PG&E's actual figures shown in PG&E's response to data request ORA-151 question 1-a, is $4.008 million for 2004 and $4.066 million for 2005. PG&E's actual 2004 recorded labor expenses of $4.008 million is an increase of $0.535 million over 2003 labor expenses of $3.473 million.

PG&E states that it reorganized "to better align resources with workload, as well as cross-train employees in various regulatory areas."[58] PG&E's 2004 recorded expenses included 11 newly created positions and PG&E has implemented a cross-training program, to address its workload needs. PG&E's labor expenses increased significantly between 2001 and 2004 by $2.886 million. DRA's test year estimate of $4.519 million (which includes a labor forecast of $4.008 million) is sufficient for PG&E to address its staffing needs and department responsibilities in the test year.[59] Further, as projects are completed in the department, the funding that was utilized for

[58] Page 14-11 in Exhibit (PG&E-6).

[59] In 2004 six employees transferred in to PG&E's Operations Revenue Requirement Department (PCC 10611) from its Energy Revenue Requirement Department (PCC 10408). In the test year, PG&E is requesting funding for labor expenses for new positions that is in addition to the six transferred employees.

those completed projects can be allocated to new projects in the test year reducing the need for additional funding.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $21.941 million for PG&E's Public Policy and Governmental Affairs Department in the test year.

CHAPTER 10-H

HUMAN RESOURCES DEPARTMENT AND OTHER COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Human Resources Department and other costs (HR) recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for its HR Department. PG&E forecasted $22.246 million of A&G expenses for its HR Department. In addition, PG&E forecasted $1.2 million for severance costs in the test year. The corresponding DRA estimate for PG&E's HR Department is $19.767 million. DRA recommends zero funding for PG&E's Workforce Management Program Severance Costs.

PG&E's HR Department breaks down into seven Provider Cost Center (PCCs) Departments as follows:

Thousands of 2004 Dollars

	PG&E	DRA
Senior Vice President of HR (PCC 10373.1)	$ 799	$ 483
Industrial Relations (PCC 10374)	1,477	1,457
HR Business Operations Services and Systems (PCC 10382.1)	5,558	4,930
Benefits (PCC 10383.1)	3,284	2,260
HR Services (PCC 10384.1)	8,245	7,794
Compensation (PCC 10385)	1,000	994
Professional Staffing and Diversity (PCC 12566.1)	1,883	1,849
Total	$22,246	$19,767

DRA provides a summary in Table 10-H-1 by FERC Account of its recommended expense levels for PG&E's HR Departments for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E:

Table 10-H-1
Human Resources Departments
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$17,891	$16,221	$1,670	10.3%
921	2,534	1,883	651	34.6
923	1,821	1,663	158	9.5%
Total	$22,246	$19,767	$2,479	12.5%

The following summarizes DRA's recommendations:

1. That PG&E's forecast for the following departments and FERC Accounts be adopted: Industrial Relations Department (PCC 10374) FERC Accounts 920 and 923 of $1.353 million, HR Business Operations and Services Department (PCC 10382.1) FERC Account 923 of $0.712 million, Benefits Department (PCC 10383.1) FERC Account 923 of $0.335 million, HR Services Department (PCC 10384.1) FERC Account 923 of $0.136 million, Compensation Department (PCC 10385) FERC Accounts 920 and 923 of $0.932 million, and Professional Staffing and Diversity Department (PCC 12566.1) FERC Accounts 920 and 923 of $1.639 million. The recorded costs in these business units appear to be reasonable and have been declining or have remained relatively stable over the last five years. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

2. That DRA's estimates for FERC Account 921 for the following departments be adopted: VP Human Resources Department (PCC 10373.1) of $135,926, Industrial Relations Department (PCC 10374) of $104,290, HR Business Operations and Services (PCC 10382.1) of $697,406, Benefits Department (PCC 10383.1) of $48,818, HR Services Department (PCC 10384.1) of $624,845, Compensation Department (PCC 10385) of $62,010, and Professional Staffing and Diversity Department (PCC 12566.1) of $209,602. DRA made normalized adjustments to PG&E's 2004 recorded adjusted expenses in FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

3. That DRA's forecast estimate of $3.521 million for PG&E's HR Business Operations and Services FERC Account 920 be adopted. DRA's estimate is $0.576 million below PG&E's test year forecast. PG&E's labor forecast of $4.097 million is not justified, based on information provided in its response to ORA-233 question 1-a, which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005. The use of the last recorded year expenses for FERC Account 920 reflects the highest level of expenditures for this account and is a reasonable level for the test year estimate.

4. That DRA's forecast estimate of $0.260 million for PG&E's VP Human Resources - Immediate Office (PCC 10373.1) FERC Account 920 be adopted. DRA's estimate is $0.133 million below PG&E's test year forecast. PG&E's labor forecast of $0.393 million is not justified, based on information provided in its response to ORA-233 question 1-a, which showed PG&E's actual end of year headcount and associated labor dollars for the years 2000 through 2005.

5. DRA proposes to use PG&E's last recorded year expenses for a test year forecast of $87,000 for PG&E's FERC Account 923 for its VP Human Resources - Immediate Office (PCC 10373.1). PG&E has not provided sufficient information to support its proposed increase in the test year. The use of the last recorded year expenses of $87,000 reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate.

6. DRA proposes to use a five year average for a test year forecast of $7.033 million for the test year for PG&E's HR Services Department (PCC 10384.1) for FERC Account 920. DRA's estimate is $0.358 million lower than PG&E's test year forecast. DRA's test year estimate is based on fluctuations between 2000 and 2004 in this account.

7. DRA estimates $1.876 million for PG&E's Benefits Department (PCC 10383.1) FERC Account 920 be adopted. DRA's estimate is $0.602 million below PG&E's test year forecast. DRA removed expenses from PG&E's 2004 recorded adjusted expenses for costs associated with PG&E's Employee Assistance Program (EAP), its Children's Center, and its Peer Volunteer Program.

8. PG&E included expenses of $76,786 in its test year forecast for its EAP that was already included in the test year forecast for Chapter 17 in Exhibit (PG&E-6) under its Employee Assistance and Mental Health, Alcohol and Drug Care program forecast of $1,370,000. PG&E included expenses of $341,458 for its child care center and pre-school. This is not an expense

necessary to operate its utility business. PG&E included $176,902 of expenses for its Peer Volunteer program. PG&E already has two other programs funded by ratepayers, to address its employee issues regarding drug and/or alcohol problems and it would be inappropriate to have ratepayers fund programs that PG&E's employees have volunteered their services and are duplicative to other programs funded by ratepayers.

9. The Commission should disallow PG&E's request of $1.2 million for its Workforce Management Program Severance Costs in the test year. PG&E's test year estimate of $1.2 million is based on a settlement reached in its 2003 GRC filing. PG&E has not been able to provide information on its workforce management program or been able to provide documentation on the departments that will be downsizing, or any information on the approximate number of employees being displaced to justify its request and substantiate its need for severance payments in the test year.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. DRA also reviewed several employee expense reports in PG&E's SAP accounting system at PG&E's office.

PG&E's Human Resources Department designs, develops and implements programs and services in order to hire, develop, and retain employees. DRA did not take issue with PG&E's forecasted level of expenses for the following Human Resources Departments: Industrial Relations (PCC 10374) FERC Accounts 920 and 923 of $1.353 million, HR Business Operations and Services Department (PCC 10382.1) FERC Account 923 of $0.712 million, Benefits Department (PCC 10383.1) FERC Account 923 of $0.335 million, HR Services Department (PCC 10384.1) FERC Account 923 of $0.136 million, Compensation Department (PCC 10385) FERC Accounts 920 and 923 of $0.932 million, and Professional Staffing and Diversity (PCC 12566.1) FERC Accounts 920 and 923 of $1.639 million. The recorded costs in these departments appear to be reasonable and have been declining or remained relatively flat from 2000 to 2004. PG&E estimates these expenses will remain relatively stable from 2004 levels through the test year.

DRA takes issue with PG&E's test year forecast for the following: VP Human Resources Department (PCC 10373.1) of $0.799 million, Industrial Relations Department (PCC 10374) FERC Account 921of $0.124 million, HR Business Operations and Services (PCC 10382.1) FERC Accounts 920 and 921 of $4.846 million, Benefits Department (PCC 10383.1) FERC Accounts 920 and 921 $2.948 million, HR Services Department (PCC 10384.1) FERC Accounts 920 and 921 of $8.108 million, Compensation Department (PCC 10385) FERC Account 921 of $0.068 million, and Professional Staffing and Diversity (PCC 12566.1) FERC Account 921 of $0.243 million. DRA also opposes PG&E's test year forecast of $1.2 million for severance costs.

B. Normalized Adjustments

DRA made normalized adjustments to PG&E's 2004 recorded expenses in FERC Account 921 for ratemaking purposes. The expenses removed were incurred for cash and non-cash employee recognition awards and lunches, management and staff lunches and dinners, staff parties and celebrations, and entertainment activities.[60] DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.[61]

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[60] DRA requested that PG&E provide a detailed and itemized list of expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses in data request ORA-84. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate in making the normalized adjustments.

[61] Regarding other employee social programs that should not be funded by ratepayers, see pages 10-G-11 and 10-G-12 in this exhibit.

In regards to employee lunches and recognition awards, the Commission stated:

> Although SCE removed some of the disputed expenses for Shared Services Support, SCE contends that expenses for food vendor services, mentor luncheons, and employee awards are appropriate because they support valid business purposes. The disputed expenses support working lunches for the Vice President and managers, which, SCE contends, results in greater organizational effectiveness. They also support lunches for mentor programs that, according to SCE, strengthen the organization, provide for career enhancement, professional growth, and job effectiveness. Finally, SCE maintains that employee awards and recognition programs foster continuous improvement and achievement of long-term objectives, and create an environment of valued contribution that promotes employee retention. We find SCE's justification for the disputed expenses unconvincing. In particular, SCE has not adequately demonstrated that ratepayer funded lunches for executives and managers and for mentor program participants is necessary or appropriate. ORA's proposed reduction of $83,507 will be adopted. The adopted non-labor expenses for Shared Services' Support Group in Account 921 is $177,364. (D.05-04-037, page 173)

DRA's normalized adjustments reduced PG&E's test year forecast for FERC Account 921. DRA's test year estimates for FERC Account 921 for the following departments is as follows: VP Human Resources Department (PCC 10373.1) of $135,926, Industrial Relations Department (PCC 10374) of $104,290, HR Business Operations and Services (PCC 10382.1) of $697,406, Benefits Department (PCC 10383.1) of $48,818,[62] HR Services Department (PCC 10384.1) of $624,845, Compensation Department (PCC 10385) of $62,010, Professional Staffing and Diversity Department (PCC 12566.1) of $209,602.

[62] DRA's test year estimate for PG&E's Benefits Department (PCC 10383.1) FERC Account 921 includes a normalized adjustment to removed meals and employee cash recognition awards for ratemaking purposes, and costs incurred for its Children's Center, Employee Assistance Program, and Peer Volunteer Program.

C. Severance Costs

PG&E forecasted $1.2 million in severance costs for its Workforce Management Program in the test year. The program is supposed to provide severance and other benefits for workers that are displaced due to organizational changes. PG&E expects to have more organizational changes based on internal restructuring. PG&E has not been able to provide information on its workforce management program or been able to provide documentation on the departments that will be downsizing, or any information on the approximate number of employees being severed to justify its request and substantiate its need for severance payments in the test year. PG&E's test year estimate of $1.2 million for its Workforce Management Program and severance costs is purportedly based on a settlement reached in its 2003 GRC filing.

DRA asked in data request ORA-084 question 1-a:

> In PG&E's Supplemental Deficiency response PG&E refers to the agreement reached in the 2003 GRC. Please state if PG&E's current environment and the number of employees expected to receive severance payments is exactly the same as PG&E's last GRC and provide the documentation to demonstrate that the situation is the same as it was in PG&E's last GRC.

PG&E responded:

> Without a definition of "current environment" and "situation," PG&E cannot categorically state that the business conditions it will face in 2007 are the same as existed during the preparation and litigation of the 2003 GRC. Nor can PG&E state that the number of employees forecast to be severed in 2007 is the same as the number forecast for 2003. However, as indicated in Attachment ORA-00840-1a-1, PG&E does expect that ORA's position on severance will be similar to its position in previous GRCs. It was this expectation that lead PG&E to use the amount of severance cost included in ORA's report in the 2003 GRC as its forecast for 2007.

DRA takes issue with PG&E's Workforce Management Program and severance costs of $1.2 million. DRA recommends zero funding for PG&E's

Workforce Management Program in the test year. PG&E's test year estimate of $1.2 million for its Workforce Management Program and severance costs is based on a settlement reached in its 2003 GRC filing. Although a settlement may have been reached on issues in PG&E's 2003 GRC, which included severance costs and other issues, that settlement agreement is not applicable to PG&E's 2007 GRC filing. PG&E is required to justify all forecast amounts for the test year.

In data request ORA-084 question 1-b, DRA requested the following:

> Provide a breakdown of all expenses included in the calculation of PG&E's severance payments.

PG&E responded:

> Severance costs are labor only. Regardless of which departments the employees worked in, severance costs are booked to FERC Account 920, Administrative and General Salaries. As described in the response to ORA-0084-01a and Attachment ORA-0084-01a-1, PG&E did not present a calculated forecast of severance costs for 2007, but rather used the amount included in ORA's report in the 2003 GRC.

PG&E is required to substantiate all forecast amounts for the test year, and because "PG&E did not present a calculated forecast of severance costs for 2007", its request for severance should be denied. In regards to PG&E's failure to provide documentation to support its test year request for expected severance costs, in D.00-02-046 the Commission stated:

> PG&E contends that ORA's recommendation in effect requires that PG&E identify which employees will received severance payments before it can include theses costs in is forecasts. We fail to understand this argument. ORA simply finds that PGE has not provided the information needed to forecast labor costs reductions that correspond to the forecasted severance payments. ORA's request for this information is not unreasonable, and PG&E's failure to provide it constitutes a failure to justify its requested severance costs in revenue requirements. Under the circumstances, it is neither reasonable nor fair to include severance pay expenses incurred by PG&E in 1999 revenue

> requirements. PG&E's request to included $8.997 million for severance costs is therefore denied (D.00-02-046 page 264).

The environment in which utilities operate is constantly changing, and issues raised in one GRC filing will differ from the next filing presented three years later. The utility's staffing levels also change from year to year, and employee severance and associated costs impact forecasted labor dollars. In data request ORA-084 question 1-e, DRA requested the following:

> Provide the documentation that demonstrates that PG&E made an adjustment to its labor forecast as it relates to its request for severance payments in the test year.

PG&E responded:

> PG&E's forecast of labor costs for 2007 are based on the amount of work to be performed (generally in the operations area) or the number of employees necessary to perform the work (generally customer services and A&G). PG&E's goal is to have the appropriate number of employees with the requisite skills to perform the identified work. PG&E's workforce management practices use severance, where necessary and appropriate, on the one hand and recruiting and hiring on the other to match the employees skills to the work to be done. Accordingly, the use of severance does not affect the forecast of labor costs for 2007, and PG&E has not made any adjustment to forecast labor costs.

In regards to PG&E's statement that "the use of severance does not affect the forecast of labor costs, the Commission stated the following in D.00-02-046:

> We find that there is a linkage between employee headcount and severance pay even if every single instance of a severance payout is not associated with the elimination of a position. PG&E's forecast of $8.977 million in severance payouts may be correct, but PG&E still has not demonstrated that it has made appropriate corresponding downward adjustments to its GRC request to reflect the reduced head count associated with the severance pay it seeks to recover (D.00-02-046 page 263).

PG&E has not justified its test year request of $1.2 million for its Workforce Management Program Severance costs and DRA recommends total disallowance of this cost in the test year.

D. VP Human Resources – Immediate Office (PCC 10373.1)

PG&E forecasted $0.393 million in the test year for its VP Human Resources - Immediate Office (PCC 10373.1) FERC Accounts 920. This office manages the seven Human Resources Departments and provides direction, oversight, and coordination on various issues and policies for the Utility and PG&E Corporation. The department had a headcount of one at the end of 2004 after transferring one position out of the department.

DRA has differences with PG&E’s forecast for FERC Account 920. DRA utilized PG&E’s last recorded year expenses and forecasted $0.260 million for the test year for FERC Account 920. This is $0.133 million below PG&E’s test year forecast. PG&E’s labor expenses fluctuated between 2000 and 2004 with expenses of $0.332 million in 2000, $0.403 million in 2001, $0.510 million in 2002 and $0.492 million in 2003, and $0.260 million in 2004. PG&E’s labor forecast of $0.393 million is not justified. On page 15-26 in Exhibit (PG&E-6) PG&E shows 2004 labor as $0.424 million and its 2005 through 2007 forecast as $0.393 million.

PG&E’s amounts shown in its testimony for 2004 and 2005 are higher than PG&E’s actual labor expenses. PG&E’s actual labor expenses shown in PG&E’s response to data request ORA-233 question 1-a were $0.260 million for 2004 (with a headcount of 1) and $0.270 million for 2005 (with a headcount of 1). DRA’s test year estimate for FERC Account 920 of $0.260 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

DRA takes issue with PG&E’s test year forecast for FERC Account 923 of $0.243 million. DRA utilized PG&E’s 2004 recorded adjusted expenses of $0.087

million as a basis for its test year forecast for FERC Account 923. The use of the last recorded year expenses of $0.087 million reflects the highest level of expenditures for this account over the last five years and is a reasonable method to derive the test year estimate. PG&E's recorded expenses in FERC Account 923 have remained relatively flat over the last five years from $0.024 million in 2000, $0.046 million in 2001, $0.053 million in 2002, $0.031 million in 2003, and $0.087 million in 2004. PG&E states on page 15-7 in Exhibit (PG&E-6) that its "contract costs are expected to increase in 2005 to support benchmarking and other efficiency studies for the utility and to then remain constant through 2007". PG&E did not provide sufficient information to support its expected increase in the test year. Further, the costs incurred for the benchmarking study conducted in 2005 appear to be a one-time non-recurring expense, based on PG&E's historical expenses for FERC Account 923, and should not be included in the test year forecast.

In data requests ORA-084 question 1-n and ORA-164 question 1-h, DRA asked PG&E for further information to support its expected increase in FERC Account 923:

> PG&E states in its Supplemental Deficiency response that "other expenses for ongoing company and department initiatives, including HR efficiency/benchmarking studies, will increase. Contract costs are anticipated to increase to support several initiatives and fillings including the 2007 GRC and ongoing HR efficiency/benchmarking studies to assist in the assessment of the HR organization". Provide a detailed list of all expected expenses mentioned above and the purpose of those expenses. Provide the documentation to fully support the assertions made above and all associated costs.

PG&E responded to ORA-084 Question 1-n as follows:

> Contract costs and other expenses were expected to increase in 2005 to support department initiatives to assess organizational effectiveness, as well as increases to support the 2007 GRC filing. The total forecast amount to support these efforts was $258,587 planned for in PCC 10373.1. Actual contract costs

> did increase in 2005 in support of a ten-week assessment phase, which reviewed the current HR organizational structure and identified potential changes to the current service model…Future year contract forecasts are anticipated to remain constant with 2005 as costs are charged to this cost center to ensure Human Resources policies and practices are in line with industry and benchmarks are charged to this cost center.

Subsequently, DRA asked:

> In PG&E's response to ORA-084 Question 1-g, PG&E included $258,587 ($164,745 and $93,842) in its test year forecast for PCC 10373.1 to pay Accenture for "support of the ten-week assessment phase performed by Accenture to review the current HR organizational structure and identify potential changes to the current service delivery model". PG&E claims that the actual amount paid to Accenture in 2005 was $390,000.
>
> PG&E's FERC Account 923 expenses for PCC 10373.1 were as follows: $24,000 for the year 2000, $46,000 for the year 2001, $53,000 for the year 2002, $31,000 for the year 2003, $87,000 for the year 2004, and are expected to be $243,000 in 2005 through 2007.
>
> Provide the breakdown of the above expenses and the frequency of the expenses. Provide documentation to explain why PG&E has included the expenses in its test year forecast for 2006 and 2007.

PG&E responded to ORA-164 Question 1-h as follows

> PG&E would like to clarify the interpretation of costs to pay Accenture for support of the 10-week study. Within PCC 10373.1 costs are typically identified to support benchmarking and other efficiency studies for the utility. In 2005, the 10-week study conducted by Accenture fell within the category of benchmarking and efficiency studies, but PG&E did not intend to suggest that a 10-week study would be undertaken in subsequent years by Accenture. With regard to the costs identified in paragraph two of the question, the question references two data series that are not comparable. Part of the increase between 2003 and 2004 is due to this inconsistency. FERC accounts may include amounts from PCC costs and orders costs, but the amounts for 2000 through 2003 in Attachment ORA_0020-002Supp01-3 do not show orders costs…Orders data was not available by department for 2000-2003 for Utility departments or PG&E Corporation departments…The contracts forecast for 2006 and 2007 includes funding for benchmarking and efficiency studies to

> support that objective. Accordingly, PG&E is unable to provide a specific breakout of expenses at this time as dollars are allocated as specific needs and initiatives arise.

From DRA's perspective, this explanation is unacceptable. Therefore, DRA's test year estimate for PG&E's VP Human Resources Department FERC Accounts 920 and 923 is $0.347 million, which is $0.289 million less than PG&E's forecast of $0.636 million.

E. HR Business Operations and Services (PCC 10382.1)

PG&E forecasted $4.097 million for its HR Business Operations and Services Department (PCC 10382.1) FERC Account 920 in the test year. The department has four sections: Employment and Assessment Services, HR Information Services, HR Planning/HR Financial Management, and Return to Work. In 2005, PG&E states that it transferred 12 employees from its HR Business Operations and Services (PCC 10382.1) to its Benefits Department (PCC 10383.1).[63] PG&E expects its headcount to remain at 49 during the test year.

DRA has differences with PG&E's test year forecast of $4.097 million. DRA utilized PG&E's last recorded year expenses for a test year forecast of $3.521 million for FERC Account 920 for PG&E's HR Business Operations and Services Department. DRA's test year estimate is $0.576 million less than PG&E's test year forecast. The use of the last recorded year expenses for FERC Account 920 reflects the highest level of expenditures for this account and is a reasonable level for the test year estimate. PG&E's labor forecast of $4.097 million is not justified. PG&E's recorded adjusted labor expenses for 2004 of $4.252 million and its forecast labor expenses for 2005 through 2007 of $4.097 shown in its testimony on page 15-27 in Exhibit (PG&E-6) conflict with its actual labor expenses provided in its data response

[63] Page 15-11 in Exhibit (PG&E-6)

to ORA-233 question 1-a.[64] Table 10-H-2 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-H-2

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	46.34	51	45.78	52.78	52.82	75.48
Labor Dollar	$2,505,972	$2,888,080	$2,681,695	$3,267,396	$3,520,580	$4,347,876

PG&E's 2004 expenses shown on page 15-27 in its testimony are $0.731 million higher than its actual labor expenses provided in its data response. PG&E states that the department transferred 12 employees out of the department in May of 2005 and forecasts a decrease in its labor expenses in the test year due to the transfer. PG&E needs to reconcile its statements in its testimony regarding its expected test year headcount and its data response to ORA-233 question 1-a. DRA's test year estimate for FERC Account 920 of $3.521 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

F. HR Services (PCC 10384.1)

PG&E forecasted $7.391 million in the test year for its HR Services (PCC 10384.1) FERC Account 920. This department provides consulting and support to

[64] PG&E's testimony regarding its headcount and the transfer of 12 employees out of the department conflicts with its actual headcount provided in its data response. PG&E states that it transferred 12 employees out of its HR Business Operations and Services Department (PCC 10382.1) to its Benefits Department (PCC 10383.1) in May 2005. However, PG&E's labor expenses shown in its data response to ORA-233 question 1-a does not show the transfer of employees in either department. Instead, PG&E's data response shows an increase in headcount of 22.66 in 2005 for its HR Business Operations and Services Department (PCC 10382.1). PG&E's data response shows the headcount in its Benefits Department (PCC 10383.1), that was supposed to receive the 12 employees, at 21.47 for 2004 and 21.44 for 2005. The five year average for PG&E's headcount for its Benefits Department is 20.4.

PG&E's management staff and employees on various personnel issues, such as employee complaint/concerns resolution, leadership development, workforce planning, labor relations, and employee performance consulting. In 2004, PG&E states that the average headcount in the department was 91 and during the test year the headcount is expected to remain flat.[65]

DRA has differences with PG&E's forecast for FERC Account 920. DRA utilized a five year average method and forecasted $7.033 million for the test year for PG&E's HR Services Department (PCC 10384.1) for FERC Account 920. DRA's forecast is a $0.358 million decrease in PG&E's test year forecast. The average headcount during the last five years in this department was 101.3 and PG&E expects a headcount of 93 in the test year. PG&E's labor expenses fluctuated between 2000 and 2004 with expenses of $7.019 million in 2000, $6.961 million in 2001, $7.276 million in 2002 and $7.418 million in 2003, and $6.491 million in 2004. PG&E's labor forecast of $7.391 million is not justified. On page 15-27 in Exhibit (PG&E-6) PG&E shows 2004 labor as $7.321 million (with a headcount of 84.86) and its 2005 forecast as $7.391 million (with a headcount of 93.33).

PG&E's labor expenses shown in its testimony for 2004 and 2005 are higher than PG&E's actual labor expenses. PG&E's actual labor expenses shown in PG&E's response to data request ORA-233 question 1-a were $6.491 million for 2004 (with a headcount of 87.86) and $6.991 million for 2005 (with a headcount of 89.52). PG&E's 2004 expenses shown on page 15-27 in its testimony is $0.830 million higher than its actual labor expenses provided in its data response. DRA's test year estimate for FERC Account 920 of $7.033 million is reasonable and is sufficient for PG&E to meet its staffing needs and workload in the test year.

[65] Page 15-13 in Exhibit (PG&E-6).

G. Benefits Department (PCC 10383.1)

PG&E forecasted $2.478 million in the test year for its Benefits Department (PCC 10383.1) FERC Accounts 920 and 921. In May of 2005, PG&E reorganized its departments that had similar responsibilities and transferred 12 employees into the Benefits Department from its HR Business Operations and Services Department (PCC 10382.1).[66] PG&E states that "during 2005 and 2006, the consolidated department will undergo a full examination of its processes to identify methods for improving service and reduction costs".[67]

DRA has differences with PG&E's forecast of $2.478 million. DRA utilized PG&E's 2004 recorded expenses, as shown on page 15-27 in Exhibit (PG&E-6), for FERC Account 920 and forecasted $1.876 million for PG&E's Benefits Department in the test year. DRA's forecast is $0.602 million lower than PG&E's TY forecast. DRA's estimate included an adjustment of $0.094 million for costs associated with PG&E's Employee Assistance Program (EAP), Children's Center, and Peer Volunteer Program.[68]

PG&E's labor expenses have remained relatively stable between 2000 and 2004 with expenses of $1.202 million in 2000, $1.331 million in 2001, $1457 million in 2002, $1.463 million in 2003, and $1.540 million in 2004. PG&E states that its labor costs should increase in the test year due to the transfer of 12 employees into the department. However, PG&E's labor forecast of $2.478 million is not justified. On page 15-27 in Exhibit (PG&E-6) PG&E shows 2004 labor as $1.970 million and its

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[66] PG&E's headcount provided in its response to data request ORA-233 question 1-a, does not show an increase in staffing for its Benefits Department (PCC 10383.1) as stated on page 15-12 in Exhibit (PG&E-6). The headcount has remained relatively stable for the last five years with an average headcount of 20.4. PG&E shows its 2004 headcount as 21.47 and 2005 headcount as 21.44.

[67] Page 15-11 in Exhibit (PG&E-6).

[68] PG&E provided the breakdown of expenses and program descriptions for its Employee Assistance Program, Children's Center, and Peer Volunteer Program in its response to ORA-084 question 1-l.

2005 through 2007 forecast as $2.478 million. PG&E's amounts shown in its testimony for 2004 and 2005 are higher than PG&E's actual labor expenses. PG&E's actual labor expenses shown in PG&E's response to data request ORA-233 question 1-a were $1.540 million for 2004 and $1.631 million for 2005. DRA's test year estimate for FERC Account 920 of $1.876 million (utilizing labor of $1.970 million before adjustments) is sufficient for PG&E to meet its staffing needs and department obligations in the test year.

DRA has differences with PG&E's test year forecast of $0.470 million for its Benefits Department FERC Account 921. DRA forecasted $0.049 million for PG&E's FERC Account 921. DRA removed $0.421 million from PG&E test year forecast for FERC Account 921 for costs associated with PG&E's Employee Assistance Program (EAP), Children's Center, and Peer Volunteer Program.

PG&E's Benefits Department (PCC 10383.1) included expenses of $75,483 for 2004 and $76,786 for 2005 in its test year forecast for its Employee Assistance Program that were already included in the test year forecast for Chapter 17 in Exhibit (PG&E-6) under its Employee Assistance and Mental Health, Alcohol and Drug Care program forecast of $1,370,000.[69] Although PG&E's full service child care center and pre-school may be a "key attraction and retention vehicle for employees located in the general office complex," PG&E's forecasted expenses of $341,458 for its child care center and pre-school is not an expense necessary to operate its utility business. To have ratepayers fund PG&E's child care center and pre-school would be inappropriate, and DRA removed 2004 recorded expenses of $335,664.

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[69] DRA informed PG&E of the doubling counting of its Employee Assistance program and referred PG&E to its data response to ORA-186 question 1. PGE agreed that it was an error and stated that the $76,786 would be removed from the Benefits Department test year forecast. In PG&E's response to data request ORA-164 1-k, it removed $75,483 from 2004 recorded expenses and $76,786 from 2005 forecast that were associated with its Employee Assistance program.

In PG&E's response to data request ORA-164 question 1-k, PG&E agreed to remove 2004 recorded expenses of $70,394 and 2005 forecast expenses of $71,609 associated with its child care center. PG&E did not remove expenses of $265,270 from 2004 recorded costs and forecasted 2005 through 2007 expenses of $269,849 of costs associated with its child care center and is requesting ratepayer funding. PG&E states "Facility charges in the amounts of $265,270 (2004 recorded), and $269,849 (2005 forecast) are properly included in PCC 10383.1 as these represent the "operational subsidy" provided by ratepayers in the form of space for the Center "at no rental fee".

DRA disagrees. In regards to PG&E's child care center, the Commission stated the following:

> The dispute for Account 921 purposes centers on an operational subsidy to PG&E's employee child care center. DRA's recommended disallowance for this account is $290,000 on a total company basis. The Electric Department disallowance is $165,000. PG&E would like to include in Account 921 the portion of the annual operational costs of its child care center not recovered from users of the child care center. DRA recommends removal of theses costs. PG&E contends that there are ratepayer benefits that derive from the running of an on-site child care center. PG&E argues that these benefits include the ability to attract and retain employees…DRA, on the other hand, does not dispute that PG&E's child care center is a value to PG&E as an entity. The issue is whether ratepayers should subsidize this project…We concur with DRA on this issue. We note that PG&E has been rather vague as to both the improved productivity and employee retention that they claim will follow from this child care center. At this point there is no plan in place to track an improvement in employee productivity. (RT 18:1371). We note that a very small group of employees will receive this benefit. The cost per child of the subsidy is extremely significant. During questioning by the ALJ, PG&E's witness conceded that public relations benefits and goodwill to the company derive from the opening of such a child care center (Tr. 18:1367). Likewise we find the statistics indicating that other companies subsidize on-site child care 40% to be unpersuasive to the issue of whether PG&E's ratepayers should provide that subsidy. There is no information presented that these other companies in fact passed all of this subsidy on directly to customers...Further, as was stated by a child care advocacy group in a letter to PG&E that was quoted in the record, PG&E has chosen to provide a high quality child care

> center. That choice to provide a top-of-the-line child care center is one that PG&E is entitled to make. However, it does not necessarily follow that PG&E's ratepayers should subsidize an effort to be a top-of-the-line model. Finally, we find that ratepayers are already providing an operational subsidy to the child care center by providing the space for the center at no rental fee within PG&E's headquarters building at 77 Beale Street in downtown San Francisco. When questioned as what the rental value of that space would be, PG&E witness that it would be somewhere around $17 a square foot per annum. Given the child care center is 9,000 square feet, this equals an operational subsidy of over $150,000 a year. We believe this is more than adequate subsidy by PG&E ratepayers of its child care center which will be a major public relations asset. We encourage PG&E to continue with its project, but not at ratepayer's expense. We note that perhaps if the shareholders pay for this project, the company will find a way to streamline its expenses and operations. (D.92-12-057 47 CPUC 2d 143,204)

DRA removed $91,110 of expenses from PG&E's test year forecast associated with its Peer Volunteer program. In 2004, PG&E started its Peer Volunteer program. PG&E's employees experienced with alcohol and drug recovery programs volunteered by meeting and talking with employees experiencing problems with drugs or alcohol. PG&E already has two other programs, funded by ratepayers, to address its employee issues regarding drug and/or alcohol problems. PG&E's ratepayers already fund PG&E's Employee Assistance Program which is a professional and confidential program available 24 hours a day/365 days a year. The program provides assessment, referral, and short-term counseling for alcohol and drug abuse as well as other services. PG&E's ratepayers also fund its Mental Health, Alcohol and Drug Care program. This program covers all self- funded medical plan participants and provides substance abuse coverage for all HMO participants. It is inappropriate to have ratepayers fund programs for which PG&E's employees have volunteered their services, and which are duplicative to other programs funded by ratepayers.

DRA recommends that the Commission adopt its expense level estimate of $19.767 million for PG&E's Human Resources Department in the test year. DRA also recommends that the Commission disallow PG&E's request for Severance Costs of $1.2 million.

CHAPTER 10-I
PERFORMANCE INCENTIVE PLAN

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's Administrative and General (A&G) expense forecast for its Performance Incentive Plan (PIP) recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Account 920.

II. SUMMARY OF RECOMMENDATIONS

For PG&E's annual variable pay plan, the Performance Incentive Plan (PIP), PG&E seeks $56.2 million for the test year. PG&E states that its $56.2 million forecast is based on 50 percent of the maximum potential PIP award payout based on its 2004 plan year. The corresponding DRA estimate for PG&E's annual variable PIP is $28.109 million for the test year.

The following summarizes DRA's recommendations:

1. The Commission should apply the policy established in D.00-02-046 and adopt DRA's estimate of $28.109 million for PG&E's PIP program in the test year utilizing 50 percent of PG&E's 2004 target payout as a basis.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony and workpapers and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses.

B. PIP Background and Calculation

PG&E states that its PIP program, which was implemented in 1987, rewards certain employees for meeting and exceeding its business area and Company goals. PG&E's management (supervisory, non-supervisory, and senior management), and clerical non-union employees are eligible to participate in the PIP incentive program.

PG&E states that its PIP "focuses on customer value" and is a tool used by its management staff to communicate important objectives and to motivate its employees. At the beginning of the year, PG&E's business units set PIP objectives that affect customer satisfaction, service, operations, and budget. PG&E's PIP has two components: a business area performance that is 70 percent of the award and a utility performance, which is 30 percent of the award, both the business and utility performance have a rating at 0.0 to 2.0[70]. PG&E calculates PIP by using its final PIP score, its eligible employee's participation rate, and its employees' base salary at the end of the year. PG&E obtains the business unit score by multiplying the total business area performance objectives score by the total operating and service threshold score. PG&E then adds the resulting score for the business area with the utility performance score to obtain the PIP score.

In 2002, PG&E modified its PIP program so that its PIP awards could be modified based on the employee's annual performance rating. Employees who receive the highest performance ratings of one can receive PIP award increases of up to 14 percent. PG&E employees who receive a three or four performance rating could receive a decrease in PIP awards.

[70] PG&E's Utility performance, which is 30 percent of its PIP award, is measured by earnings from operations. If PG&E does not meet its performance goals, as a whole, as measured by earnings from operations, there would be no payout for that 30 percent of PIP (PG&E's Attachment MDR08-002-2).

C. DRA's Forecast of PIP

PG&E's PIP is a variable pay program, or "pay at risk", which means that "an actual PIP award may be as low as zero or as high as two times the target award."[71] PG&E is requesting that its ratepayers fund its annual variable pay program regardless of whether its pays out incentives or not. PG&E is requesting that its ratepayers fund its PIP at 50 percent of the maximum potential PIP award(s) based on its 2004 plan year payout which amounts to $56.2 million. PG&E calculates 50 percent of its maximum PIP award(s) by multiplying its target PIP incentive of $56.2 million by two in order to derive a maximum potential PIP award of $112.4 million. In PG&E's test year request, PG&E is actually requesting that ratepayers fund 100 percent of its target PIP award(s).

DRA utilized 50 percent of PG&E's Target payout for its PIP of $56.2 million and forecasted $28.109 million for the test year. PG&E's incentive programs benefit its shareholders as much as they benefit ratepayers and there should be a sharing of the costs of the incentives. However, ratepayers should not be required to fund PG&E's PIP incentives in the test year at 100 percent of target, which is 50 percent of its maximum potential payout.

In regards to PG&E's PIP payout, the Commission stated the following in Decision 00-02-046 at page 259:

> We find no compelling evidence for a change in our current practice of allowing 50% recovery of targeted incentives from ratepayers. As we have held, shareholders and ratepayers alike benefit from the good performance that incentive programs such as PIP seek to encourage. We continue to believe that equal sharing of cost is fair, and that it provides appropriate incentives to the utility to perform in ways that benefit ratepayers and shareholders alike. Moreover, since the actual payout is less than the target payout in any year when employees do not perform well enough to earn targeted payouts, there is

[71] PG&E Attachment MDR08-002-2.

> an unacceptable risk of overcollection of costs in the test year if we allow the inclusion of 100% of the targeted payout in rates. Continuing our policy of allowing 50% of targeted payouts mitigates this concern. Although PG&E paid out just 72.5% of its target payout during the five years ending with 1996, it paid out nearly 100% of targeted costs over a ten year period. This affirms PG&E's contention that it is reasonable to base estimated payouts on an expected PIP score of 1.0. Accordingly, while we adopt Enron's proposal for equal sharing of PIP 50 expenses, we provide that PG&E is entitled to recover 50% of its estimated payout of $26.5 million, which reflects a PIP performance score of 1.0.

PG&E has not paid out its maximum potential PIP awards to employees during the last five years, and it would be inappropriate and burdensome to require ratepayers to fund PG&E's PIP at the maximum level, which is 100 percent of its target PIP awards. Table 10-I-1 shows PG&E payouts over the last five years for its established target, amount actually paid to employees, and its maximum potential awards.

Table 10-I-1

PG&E's Performance Incentive Plan Payout[72]

Year	Target Payout	Actual Payout	Maximum Payout
2004	$56,218,036	$75,411,075	$112,436,072
2003	$53,767,732	$88,570,445	$107,535,465
2002	$50,316,174	$57,724,731	$100,632,348
2001	$45,365,584	$63,618,151	$90,731,168
2000	$41,622,647	$49,717,480	$83,245,294

During the last five years, PG&E's PIP payout has exceeded its Target, which means that PG&E, its employees and business units have exceeded operating objectives during this time period. In evaluating the data presented by PG&E, there was no detailed information regarding what actually contributed to the actual payout exceeding the target. Furthermore, there was no detail provided that demonstrated the

[72] PG&E provided information on its PIP payout in Attachment MDR08-006-1.

part of performance related to maintaining or improving customer related objectives versus utility related financial goals, which contributed to the actual payout.

PG&E's PIP Maximum and Target payout levels have also increased significantly since 2000, by $29.3 million and $14.6 million, respectively. This amounts to an increase of 35 percent over four years or approximately 8 percent annually. This annual compounded increase is well above any consumer or labor price escalation rate for this same period. Therefore, limiting the ratepayer funded amount at 50 percent of the target also assures that they are not responsible for these significant expense increases related to the PIP target payouts which have transpired over the past four years.

DRA recommends that the Commission adopt its PIP estimate of $ $28.109 million in the test year utilizing 50 percent of PG&E's 2004 target payout.

CHAPTER 10-J

A&G EXPENSES ASSOCIATED WITH GENERAL SERVICES AND OTHER SUPPORT COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's A&G expense forecast for General Services and Other Support costs which were presented in Exhibit PG&E-7, Chapters 6 (Supply Chain – Purchasing Operations) and 8 (Environmental Program) recorded to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 920, 921 and 923.

II. SUMMARY OF RECOMMENDATIONS

PG&E utilized its 2004 recorded adjusted expenses and estimates developed in its 2007 General Rate Case A&G Study as a basis to forecast its test year expenses for Environmental Program and Supply Chain – Purchasing Operations Departments. PG&E forecasted $1.988 million of A&G expenses for its Provider Cost Center (PCC) 10950.1 Environmental Program Department and forecasted $5.089 million for PCC 11319.1 Supply Chain – Purchasing Operations. The corresponding DRA estimate is $1.745 million for Environmental Program Department and $4.048 million for Supply Chain – Purchasing Operations Department.

DRA provides a summary in Tables 10-J-1 and Table 10-J-2 by FERC Account of its recommended expense levels for PG&E's expenses in Environmental Program and Supply Chain – Purchasing Operations Departments for the 2007 TY and PG&E's TY expense levels request, and the dollar and percentage differences between DRA and PG&E.

Table 10-J-1
Environmental Program (PCC 10950.1)
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$1,267	$1,267	$ 0	0.0%
921	188	153	35	22.9%
923	533	325	208	64.0%
Total	$1,988	$1,745	$240	13.8%

Table 10-J-2
Supply Chain – Purchasing Operations (PCC 11319.1)
(in Thousands of 2004 Dollars)

Account	PG&E Proposed	DRA Recommended	Difference PG&E>DRA	Percentage PG&E>DRA
920	$3,779	$2,969	$ 810	27.3%
921	1,310	1,079	231	21.4%
923	0	0	0	0.0%
Total	$5,089	$4,048	$1,041	25.7%

The following summarizes DRA's recommendations:

1. PG&E's forecast for Environmental Program Department (PCC 10950.1) FERC Accounts 920 of $1.267 million be adopted. The recorded costs in this department appear to be reasonable and have been declining or have remained relatively stable over the last five years. PG&E estimates these expenses will remain relatively flat from 2004 levels through the test year.

2. That DRA's estimate of $0.153 million for PG&E's Environmental Program Department FERC Account 921 be adopted. DRA's forecast includes a normalized adjustment of $0.035 million to PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

3. DRA proposes to use PG&E's last recorded year expenses as the test year forecast of $0.325 million for PG&E's Environmental Program Department FERC Account 923. The use of the last recorded year reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate.

4. DRA proposes to use PG&E's last recorded year expenses as the test year forecast of $2.969 million for PG&E's Supply Chain – Purchasing Operations Department (PCC 11319.1) FERC Account 920. The use of the

last recorded year reflects the highest level of expenditures for this account over the last five years and is a reasonable test year estimate.

5. That DRA's estimates of $1.079 million for PG&E's Supply Chain – Purchasing Operations Department FERC Account 921 be adopted. DRA's forecast estimate includes a normalized adjustment of $0.031 million to PG&E's FERC Account 921 for ratemaking purposes to remove costs that were inappropriately charged to ratepayers.

III. DISCUSSION

A. DRA's Analysis

DRA conducted its analysis by reviewing PG&E's testimony, workpapers, 2007 General Rate Case A&G study, and by issuing data requests and analyzing the responses. DRA also spoke with various A&G witnesses at PG&E to discuss findings and questions pertinent to data requests and responses. The historical data PG&E provided to DRA for expenses recorded in FERC Accounts 920, 921, and 923 for PG&E's Environmental Program and Supply Chain – Purchasing Operations did not include adjusted historical Order Cost expenses by department and PCC for the years 2000 through 2003. Therefore it was difficult for DRA to compare and analyze PG&E's recorded historical expense levels for the years 2000 through 2003 with PG&E's recorded adjusted 2004 expenses and its forecasted 2005 through 2007 expense levels. DRA's estimate is based on the information provided by PG&E to forecast expense levels for the 2007 test year for PG&E's Environmental Program and Supply Chain – Purchasing Operations Departments.

B. Environmental Program (PCC 10950.1)

PG&E forecasted $1.988 million for its Environmental Program in the test year. PG&E's Environmental Affairs organization is responsible for developing, coordinating and implementing environmental compliance and risk-management programs for PG&E. This department includes a Vice President of Environmental

Affairs Immediate Office, an Environmental Policy and Planning Department, a Quality Assurance Section and an Environmental Support and Services Department.

PG&E currently has 11 employees in its Environmental Program departments included in the forecast of $1.988 million and which records expenses to FERC Accounts 920, 921 and 923. Those departments are PG&E's Vice President of Environmental Affairs Immediate Office, its Environmental Policy and Planning Department, and its Quality Assurance Section.[73] PG&E plans to increase its staffing level by one in the test year.

DRA does not take issue with PG&E's test year forecast of $1.267 million for FERC Account 920. PG&E's recorded expenses recorded to FERC Account 920 have remained relatively stable during the last four years. PG&E has forecasted an increase in 2006 for one additional position, which is an increase of $0.137 million over 2004 recorded expenses of $1.130 million. DRA made a normalized adjustment to PG&E's test year forecast for FERC Account 921 of $34,776 for ratemaking purposes to remove costs associated with cash and non-cash employee recognition awards and lunches, and management and staff lunches and dinners.[74] DRA also reviewed several employee expense reports in PG&E's SAP accounting system at PG&E's office. DRA removed these expenses because they are not necessary to operate the utility business and were inappropriately charged to ratepayers.[75]

[73] PG&E's Environmental Support and Services Department, which consists of 76 employees, charges expenses to Operations and Maintenance and capital.

[74] DRA requested that PG&E provide a detailed and itemized list of expenses recorded to FERC Accounts 920, 921 and 923 which were used as a basis to forecast its test year expenses in data request ORA-168. PG&E provided a list of expenses, generated by its SAP system that was not arranged by FERC Account as requested. The expenses in the list also had not been adjusted. DRA used its best estimate to make the normalized adjustments.

[75] Regarding Commission treatment of employee lunches and recognition awards, and other employee social programs, that should not be funded by ratepayers, see page 10-G-11 in this exhibit.

DRA takes issue with PG&E's forecast of $533,000 for outside services recorded to FERC Account 923. DRA used the last recorded year to derive its test year estimate for PG&E's outside services expenses recorded to FERC Account 923. PG&E's expenses in this FERC account have fluctuated significantly during the last five years. PG&E's expenses were $5,000 in 2000, $228,000 in 2001, $19,000 in 2002, $38,000 in 2003, and $325,000 in 2004. [76] PG&E states that its increase in contract costs were due to its development of a greenhouse gas model and quantifying carbon dioxide emissions. The use of the last recorded year expenses of $325,000 reflects the highest level of expenditures for this account over the last five years and is a reasonable the test year estimate. DRA's total forecast for PG&E's Environmental Program is $1.745 million.

C. Supply Chain – Purchasing Operations (PCC 11319.1)

PG&E forecasted $5.089 million for its Supply Chain – Purchasing Operations (PCC 11319.1) in the test year: $3.779 million for FERC Account 920, $1.310 million for FERC Account 921 and zero for FERC Account 923. PG&E's Supply Chain – Purchasing Operations records expenses to FERC Accounts 920, 921 and 923. This department is responsible for the procurement of various goods and services such as contract support for consulting, customer energy efficiency programs, and contract and procurement support for information technology software and systems.

DRA takes issue with PG&E's test year forecast for its Supply Chain – Purchasing Operations (PCC 11319.1.) of $5.089 million. DRA made a normalized adjustment to PG&E's 2004 recorded adjusted expenses recorded in FERC Account 921 of $31,110 for ratemaking purposes to remove expenses that were inappropriately charged to ratepayers. The expenses removed were incurred for cash employee

[76] PG&E's data response ORA_ORA020-02SUPP01-3.

recognition awards and management and staff lunches.[77] DRA forecasts $4.048 million for PG&E's FERC Accounts 920 and 921 (labor of $2.969 million and non-labor of $1.079 million) utilizing PG&E's last recorded year expenses, as shown in its testimony, as a basis for its estimate. This is $1.041 million lower than PG&E's test year forecast.[78] The use of the last recorded year expenses of $4.048 million reflects the highest level of expenditures for these accounts over the last five years and is a reasonable method to derive the test year estimate. In PG&E's response to data request ORA-167 question 1-a, PG&E provided its actual end of the year headcount and associated labor dollars for the years 2000 through 2005. Table 10-J-3 shows PG&E's headcount and associated labor dollar for the years 2000 through 2005.

Table 10-J-3

PG&E's Head Count and Associated Labor Dollars

Year	2000	2001	2002	2003	2004	2005
Headcount	77	38	34	36	38	28
Labor Dollar	$4,812,352	2,537,640	2,368,560	$2,557,153	$2,819,520	$2,182,380

Based on the information shown in Table 10-J-3, between 2001 and 2004 PG&E had an average headcount of 36.5 with average labor expenses of $2.571 million in its Supply Chain –Purchasing Operations Department. PG&E's forecasted labor expenses of $3.779 million for FERC Account 920, is not justified.

PG&E's forecast for 2005 shown on page 6-14 in Exhibit (PG&E-7) for FERC Account 920 is $3.069 million, which is $0.887 million over the 2005 labor dollar amount shown in Table 10-J-3 of $2,182,380. PG&E states on page 2-1542 of its

[77] Regarding Commission treatment of employee lunches and recognition awards, and other employee social programs, that should not be funded by ratepayers, see page 10-G-11 in this exhibit.

[78] PG&E's 2004 recorded adjusted labor of $2.969 million shown on page 6-14 in Exhibit (PG&E-7) recorded in FERC Account 920 is $0.149 million more than its actual labor of $2.820 million for 2004 provided in PG&E's data response to ORA-167 question 1-a. DRA utilized the $2.969 million as a basis for its test year forecast which should be sufficient to meet workload in the test year.

A&G Study that during 2004, eight employees "transferred out, resigned or were on leave of absence through the year. Four new employees transferred in or were hired to fill these vacancies. Staff augmentation was also used to fill behind vacancies. Four employees were transferred into the cost center in December from another cost center in the department." PG&E states on page 6-3 of Exhibit (PG&E-7) that its staffing level at the end of 2004 was 38 employees. PG&E further states on page 2-1542 of its A&G study that during 2005 "Eight employees will be moved temporarily out of the department and will be backed filled with contractors".[79] The eight employees are being transferred out of the Supply Chain department to work on PG&E's transformation project. PG&E states on page 2-1565 of its A&G Study that it "added 3 additional positions" in 2005. DRA's total forecast for PG&E's Supply Chain – Purchasing Operations Department is $4.048 million.

Based on the foregoing, DRA recommends that the Commission adopt its expense level estimate of $5.793 million for PG&E's Environmental Program and Supply Chain – Purchasing Operations Departments, rather than PG&E's request which totals $ 7.077 million.

[79] PG&E's workpapers and forecast regarding the eight employees being transferred to work on transformation issues and eight employees backfilling for these employees seem to conflict. On one hand PG&E states that the employees are being backfilled by contractors, which would maintain the staffing level with eight employees going out and eight employees coming into the department. Then PG&E forecasts an increase in 2007 for eight employees on page 2-1548 of its A&G Study of $820,812 and states "assuming eight employees return to base positions after working on transformation." Also on page 2-1548 PG&E shows a decrease in contracts and states "assuming employees return to base position after working on transformation therefore staff augmentation no longer needed". PG&E states in its response to ORA-167 question 1-a to "Note that although headcount in the A&G Study Workpapers is projected to increase in 2007, these are not new positions but reflect the return of staff members previously working on Transformation".

CHAPTER 10-K

PG&E CORPORATION: HOLDING COMPANY ISSUES

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E Corporation's cost recovery policy and other Holding Company issues dealing with A&G expenses. PG&E's Holding Company was created to allow shareholders to participate in unregulated business opportunities.[80] In creating its Holding Company, PG&E has created a structure that duplicates positions and departments. While the purpose of the Holding Company is to facilitate its non-regulated businesses, and although the majority of the Holding Company's work is performed for the Holding Company's benefit, the PG&E Holding Company claims responsibility for only a diminutive fraction of its costs. This chapter will identify and remove unsupported costs, and propose a reasonable allocation method to the Utility.

When examining the amount and nature of the work these various Holding Company departments perform that benefit the Holding Company it is obvious that PG&E's testimony presents a biased picture. For example, PG&E frequently ascribes 100% of various Holding Company costs to ratepayers, thereby trying to justify full funding from ratepayers. The Commission should pay careful attention to the lack of supporting evidence PG&E has presented to justify its Holding Company funding requests from the Utility, and give DRA's more reasoned analysis greater weight.

II. SUMMARY OF RECOMMENDATIONS

PG&E is requesting "...$71.1 million for the cost of services provided by PG&E Corporation."[81] DRA is recommending $31.8 million, a difference of $39.3

[80] Decision (D.) 00-02-046, mimeo, page (p.) 276

[81] Exhibit PG&E-6, p. 3-1.

million or 55.3%. DRA's proposal includes adjustments to remove unsupported costs and then applies the appropriate allocation factors to each of the Holding Company PCCs.

In numerous instances, the PG&E Holding Company provides services that benefit the Holding Company as much, if not more than they benefit the Utility. The Commission has held that, while "it is reasonable to allow in Utility rates those holding company charges that reflect the provisions of services that are clearly needed by the Utility, (and that are provided efficiently, without duplication of effort), it is also reasonable to require that incremental costs resulting from the formation of PG&E's Corporation that provide no demonstrable benefit to the Utility to be allocated to the Utility's affiliates."[82] PG&E's Holding Company must pay for the services it receives.

In this GRC, PG&E is seeking to have its Utility ratepayers pay nearly all of its Holding Company costs with very few exceptions. DRA analyzed the benefits/services provided by the Holding Company's operation and allocated costs based upon the value to both the Utility and the Holding Company. DRA, therefore, makes the following recommendations:

1. The Holding Company's Chairman, CEO, and President's costs should be decreased by $1.8 million to reflect the removal of unsupported costs and the fair value of the services this position provides to the Holding Company.
2. The Holding Company's Senior Vice President (SVP) and Assistant to the CEO's costs should be decreased by $272,000 to reflect the fair value of services this position provides to the Holding Company.
3. The Holding Company's Vice President (VP) and Corporate Secretary's costs should be decreased by $1.9 million to reflect the fair value of services this position provides to the Holding Company.
4. The Holding Company's SVP and General Counsel's costs should be decreased by $603,000 to reflect the fair value of services this position provides to the Holding Company.

[82] D. 00-02-046, mimeo, p. 276.

5. The Holding Company's Law Department's costs should be decreased by $2 million to reflect the fair value of services this department provides to the Holding Company.

6. The Holding Company's Internal Audit's costs should be decreased by $1.4 million to reflect the removal of unsupported costs and the fair value of the services this department provides to the Holding Company.

7. The Holding Company's Legal and Compliance and Business Ethics' costs should decreased by $916,000 to reflect the fair value of the services this position provides to the Holding Company.

8. The Holding Company's SVP and Chief Financial Officer's (CFO) costs should be decreased by $1.9 million to reflect the removal of unsupported costs and the fair value of the services this position provides to the Holding Company.

9. The Holding Company's Corporate Strategy and Development's entire cost of $782,000 be removed per PG&E's response to DRA's data request.

10. The Holding Company's Risk Management's costs should be decreased by $782,000 to reflect the removal of unsupported costs and the fair value of the services this department provides to the Holding Company.

11. The Holding Company's Investor Relations' costs should be decreased by $520,000 to reflect the fair value of services this department provides to the Holding Company.

12. The Holding Company's Tax Department's costs of $7.4 million be completely removed from the allocation to the Utility because the ability to offset affiliate losses provides the Holding Company with substantially all of the benefits of this department

13. The Holding Company's SVP and Risk and Audit Officer's costs should be decreased by $512,000 to reflect the removal of unsupported costs and the fair value of the services this position provides to the Holding Company.

14. The Holding Company's VP and Controller's costs should be decreased by $272,000 to reflect the removal of unsupported costs and the fair value of the services this position provides to the Holding Company.

15. The Holding Company's Corporate Accounting's costs should be decreased by $2.9 million to reflect the fair value of services this department provides to the Holding Company.

16. The Holding Company's VP and Treasurer's costs should be decreased by $355,000 to reflect the fair value of services this position provides to the Holding Company.

17. The Holding Company's Banking and Money Management's costs should be decreased by $1.2 million to reflect the fair value of services this department provides to the Holding Company.

18. The Holding Company's Financial Planning and Analysis' costs should be decreased by $743,000 to reflect the fair value of services this department provides to the Holding Company.

19. The Holding Company's Insurance's costs should be decreased by $509,000 to reflect the fair value of services this department provides to the Holding Company.

20. The Holding Company's Investments and Benefit Finance's costs should be decreased by $147,000 to reflect the fair value of services this department provides to the Holding Company.

21. The Holding Company's Human Resources' costs should be decreased by $2 million to reflect the fair value of services this department provides to the Holding Company.

22. The Holding Company's Corporate Communications' costs should be decreased by $1.4 million to reflect the removal of unsupported costs and the fair value of the services this department provides to the Holding Company.

23. The Holding Company's Public Policy and Governmental Affairs' costs should be decreased by $322,000 to reflect the removal of unsupported costs and the fair value of the services this department provides to the Holding Company.

24. The Holding Company's Federal Government Relations' costs should be decreased by $1 million to reflect the fair value of services this department provides to the Holding Company.

25. The Holding Company's Corporate Information Technology (IT) Projects' costs should be decreased by $44,000 to reflect the fair value of services this department provides to the Holding Company.

26. The Holding Company's Corporate Items' costs should be decreased by $7.7 million to reflect the fair value of services this department provides to the Holding Company.

Table 10-K-1 compares DRA's recommended with PG&E's proposed estimates:

Table 10-K-1 Pacific Gas and Electric Company Pacific Corp Costs Allocated to PG&E 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Chairman, CEO, and President				
1. Chairman, CEO, and President	$ 1,265	$ 3,094	$ 1,829	144.51%
2. Senior Vice President and Assistant to the CEO	$ 302	$ 573	$ 272	90.00%
Corporate Secretary				
3. Vice President and Corporate Secretary	$ 2,023	$ 3,922	$ 1,899	93.88%
General Counsel				
4. Senior Vice President-General Counsel	$ 326	$ 928	$ 603	185.00%
5. Law Department	$ 2,547	$ 4,556	$ 2,009	78.90%
6. Internal Auditing	$ 6,703	$ 8,055	$ 1,352	20.18%
7. Legal Compliance and Business Ethics	$ 1,000	$ 1,916	$ 916	91.67%
Chief Financial Officer				
8. Senior Vice President and Chief Financial Officer	$ 626	$ 2,482	$ 1,856	296.26%
9. Corporate Strategy and Development	$ -	$ 782	$ 782	0.00%
10. Risk Management	$ 206	$ 987	$ 782	380.00%
11. Investor Relations	$ 520	$ 1,041	$ 520	100.00%
12. Tax	$ -	$ 7,432	$ 7,432	0.00%
13. Senior Vice President and Chief Risk and Audit Officer	$ 420	$ 932	$ 512	121.78%
Controller				
14. Controller	$ 497	$ 769	$ 272	54.80%
15. Corporate Accounting	$ 3,347	$ 6,260	$ 2,912	87.00%
Treasurer				
16. Vice President and Treasurer	$ 355	$ 711	$ 355	100.00%
17. Banking and Money Management	$ 1,263	$ 2,465	$ 1,203	95.24%
18. Financial Planning and Analysis	$ 780	$ 1,523	$ 743	95.27%
19. Insurance	$ 890	$ 1,399	$ 509	57.14%
20. Investments and Benefit Finance	$ 294	$ 442	$ 147	50.00%
Human Resources				
21. Human Resources	$ 2,095	$ 4,057	$ 1,962	93.65%
Corporate Communications				
22. Corporate Communications	$ 1,340	$ 2,734	$ 1,394	104.00%
Public Policy and Governmental Affairs				
23. Public Policy and Governmental Affairs	$ 208	$ 530	$ 322	155.00%
24. Federal Government Relations	$ 1,159	$ 2,174	$ 1,014	87.50%
Information Technology				
25. Corporate IT Projects	$ 44	$ 89	$ 44	100.00%
Corporate Items				
26. Corporate Items	$ 3,567	$ 11,239	$ 7,672	215.09%
Total	$ 31,778	$ 71,093	$ 39,314	123.71%

DRA's proposed allocation is fair to the Holding Company, ratepayers, and to PG&E's potential competitors. DRA's proposal assures that Utility ratepayers are allocated a fair share of Holding Company costs without having ratepayers subsidize the Holding Company's ability and opportunity to invest and compete in non-utility operations. The DRA analysis also recognizes that the Utility Company was structured to provide services and support to the Holding Company Businesses and to support that business organization structure.

III. DISCUSSION

PG&E's philosophy in allocating costs is not to share the costs of services that its holding company receives benefit, but to exclude only costs that were "incurred exclusively for PG&E Corporation."[83] Any cost of service that has a shared benefit between the Holding Company and the Utility, PG&E allocated 100% to the Utility. DRA's method of allocating costs differs in that DRA's method allocates Holding Company costs based upon the beneficiary of the services. If the Holding Company and Utility both receive benefit from a specific operation performed by the Holding Company the benefits will be split between the two entities. This recognizes that the Holding Company is structured for the benefit of the corporation and its shareholders.

DRA performed this allocation by asking PG&E for a detailed complete written description of the different types of assignments for which this PCC is responsible. DRA then identified the number of benefits each PCC provided to the Holding Company and Utility. DRA then allocated the cost of each PCC to the Holding Company and Utility based upon their percentage of benefits. DRA also removed Holding Company costs that were unsupported.

PG&E proposes to allocate almost all Holding Company costs exclusively to utility functions. PG&E's proposed allocation reflects the supposition that the Holding Company exists purely to support the utility functions. This is inaccurate and inconsistent with the Holding Company structure, the responsibilities of the holding company employees and various functions, and the benefits generated for shareholders through the structure. The Holding Company is structured such that the employees and functional areas are designed to support and contribute to the success of the Holding Company. There are various functions and benefits associated with the Holding Company structure and one of the primary benefits being the ability to file taxes on a consolidated basis. This allows the Holding Company to directly capture efficiencies associated with filing consolidated taxes, chiefly being the ability

[83] Exhibit PG&E-6, p. 3-2.

to offset tax liability associated with one entity (e.g. utility operations) against tax losses associated with another entity or investment. This gives the Holding Company tremendous flexibility and opportunity to generate and realize benefits on behalf of the corporation and its shareholders. DRA's investigation shows that the Holding Company, PG&E Corporation has been able to successfully utilize this strategy to generate sizable tax benefits over the past five years, in contrast to the imputed tax liability of the utility. If PG&E is able to generate tax benefits similar to the recent past during the current GRC cycle, it will be well above the costs that DRA has proposed should remain within the Holding Company relative to PG&E's proposal. Ultimately, the DRA methodology of allocating Holding Company costs to the utility recognizes the proper dedication of resources to support the Holding Company structure and its objectives (such as generating tax benefits) and proposes a fair allocation of such costs to the utility as opposed to the PG&E proposal which presumes that the Holding Company is dedicated strictly to supporting the utility.

PG&E failed to provide a clear allocation of resources and Holding Company employees time to utility versus non-utility functions. Therefore, PG&E was unable to clearly support the significant allocation of the Holding Company costs t the Utility by factual data.

DRA's allocation is reasonable. DRA is allowing PG&E to recover almost $32 million in Holding Company costs, and recommending an adjustment of approximately $39 million. This adjustment is far less than the benefit the Holding Company has received from having the ability to prepare taxes on a combined basis for its total operation.

A. Office of the PG&E Corporation Chairman of the Board, CEO, and President (PCC 20001.1)

The Holding Company's Chairman, CEO, and President is responsible for the overall management of a publicly traded corporation. The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-2 Pacific Gas and Electric Company Pacific Corp Chairman, CEO, and President 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 3,072	$ 4,448	$ 1,376	44.77%
less: Amount Allocated Below-the-Line	$ 759	$ 1,099	$ 340	44.77%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 64	$ 93	$ 29	44.77%
less: Holding Company Costs	$ 984	$ 163	$ (821)	-83.45%
Total PG&E PCC 923 Expense	$ 1,265	$ 3,094	$ 1,829	144.51%

DRA made one adjustment to PG&E's total unit costs for PCC 20001.1 and then modified the Holding Company's allocation to reflect the services the Holding Company received. DRA removed an unsupported increase in contract costs of $1,375,587. PG&E adjusted this department's contracts cost by $1,375,587 for the years 2005 forward because "Budgeted contract expenses were not incurred in 2004."[84] PG&E did not indicate what contracts were being signed; the costs of the contracts, the benefits to ratepayers, or the justification for having ratepayers pay these costs.

Once these unsupported costs are removed from PCC 20001.1, the remaining costs should be fairly allocated between the Holding Company and the Utility. PG&E allocated only 5% of the costs of the Office of the PG&E Corporation Chairman of the Board, CEO and President to the Holding Company, allocating the remaining 95% to PG&E's ratepayers.[85] PG&E estimated the 5% allocation, according to its workpapers, because the Chairman, CEO and President of PG&E Corporation only spends that percentage of his time on ". . .matters that relate only of PG&E Corporation."[86] PG&E gave no support for its estimate, or an explanation of how it was calculated. DRA reviewed the duties of this position and found substantial

[84] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume of 3 Chapter 2, Volume 1 of 3 p. 2-15.

[85] Exhibit PG&E-6, p. 4-8.

[86] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 Chapter 2, Volume of 3 p. 2-28.

benefit to the Holding Company of this position. DRA recommends allocating no more than 56% of PCC 20001.1 to PG&E's ratepayers.

First, the Holding Company position of Chairman, CEO and President has duplicate responsibility with the Utility's President and CEO. While the Holding Company position is responsible for overall management of the Holding Company and its subsidiaries, including the Utility, the Utility CEO and President is responsible for the safe and reliable Utility operations and services.[87] If the Holding Company did not exist, costs for both positions would not be incurred.

Second, the services the Holding Company's Office of the Chairman, CEO and President provides to the Holding Company represent far more than the 5% allocation PG&E Corporation claims. DRA asked PG&E for a description of the services this Holding Company position provides. According to PG&E's data response, the services the Holding Company position provides to the operation of the Holding Company include the following:

1. Presiding over the . . . PG&E Corporation annual shareholder meetings and all matters related to the shareholders of the . . . PG&E Corporation's publicly traded stock;
2. All matters related to the . . . PG&E Corporation Boards of Directors and all committees of those boards, including the Audit Committees, the Finance Committee, the Nominating, Compensation and Governance Committee, and the Public Policy Committee;
3. Compliance with all legal and regulatory corporate governance requirements for the . . . PG&E Corporation, including compliance with Sarbanes-Oxley Act Section 404 requirements, the accuracy of financial disclosures to the Securities and Exchange Commission (SEC), and other legal and regulatory requirements pertaining to governance matters;
4. Representing the . . . PG&E Corporation before legislative and congressional committees and in communications with the California Legislature and Governor as well as the United States Congress and Executive Branch;
5. Representing the . . . PG&E Corporation before the investment community;

[87] Exhibit PG&E-6, pp. 4-6 – 4-8.

6. Representing the . . . PG&E Corporation before the national media; and,

7. Oversight of . . . the functions held at PG&E Corporation which are: Finance; Law; Governmental Affairs; Audit, Risk, and Compliance; Investor Relations; Corporate Secretary; and Human Resources.[88]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, seven duties benefit the Holding Company and nine benefit the Utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 44%. DRA calculates this by dividing the number of items that benefit the Holding Company by the number of items that benefit both the Holding Company and the Utility (7/16=44%). DRA, therefore, recommends that ratepayers be allocated no more than 56% of the costs of PCC 20001.1.

B. PG&E Corporation Senior Vice President and Assistant to the CEO (PCC 20060)

The Holding Company's Senior Vice President (SVP) and Assistant to the CEO is responsible for providing support for the PG&E Corporation Chairman, CEO, and President in all matters related to the strategic management of the Utility and PG&E Corporation.[89]

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

[88] PG&E's response to Data Request ORA-094, q. 2.

[89] Exhibit PG&E-6, pp. 4-8 and 4-9.

Table 10-K-3				
Pacific Gas and Electric Company				
Pacific Corp Senior Vice President and Assistant to the CEO				
2007 General Rate Case				
(Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 621	$ 621	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 17	$ 17	$ -	0.00%
less: Holding Company Costs	$ 302	$ 30	$ (272)	-90.00%
Total PG&E PCC 923 Expense	$ 302	$ 573	$ 272	90.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company receives. PG&E allocated only 5% of the PCC 20060 costs to the Holding Company, allocating the remaining 95% to ratepayers. PG&E estimated the 5% allocation, according to its workpapers, for the SVP and Assistant to the CEO of PG&E Corporation, because PG&E is not ". . .seeking recovery of costs for PG&E Corporation-specific matters. . ."[90] PG&E gave no support for its estimate, or an explanation of how it was calculated. DRA recommends allocating no more than 50% of the costs of this position to ratepayers.

To analyze the benefit of this position to the Holding Company, DRA asked PG&E for a detailed complete written description of the services this Holding Company position provides. According to PG&E's data response, the services the Holding Company position provides to the operation of the Holding Company include the following:

1. Corporate governance policies and practices for the . . .PG&E Corporation;
2. The functioning of, support for, and relations with, the Boards of Directors of the . . . PG&E Corporation;
3. Oversight of the PG&E Corporation Vice President and Corporate Secretary Department (which is responsible for the annual shareholders meetings for the . . . PG&E Corporation, preparation of . . . annual proxy statement, shareholder services, administrative support for the Boards of Directors, corporate secretary support for the Boards and their respective

[90] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-81.

committees, directors and officers reporting requirements under SEC and Federal Energy Regulatory Commission (FERC) requirements, corporate compliance with certain Sarbanes–Oxley Act, stock exchange, and other legal or regulatory requirements pertaining to . . . PG&E Corporation debt and equity securities, and records management for all official corporate documents);

4. Support to PG&E Corporation's . . . senior management related to the above matters; and

5. Oversight of external communications matters pertaining to annual and quarterly corporate earnings releases and disclosures, investor conferences, and other communications activities handled by the Chairman, CEO, and President.[91]

Based upon DRA's review, the Holding Company benefits from five of the work assignments and the Utility benefits from five.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 50%. DRA calculates this allocation as follows dividing the number of items that benefit the Holding Company by the number of items that benefit both the Holding Company and the Utility (5/10=50%). DRA, therefore, recommends that ratepayers be allocated no more than 50% of the costs of PCC 20001.1.

C. PG&E Corporation Vice President and Corporate Secretary (PCC 20010.1)

The Holding Company's Vice President (VP) and Corporate Secretary is responsible for providing support services to the Board of Directors of the Holding Company and the Utility; providing shareholder services; managing the annual meetings; preparing proxy statements; preparing security documents; and providing administrative services.[92]

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

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[91] PG&E's response to Data Request ORA-111, q. 2.

[92] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-29.

Table 10-K-4				
Pacific Gas and Electric Company				
Pacific Corp Vice President and Corporate Secretary				
2007 General Rate Case				
(Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 4,291	$ 4,291	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 119	$ 119	$ -	0.00%
less: Holding Company Costs	$ 2,149	$ 250	$ (1,899)	-88.35%
Total PG&E PCC 923 Expense	$ 2,023	$ 3,922	$ 1,899	93.88%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 6% of the PCC 20060 costs to the Holding Company, allocating the remaining 94% to ratepayers. PG&E's estimated the 6%, according to its workpapers, because "If the Utility were a stand-alone entity the work performed by the PG&E Corporation office manager and administrative support for the office position would not be necessary." Nor would the ". . . work performed by the receptionists."[93] DRA's review found substantial benefit to the Holding Company. DRA recommends allocating no more than 48% of the costs of this unit to ratepayers.

To analyze the benefit of this position to the Holding Company, DRA asked PG&E for a description of the services this Holding Company position provides. According to PG&E's data response, the services the Holding Company position provides to the operation of the Holding Company include the following:

1. Board of Directors and Board Committees: Support the Boards of Directors and Board committees of . . . PG&E Corporation in all matters, including:
    - Monitoring and ensuring compliance with corporate governance policies, practices, and legal requirements;
    - Ensuring compliance with all applicable legal and regulatory requirements under Securities and Exchange Commission (SEC) and stock exchange rules;

[93] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-49.

- Preparing Board and Board committee meeting materials to support the directors in carrying out their fiduciary duties;
- Preparing complete and concise written materials presenting management's recommendations;
- Acting as secretary to the Boards and . . . five PG&E Corporation Board committees, attending all Board and Board committee meetings, and preparing minutes and actions by consent;
- Providing Board members with timely information on . . . PG&E Corporation, and key issues affecting the companies;
- Providing ongoing training and education to current and new participants in the Board and Committee meeting process, including training on how to prepare written materials for the Boards; and
- Organizing Board and Board committee meetings, as well as special Board events (e.g., dinners, off-site sessions, and visits to company facilities).

2. Corporate governance: Provide a leadership role and coordinating function to ensure that . . . PG&E Corporation comply with all applicable governance requirements of the Sarbanes-Oxley Act, stock exchange rules, and SEC rules and, where appropriate, take a leadership role in establishing policies and practices that in some cases exceed minimum legal requirements. Monitor and respond to corporate governance ratings, surveys, and reports from Institutional Shareholder Services, Governance Metrics International, The Corporate Library, and other corporate governance organizations and proxy voting groups as necessary.
3. Director compensation: Arrange for the payment and tax reporting of cash and stock-based compensation paid to current and retired directors of . . . PG&E Corporation; prepare and file current and retired directors' annual Form 1099s. Communicate with current and retired directors on all compensation and tax reporting matters. Brief new directors on compensation matters; obtain and implement current directors' annual compensation elections.
4. Directors' and officers' reporting requirements: Prepare and file SEC and Federal Energy Regulatory Commission (FERC) reports for directors and officers of . . . PG&E Corporation in connection with their stock transactions (SEC Form 4 and Form 144) and their interlocking positions with other companies (FERC Form 561).
5. Annual meetings of shareholders: Organize the . . . PG&E Corporation annual meetings of shareholders. Prepare the meeting script, briefing materials for senior management, and voting tabulation reports. Review

and respond to analyses, reports, and voting recommendations prepared by proxy advisory firms and other organizations with respect to management and shareholder proposals. Work with the companies' outside proxy solicitor as appropriate with respect to ensuring meeting quorums and passage of management proposals.

6. Proxy statement and related materials: Prepare and arrange for the filing and mailing of proxy statements and related materials (proxy cards, voting instructions, and ballots) for the . . . PG&E Corporation annual meetings.

7. Corporate compliance: Ensure that . . . PG&E Corporation, and their subsidiaries comply with applicable requirements under federal and state securities and corporate laws, stock exchange rules, and the provisions of agreements associated with . . . PG&E Corporation debt or equity securities. This includes documenting compliance with the requirements of Sarbanes-Oxley Act Section 404 with respect to internal controls related to common and preferred stock issuances and cancellations and dividend declarations and payments.

8. Subsidiaries and affiliates: Provide corporate governance, compliance, and administrative support to . . . 11 subsidiaries and affiliates of PG&E Corporation. Act as Secretary to these entities, prepare minutes of Board meetings and actions by written consent for annual election of directors and other matters, and prepare federal and state compliance filings such as annual Statements of Information and Corporate Disclosure Statements.

9. Shareholder services, shareholder relations, and shareholder correspondence: Oversee the services provided by Mellon Investor Services LLC, the outside transfer agent, registrar, and disbursing/paying agent for . . . PG&E Corporation common stock. Negotiate and oversee administration of contracts for these services. Develop and mail shareholder communications. Respond to shareholder letters to the Board and senior management.

10. Officer committee support: Provide corporate governance support to the following officer committees of . . . PG&E Corporation: PG&E Corporation Employee Benefit Committee and PG&E Corporation Risk Policy Committee. Act as Secretary to these committees, attend committee meetings, and prepare minutes and actions by written consent.

11. Records management: Oversee the storage, retrieval, and disposal of . . . PG&E Corporation corporate documents, and oversee the management of the Pacific Gas and Electric Company Records Center located in Brisbane. Support litigation discovery efforts through research, document retrieval, and archiving of historical records for Pacific Gas and Electric Company and PG&E Corporation.

12. Corporate finance: Prepare stock exchange listing applications, officers' certificates, closing documents, notices, and other documentation for acquisitions, divestitures, securities issuances, redemptions, maturities, and other financing transactions.

13. Delegation of authority, attestations, and standing Board resolutions: Provide advice regarding delegation of authority to officers and others. Attest contracts and other documents signed by officers. Update and maintain standing Board resolutions of . . . PG&E Corporation.

14. Office management: Provide facilities management, space planning, and receptionist and administrative services for PG&E Corporation personnel at One Market. Negotiate the One Market lease and handle all interactions with Equity Office (the landlord).

15. Service of process, administrative services, budget, and research: Receive subpoenas and similar legal documents served on . . . PG&E Corporation; maintain logs of legal documents received. Provide supervision and training of staff, budget services, and clerical support services to the Corporate Secretary's office. Respond to research requests from senior management and others (e.g., for historical information, Board materials, and minutes).

16. Document files: Index, file, and maintain original contracts and vital company documents and records for . . . PG&E Corporation, including Board, Board committee, and officer committee minutes and meeting materials. Support litigation discovery efforts through research and document retrieval.

17. General Rate Case support: Provide expert witness and testimony for supporting PG&E Corporation expenses in Pacific Gas and Electric Company's General Rate Cases.[94]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, 17 items provided benefit to the Holding Company and 16 items benefit the Utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 52%. DRA calculates this allocation by dividing the Holding Company benefits by the number of

[94] PG&E's response to Data Request ORA-102, q. 2.

items that benefit both the Holding Company and the Utility (17/33-52%). DRA, therefore, recommends that ratepayers be allocated no more than 48% of the costs of PCC 20010.1.

D. Immediate Office of PG&E Corporation Senior Vice President and General Counsel (PCC 20020)

PG&E describes the Holding Company's SVP and General Counsel as responsible for providing legal advice and counsel to PG&E Corporation (Corp.), its officers and Board of Directors, and providing direction to the Law Staff of PG&E Corp., reviewing and approving significant legal issues affecting PG&E Corp. and its subsidiaries.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-5
Pacific Gas and Electric Company
Pacific Corp Senior Vice President General Counsel
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 1,005	$ 1,005	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 28	$ 28	$ -	0.00%
less: Holding Company Costs	$ 651	$ 49	$ (603)	-92.50%
Total PG&E PCC 923 Expense	$ 326	$ 928	$ 603	185.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 5% of unit's cost to the Holding Company, allocating the remaining 95% to PG&E's ratepayers. PG&E estimated the 5% allocation, according to its workpapers, because the SVP and General Counsel spends that percentage of his time on ". . . non-utility matters. . ."[95] PG&E gave no support for its estimate, and no explanation of how it was calculated. DRA recommends allocating no more than 25% of PCC 20020 costs to PG&E's ratepayers.

[95] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-197

First, the Holding Company position has duplicate responsibilities with the Utility's VP and General Counsel position. While the Holding Company position is responsible for the Holding Company and its subsidiaries, the Utility's position is responsible for the Utility. If the Holding Company did not exist, costs for both positions would not be incurred.

Second, the services this position provides to the Holding Company represent far more than the 5% allocation PG&E Corp. claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company position provides to the operation of the Holding Company include:

1. Providing legal advice and counsel to the officers and directors of PG&E Corporation on all PG&E Corporation matters, including Utility matters, and to the officers and directors of the Utility on significant Utility matters.
2. Supervising the PG&E Corporation Law Department for the matters the Law Department is responsible. . .[96]

DRA's request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. DRA found one benefit for ratepayers. That is that the SVP and General Counsel of PG&E Corp. provides advice and counsel to the officer and directors of the Utility on significant Utility matters. Based one DRA's review this PCC provides two benefits to the Holding Company and one benefit to the utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 67%. DRA calculates this allocation by dividing the Holding Company benefits by both the Holding Company and Utility benefits (2/3=67%). DRA, therefore, recommends that ratepayers be allocated no more than 33% of the costs of PCC 20020.

[96] PG&E's response to Data Request ORA-106, q. 2.

E. PG&E Corporation Law Department (PCC 20021)

The Holding Company's Law Department is responsible for providing legal services to the Holding Company and its subsidiaries, including the Utility in the following areas:

1. Securities Registration and Reports;
2. Corporate Financing;
3. ERISA Compliance;
4. Price Risk Management;
5. Intellectual Property;
6. Political Advocacy; and
7. Complex transactions.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-6
Pacific Gas and Electric Company
Pacific Corp Law Department
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E >DRA
Total PCC Cost	$ 5,657	$ 5,657	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 619	$ 619	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 139	$ 139	$ -	0.00%
less: Holding Company Costs	$ 2,352	$ 343	$ (2,009)	-85.42%
Total PG&E PCC 923 Expense	$ 2,547	$ 4,556	$ 2,009	78.90%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 7% of the unit's cost to the Holding Company, allocating the remaining 93% to PG&E's ratepayers. Based upon the information provided by PG&E, DRA recommends allocating no more than 52% of this department's costs to PG&E's ratepayers.

First, the Holding Company's Law Department has duplicate responsibilities with the Utility's Law Department. The Utility's Law Department is responsible for providing legal advice, counsel and services to the Utility, while the Holding

Company is responsible for the Holding Company and its subsidiaries. If the Holding Company did not exist, costs for both departments would not be incurred.

Second, the services this department provides to the operation of the Holding Company represent far more than the 7% allocation PG&E claims. PG&E estimated the 7% allocation factor by providing the average estimate of what "Each attorney estimated a percentage of their workload that solely related to the holding company."[97] PG&E gave no support for its estimate, or the workpapers of how it was calculated. DRA asked PG&E for a description of the services this Holding Company department provides. According to PG&E's data response, the services the Holding Company department provides to the Operation of the Holding Company include the following:

1. Assist and advise in all matters associated with benefit plan management, plan amendments, ERISA filings and changes in state and federal benefit plan legislation and regulation.
2. HIPAA compliance and advice concerning claims and appeals. Advise regarding administrative and compliance matters.
3. Pacific Gas and Electric Company Health Care Plan for Management and Administrative & Technical Employees. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.
4. Pacific Gas and Electric Company Retirement Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.
5. Pacific Gas and Electric Company Supplemental benefits for Industrial Injury. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.
6. Group Life Insurance and Long Term Disability Plan. Advise regarding administrative and compliance matters. Drafting and review of

[97] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-223.

amendments, manage fiduciary responsibilities and any related claims and filings.

7. Pacific Gas and Electric Company Health Care Plan for Active Employees. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

8. Pacific Gas and Electric Company Health Care Plan for Retirees and Surviving Dependents. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

9. Master Trust Agreements for Welfare Plans. Drafting and review of amendments, manage fiduciary responsibilities and any related administrative matters.

10. Pacific Gas and Electric Company Flexible Benefits Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

11. Pacific Gas and Electric Company Health Care Reimbursement Account Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

12. Pacific Gas and Electric Company Dependant care Reimbursement Account Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

13. PG&E Corporation Retirement Savings Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

14. Business Travel Insurance Plan. Provide advice regarding administrative and compliance matters. Drafting and review of amendments, manage fiduciary responsibilities and any related claims and filings.

15. PG&E Corporation Severance Plan.

16. Review of ERISA compliance and filings with Department of Labor and Internal Revenue Service.

17. Advice regarding executive compensation including the Long Term Incentive Program, Officer Severance Policy. Draft agreements and prospectuses.

18. Advise the Investment and Benefit Finance Department regarding agreements and arrangements with trustees, investment managers, record keepers and other service providers.

19. Advise regarding Qualified Domestic Relations Orders affecting employee benefit plans.

20. Review proposed contracts with PG&E Corporation.

21. Advise Boards of Directors and Board Committees of . . . PG&E Corp regarding fiduciary duties.

22. Advise Boards of Directors, Board Committees, management, and the Corporate Secretary's Office of . . . PG&E Corp regarding board and committee composition, structure, and functioning (e.g. director/officer interlocks related party transactions, reporting).

23. Advise Boards of Directors, certain Board Committees, management, and the Corporate Secretary's Office of . . . PG&E Corp regarding communications between directors and shareholders generally.

24. Advise Boards of Directors, certain Board Committees, management, and the Corporate Secretary's Office of . . . PG&E Corp regarding other corporate governance obligations and duties imposed by law, regulation, and stock exchange listing standards.

25. Advise Boards of Directors, Board Committees, management, and the Corporate Secretary's Office of . . . PG&E Corp regarding third party corporate governance standards, including proxy voting recommendations and standards set by third party governance rating agencies.

26. Advise Boards of Directors, certain Board Committees, management, and the Corporate Secretary's Office of . . . PG&E Corp regarding compensation of directors and officers and disclosure of such compensation (including required reports).

27. Assist Corporate Secretary's Office of . . . PG&E Corp with proxy materials (including drafting the annual D&O questionnaire and reviewing responses, preparing and reviewing proxy materials, advising with respect to proxy distribution and delivery rules, format of proxy cards, other procedural issues, etc.)

28. Assist Corporate Secretary's Office of . . . PG&E Corp with drafting, reviewing, and/or interpreting resolutions of the Boards of Directors of . . . PG&E Corp (including delegations of authority, officer and director changes) and minutes of meetings of the Boards of Directors and Board Committees of . . . PG&E Corporation.

29. Assist Corporate Secretary's Office of . . . PG&E Corp with preparations for the annual meetings of shareholders (including implementing legal developments, preparing and reviewing written materials, developing procedures for meeting conduct, etc.).

30. Assist Corporate Secretary's Office of . . . PG&E Corp with forming and maintaining subsidiaries and affiliates (including incorporation, annual meetings, director and officer elections, distributions, etc.).

31. Monitor developments in corporate governance, and communicate to . . . PG&E Corp directors and officers as appropriate.

32. Review risk management policies, strategies and transactions. Advise PG&E Corporation's Risk Policy Committee.

33. Negotiate and review PG&E Corporation financings.

34. $200 million credit facility $280 million convertible subordinated notes

35. Negotiate and implement stock repurchases including accelerated share repurchase transactions totaling approximately $2 billion.

36. Provide advice regarding and prepare board resolutions and write-ups for financing transactions.

37. Provide advice to Banking and Money Management re: . . . PG&E Corporation banking relationships and agreements.

38. Monitor and provide advice regarding ongoing compliance with financial agreements.

39. Advise PG&E Corp Human Resources and business groups regarding immigration laws and visa/work authorization requirements assist in applying for and renewing employee work authorizations, assist in applications for permanent residency, monitor and communicate developments.

40. Assist and advice in all matters associated with insurance policy renewals, claims, and their general administration.

41. Director's and Officer's insurance claim.

42. Litigation with Traveler's Insurance Co.

43. Settlements from insurance brokers for improper conduct as determined by the New York State Attorney General's investigation.

44. Director & Officer Insurance policy review and renewal.

45. Maintain rights to PG&E Corp trademarks that incorporate the "PG&E" logo, provide general intellectual property advice to PG&E Corp.

46. Support Utility Compliance and Ethics Department re: CPUC affiliate rules and Holding Company conditions.

47. Supervise and monitor litigation in which PG&E Corporation is a party, including the California Attorney General's lawsuit against PG&E Corporation for alleged violations of section 17200 of the Business and Professions Code and several employment related lawsuits by former employees of subsidiaries of National Energy & Gas Transmission, Inc.

48. Assist PG&E Corp. in preparation and review of Federal Lobbying Reports and compliance with applicable laws, provide general support for corporate political programs.

49. Monitor regulatory and other developments to determine applicable disclosure obligations on a real time basis as required by the SEC.

50. Prepare, review and file all Quarterly Reports on Form 10-Q for PG&E Corporation, the Utility, and PG&E Funding LLC (Funding) for compliance with SEC requirements. Review Form 10-D quarterly reports for PG&E Energy Recovery Funding LLC (PERF) for compliance with SEC requirements.

51. Prepare and file all Current Reports on Form 8-K for the . . . PG&E Corporation. During 2005, 25 Current Reports on Form 8-K were filed or furnished to the SEC. All but 1 of these reports were joint reports filed by the . . . PG&E Corporation.

52. Prepare and file PG&E Corporation's and the Utility's joint Annual Report on Form 10-K and the Annual Report to Shareholders. Monitor changing SEC requirements.

53. Review Finding's and PERF's annual reports on Form 10-K.

54. Provide instruction to directors and officers regarding their responsibilities and liability under Section 16 of the Securities Exchange Act of 1934 for both the . . . PG&E Corporation directors and officers. Monitor Section 16 compliance.

55. Prepare Form 3 (initial statement of beneficial ownership) and Form 4 (change of stock ownership) forms for PG&E Corporation officers and directors.

56. Provide guidance, instruction and training to . . . PG&E Corporation employees regarding SEC disclosure requirements, PG&E Corporation's and the Utility's disclosure practices, applicable laws regarding insider trading.

57. Provide guidance, instruction and training to investor relations, corporate communications, shareholder services, and corporate secretary's staff

regarding compliance with Regulation FD, Regulation G, and other applicable securities laws.

58. Review all investor relations presentations, press releases, and other internal and external communications for compliance with securities laws.

59. Advise financial staff and others regarding appropriate disclosure controls and procedures, attend Disclosure Assessment Committee meetings, draft related forms; i.e., Significant Transaction Worksheet.

60. Monitor status of certain legal proceedings, draft updates for the . . . PG&E Corporation directors.

61. Prepare response to audit inquiry under Financial Accounting Standards Board (FASB) Statement no. 5 in connection with quarterly and annual SEC reports and intervening registration statements.

62. Advise, draft Board materials, and employee communications regarding compensation plans, including employee 401(k) plan and long-term incentive plan under which options and other equity awards are granted to . . . PG&E Corporation officers, directors and key employees.

63. Review, advise and prepare offering materials for Utility financings.

64. Review, advise and prepare offering materials for PG&E Corporation financings.

65. Advise Finance Group regarding issuance of stock, debt, and other corporate law issues.

66. Prepare registration statements under the Securities Act of 1933 for PG&E Corporation, the Utility, and other subsidiaries.

67. Participate in Law Department Transformation Steering Team to evaluate and implement continuous improvement measures for the Law Department.

68. Participate in Senn-Delaney culture change workshops and ELT Field Forums.[98]

DRA's data request asked for a detailed complete written descriptions of the different types of assignments for which this PCC is responsible. Based upon DRA's review the Holding Company benefits from 66½ items, and the Utility benefits from 72 items.

[98] PG&E's response to Data Request ORA-093, q. 2.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 48%. DRA calculated its Holding Company benefit ratio by dividing Holding Company benefits by the total of the Holding Company and Utility Benefits (66.5/138.5=48%). DRA, therefore, recommends that ratepayers be allocated no more than 52% of the costs of PCC 20021.

F. PG&E Corporation Internal Audit Department (PCC 20022)

The Holding Company's Internal Audit Department is responsible for providing all internal audit services to the Utility, the Holding Company, and their subsidiaries.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-7
Pacific Gas and Electric Company
Pacific Corp Internal Audit
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 7,805	$ 8,610	$ 805	10.32%
less: Amount Allocated Below-the-Line	$ 78	$ 86	$ 8	10.32%
less: Amount Capitalized	$ 156	$ 156	$ -	0.00%
less: De-Escalation Amount	$ 209	$ 231	$ 22	10.53%
less: Holding Company Costs	$ 659	$ 81	$ (577)	-87.65%
Total PG&E PCC 923 Expense	$ 6,703	$ 8,055	$ 1,352	20.18%

The difference with PG&E's estimate is that DRA incorporated some changes the PG&E provided representing more current information[99] and modified the Holding Company's allocation to reflect the services that the Holding Company received.

DRA made adjustments to PG&E's total unit costs for PCC 20022 to remove costs totaling $805,000. These changes are a result of the 2006 budget review at PG&E. PG&E estimated the 1%, according to its workpapers, because only "One

[99] PG&E's response to Data Request ORA-095, q. 9 supplemental response.

percent of Internal Audit's work is expended on audits that focus on process or entities that we have excluded from the rate case. . ."[100] PG&E gave no support for its estimate, or an explanation of how it was calculated.

PG&E allocated only 1% of the unit's cost to the Holding Company, allocating the remaining 99% to PG&E's ratepayers. Based upon the information which was provided to DRA, DRA recommends allocating no more than 91% of this unit's costs to PG&E's ratepayers.

To determine the appropriate allocation of this unit's costs, DRA obtained a list of audits this unit provided. The following is a list of audits performed exclusively on the Holding Company:

1. Holding company—Plan of Reorganization Miscellaneous
2. Holding company—Sarbanes-Oxley 302 Review
3. Holding company—Sarbanes-Oxley Section 404
4. Holding company—Sarbanes-Oxley 404
5. Holding company—Sarbanes-Oxley 404 Retesting
6. Holding company—Accounts Payable and Payroll
7. Holding company—Executive expenses
8. Holding company—Sarbanes-Oxley 302
9. Holding company—Follow up Audit
10. Holding company—Continuous Monitoring – Corporate
11. Holding company—Client Support – Corporation
12. Holding company—Sarbanes-Oxley
13. Holding company—Audit of Network and E-Mail Security [101]

In response to a second data request question, PG&E indicated that it spent 4,635 hours auditing the Holding Company, and spent a total of 52,004 hours auditing.[102]

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[100] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-245.

[101] PG&E's response to Data Request ORA-095, q. 4.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 9%. DRA calculates this allocation dividing Holding Company audit hours by total audit hours (4,635/52,004=9%). DRA, therefore, recommends that ratepayers be allocated no more than 91% of the costs of PCC 20022.

G. PG&E Corporation Legal Compliance and Business Ethics Department (PCC 20023)

The Holding Company's Legal Compliance and Business Ethics Department is responsible for managing a corporate-wide program that facilitates compliance with laws and regulations and fosters a culture of ethical conduct.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-8
Pacific Gas and Electric Company
Pacific Corp Legal Compliance and Business Ethics
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 2,150	$ 2,150	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 179	$ 179	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 54	$ 54	$ -	0.00%
less: Holding Company Costs	$ 916	$ -	$ (916)	-100.00%
Total PG&E PCC 923 Expense	$ 1,000	$ 1,916	$ 916	91.67%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E's estimated the 0% allocation, according to its workpapers, because Legal Compliance and Business Ethics ". . . services are provided to employees and are allocated on an employee basis."[103] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the

(continued from previous page)
102 PG&E's response to Data Request ORA-095, q. 3 & q. 4.

103 PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 3 of 3 p. 2-1500.

information provided by PG&E, DRA recommends allocating no more than 52% of this department's costs to PG&E's ratepayers.

To analyze the benefit of this unit to the Holding Company, DRA asked for a description of the services this Holding Company unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Compliance and Ethics Program Policy – develop and implement a company-wide compliance and ethics program policy in conjunction with the compliance management initiative.
2. Compliance and Ethics Communication – develop a comprehensive communications plan for ethics and compliance. Publish brochures, the PG&E code of conduct, and other communications describing ethics and compliance.
3. Compliance Risk Assessments – conduct on-going operational risk assessments for business units.
4. Compliance Monitoring – track closure of operational compliance tasks and commitments for business units.
5. Compliance Coordination – coordinate completion of operational compliance plans for key work processes for business units.
6. Affiliate Rules Compliance – maintain the affiliate rules hotline, provide training and information on affiliate rules issues, and prepare the yearly compliance plan for filing at the California Public Utilities Commission.
7. Non-tariffed Products and Services – provide advice and guidance regarding compliance with rules and regulations regarding non-tariffed products and services. Prepare the yearly report regarding non-tariffed products and services for filing with the California Public Utilities Commission.
8. Compliance and Ethics Training – develop, produce, and distribute compliance and ethics course materials, including on-line compliance courses. Update existing courses. Conduct training on various compliance and ethics topics. Manage technical issues surrounding on-line offerings.
9. Business Conduct Questionnaire and Energy Trading Questionnaire – develop, implement, and manage annual questionnaires and coordinate review and investigation of "yes" responses.
10. Compliance and Ethics Helpline – manage 450 to 500 new cases and maintain the helpline database and records.

11. Sarbanes-Oxley 301 and Fraud Reports – collect reports of fraud and produce reports for review by outside auditors, management, and audit committee.[104]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC was responsible. Based upon DRA's review, eleven duties benefit the Holding Company and twelve duties benefit the Utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 48%. DRA calculates this allocation by dividing Holding Company benefits by Holding Company and Utility Benefits (11/23=48%). DRA, therefore, recommends that ratepayers be allocated no more than 52% of the costs of PCC 20023.

H. PG&E Corporation Senior Vice President and Chief Financial Officer (PCC 20030.1)

The Holding Company's SVP and Chief Financial Officer (CFO) is responsible for managing the financial operations, performance, outlook and strategy for the Holding Company.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-9
Pacific Gas and Electric Company
Pacific Corp Senior Vice President and Chief Financial Officer
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 1,611	$ 2,687	$ 1,077	66.85%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 45	$ 74	$ 30	66.85%
less: Holding Company Costs	$ 940	$ 131	$ (809)	-86.10%
Total PG&E PCC 923 Expense	$ 626	$ 2,482	$ 1,856	296.26%

[104] PG&E's response to Data Request ORA-112, q. 2.

The difference with PG&E's estimate is that DRA removed one item which lacked sufficient support, and modified the Holding Company's allocation to reflect the services that the Holding Company received.

The adjustment DRA made to PG&E's total unit costs for this PCC removed an unsupported increase in contract costs of $1,076,554. PG&E states that this cost is for "Consulting services and activities planned for 2004 were deferred until 2005 to provide financing flexibility during Chapter 11 proceedings. 2005 Adjusted budget includes consulting services/activities deferred from 2004 (e.g., investing in initiatives focusing on employee skill development, end-to-end process re-engineering, employee recruitment, et. al.)"[105] PG&E did not indicate what contracts were being signed, the costs of the contracts, the benefits to ratepayers, or the justification for having ratepayers pay these costs.

Once the unsupported contract costs were removed from the total unit costs for PCC 20030.1, DRA determined the appropriate allocation of those costs between the Holding Company and the Utility. PG&E allocated only 5% of unit's cost to the Holding Company, allocating the remaining 95% to PG&E's ratepayers. PG&E estimated the 5% allocation, according to its workpapers, because the SVP & CFO ". . . identified 2 percent of its work that would not be performed but for the existence of the holding company." And "3 percent of the worked performed by the SVP & CFO duplicates functions performed by departments at the Utility."[106] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 40% of this unit's costs to PG&E's ratepayers.

First, the Holding Company SVP and CFO had duplicate responsibility with the Utility's SVP and CFO. While the Holding Company position was responsible for overall financial operation of the Holding Company and its subsidiaries, the Utility's

[105] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-372.
[106] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-385.

position is responsible for managing the financial performance of the Utility. The Utility's position was assumed by the Holding Company's SVP and CFO, and some duties were spun off and a new position was created (the SVP and Chief Risk and Audit Officer position).[107]

Second, the services this position provides to the Holding Company represent far more than the 5% allocation PG&E claims. DRA asked PG&E for a description of the services this Holding Company position provides. According to PG&E's data response, the services this Holding Company position provides to the operation of the Holding Company include the following:

1. Interface with financial management of the Utility and other business units to ensure compliance with all internal and external financial accounting and reporting policies, practices and procedures, and to ensure that goals and objectives of the organization are being met;
2. Approving . . . PG&E Corporation financial transactions;
3. Communicate with the board of directors on financial strategy and results of operations;
4. Represent PG&E Corporation in front of the financial community, focusing on PG&E Corporation's . . . financial expectations and performance (through earnings calls, analyst conferences, etc.);
5. Manage all aspects of PG&E Corporation's . . . treasury functions; and
6. Responsible for, and provide oversight of, Controller, Investor Relations, Treasury, Information Technology, Finance Administration, and Tax functions.[108]

DRA's data response asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, six duties benefit the Holding Company and four benefit the Utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company position, DRA calculated a Holding Company benefit rate of 60%. DRA calculates this allocation by dividing Holding Company benefit by Holding Company

[107] PG&E's response to Data Request ORA-115, q. 8 supplemental response.

[108] PG&E's response to Data Request ORA-103, q. 2.

and Utility Benefit (6/10=60%). DRA, therefore, recommends that ratepayers be allocated no more than 40% of the costs of PCC 20030.1

I. PG&E Corporation Corporate Strategy and Development Department (PCC 20034.1)

The Holding Company's Corporate Strategy and Development Department is responsible for developing an overall strategic business plan and evaluating business opportunities that will help PG&E Corporation and the Utility achieve their business objectives.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-10
Pacific Gas and Electric Company
Pacific Corp Corporate Strategy and Development
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 1,201	$ 1,201	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 33	$ 33	$ -	0.00%
less: Holding Company Costs	$ 1,168	$ 385	$ (782)	-67.00%
Total PG&E PCC 923 Expense	$ -	$ 782	$ 782	0.00%

Based on a response to a DRA data request, PG&E stated its intent to exclude the allocation of costs of the Corporate Strategy and Development to the Utility in its request.[109] Therefore, DRA has removed these costs.

J. PG&E Corporation Risk Management Department (PCC 20040)

The Holding Company's Risk Management Department is responsible for monitoring and coordinating all activities associated with enterprise-wide risk management exposures to commodity, credit, interest rate and other risks with the objectives of reducing the potential for adverse changes in earnings and cash flow, and recognizing the risk/return tradeoff for capital allocation.

[109] PG&E's response to Data Request ORA-131, q. 1.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-11 Pacific Gas and Electric Company Pacific Corp Risk Management 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 1,015	$ 1,015	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 28	$ 28	$ -	0.00%
less: Holding Company Costs	$ 782	$ -	$ (782)	-100.00%
Total PG&E PCC 923 Expense	$ 206	$ 987	$ 782	380.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E's estimated the 0% allocation, according to its workpapers, because the Risk Management's duties are not duplicate of work performed by the Utility.[110] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 21% of this department's costs to PG&E's ratepayers.

To analyze the benefit of this unit to the Holding Company, DRA asked for a description of the services this Holding Company unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Monitors compliance with PG&E Corporation's risk management policies;
2. Facilitates the monthly Risk Policy Committee meetings;
3. Develops PG&E Corporation risk management policies and risk limits;
4. Updates the Risk Policy Committee and the PG&E Corporation board on general risk management issues and status, and events or developments that could expose PG&E Corporation and the Utility to potential losses;

[110] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-777.

5. Works with the Utility Risk Management Department to develop appropriate scenarios and complete periodic stress testing of the Utility energy portfolio; and

6. Coordinates with Internal Auditing on audits relating to the system of internal controls for the Utility energy portfolio, and with PG&E Corporation Tax, Accounting and Legal departments to ensure that the Utility complies with their respective requirements.[111]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, 4¾ of the assignments benefit the Holding Company and 1¼ of the assignments benefit the Utility.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 79%. DRA calculates this allocation dividing the Holding Company benefits by the benefits of the Holding Company and Utility combined (4.75/6=79%). DRA, therefore, recommends that ratepayers be allocated no more than 21% of the costs of PCC 20040.

K. PG&E Corporation Investor Relations Department (PCC 20041)

The Holding Company's Investor Relations Department acts as a liaison between the Holding Company's senior management and the institutional investment community.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

[111] PG&E's response to Data Request ORA-107, q. 1c.

Table 10-K-12				
Pacific Gas and Electric Company				
Pacific Corp Investor Relations				
2007 General Rate Case				
(Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 1,070	$ 1,070	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 30	$ 30	$ -	0.00%
less: Holding Company Costs	$ 520	$ -	$ (520)	-100.00%
Total PG&E PCC 923 Expense	$ 520	$ 1,041	$ 520	100.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E estimated the 0% allocation, according to its workpapers, because "There is nothing that Investor Relations Department does that could be described as 'only for the Holding Company.'"[112] PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 50% of this department's costs to PG&E's ratepayers.

To determine the appropriate allocation of the costs of this unit, DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. The primary role and responsibility of Investor Relations (IR) is tied to the appropriate valuation of the . . . PG&E Corporation's securities, based on adequate and appropriate disclosure of the companies' prospects and risks. IR assists senior management in identifying key value drivers in its projected financial results. Associated with appropriate disclosure, IR works to find and target the "appropriate owners" of the common stock - those investors whose investment styles make them the most logical owners of the stock. Finally, IR helps senior management understand how the companies and the electric utility and power sector are being viewed by

[112] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-676.

investors, and helps to identify areas for improvement or additional strategies.

2. Plan and conduct quarterly earnings calls—This responsibility involves reviewing the financial results at the end of each quarter, understanding the underlying drivers of those results, and preparing for the quarterly conference call to review those results with the financial community. The process encompasses developing the key talking points for senior management, including not only for the quarter's results but also forward-looking guidance regarding the outlook for earnings, capital expenditures, and regulatory approvals. IR helps develop the press release summarizing the quarter's results, and also puts out an extensive package of 20 tables that provides information to help investors understand the results. An extensive Q&A document is prepared each quarter to prepare for the call, and IR personnel are also responsible for reviewing SEC disclosures to ensure that IR themes and messages are appropriately reflected in those disclosures. After the earnings call, IR summarizes published analyst reports and provides feedback on how the institutional investment community perceived the call and how they view our financial outlook.

3. Organize Conference Participation and Roadtrips—PG&E participates in roughly six or seven investor conferences each year. These are put on by large investment banking/research institutions such as Morgan Stanley and Merrill Lynch. Companies provide their CEO, COO, or CFO to make a presentation during each conference providing an update on the company's key issues and financial outlook. These presentations are simultaneously webcast and are available to the public, and they are also archived on the corporation website. Senior management also typically spends most of a whole day at each conference meeting with individual investors who have follow-up questions. Similar to the earnings calls, in developing the conference presentations IR identifies the issues that the investment community is most interested in and/or the issues for which additional disclosure is desirable so that investors can appropriately value PG&E's securities.

   In addition to investor conferences, which are most typically held in New York City, IR also organizes a number of trips each year to various cities to ensure that we are adequately communicating to the investment community outside of conferences. Were it not for these trips, there are some important investors who would not have the opportunity to hear about PG&E's strategy and opportunities in California. Having this interaction directly with company personnel is often of critical importance to their investment decision. In both the case of investment conferences and roadtrips, IR prepares senior officers for their interaction with institutional investors by reminding them of SEC disclosure rules under Regulation FD, which governs all communications to investment professionals.

4. Track Ownership and Target Long-term Holders--IR is responsible for constantly tracking institutional ownership, understanding the investment styles of different firms and how that affects their view of PCG stock, and executing a plan to efficiently identify and prioritize investors based on their ability to hold and/or purchase a significant amount of common stock.

5. Single Point of Contact for Sell-Side Analysts and Institutional Investors--IR is the single point of contact for the institutional community, whether they have questions about the companies, wish to schedule a meeting with management, or would like a senior officer commitment to attend and present at a specific conference they are hosting. IR spends a significant amount of time staying knowledgeable about the companies and key issues, timelines, and milestones so that we can answer the questions that are asked by institutional investors on a daily basis.

6. Benchmark IR Best Practices--IR is responsible for benchmarking our investor relations practices against other companies, both within the sector and generally. This is done by participating actively in investor relations professional groups, discussing IR issues with counterparts in other companies, and monitoring the practices of others through their websites, webcast presentations, and other communication vehicles.

7. Stock Price Analysis--IR tracks stock price performance relative to a group of peer companies and regularly produces internal reports with the comparative data and comments to explain the differences.[113]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company benefited from the seven duties this department performed. The Utility benefits from the same seven functions.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 50%. DRA calculates this allocation dividing the Holding Company benefits by the combination of the Holding Company and Utility benefits (7/14=50%). DRA,

[113] PG&E's response to Data Request ORA-114, q. 2.

therefore, recommends that ratepayers be allocated no more than 50% of the costs of PCC 20041.

L. PG&E Corporation Tax Department (PCC 20042)

The Holding Company's Tax Department is responsible for minimizing taxes while filing accurate tax returns that fully comply with the tax laws of the relevant taxing jurisdictions.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-13 Pacific Gas and Electric Company Pacific Corp Tax 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E >DRA**
Total PCC Cost	$ 7,385	$ 7,880	$ 495	6.70%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 204	$ 218	$ 14	6.70%
less: Holding Company Costs	$ 7,181	$ 230	$ (6,951)	-96.80%
Total PG&E PCC 923 Expense	$ -	$ 7,432	$ 7,432	0.00%

Minimizing the tax obligations of the Holding Company gives PG&E shareholders one of the largest benefits of having a Holding Company. With the Holding Company, PG&E Corporation has the ability to write off losses of unprofitable affiliates and decrease its tax liability. Over the last five recorded years, the Holding Company has saved its shareholders hundreds of millions of dollars. The following table shows the Utility's authorized federal income taxes, the Utility's federal income tax component, and the Total Company's actual federal income taxes paid.[114] [115] [116]

[114] Adopted Federal Income Taxes were provided in two e-mails from Bruce Smith, PG&E's general rate case manager, dated April 11, 2006 and April 12, 2006. Between rate increase decisions, DRA used the last adopted federal income taxes.

[115] Utility Federal Income Taxes were from the stand alone form 1120 that was provided for year 2000, 2002, and 2004 provided as a response to data request ORA-96, q. 8, supplement 2, item 1. The numbers used in 2001 and 2003 were provided in response to data request ORA-242, q. 1. PG&E's witness informed me that these tax numbers represent the Utility's stand alone Federal Income Taxes.

Table 10-K-14				
Pacific Gas and Electric Company				
Federal Income Taxes: Authorized, PG&E, and Total Company				
2007 General Rate Case				
(Thousands of 2004 Dollars)				
Description		**PG&E Authorixed Federal Income Taxes**	**PG&E's Component Federal Income Taxes**	**Total Holding Company's Federal Income Taxes**
Year 2000		$ 328	$ -	$ -
Year 2001		$ 384	$ 346	$ 336
Year 2002		$ 394	$ 1,034	$ 478
Year 2003		$ 523	$ 252	$ 68
Year 2004		$ 520	$ 277	$ 344
Total Taxes		$ 2,148	$ 1,909	$ 1,226

PG&E Corporation has been able to save $683 million in Utility taxes for the years 2000 through 2004. Since the benefits of being able to write off unprofitable affiliates for tax purposes is solely for the Holding Company's benefit, DRA allocated 100% of the tax department's costs to PG&E Corporation.

M. Office of the PG&E Corporation Senior Vice President and Chief Risk and Audit Officer (PCC 20052)

The Holding Company's SVP and Chief Risk and Audit Officer is responsible for providing an enterprise-wide approach to assessing corporate risks in conjunction with the internal audit function.

This is a new position for which PG&E is seeking ratepayer funding. PG&E claims that the duties of this position were included in the CFO positions prior to the elimination of the Utility CFO position.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

(continued from previous page)

116 Total Holding Company Federal Income Taxes represent the actual amount paid by PG&E Corporation including all of its subsidiaries and were provided to DRA in data response ORA-96, q. 8, supplement 2, item 2, from the signed form 1120.

Table 10-K-15				
Pacific Gas and Electric Company				
Pacific Corp Senior Vice President and Chief Risk and Audit Officer				
2007 General Rate Case				
(Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 709	$ 959	$ 250	35.29%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 20	$ 26	$ 7	35.29%
less: Holding Company Costs	$ 269	$ -	$ (269)	-100.00%
Total PG&E PCC 923 Expense	$ 420	$ 932	$ 512	121.78%

The difference between PG&E's estimate and DRA's is that DRA removed some items which lacked sufficient support, and modified the Holding Company's allocation to reflect the services that the Holding Company received.

DRA made two adjustment to PG&E's total unit costs for this PCC. DRA removed $250,000 for an unsupported increase in contract costs from this PCC. PG&E increased this department's contracts cost by $250,000 for the years 2006 forward. It was added in two components: $62,500 was added in 2005, and another $187,500 was added in 2006. PG&E's support for these two numbers is because it is "Three months (¼ year) contracts costs for the SVP and Chief Risk and Audit Officer department"[117] to support the increase of $62,500, and it is "Nine months (¾ year) contracts costs. Three months of costs are already included in the 2005 Adjusted amount therefore nine months of costs have been added here to represent a full year's costs for 2006"[118] to support the increase of the additional $187,500. PG&E did not indicate what contracts were being signed, the costs of the contracts, the benefits to ratepayers, or the justification for having ratepayers pay these costs.

Once DRA removed the $250,000 from the total unit costs for PCC 20052, DRA determined the appropriate allocation of costs between the Holding Company and the Utility. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E's estimated the 0% allocation,

[117] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-55.
[118] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-56.

according to the workpapers, because "The Vice President, Audit Risk, and Compliance Department will provide necessary services to the Utility that are not provided elsewhere in the Utility."[119] Based upon the information provided by PG&E, DRA recommends allocating no more than 61% of this department's costs to PG&E's ratepayers.

To determine the appropriate allocation of the costs of this unit, DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Internal auditing for financial activities and operations;
2. Setting corporate audit plans;
3. Coordinating enterprise-wide risk management activities to ensure a consistent approach for identifying, measuring, monitoring, and reporting the enterprise risks;
4. Overseeing . . . PG&E Corporation procurement, credit, and interest rate risk areas; and
5. Managing the centralized portion of the existing . . . PG&E Corporation compliance and business ethics program.[120]

DRA allocated these functions based upon the allocation for the departments that this PCC manages. Based upon DRA's review, the Holding Company receives a benefit of 1.95 and the Utility receives a benefit of 3.05.

Comparing PG&E's services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 39%. DRA calculates this allocation dividing Holding Company benefits by combined benefits of the Holding Company and Utility (1.95/5=39%). DRA, therefore, recommends that ratepayers be allocated no more than 61% of the costs of PCC 20052.

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119 PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-65.

120 Exhibit PG&E-6, p. 4-15.

N. PG&E Corporation Vice President and Controller (PCC 20031)

The Holding Company's VP and Controller is responsible for the accounting policies and the practices adopted by the Holding Company.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-16 Pacific Gas and Electric Company Pacific Corp Controller 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 920	$ 920	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 25	$ 25	$ -	0.00%
less: Holding Company Costs	$ 397	$ 125	$ (272)	-68.50%
Total PG&E PCC 923 Expense	$ 497	$ 769	$ 272	54.80%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 14% of unit's cost to the Holding Company, allocating 86% to PG&E's ratepayers. PG&E estimated the 14% allocation, according to its workpapers, because "The VP & Controller identified 4 percent of its work that would not be performed but for the existence of the PG&E Corporation" and "10% of the worked performed by the VP & Controller's department duplicates functions performed by the departments at the utility"[121] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 56% of this unit's costs to PG&E's ratepayers.

First, the Holding Company VP and Controller has duplicate responsibilities with the Utility's VP and Controller. While the Holding Company position is responsible for overall accounting policy at the Holding Company, the Utility's

[121] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-477.

position is responsible for establishing and implementing accounting policy, monitoring operating lines of business' compliance with policies and procedures, developing and monitoring the Company budget, and performing the accounts payable and payroll functions. If the Holding Company did not exist, costs for both positions would not be incurred. The position of VP and Controller PG&E and VP and Controller PG&E Corporation have been consolidated on an interim basis.[122]

Second, the services this position provides to the Holding Company represent far more than the 14% allocation PG&E claims. DRA asked PG&E for a description of the services this Holding Company position provides. According to PG&E's data response, the services this Holding Company position provides to the operation of the Holding Company include the following:

1. Developing, approving, and implementing . . . PG&E Corporation accounting policies;
2. Providing accounting analysis support and research for the . . . PG&E Corporation transactions;
3. Approving journal entries for any and all material non-recurring transactions;
4. Developing internal controls for the . . . PG&E Corporation and monitoring these controls quarterly and annually to ensure that they are adequate in conjunction with Section 404 of the Sarbanes-Oxley legislation;
5. Managing the . . . PG&E Corporation's financial and regulatory accounting and reporting to ensure it complies with generally accepted accounting principles (GAAP), SEC, Public Company Accounting Oversight Board (PCAOB), CPUC, FERC, and other regulatory requirements;
6. Maintaining the . . . PG&E Corporation's relationship with its external auditors and working closely with them on various audit issues;
7. Reviewing and approving all financial statements and disclosures filed with the Securities and Exchange Commission to ensure compliance with GAAP and SEC requirements;
8. Managing the annual . . . PG&E Corporation budgeting and six-quarter rolling forecast processes and monitoring spending to ensure the various

[122] PG&E's response to Data Request ORA-108, q. 2.

lines of business and A&G departments are in compliance with all budgeting policies and procedure.[123]

PG&E allocated only 14% of unit's cost to the Holding Company, allocating the remaining 86% to PG&E's ratepayers. Based upon the information provided by PG&E, DRA calculated a Holding Company benefit rate of 44%, allocating 56% to PG&E's ratepayers.

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PC is responsible. Based upon DRA's review, the Holding Company receives benefits from eight tasks this PCC provides and the Utility receives benefits from ten of the tasks performed by this unit.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 44%. DRA calculates this allocation by dividing the Holding Company benefits by the combined benefits of the Holding Company and the Utility (8/18=44%). DRA, therefore, recommends that ratepayers be allocated no more than 56% of the costs of PCC 20031.

O. PG&E Corporation Corporate Accounting Department (PCC 20032.1)

The Holding Company's Corporate Accounting Department is responsible for all accounting of the Holding Company.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

[123] PG&E's response to Data Request ORA-108, q. 1c.

Table 10-K-17 Pacific Gas and Electric Company Pacific Corp Corporate Accounting 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 7,574	$ 7,574	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 209	$ 209	$ -	0.00%
less: Holding Company Costs	$ 4,017	$ 1,105	$ (2,912)	-72.50%
Total PG&E PCC 923 Expense	$ 3,347	$ 6,260	$ 2,912	87.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that it received. PG&E allocated only 15% of unit's cost to the Holding Company, allocating the remaining 85% to PG&E's ratepayers. Based upon the information which was provided to DRA, DRA recommends allocating no more than 45% of this department's costs to PG&E's ratepayers

First, the Holding Company's Corporate Accounting Department has duplicate responsibilities with the Utility's Corporate Accounting Department. While the Holding Company position is responsible for all accounting functions for the Holding Company, the Utility's department is responsible for accounting functions for the Utility. If the Holding Company did not exist, costs for both departments would not be incurred.

Second, the services this position provides to the Holding Company represent far more than the 15% allocation PG&E claims. PG&E's estimated the 15% allocation, according to its workpapers. Four percent "Represents holding company-only and related subsidiary general ledger work. . ." Four percent "Represents duplicative functions within payroll and financial reporting. . ." And, seven percent "Represents net efficiencies derived from converting Holding Company staff to existing Utility payroll system and estimated efficiencies from combined general ledger/consolidation and financial reporting groups."[124] PG&E gave no support for

[124] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 pp. 2-551 and 2-552.

its estimate, or an explanation of how it was calculated. DRA asked PG&E for a description of the services this Holding Company position provides. According to PG&E's data response, the services this Holding Company position provides to the operation of the Holding Company include the following:

1. Research and assess impact of emerging GAAP, which involves periodic meetings and analysis for any impact on PG&E Corporation and any of its subsidiaries;
2. Developing accounting policies for . . . PG&E Corporation . . .;
3. Leading the adoption of new accounting standards;
4. Writing company position papers;
5. Preparing and reviewing all aspects of the Corporation's quarterly and annual filings with the Securities and Exchange Commission (Forms 10-Q and 10-K), and other SEC filings including registration statements;
6. Coordinating the independent auditor's annual and quarterly reviews of the Corporation's financial statements;
7. Preparing and reviewing the monthly financial reporting package (Financial and Business Highlights report) for senior management and the Board of Directors, and preparing non-routine analysis;
8. Preparing and reviewing financial information included in investor relations materials;
9. Preparing financial statements and related regulatory filings for PG&E Corporation Retirement Savings Plans;
10. Coordinating the independent annual audits of PG&E Corporation . . . sponsored employee benefit plans and PG&E Corporation retirement savings plans;
11. Preparing annual reports to U.S. Department of Commerce;
12. Ensuring compliance with internal controls over the Corporation's financial reporting and disclosures, and testing compliance with other financial controls;
13. Consolidating the financial statements for PG&E Corporation and its subsidiaries . . .;
14. Serving as the administrator for the Hyperion consolidation software, which includes functions such as loading entity data, maintenance of entity structure, account setup and report design;

15. Responsible for preparing external audit fee information for Audit Committee approval;

16. Maintaining and reconciling all general ledger accounts for PG&E Corporation and its subsidiaries (excluding the Utility);

17. Maintaining the accounting for various executive compensation and deferred compensation plans, including equity-based compensation for PG&E Corporation and its subsidiaries . . .;

18. Responsible for preparing the annual budget for Corporate Accounting, PCC 20032.1 (includes Technical and Risk Management Accounting and Sarbanes-Oxley Project Management), affiliate billings . . .;

19. Preparing and reviewing the equity accounting for PG&E Corporation, including issuance and repurchase of PG&E Corporation's publicly traded common stock, and dividend payments; and

20. Solely responsible for preparing the financial information for PG&E Corporation charitable foundation and Employees' Community Fund financial statements.

21. Processing of PG&E Corporation's payroll and related taxation data, tracking vacation time and administering expense reimbursements;

22. Processing accounts payable for PG&E Corporation; and

23. Service call center for the Concur Time and Expense system for PG&E Corporation.

24. Managing PG&E Corporation . . . activities and procedures to meet requirements of Section 404 of the Sarbanes Oxley Act.[125]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review the Holding Company benefits from 24 tasks, and the Utility benefits from 20 tasks performed by this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 55%. DRA calculates this allocation dividing the Holding Company's benefit by the combined benefits of the Holding Company and Utility (24/44=55%). DRA,

[125] PG&E's response to Data Request ORA-098, q. 2.

therefore, recommends that ratepayers be allocated no more than 45% of the costs of PCC 20032.1.

P. PG&E Corporation Vice President and Treasurer Department (PCC 20035)

The Holding Company's VP and Treasurer is responsible for the treasury functions for the Holding Company and the Utility.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-18 Pacific Gas and Electric Company Pacific Corp Vice President and Treasurer 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 731	$ 731	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 20	$ 20	$ -	0.00%
less: Holding Company Costs	$ 355	$ -	$ (355)	-100.00%
Total PG&E PCC 923 Expense	$ 355	$ 711	$ 355	100.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that it received. PG&E allocated 0% of this unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E estimates its allocation, according to its workpapers, because "The VP and Treasurer oversees the Banking & Money Management, Insurance, and Investments & Benefits Finance department, all of which have identified that there would be no change in workload if the holding company did not exist."[126] PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 50% of this unit's costs to PG&E's ratepayers.

126 PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-734.

To determine the appropriate allocation of the costs, DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Financial transactions . . . are properly evaluated for financial issues;
2. Financing at . . . PG&E Corporation is executed to meet capital requirements, new and existing debt is managed, short-term borrowings and investments are executed to manage liquidity, and necessary bank services are provided to Utility departments;
3. Risk, loss control, and insurance programs at . . . PG&E Corporation are properly managed; and
4. Trusts related to employee benefits at . . . PG&E Corporation are properly managed.[127]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, four tasks benefit the Holding Company and the Utility benefits from the same four tasks.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 50%. DRA calculates this allocation by dividing the Holding Company's benefit by the combined benefit of the Holding Company and the Utility (4/8=50%). DRA, therefore, recommends that ratepayers be allocated no more than 50% of the costs of PCC 20035.

Q. PG&E Corporation Banking and Money Management Department (PCC 20036)

The Holding Company's Banking and Money Management Department is responsible for ensuring effective and consistent cash management practices for the Holding Company and its subsidiaries.

[127] PG&E's response to Data Request ORA-116, q. 2.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-19 Pacific Gas and Electric Company Pacific Corp Banking and Money Management 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 3,285	$ 3,285	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 750	$ 750	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 70	$ 70	$ -	0.00%
less: Holding Company Costs	$ 1,203	$ -	$ (1,203)	-100.00%
Total PG&E PCC 923 Expense	$ 1,263	$ 2,465	$ 1,203	95.24%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 51% of this department's costs to PG&E's ratepayers.

To determine the appropriate allocation of the costs of this department, DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Assess the financing needs of . . . PG&E Corporation
    - Review . . . PG&E Corporation cash forecasts
    - Assess capital market conditions
    - Provide capital markets information to other departments
    - Assess new capital markets products
    - Recommend liquidity policy for . . . PG&E Corporation
    - Manage . . . PG&E Corporation capital structure
    - Assess and manage interest rate and foreign exchange risk

- Assess and manage term structure and fixed/floating mix of the debt portfolio

2. Obtain the necessary authorizations for financings
   - CPUC authorization
   - Board of Directors authorization
   - SEC authorization
   - Manage the Finance Committee process
3. Issue new financing instruments and buy back existing debt, equity and preferred stock
   - Select and manage relationships with investment and commercial banks
   - Select and manage relationships with trustees
   - Manage relationships with conduit issuers
   - Issue new debt, preferred stock and equity
   - Enter into credit facilities for working capital and letters of credit
   - Implement commercial paper programs
   - Administer debt and share repurchase programs
4. Administration and compliance
   - Administer the payment of principal, interest, fees and expenses
   - Monitor and manage compliance for debt and loan covenants
   - Review and update Securities and Exchange Commission-required disclosure of financing instruments
   - Sarbanes-Oxley testing and compliance
   - Respond to inquiries from Investor Relations, senior management and debt holders
   - CPUC reporting
5. Conduct all day-to-day cash management activities for . . . PG&E Corporation with the objective to:
   - Ensure effective and consistent cash management practices
   - Minimize costs
   - Ensure proper controls over cash and other liquid assets
   - Maintain sufficient liquidity

6. Cash and treasury management services include:
    - Cash concentration
    - Disbursement and wire transfer services
    - Foreign exchange and credit support
    - Short-term borrowing and investments
    - Cash forecasting
    - Bank relationship management, maintenance and fee negotiation
    - Check stock and coupon security
    - Cash reporting
    - Check printing and distribution
    - Check signing, positive pay and stop payment services
7. Internal client support in implementing necessary bank services
    - Electronic account reconciliation
    - Check fraud detection and prevention
    - Alternative customer payment options.[128]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company benefited from 40 tasks performed by this department, while the utility benefited from 42 of their tasks.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 49%. DRA calculates this allocation by dividing the Holding Company's benefits by the combined benefits of the Holding Company and the Utility (40/82=49%). DRA, therefore, recommends that ratepayers be allocated no more than 51% of the costs of PCC 20036.

[128] PG&E's response to Data Request ORA-117, q. 2.

R. PG&E Corporation Financial Planning and Analysis Department (PCC 20037)

The Holding Company's Financial Planning and Analysis Department is responsible for advising senior management on major decision affecting the Holding Company value and matters related to controlling customer costs.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-20
Pacific Gas and Electric Company
Pacific Corp Financial Planning and Analysis
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 1,702	$ 1,702	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 47	$ 47	$ -	0.00%
less: Holding Company Costs	$ 875	$ 132	$ (743)	-84.87%
Total PG&E PCC 923 Expense	$ 780	$ 1,523	$ 743	95.27%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 8% of unit's cost to the Holding Company, allocating 92% to PG&E's ratepayers. PG&E estimated the 8% allocation, according to its workpapers, because Financial Planning and Analysis has "identified approximately 1,160 hours of work performed by the department that could be performed at an overall reduced cost, if it was merged with the Utility."[129] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 47% of this department's costs to PG&E's ratepayers.

First, the Holding Company Financial Planning and Analysis Department has duplicate responsibilities with the Utility's Business and Financial Planning departments. While the Holding Company position is responsible for supporting the

[129] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 1 of 3 p. 2-433.

Holding Company's major decisions, the Utility's position is responsible for providing financial planning and economic analysis service to key client groups including senior management, and Utility business unit personnel.[130] If the Holding Company did not exist, costs for both positions would not be incurred.

Second, the services this department provides to the Holding Company represent far more than the 8% allocation PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. **Policy Analysis**: The department may lead or assist in the research, preparation, and policy analysis of capital structure, dividend, and capital investment criteria.
2. **Financial Analytics**: The department provides analysis, projections, credit assessments, modeling support and other analytics.
3. **Forecasting**: The department prepares the consolidated cash forecasts, including financing plans and capital ratios.
4. **Investment Analysis**: The department performs investment analytics on individual projects, regular capital expenditures, significant contractual commitments, mergers and acquisitions, or asset divestiture.
5. **Budgeting**: The department oversees the PG&E Corporation's administrative and general (A&G) budget-related activities, including preparation, coordination and consolidation, implementation, enforcement and controls, and management reporting.
6. **Financing Support**: The department supports design of PG&E Corporation . . . financings.
7. **Management Reporting**: The department prepares consolidated performance monitoring through finance and operating metrics reports.
8. **Board Reporting**: The department leads or co-manages the preparation and completion of the multi-year outlook and financial performance plan.
9. **External Reporting**: The department supports earnings release-related activities, including investor relations support.

[130] Exhibit PG&E-6, p. 8-8.

10. **External Relations Support**: The department provides credit rating agency, creditor relations, and equity analyst support.

11. **Others**: Includes employee development activities and various Ad Hoc projects or work as requested by senior officers, including special studies, and company research on leverage, preferred stock, benchmarking, etc.[131]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company received eleven benefits from this department, and the Utility received 9.8 benefits from this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 53%. DRA calculates this allocation dividing Holding Company benefits by the combined Holding Company and Utility benefits (11/20.8=53%). DRA, therefore, recommends that ratepayers be allocated no more than 47% of the costs of PCC 20037.

S. PG&E Corporation Insurance Department (PCC 20038)

The Holding Company's Insurance Department is responsible for maintaining and protecting Corporate assets from the risk of catastrophic loss by evaluating exposures to loss, procuring appropriate levels of insurance, and implementing effective loss control measures.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-21
Pacific Gas and Electric Company
Pacific Corp Insurance
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 1,439	$ 1,439	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 40	$ 40	$ -	0.00%
less: Holding Company Costs	$ 509	$ -	$ (509)	-100.00%
Total PG&E PCC 923 Expense	$ 890	$ 1,399	$ 509	57.14%

131 PG&E's response to Data Request ORA-118, q. 2.

The difference with PG&E's estimate is DRA modified this Holding Company allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E estimated the 0% allocation, according to its workpapers, because "PG&E Corporation has a few small insurance programs specific to the Holding Company (primary general liability, automobile liability, workers' compensation). The amount of time spent on these programs is minimal. We estimate that no additional staff or costs are required to maintain these programs."[132] PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 64% of this department's costs to PG&E's ratepayers.

To determine the appropriate allocation of the costs, DRA asked PG&E for a description of the services the unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Provides coverage for physical loss or damage to insured aircraft on ground and in flight.
2. Provides coverage for "All Risks" of physical loss or damage to property, including earthquake and flood for real and personal property, worldwide, owned, operated, controlled or used by the insured, or for which the insured may be liable.
3. Provides coverage, while riding as a passenger in a covered aircraft, to active full-time officers and employees, non-employee directors, part time and intermittent employees with regular status, and scheduled contract employees. Also provides coverage, while riding as a passenger, pilot or member of the crew, for active, full-time employee pilots, and other qualified pilots.
4. Provides coverage for business travel and sojourn, away from the insured's workplace, for active full-time officers and employees, non-employee

[132] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-693.

directors, part time and intermittent employees with regular status, scheduled contract employees. Coverage is limited to travel on public conveyance, civil aircraft or military airlift command (MAC) for some categories of employees and directors.

5. Provides coverage for loss, destruction, disappearance, or wrongful abstraction of money, securities and other property caused by theft or forgery. Includes coverage for employee benefit plans, and direct losses caused by computer theft or funds transfer fraud.

6. Provides coverage for bodily injury and property damage to others arising out of the operation, maintenance or use of owned, leased or non-owned aircraft, provided the aircraft is flown by a qualified pilot.

7. Provides coverage for claims made, during the coverage term, for bodily injury and property damage to others resulting from use of non-owned or hired automobiles.

8. Provides coverage for actual or alleged errors, misstatements, or breach of duty. Directors and Officers Reimbursement: Pays on behalf of directors and officers for losses where the insured has not provided reimbursement. Corporate Reimbursement: Reimburses the insured for losses (in excess of the deductible and subject to the limit of liability) for which the insured indemnifies directors and officers.

9. Provides coverage for all sums the insured is legally obligated to pay for claims made, during the coverage period, as a result of breach of fiduciary responsibilities under ERISA.

10. Provides coverage for claims made, during the coverage term, for bodily injury and property damage to others.

11. Provides coverage for claims made, during the coverage term, in excess of scheduled underlying insurance or self-insured retention (Aircraft Liability, Business Automobile Liability, Commercial General Liability, and Employer’s Liability). Also covers punitive damages.

12. Financial collateral required by governmental entities, municipalities, and others.

13. PG&E is self-insured for Workers' Compensation in California.

    Provides insurance on a "per occurrence" basis in excess of PG&E's self-insured retention for California employees.

14. Provides statutory Workers' Compensation coverage for employees working in outside of California.

15. Financial collateral required by state of California to self-insure Workers' Compensation.

16. Annual fees charged by state of California to maintain self-insured Workers' Compensation status.[133]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company received 16 beneficial services from this department, and the Utility received 28 benefits from this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 36%. DRA calculates this allocation by dividing Holding Company benefits by the combined Holding Company and Utility benefits (16/44=36%). DRA, therefore, recommends that ratepayers be allocated no more than 64% of the costs of PCC 20038.

T. PG&E Corporation Investments and Benefit Finance Department (PCC 20039)

The Holding Company's Investments and Benefit Finance Department is responsible for overseeing all investment aspects of PG&E's Employee Benefit and Nuclear Decommissioning Trusts.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-22
Pacific Gas and Electric Company
Pacific Corp Investment and Benefit Finance
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 454	$ 454	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 13	$ 13	$ -	0.00%
less: Holding Company Costs	$ 147	$ -	$ (147)	-100.00%
Total PG&E PCC 923 Expense	$ 294	$ 442	$ 147	50.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received.

[133] PG&E's response to Data Request ORA-119, q. 2.

PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E estimated the 0% allocation, according the workpapers, because "There is no comparable department in the utility and there are not stand-alone benefit plans only for holding company employees.[134] PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 67%of this department's costs to PG&E's ratepayers.

To determine the appropriate allocation of the costs, DRA asked PG&E for a description of the services the unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. IBF serves as staff to PG&E Corporation's Employee Benefit Committee.[135]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company received one benefit, and the Utility receive two benefits from this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 33%. DRA calculates this allocation by dividing the Holding Company's benefits by the combined benefits of the Holding Company and Utility (1/3=33%). DRA, therefore, recommends that ratepayers be allocated no more than 67% of the costs of PCC 20039.

[134] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 3 of 3 p. 2-1427.

[135] PG&E's response to Data Request ORA-120, q. 2.

U. PG&E Corporation Human Resources Department (PCC 20050)

The Holding Company's SVP and Human Resources Department is responsible for providing strategic direction, oversight, and coordination of the Human Resources issues, policies and services in the PG&E Corporation family of companies.[136]

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-23 Pacific Gas and Electric Company Pacific Corp Human Resources 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 4,392	$ 4,392	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 121	$ 121	$ -	0.00%
less: Holding Company Costs	$ 2,176	$ 214	$ (1,962)	-90.19%
Total PG&E PCC 923 Expense	$ 2,095	$ 4,057	$ 1,962	93.65%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 5% of unit's cost to the Holding Company, allocating 95% to PG&E's ratepayers. PG&E estimated the 5% allocation, according the its workpapers, by adding 0.53% because "Corporation HR implements and manages [some] benefit programs that exist only at the Holding Company . . .," 1% because "Corporation HR manages non-officer compensation for the Holding Company, which duplicates services performed by the utility," and 3.7% because ". . . it is assumed that work efficiencies are available."[137] Based upon the information provided by PG&E, DRA recommends allocating no more than 49% of this department's costs to PG&E's ratepayers.

[136] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 3 of 3 p. 2-1391.

[137] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 3 of 3 p. 2-1411.

First, the PG&E Corporation Human Resources Department has duplicate responsibilities with the Utility's Human Resource Departments. While the Holding Company position is responsible for overall strategic direction, oversight, and coordination of human resource activities at the Holding Company and its subsidiaries, the Utility's positions are responsible for ensuring that the Utility has qualified workers it needs to provide customers with safe and reliable gas and electric services.[138] If the Holding Company did not exist, costs for both groups would not be incurred.

Second, the services this department provides to the Holding Company represent far more than the 5% allocation PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Develop and manage defined contribution retirement plan (i.e. 401k plan) for employees of . . . PG&E Corporation
   - Manage vendor relationships with Fidelity Investments (record-keeper, trustee and investment manager);
   - Participate in contract negotiations; and
   - Ensure ongoing plan compliance through activities such as non-discrimination testing, external audits, filings with the Internal Revenue Service and the Department of Labor, and legally required participant communications.
2. Project management of the Sarbanes-Oxley processes for the benefit plans . . . PG&E Corporation's Stock Option plan for employees of . . . PG&E Corporation
   - Perform quarterly assessments of internal and external changes to identified key controls;
   - Select and test samples for key controls;
   - Report results of quarterly test results to Sarbanes-Oxley team;

[138] Exhibit PG&E-6, p. 15-6.

- Regularly review and enhance key controls and test processes; and
- Conduct regular process walk-throughs and re-testing of controls with internal and external auditors.
- Project management of compliance with the privacy and electronic data requirements of the Health Insurance Portability & Accountability Act of 1986.

3. Design succession planning processes that are utilized to identify and develop potential candidates for vacancies within the organization. Typically, these vacancies are in the next (upward) level of management.
4. Design and implement ongoing training and development activities in order to achieve specific objectives related to PG&E officer and high-potential individual growth and organization development.
5. As part of officer and high-potential development, coordinate deployment of 360-degree feedback tools to provide those employee(s) with focused information about strengths and areas for improvement.
6. Identify and manage strategic coaching relationships to develop leaders within the organization.
7. Design, implement, analyze and report data pertaining to all employee opinion surveys. The primary objective of these surveys is to collect metrics that can be used to gauge employee attitudes, opinions, and the overall health of the organization.
8. Design systems to ensure effective coordination of employees across departments; manage hierarchical and horizontal linkages; determine organizational changes that may impact structural modification; and, then implement the resulting organizational design recommendations.
9. Identify various executive search firms, each specializing in specific disciplines and/or functional areas, for use in future searches.
10. Establish, build and maintain positive relationships with executive search firm executives and associates, so that they stay knowledgeable about PG&E’s industry and key business initiatives. This allows them to provide quicker services when engaging in contracts with them.
11. Work with clients to clearly articulate the staffing need via job descriptions and to help create sourcing strategies to determine how position should be recruited (internally, externally or both).
12. Negotiate terms of all search contracts with a goal of obtaining quality services for least cost.

13. Coordinate all phases of recruitment process from scheduling interviews through on-boarding process with various stakeholders (client, search firm, candidates).

14. Work with Corporation departments to identify and fill staffing needs.

15. Implement, maintain and update relocation policy to allow PG&E to maximize success by assisting employees whose job moves require relocation of household.

16. Establish and maintain relationships with realtors, lenders and moving companies to provide employees with pool of pre-screened professionals while maximizing value for PG&E.

17. Develop, implement and maintain PG&E's Affirmative Action and Equal Employment Opportunity policies and programs.

18. Report at least annually to Board of Directors on governance of Affirmative Action and Equal Employment Opportunity compliance.

19. Develop and implement diversity training programs, including California-state-mandated Sexual Harassment Prevention Training.

20. Ensure compliance with federally required statutes and reporting requirements.[139]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company benefited from 27 benefits, and the Utility receive 26 benefits from the operation of this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 51%. DRA calculates this allocation by dividing the Holding Company's benefits by the combined benefits of the Holding Company and Utility (27/53=51%). DRA, therefore, recommends that ratepayers be allocated no more than 49% of the costs of PCC 20050.

[139] PG&E's response to Data Request ORA-100, q. 2.

V. PG&E Corporation Corporate Communications Department (PCC 20061.1)

The Holding Company's Corporate Communications Department serves as the principal clearinghouse for public information on the Holding Company, including responsibility as the principal contact for the news media.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-24 Pacific Gas and Electric Company Pacific Corp Corporate Communications 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 4,583	$ 4,583	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 1,275	$ 1,275	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 91	$ 91	$ -	0.00%
less: Holding Company Costs	$ 1,876	$ 482	$ (1,394)	-74.29%
Total PG&E PCC 923 Expense	$ 1,340	$ 2,734	$ 1,394	104.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 15% of unit's cost to the Holding Company, allocating 85% to PG&E's ratepayers. PG&E estimated the 15% allocation, according the its workpapers, by estimating the cost of the "Media and other communication support for holding company executives on corporation-only issues. A small portion of the maintenance for the corporation's external website. Maintenance of the corporation's internal website. Anticipated corporate development."[140] PG&E gave no support for its estimate, or an explanation of how it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 42% of this department's costs to PG&E's ratepayers.

First, the Holding Company department has duplicate responsibilities with the Utility's Communication Departments. While the Holding Company position is

[140] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-1198.

responsible for public information on the Holding Company, the Utility's departments are responsible for presenting the Utility's positions to the general public and employees by researching, designing, and developing strategic messages and tactics and implementing communication vehicles and tools. If the Holding Company did not exist, costs for both groups would not be incurred.

Second, the services the Holding Company Corporate Communications Department provides to the Holding Company represent far more than the 15% PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Annual Report
2. Annual Shareholder Meeting
3. Corporate Responsibility Report
4. Executive presentations to the financial community
5. Communication support to PG&E Corporation officers
6. Development and maintenance of PG&E Corporation's External and Internal websites
7. External and internal communications associated with shareholder-, financial and board-related items including: earnings, dividends and other financial disclosures; corporate governance; executive compensation; senior officer and board personnel announcements; etc.[141]

PG&E allocated only 15% of unit's cost to the Holding Company, allocating the remaining 85% to PG&E's ratepayers. Based upon the information provided by PG&E, DRA calculated a Holding Company benefit rate of 58%, allocating 42% to PG&E's ratepayers.

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's

[141] PG&E's response to Data Request ORA-101, q. 2.

review, the Holding Company received benefits from seven of the services provided, and the Utility received benefits from five of the services provided.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 58%. DRA calculates this allocation by dividing Holding Company benefits by the combined number of benefits received by the Holding Company and the Utility (7/12=58%). DRA, therefore, recommends that ratepayers be allocated no more than 42% of the costs of PCC 20061.1.

W. PG&E Corporation Senior Vice President Public Policy and Governmental Affairs (PCC 20075)

The Holding Company's Public Policy and Governmental Affairs Department is responsible for developing strategies for public policy development at the federal level and to represent the interests of the Holding Company and its subsidiaries before federal agencies and departments.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-25
Pacific Gas and Electric Company
Pacific Corp Public Policy and Governmental Affairs
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 2,182	$ 2,182	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 1,540	$ 1,540	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 18	$ 18	$ -	0.00%
less: Holding Company Costs	$ 416	$ 94	$ (322)	-77.50%
Total PG&E PCC 923 Expense	$ 208	$ 530	$ 322	155.00%

The difference with PG&E's estimate is DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated only 15% of unit's cost to the Holding Company, allocating 85% to PG&E's ratepayers. PG&E estimated the 15% allocation, according the its workpapers, "This work consists of meetings with Corporation officers regarding

Corporation issues."[142] PG&E gave no support for its estimate, or an explanation of ho it was calculated. Based upon the information provided by PG&E, DRA recommends allocating no more than 33% of this department's costs to PG&E's ratepayers.

First, the Holding Company Senior Vice President Public Policy and Governmental Affairs department has duplicate responsibilities with the Utility's Government Relations Departments. While the Holding Company department is responsible for federal level activities at the Holding Company and its subsidiaries, the Utility's positions are responsible for supporting Utility management in the creation of its public policy and community priorities, and effectively advocates and implements those priorities to protect shareholder and customer value, while building community support and goodwill. If the Holding Company did not exist, costs for both groups would not be incurred.

Second, the services the Holding Company Senior Vice President Public Policy and Governmental Affairs department provides to the Holding Company represent far more than the 15% PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. Provides governmental relations support to PG&E Corporation . . .
2. Manages and oversees PG&E Corporation's Federal Government and Regulatory Relations department.
3. Conducts the political contributions program for PG&E Corporation (Not counted in Holding Company factor since this was already removed).
4. Provides support to the PG&E Corporation Chairman of the Board, CEO and President in representing the interests of the . . . PG&E Corporation with major external constituencies.

[142] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-1145.

5. Supports matters related to the PG&E Corporation Public Policy Committee.[143]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company receives four benefits from this PCC and the Utility receives two benefits.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 67%. DRA calculates this allocation by dividing the Holding Company benefits by the total combined benefits of the Holding Company and the Utility (4/6=67%). DRA, therefore, recommends that ratepayers be allocated no more than 33% of the costs of PCC 20075.

X. PG&E Corporation Federal Government Relations Department (PCC 20076.1)

The Holding Company's Federal Government Relations Department is responsible for developing strategies for public policy at the federal level and to represent the interests of the Holding Company and its subsidiaries before Congress, federal regulatory agencies and other federal departments.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-26
Pacific Gas and Electric Company
Pacific Corp Federal Government Relations
2007 General Rate Case
(Thousands of 2004 Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Total PCC Cost	$ 3,257	$ 3,257	$ -	0.00%
less: Amount Allocated Below-the-Line	$ 1,022	$ 1,022	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 62	$ 62	$ -	0.00%
less: Holding Company Costs	$ 1,014	$ -	$ (1,014)	-100.00%
Total PG&E PCC 923 Expense	$ 1,159	$ 2,174	$ 1,014	87.50%

143 PG&E's response to Data Request ORA-121, q. 2.

The difference between PG&E's estimate and DRA's, is that DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E estimated the 0% allocation, according the workpapers, "Because there are no FTEs in the Utility performing work similar to the work in the Federal Governmental and Regulatory Relations Department, all of the work that we perform would similarly be performed if the Utility were a stand alone entity."[144] PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA recommends allocating no more than 53% of this department's costs to PG&E's ratepayers.

First, the Holding Company Corporation Federal Government Relations department has duplicate type responsibilities with the Utility's Government Relations Departments. While the Holding Company position is responsible for federal level activities at the Holding Company and its subsidiaries, the Utility's positions are responsible for supporting Utility management in the creation of its public policy and community priorities, and effectively advocates and implements those priorities to protect shareholder and customer value, while building community support and goodwill. If the Holding Company did not exist, costs for both groups would not be incurred.

Second, the services the Holding Company Corporation Federal Government Relations department provides to the Holding Company represent far more than the 0% PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

[144] PG&E's workpapers supporting PG&E-6, Chapter 2, Volume 2 of 3 p. 2-1171.

To analyze the benefit of this unit to the Holding Company, DRA obtained a list of services this unit provides. The following is a list of services this Holding Company department provides to the operation of the Holding Company:

1. Provides members of Congress in Washington, DC, information about energy policy issues in California.
2. Coordinates all contacts with members of Congress.
3. Develops positions on legislative and administrative proposals.
4. Responds to requests from Congressional offices regarding California energy issues and constituent concerns.
5. Lobbies members of Congress and their staffs on behalf of . . . PG&E Corporation. (Not counted in total, already removed from costs.)
6. Develops strategies for working with the FERC.
7. Discusses with the FERC issues of interest to . . . PG&E Corporation.
8. Coordinates policy position development and contacts with federal agencies such as the EPA, Department of Interior, Department of Commerce, etc.[145]

DRA's data request asked for a detailed complete written description of the different types of assignments for which this PCC is responsible. Based upon DRA's review, the Holding Company benefits from seven of the services provided by this PCC and the Utility benefits from eight of the services provided.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 47%. DRA calculates this allocation dividing the Holding Company's benefits by the total benefits provided by this department (7/15=47%). DRA, therefore, recommends that ratepayers be allocated no more than 53% of the costs of PCC 20076.1.

Y. PG&E Corporation Corporate IT Projects (PCC 20047.1)

The Holding Company's Corporate IT Projects Department contains costs for the support, licensing costs, and depreciation of the company's travel and expense software application.

[145] PG&E's response to Data Request ORA-104, q. 2.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

Table 10-K-27 Pacific Gas and Electric Company Pacific Corp Corporate IT Projects 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
Total PCC Cost	$ 91	$ 91	$ -	0.00%
less: Amount Allocated Below-the-Line	$ -	$ -	$ -	0.00%
less: Amount Capitalized	$ -	$ -	$ -	0.00%
less: De-Escalation Amount	$ 3	$ 3	$ -	0.00%
less: Holding Company Costs	$ 44	$ -	$ (44)	-100.00%
Total PG&E PCC 923 Expense	$ 44	$ 89	$ 44	100.00%

The difference with PG&E's estimate is that DRA modified the Holding Company's allocation to reflect the services that the Holding Company received. PG&E allocated 0% of unit's cost to the Holding Company, allocating 100% to PG&E's ratepayers. PG&E gave no support for its estimate, or an explanation of how it was calculated. PG&E also failed to recognize any benefit that the Holding Company receives from having this department. Based upon the information provided by PG&E, DRA calculated a Holding Company benefit rate of 50%, allocating 50% to PG&E's ratepayers.

First, this department has duplicate responsibilities with the Utility's ISTS Department. While the Holding Company costs provide travel and expense software applications at the Holding Company and its subsidiaries, the Utility's department is responsible for providing computer and telecommunication services which are vital for the Utility to deliver energy and services to electric and gas customers. If the Holding Company did not exist costs for both groups would not be incurred.

Second, the services the Holding Company Corporate IT Projects Department provides to the Holding Company represent far more than the 0% PG&E claims. DRA asked PG&E for a description of the services this unit provides. According to PG&E's data response, the services this Holding Company department provides to the operation of the Holding Company include the following:

1. This PCC includes costs in support of operations and maintenance of the system that PG&E uses for employees to report and approve their personal

> expenses and to authorize travel. This system, known as Concur, is used by . . . PG&E Corporation . . . employees. PG&E made a decision to have a standard system usable by all employees in PG&E Corporation and the Utility rather than provide separate but duplicative systems for both.[146]

The Utility receives the same benefit as the Holding Company for this PCC.

Comparing PG&E's own descriptions of the services provided by the Holding Company department, DRA calculated a Holding Company benefit rate of 50%. DRA calculates this allocation by dividing the Holding Company benefit by the total of the Holding Company and Utility benefit (1/2=50%). DRA, therefore, recommends that ratepayers be allocated no more than 50% of the costs of PCC 20047.1.

Z. PG&E Corporation Corporate Items

The Holding Company's Corporate Items cost center includes miscellaneous charges that apply to the Corporation as a whole and not on any particular cost center.

The following table shows the comparison of PG&E's request for this department and DRA's recommendations.

[146] PG&E's response to Data Request ORA-109, q. 1c.

Table 10-K-28 Pacific Gas and Electric Company Pacific Corp Corporate Item Costs Allocated to PG&E 2007 General Rate Case (Thousands of 2004 Dollars)				
Description	**DRA Recommended**	**PG&E Proposed**	**Difference PG&E>DRA**	**Percentage PG&E>DRA**
1. Miscellaneous Non-Operating Income	$ -	$ -	$ -	0.00%
2. Management Fee Income-Affiliates	$ -	$ -	$ -	0.00%
3. Consultant Services Law	$ -	$ -	$ -	0.00%
4. Consultant Services Accounting	$ -	$ -	$ -	0.00%
5. Consultant Services Other	$ -	$ -	$ -	0.00%
6. Property Insurance Expense	$ 16	$ 33	$ 18	112.16%
7. Liability Insurance Expense	$ 311	$ 660	$ 349	112.16%
8. Miscellaneous General Expense-Directors' Fees	$ 393	$ 833	$ 441	112.16%
9. Bank Service Fees-Treasury Use Only	$ -	$ -	$ -	0.00%
10. Miscellaneous General Expense-Trustee Fees	$ -	$ -	$ -	0.00%
11. Miscellaneous A&G Adjustments	$ -	$ -	$ -	0.00%
12. Taxes Other-Nonutility	$ -	$ -	$ -	0.00%
13. Income Taxes-FED-Utility Operations Electric	$ -	$ -	$ -	0.00%
14. Income Taxes-State-Utility Operations Electric	$ -	$ -	$ -	0.00%
15. Federal Deferred Income Taxes-Debit Electric	$ -	$ -	$ -	0.00%
16. Other Income and Deductions-PUP-Compensation	$ -	$ -	$ -	0.00%
17. Other Income and Deductions-Stock Options Comp	$ -	$ -	$ -	0.00%
18. Other Income and Deductions-Rabbi Trust-Comp	$ -	$ -	$ -	0.00%
19. Pension Accrual	$ 43	$ 90	$ 48	112.16%
20. Relocation Assistance	$ 325	$ 689	$ 364	112.16%
21. Oakland and San Francisco City Taxes	$ 318	$ 675	$ 357	112.16%
22. Performance Incentive Plan-Executive	$ -	$ -	$ -	0.00%
23. Short Term Incentive Plan	$ 1,731	$ 7,343	$ 5,612	324.32%
24. Staff Augmentation-Labor	$ -	$ -	$ -	0.00%
25. Outside Attorney Fees	$ -	$ -	$ -	0.00%
26. Postage	$ -	$ -	$ -	0.00%
27. Telephone	$ -	$ -	$ -	0.00%
28. Charges from Utility	$ 137	$ 292	$ 154	112.16%
29. Other Expenses	$ 294	$ 623	$ 330	112.16%
Total	$ 3,567	$ 11,239	$ 7,672	215.09%

DRA reduced all Corporate Items based upon an overall Holding Company benefit factor and adjusted the Short Term Incentive Plan by 50% consistent with DRA's recommended treatment of PG&E's Short Term Incentive Plan discussed in another chapter in this Exhibit.

IV. CONCLUSION

As described above, in numerous instances, the PG&E Holding Company provides services that benefit the Holding Company as much as, if not more than, they benefit the Utility. In many instances, the Holding Company has duplicated positions and units exclusively to operate its Holding Company in its pursuit to enter into non-regulated business.

DRA is recommending that PG&E recover $31.8 million for the Holding Company costs. This is approximately 44.7% of the $71.1 million PG&E is requesting. DRA's recommendation takes into account the benefit/services provided by the Holding Company's operation to the Utility and allocates the costs accordingly. DRA's recommendations are reasonable and should be adopted.

CHAPTER 10-L
BENEFIT COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's A&G expenses associated with its benefit costs. For the purposes of this proceeding, "benefit costs" are those that are paid on a cash or "pay-as-you-go" basis, and include health care, group life insurance, flexible benefits program, postretirement benefits other than pensions (PBOP), disability, the 401(k) Plan, tuition refund, employee relocation benefits, and service awards. Where benefit plan expenses are pre-funded through an employee benefit plan trust, the plan administration expenses are included in this chapter, and the trust contributions are discussed in Chapter 10-M.

Section II of this chapter summarizes the differences between DRA's and PG&E's recommendations. Section III presents DRA's analysis of PG&E's test year 2007 request for benefit costs and support for DRA's forecasts and adjustments.

II. SUMMARY OF RECOMMENDATIONS

DRA examined PG&E's request for 2007 rate recovery and conducted an independent analysis of PG&E's supporting workpapers, responses to data requests, and other discovery. DRA also reviewed past Commission decisions regarding pensions and benefits as well as published articles discussing pensions and benefits. PG&E requests $299.1 million in benefit costs for the test year, while the corresponding DRA estimate is $274.29 million. The following summarizes DRA's recommendations:

1. An adjustment of $22.24 million in Medical Plan costs as a result of a different estimating methodology.
2. An adjustment of $100,000 in Long-Term Disability expenses for unnecessary actuarial fees.

3. An adjustment of $468,000 in Employee Relocation as a result of a different estimating methodology.

4. An adjustment of $1.10 million to remove the cost of Service Awards.

5. An additional reduction of $922,000 to bring PG&E's Executive Benefit costs in line with market.

6. The adoption of PG&E's forecasted amounts in all other sub-accounts of benefit expense. The recorded costs and adjustments for all other sub-accounts appear to be reasonable, and DRA has no objection to PG&E's estimating methodology for the forecasted amounts.

Table 10-L-1 compares DRA's recommended with PG&E's proposed estimates:

Table 10-L-1
Benefit Costs
(in Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Health Care	$195,553	$217,788	$22,235	11.37%
PBOP Medical	301	301	0	0.00%
PBOP Life Insurance	1,270	1,270	0	0.00%
Vision Plan	3,501	3,501	0	0.00%
Dental Plan	29,442	29,442	0	0.00%
Group Life Insurance	3,809	3,809	0	0.00%
Long-Term Disability	10	110	100	1,000.00%
Flexible Benefit Plan	(6,919)	(6,919)	0	0.00%
Pension Plan	3,168	3,168	0	0.00%
401(k) Plan	40,791	40,791	0	0.00%
Employee Relocation	2,611	3,079	468	17.92%
Tuition Reimbursement	1,672	1,672	0	0.00%
Service Awards	0	1,101	1,101	N/A
Executive Benefits	(922)	0	922	-100.00%
Total	$274,287	$299,113	$24,826	9.05%

III. DISCUSSION

A. Health Care

PG&E's total request for health care expenses is $217.79 million.[147] This encompasses three areas: Medical Plans, including Self-funded plans, HMOs,

[147] Exhibit (PG&E-6) A&G Expenses, workpapers page 17-2, line 5

prescription drug plans, and mental health, for which PG&E requests approximately $215.79 million;[148] the Employee Assistance Plan, which provides employees and their eligible dependents with counseling and other services to address family and relationship problems, emotional problems, stress, alcohol and drug abuse, and other situations that may negatively affect work performance,[149] for which PG&E requests approximately $1.40 million;[150] and drug testing programs which are required by Federal law for employees in certain safety-sensitive jobs,[151] for which PG&E requests approximately $500,000.[152] DRA has reviewed PG&E's requests for the Employee Assistance Plan and the drug-testing program and does not take exception to them.

PG&E's estimate for Medical Plan expenses was calculated by escalating the 2004 expense by factors developed by health care actuaries at Hewitt Associates.[153] Using the cost information from PG&E's workpapers, DRA calculated PG&E's estimate of the health care cost increases to be 12.5% for 2005, 5.9% for 2006, and 10.0% for 2007. According to the Global Insight "Power Planner," which DRA and PG&E are using to support other escalation factors in this GRC,[154] employer-sponsored health care costs are expected to increase 6.8% in 2005, 5.7% in 2006, and 4.1% in 2007.[155] DRA used these rates to escalate PG&E's recorded 2004 expense.

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[148] Exhibit (PG&E-6) A&G Expenses, workpapers page 17-2, line 5, less $1400 for EAP and $500 for DOT drug testing

[149] Exhibit (PG&E-6) A&G Expenses, page 17-12

[150] Exhibit (PG&E-6) A&G Expenses, page 17-18

[151] Exhibit (PG&E-6) A&G Expenses, page 17-14

[152] Exhibit (PG&E-6) A&G Expenses, page 17-18

[153] Exhibit (PG&E-6) A&G Expenses, page 17-17

[154] Exhibit (DRA-4) Cost Escalation, page 4-1

[155] Global Insight Cost Planner, First-Quarter 2006, Additional Forecast Tables, Table A1 for Group Health Insurance

DRA's estimate is $195.55 million, which amounts to a recommended adjustment of $22.34 million.

B. Postretirement Benefits Other Than Pensions (PBOP)

PG&E requests $301,000 for PBOP Medical[156] and $1.27 million for PBOP Life Insurance[157] administration and cash expenses. Plan trust contributions are addressed in Chapter 10-M. PG&E's PBOP Medical Plan qualifies for a Federal prescription subsidy under new Medicare legislation; PG&E is passing this subsidy through to retirees in the form of lower premiums, which in turn keeps the employer-paid portion at a level to continue qualifying for the subsidy at least through 2009.[158] DRA has reviewed PG&E's request for PBOP cash expenses and does not take exception to it.

C. Vision Plan

PG&E requests $3.50 million for Vision Plan expenses.[159] The forecast is based on PG&E's 2004 recorded adjusted expense, escalated by a trend provided by the vision plan vendor. DRA has reviewed PG&E's request and does not take exception to it.

D. Dental Plan

PG&E requests $29.44 million for Dental Plan expenses.[160] The forecast is based on PG&E's 2004 recorded adjusted expense, escalated by a trend provided by the dental plan vendor. DRA has reviewed PG&E's request and does not take exception to it.

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[156] Exhibit (PG&E-6) A&G Expenses, page 17-25

[157] Exhibit (PG&E-6) A&G Expenses, page 17-26

[158] Response to Data Request ORA-202, Question 1a

[159] Exhibit (PG&E-6) A&G Expenses, page 17-20

[160] Exhibit (PG&E-6) A&G Expenses, page 17-19

E. Group Life Insurance

PG&E requests $3.81 million for Group Life Insurance expenses.[161] PG&E negotiated a fixed-rate life insurance premium rate for a 3-year cycle, from January 2005 through December 2007. The forecast is based on the rate negotiated with the insurance carrier, MetLife, the number of participants, and the level of coverage selected by each participant.[162] DRA has reviewed PG&E's request and does not take exception to it.

F. Long-Term Disability (LTD)

PG&E is requesting $110,000 for LTD administrative expenses,[163] $100,000 of which is ear-marked for "actuarial consulting and administrative support… for plan design refinements to better align and integrate disability benefits."[164] PG&E contracts for services with two third-party administrators, Assurant Employee Benefits and ALLSUP, Inc., to manage LTD costs, to provide streamlined administration of disability claims and LTD applications, and to provide expert representation services to LTD recipients and retirees. The services provided by these vendors have "enabled PG&E to better manage its LTD costs."[165] DRA sees no reason for ratepayers to fund the equivalent of ten years of LTD benefits[166] for services that may be duplicated by one or both of its current vendors, for plan changes that are not likely to save the Company significant money in the long run, or save LTD recipients and retirees' time and effort in filing claims. DRA recommends a $100,000 adjustment in LTD expenses.

161 Exhibit (PG&E-6) A&G Expenses, page 17-21
162 Exhibit (PG&E-6) A&G Expenses, page 17-20
163 Exhibit (PG&E-6) A&G Expenses, page 17-28
164 Exhibit (PG&E-6) A&G Expenses, page 17-28
165 Exhibit (PG&E-6) A&G Expenses, page 17-27
166 The forecast expense for this category, less the $100,000 for actuarial fees, is $9,000 for 2005 and $10,000 for 2006 and 2007. Exhibit (PG&E-6) A&G Expenses, page 17-35

G. Flexible Benefit Plan

PG&E forecasts a negative expense (income) of $6.92 million for its Flexible Benefit Plan.[167] The forecast is a net of the cost of the program to the Company offset by employee out-of-pocket contributions.[168] DRA has reviewed PG&E's request and does not take exception to it.

H. Pension Plan

PG&E requests $3.17 million for Pension Plan pay-as-you-go costs, which includes the Supplemental Executive Retirement Plan, the Retirement Excess Benefit Plan, the Non-Employee Directors Plan, and actuarial and administration expenses.[169] Plan trust contributions are addressed in Chapter 10-N. DRA has reviewed PG&E's request for Pension Plan cash expenses and does not take exception to it.

I. 401(k) Retirement Savings Plan (RSP)

PG&E requests $40.79 million for 401(k) Retirement Savings Plan expenses.[170] PG&E's forecast is based on 2004 recorded adjusted expense. Following union negotiations in 2004, the eligibility period for Company-matching of employee contributions was accelerated from 15 years to three years[171], which makes it difficult to compare 2004 expenses to historical to assess reasonableness. DRA has reviewed PG&E's forecast, given Company projections of participation and contribution match levels (management is matched at 75 cents on the dollar; union employees at 50 cents on the dollar), and does not take exception to it.

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[167] Exhibit (PG&E-6) A&G Expenses, page 17-22
[168] Exhibit (PG&E-6) A&G Expenses, page 17-22
[169] Exhibit (PG&E-6) A&G Expenses, page 17-30
[170] Exhibit (PG&E-6) A&G Expenses, page 17-31
[171] Exhibit (PG&E-6) A&G Expenses, page 17-30

J. Employee Relocation

PG&E requests $3.08 million for Employee Relocation expenses.[172] The forecast is based on 2004 recorded adjusted expense, escalated for salary inflation at 3% per year, and the number of employees expected to be relocated. PG&E claims that the 2004 expense was "uncharacteristically low" due to bankruptcy proceedings, and anticipates that the number of relocations will "return to historical levels."[173]

PG&E came out of bankruptcy in April 2004, and the recorded adjusted expense for this sub-account in 2004 was $2.39 million; this is lower than the $2.40 million recorded expense for 2002 when PG&E was in the middle of bankruptcy proceedings. During its years of bankruptcy, PG&E was apparently still able to attract quality employees, and maintain staffing in specialized vacancies, despite the lower relocation expense, and DRA believes that PG&E can still do so. Many of the moving allowances are based on income, and PG&E's estimated annual salary increase is 3% per year.[174] DRA recommends escalating the 2004 recorded adjusted expense by 3% per year to calculate a relocation expense of $2.61 million, which amounts to a recommended adjustment of $468,000.

K. Tuition Reimbursement

PG&E requests $1.67 million for Tuition Reimbursement expenses.[175] Plan changes effective January 1, 2005, include higher reimbursement levels for certain employees.[176] DRA acknowledges that continued education is a valuable employee benefit that benefits not only the employee but also the Company and ratepayers. California college students are seeing tuitions rise by 20% and even 30% over the last

[172] Exhibit (PG&E-6) A&G Expenses, page 17-33
[173] Exhibit (PG&E-6) A&G Expenses, page 17-33
[174] Exhibit (PG&E-6) A&G Expenses, workpapers page 17-43
[175] Exhibit (PG&E-6) A&G Expenses, page 17-32
[176] Exhibit (PG&E-6) A&G Expenses, page 17-32

few years.[177] In light of these current high tuition raises and PG&E's higher reimbursement levels, DRA does not take exception to PG&E's request.

L. Service Awards

PG&E requests $1.10 million for Service Awards expenses.[178] PG&E's forecast is based on 2004 award selections, anticipated numbers of participants eligible for a service award in 2007, and contract terms with the program administrator. According to PG&E, the Service Awards Program provides special recognition to employees based on continuous service.[179] An outside vendor administers the program.

The Commission has a lengthy history of denying utility requests for these types of benefits (D.67369, 62 CPUC 851-854; D.89-12-157, 34 CPUC 2d 265-266; and D.93-12-043, 52 CPUC 2d, 513-514). The Commission has found that such awards fit the category of social activities and should not be funded by ratepayers. In this case, DRA recommends that the Commission adhere to its past precedent and policy and deny PG&E's request, in its entirety, for service awards. This results in a recommended adjustment of $1.1 million to PG&E's request for its test year 2007 forecast.

M. Executive Benefits

Benefits paid to PG&E's executives are not tracked separately, but are included in each employee benefit plan as are the costs paid for all other employees.[180] In the Total Compensation Study, the cost of benefits paid to and on behalf of PG&E's executives were calculated by actuarial methods, and were found to be 39.38% above market ($3,263,423 for PG&E; $2,341,393 for market; a difference

[177] Exhibit (PG&E-6) A&G Expenses, workpapers page 17-31
[178] Exhibit (PG&E-6) A&G Expenses, page 17-34
[179] Exhibit (PG&E-6) A&G Expenses, page 17-33
[180] Response to Data Request ORA-201, Question 1a

of $922,030).[181] DRA sees no ratepayer benefit from a very small population of executives (20 in the Study, 34 in the total executive population) receiving such an excessive benefit program, and believes that ratepayers should be required to fund no more than market for executive benefits. Thus, DRA recommends an additional adjustment of $922,000 to bring PG&E's Executive Benefits in line with market. Because there is no line item for Executive Benefits, the adjustment is being made in the RO model under Medical Plans.

[181] *Final Report -- Total Compensation Report*, page 10-33

CHAPTER 10-M

EMPLOYEE BENEFIT PLAN TRUST CONTRIBUTIONS AND INVESTMENT & BENEFIT FINANCE DEPARTMENT COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's A&G expenses associated with its Employee Benefit Plan Trust contributions. Costs related to the Investment and Benefit Finance Department are addressed in Chapter 10-K (PG&E Corporation: Holding Company Issues). Costs related to the pension plan are discussed in Chapter 10-N (Pension Costs).

Section II of this chapter summarizes the differences between DRA's and PG&E's recommendations. Section III presents DRA's analysis of PG&E's test year 2007 request for trust contributions and support for DRA's forecasts and adjustments.

II. SUMMARY OF RECOMMENDATIONS

DRA examined PG&E's request for 2007 rate recovery and conducted an independent analysis of PG&E's supporting workpapers, responses to data requests, and other discovery. DRA also reviewed past Commission decisions regarding pensions and benefits as well as published articles discussing pensions and benefits. DRA does not take issue with PG&E's request of $124.3 million in trust contributions for the test year. The following summarizes DRA's recommendations:

1. The Commission should adopt PG&E's 2007 forecasted amounts for these trust contributions. The recorded costs and adjustments are reasonable, and DRA has no objection to PG&E's estimating methodology for the forecasted amounts.

Table 10-M-1 compares DRA's recommended with PG&E's proposed estimates:

Table 10-M-1
Employee Benefit Plan Trust Contributions
(in Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
PBOP Medical	$58,231	$58,231	$0	0.0%
PBOP Life Insurance	$0	$0	$0	0.0%
Long-term Disability	$66,086	$66,086	$0	0.0%
Total	$124,317	$124,317	$0	0.0%

III. DISCUSSION

A. Post-retirement Benefits Other Than Pensions (PBOP) Medical Funding

PG&E requests $58.23 million for PBOP Medical Funding[182] which was forecast by PG&E's plan actuary, Towers Perrin. Plan contributions to the Voluntary Employee Benefits Association (VEBA) trust are determined by calculating the Statement of Financial Accounting Standard (SFAS) 106 expense, provided the expense can be contributed on a tax deductible basis.[183] In adopting test year forecasts for PBOPs, the Commission has held that amounts included in rates that are not used for PBOPs are to be returned to ratepayers through an advice letter filing. DRA has reviewed PG&E's request for PBOP Medical Plan Funding and does not take exception to it. DRA's agreement with PG&E's forecast is due in part to the Commission's practice of ordering ratepayer refunds for over-collected amounts.

B. Post-retirement Benefits Other Than Pensions (PBOP) Life Insurance Plan Funding

The Internal Revenue Code restricts pre-funding of PBOP life insurance benefits to a maximum individual benefit of $50,000. PG&E's trust assets are expected to be in excess of the portion of liability that is eligible for pre-funding, so the tax deduction available for the test year 2007 is zero. PG&E is therefore

[182] Exhibit (PG&E-6) A&G Expenses, page 18-15
[183] Exhibit (PG&E-6) A&G Expenses, page 18-15

requesting no recovery for this benefit.[184] DRA has reviewed PG&E's request for PBOP Life Insurance Plan Funding and does not take exception to it.

C. Long-term Disability Plan Funding

PG&E requests $66.09 million for Long-term Disability Plan Funding[185] which was forecast by PG&E's plan actuary, Towers Perrin. FAS 112 -- Employers' Accounting for Post employment Benefits prescribes the financial accounting and reporting for long-term disability benefits. PG&E adopted FAS 112 in January 1994, and incurred a liability for the full amount of the initial transition obligation. The Commission included funding for these benefits in D.95-12-055 and in D.00-02-046.

Tax-deductible contributions to the VEBA trust are the pay-as-you-go costs for current disabled employees (discussed in Chapter 10-L), any increase in the actuarial accrued liability, and an amortization of the initial unfunded accrued liability.[186] Amounts included in rates for trust contributions that are not used for the purpose intended must be refunded to ratepayers.[187] Given that, DRA does not take exception to PG&E's request for Long-term Disability Plan Funding.

[184] Exhibit (PG&E-6) A&G Expenses, page 18-16
[185] Exhibit (PG&E-6) A&G Expenses, page 18-16
[186] Exhibit (PG&E-6) A&G Expenses, page 18-16
[187] D.95-12-055 (63 CPUC 2d, p. 595)

CHAPTER 10-N

PENSION COSTS

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's A&G expenses associated with its pension costs.

II. SUMMARY OF RECOMMENDATIONS

On March 8, 2006, PG&E, DRA, and the Coalition of California Utility Employees (CCUE), referred to collectively as the Settling Parties, reached a settlement in both the Pension Costs portion of this General Rate Case, and in A.05-12-021, Application Of Pacific Gas And Electric Company To Increase Gas And Electric Revenue Requirements, Rates, And Charges For A Pension Contribution, Effective January 1, 2006. DRA recommends that the Commission adopt the Settlement in its entirety.

DRA has incorporated the settlement provisions into its results of operations model to develop its proposed general rate case revenues for the test year. The Settling Parties estimated that PG&E's original GRC revenue requirement would be reduced by approximately $178.8 million by this Settlement over the three-year GRC cycle. This difference is reflected in DRA's GRC revenue requirements.

Table 10-N-1 compares the Settlement with PG&E's original requests:

Table 10-N-1
Pension Costs per Settlement
(in Millions of Dollars)

Description	As requested by PG&E	Per Settlement[188]
Total Contribution 2006 / Annually 2007-2009	$273.2 / $273.2	$273.2 / $176.0
Net Contribution, excluding VRI & Corp. 2006 / Annually 2007-2009	$249.7 / $249.7	$249.7 / $153.4
Estimated Total Company Revenue Requirement 2006 / Annually 2007-2009	$176.5 / $178.8	$176.5 / $111.3
Estimated GRC Lines of Business Revenue Requirement 2006 / Annually 2007-2009	$155.0 / $157.8	$155.0 / $98.2

Settlement Elements

- Settle for all 4 years, 2006 through 2009 in both proceedings
- Update for year-end 2005 asset values
- Assume 7.0% discount rate for liabilities, as proposed by PG&E
- Assume 7.5% return on pension assets, compared to PG&E's proposed 7.0%
- Establish a two-way balancing account for differences between authorized contributions to the trust and 1) lower contributions for any reason or 2) federally mandated higher contributions
- No restrictions on PG&E pension request in 2010 GRC or on positions taken by any other party in that proceeding

Settlement Rate Impacts

- In 2006, no additional GRC rate impact (i.e., $155.0 million stays in rates through 12/31/06, not subject to refund)
- In 2007-09, GRC rates are estimated to be $56.8 million lower than in 2006
- Non-GRC rate impacts (gas transmission, electric transmission, and nuclear decommissioning) to be addressed in other proceedings

[188] These are currently estimated figures based on PG&E's 2007 GRC filing, and proposed assumptions and allocation factors. If the final adopted figures are different from PG&E's assumptions, they may impact the revenue requirement associated with this contribution.

III. DISCUSSION

A. Background Information

PG&E ratepayers have not been required to fund a pension contribution since 1992 because of the high investment returns of the 1990s. The poor stock market performance of the early 2000s resulted in a decline of the funded status of the pension trust. In 2006, the pension funded status was expected to fall below 100% funding (by actuarial calculations) and PG&E included a pension contribution request in this GRC proceeding, to be funded for the years 2007-2009. PG&E also filed Application A.05-12-021 to request ratepayer funding for a pension contribution in 2006. On February 24, 2006, the parties met in conference and negotiated this Settlement to the satisfaction of all.

B. Commission Policy Favors Settlements

Commission decisions express the strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.[189] This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.[190] This strong public policy favoring settlements weighs in favor of the Commission resisting the temptation to alter the results of the negotiation process. As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest, it should be adopted.[191] Each portion of the Settlement is dependent upon the other portions of the Settlement. Changes to one portion of the Settlement would alter the balance of interests and the mutually agreed upon compromises and outcomes which

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[189] D.05-03-022, mimeo, pp. 7-8, citing D.88-12-083 (30 CPUC 2d 189, 221-223) and D.91-05-029 (40 CPUC 2d. 301, 326)

[190] D.05-03-022, mimeo, p. 8, citing D.92-12-019, 46 CPUC 2d 538, 553

[191] Here and throughout Section III, see generally D.05-03-022, mimeo, pp. 7-12

are contained in the Settlement. As such, the Settling Parties request that it be adopted as a whole by the Commission, without modification.

C. The Settlement Is Fair and Reasonable

In this instance funding at the ERISA minimum level, as DRA has encouraged in other proceedings, would require no ratepayer funding in 2006-2008, but it could produce an extreme "rate shock" in 2009 and 2010, when ratepayers would have to fund a total of $1.043 *billion* in those two years.[192] Funding a smaller amount now not only increases the pension fund itself, it also increases the amount available to earn an investment return, which reduces some of the need for future funding. DRA agrees that is prudent for PG&E to resume regular pension contributions beginning in 2006 with the intention of seeing the Retirement Plan's projected funded status reach 100 percent by the beginning of 2010 assuming the trust earns 7.5% annually in 2006-2009. DRA recommends that the Commission adopt the Settlement and has incorporated the net pension contributions set forth in the Settlement within its test year 2007 estimates.

[192] 2006 Pension Contribution Application Proceeding, A.05-12-021, Exhibit (PG&E-1), page 2-4.

CHAPTER 10-P

INSURANCE AND INJURIES & DAMAGES

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's A&G expenses associated with insurance and injuries & damages. Insurance includes Property Insurance, Directors and Officers (D&O) Liability Insurance and General Liability Insurance. Injuries and Damages include Workers' Compensation, Third Party Claims and Settlements & Judgments.

II. SUMMARY OF RECOMMENDATIONS

DRA has no recommended adjustments for PG&E's A&G expenses associated with insurance and injuries & damages.

Table 10-P-1 compares DRA's recommended with PG&E's proposed estimates:

Table 10-P-1
Insurance and Injuries & Damages
(in Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Property Insurance	$11,068	$11,068	$0	0.0%
D & O Liability Insurance	$3,689	$3,689	$0	0.0%
General Liability Insurance	$12,569	$12,569	$0	0.0%
Workers' Compensation	$50,076	$50,076	$0	0.0%
Third Party Claims	$4,311	$4,311	$0	0.0%
Settlements & Judgments	$8,438	$8,438	$0	0.0%

III. DISCUSSION

A. Property Insurance (FERC Account 924)

Property Insurance includes amounts provided for the amortization of premiums for policies covering perils such as fire, storm, earthquake, explosion and machinery breakdown. Also included are premiums for air travel and fidelity coverage. The 2007 forecast for all kinds of property insurance is about $11.1 million while the 2004 recorded/adjusted amount is about $13.5 million, as shown in Table 11-4, Chapter 11 of Exhibit PG&E-6, "Administrative and General Expenses."

Non-Nuclear property insurance provides coverage for the cost of repair and/or replacement of damaged property from perils such as storms, earthquakes and fires at PG&E's non-nuclear facilities. In the past this program has been one of PG&E's largest (in terms of premiums) insurance programs, due to PG&E's substantial assets and exposure to earthquakes. A forecast of $10.5 million for non-nuclear property insurance represents a substantial decrease from 2004 recorded/adjusted of $14.0 million. This reduction exists because, starting in 2005, PG&E began utilizing the insurance offered by the energy industry mutual Oil Insurance Limited (OIL) as the mainstay of its non-nuclear property program. DRA has analyzed this forecast and has no adjustment to recommend.

Nuclear property insurance provides coverage for the cost of repair and/or replacement of damaged property from perils such as storms, earthquakes, and fires at PG&E's nuclear facilities. PG&E purchases nuclear property insurance from the industry mutual Nuclear Electric Insurance Limited (NEIL), which was set up in the 1970's by nuclear power plant owners as an alternative to the then existing commercial insurance market. While NEIL charges its members a premium for insuring nuclear power plants, it has for over 15 consecutive years paid "distributions" back to its members, based on an annual assessment of financial condition and ability to pay losses. In the past few years, these distributions have exceeded the premiums, resulting in a "negative" cost of nuclear insurance. The distributions increased significantly in the 1990's, due to favorable stock market returns. But the recent decline in the stock market has caused a reduction in distributions. NEIL does not expect distributions to increase to their previous highs. PG&E is requesting a negative ($0.4) million for the cost of nuclear property insurance for 2007, compared to ($1.0) in 2004. DRA has analyzed this forecast and has no adjustment to recommend.

B. Directors and Officers Liability Insurance (FERC Account 924)

This insurance provides coverage for claims alleging wrongful acts such as breach of fiduciary duty by directors or officers. Premiums for this liability insurance have increased dramatically in the past five years, due to the impact on insurer profitability of declining premiums during the latter 1990’s, and a substantial increase in the frequency and severity of large Directors and Officers (D&O) claims. PG&E expects its D&O liability insurance premiums to increase $3.2 million above those paid in 2004. One significant factor contributing to this increase is that PG&E anticipates increasing the amount of D&O insurance it purchases from $100 million (the amount purchased in 2004) to $200 million, based on benchmarking with its comparator group, which indicated an average purchased of over $200 million.

For purposes of this proceeding, consistent with Commission prior decisions splitting D&O premiums 50/50 between ratepayers and shareholders, PG&E is requesting only 50 percent of the D&O insurance costs in this proceeding. This results in a forecast for 2007 of about $3.7 million, compared with a 2004 recorded/adjusted amount of $4.1 million. DRA has analyzed this forecast and has no adjustment to recommend.

C. General Liability Insurance

There are three types of general liability insurance: Other, Corporation Property and Liability Insurance, and Excess Liability. For the first category, PG&E purchases several additional types of property and liability insurance included under “other” in Table 11-2 of Exhibit PG&E-6, “Administrative and General Expenses.” The largest of the coverages are fidelity (crime) insurance and fiduciary liability insurance. Substantial claims industrywide in both these areas have driven up premiums, from about $1.4 million in 2004 to about an estimated $2.4 million in 2007.

Excess liability insurance provides coverage for claims from third parties alleging personal injury or property damage. The 2004 recorded/adjusted amount was about $7.6 million while PG&E is forecasting its excess liability premiums to increase by approximately $2.6 million (34%) to $10.2 million in 2007. The increase is based on the increasing frequency and severity of large liability losses paid by insurers of the gas and electric industry. Of main concern to California utilities is the exposure stemming from forest fires alleged to have been started by the transmission and distribution system.

DRA has analyzed the above forecasts and has no adjustment to recommend.

D. Workers' Compensation Benefits and Related Costs

Workers' Compensation benefits and related costs consist of three components: (1) Benefit costs paid for claims of occupational injury and illness; (2) Light duty payroll costs under PG&E's return to work program for injured employees; and (3) Alternative Security Program fees, which are payments to the state Department of Industrial Relations, Office of Self-Insurance Plans, to secure PG&E's long-term obligation for workers' compensation claims. The 2004 recorded/adjusted amount was about $52.0 million while the 2007 forecast is about $50.1 million. Given recent legislative reforms, and through effective claims management and successful return to work initiatives, PG&E states that it has experienced a significantly lower increase in workers' compensation costs compared to the California average from 1997 to 2003. DRA has analyzed these costs and forecast and has no adjustment to recommend.

E. Third Party Claims

The third-party Claims section investigates, evaluates, and resolves claims submitted by third parties for property damage, economic loss or personal injury arising out of the utility's gas and electric service. The section also performs risk assessments with respect to potential third-party claims, with the aim of managing and reducing the utility's exposure to litigation. The 2004 recorded adjusted amount for third-party claims was about $4.2 million and there is a small increase for the forecasted 2007 amount of $4.3 million. DRA has analyzed third-party claims and has no adjustment to recommend.

F. Settlements and Judgments

Third-party claims settlement payments arise out of claims by third-parties against PG&E, alleging personal injury, property damage and economic loss as a result of PG&E's operations – such as electric power outages. PG&E maintains a self-administered self-insured claims management program covering settlement of single-incident claims up to $10 million. The recorded/adjusted amount for 2004 was about $8.7 million while the forecast for 2007 is just over $8.4 million. PG&E's forecast is based on the average cost over the three latest recorded years. Also, the three-year average excludes payments associated with the major electric outage at the San Francisco Mission Substation on December 20, 2003. DRA has analyzed settlements and judgments and has no adjustment to recommend.

CHAPTER 10-Q

OTHER AND MISCELLANEOUS A&G EXPENSES

I. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding PG&E's other and miscellaneous A&G expenses. The expenses discussed below involve Franchise Fees and Regulatory Commission Expenses, Miscellaneous and General A&G Expenses, Corporate Real Estate A&G Expenses, and recorded/adjusted A&G expenses for Maintenance of General Plant.

Section II of this chapter summarizes the differences between DRA's and PG&E's recommendations and Section III contains a discussion of DRA's analysis and conclusions.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations:

1. DRA does not take issue with PG&E's requests for Franchise Fees and Regulatory Commission Fees and therefore recommends no adjustments to the Franchise Fee factor calculations or the projections for Regulatory Commission fees, which are removed from Account 928 for GRC forecasting purposes.
2. DRA recommends no adjustments to Miscellaneous General Expenses.
3. For Corporate Real Estate, DRA recommends an adjustment of $4,280,000 in Major Work Category (MWC) BI.

Table 10-Q-1 compares DRA's recommended with PG&E's proposed estimates:

Table 10-Q-1
Other and Miscellaneous A&G Expenses
(in Thousands of Dollars)

Description	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
Franchise Fees	0	0	0	0.0%
Regulatory Commission Fees	0	0	0	0.0%
Misc. General Expenses	$3,766	$3,766	$0	0.0%
Corporate Real Estate	$4,280	$8,559	$4,280	100.0%

III. DISCUSSION

A. Franchise Fees (FERC Account 927) and Regulatory Commission Expenses (FERC Account 928)

PG&E shows its calculations for Franchise Fee factors in workpapers, which ultimately are applied in the revenue requirement calculation. DRA looked at five years (2000 – 2004) of historical Franchise Fee calculations and concluded that the use of PG&E's 2004 Franchise Fee calculation is reasonable. Thus, FERC Account 927 retains no estimates, requires no further analysis, and DRA takes no issue with the factor calculations. Similarly, DRA takes no issue with the Regulatory Commission Fees expenses presented for Account 928, which is zeroed out after these Commission Fees are either removed, transferred to other accounts, or addressed in another proceeding.

B. Miscellaneous General Expenses

The expenses in this account are composed of bank fees charged to FERC Account 930 (Miscellaneous General Expenses).[193] The bank fees represent the fees charged to depository, disbursement, custody, trustee, and rating agency related services. Beginning in 2007, these costs are included in the estimate of bank fees recorded to FERC Account 930. Since the implementation of PG&E's SAP business system in May 1996, PG&E also charges certain clearing expenses to Account 930.

[193] See Table 12-4, page 12-9 of Exhibit PG&E-6, "Administrative and General Expenses."

PG&E's 2005-2007 forecast of bank fees was based on recorded bank fees from 2004 and actuals taken from 2005. The forecast includes estimated fee increases from the company's cash management banks, which typically increase bank fees on an annual basis to pass on their increased cost of doing business (i.e., labor, technology, research, product development, etc.). Based on these factors, PG&E has forecast a bank fee increase of approximately 1.93% for contract terms over the 2005-2007 time periods. In addition, PG&E forecast an increase of 3.48 percent over the 2005-2007 time period to cover costs associated with the opening of new accounts (trust, escrow, depository, custody, disbursement) and the procurement of associated services ($1,867,000). These bank fees account for about 54% of PG&E's forecast for 2007.

PG&E's bank fees amounted to $2,410,000 in 2004 (recorded/adjusted costs) and $3,766,000 in 2007. DRA has no adjustment to recommend.

C. Corporate Real Estate – MWC BI-A&G

Increased A&G expenses in this Major Work Category (MWC) are due to various projects and initiatives that increase the activity level of PG&E's facility maintenance as discussed in Exhibit PG&E-7, Chapter 7, "General Services and Other Support Costs." This results in PG&E's 2007 forecast for MWC BI-A&G of $8,559,000, as shown in Table 7-26, page 7-44, of Exhibit PG&E-7.[194]

DRA proposes a $4,280,000 adjustment to Corporate Real Estate's MWC BI-A&G. PG&E's facility maintenance falls within Corporate Real Estate (CRE). According to PG&E, CRE's A&G expense forecasts include all A&G funding required by CRE to maintain buildings and yards comply with applicable government regulations, improve the energy efficiency and environmental performance of its buildings, and perform necessary building seismic upgrades. Under the MWC-BI for CRE, PG&E proposes A&G spending of $8,559,000 (nominal dollars for 2007)

[194] Also see the table for total A&G expense by MWC for 2005-2007 on page 7-126 of PG&E-7, "Workpapers Supporting Corporate Real Estate."

mainly for various programs and initiatives described in Exhibit PG&E-7, page 7-11.[195] Most of this spending is due to the following programs or initiatives: Building and Yard Maintenance, Building and Yard Redevelopment/New Construction, and the Green Building Initiative.

Building and Yard Maintenance is based on age and building condition assessments. CRE's forecast for MWC-BI includes a substantial increase in expense for preventative maintenance work that is intended to extend the life of building and yard components. PG&E expects that the level of investment identified in its 2007 forecast for building maintenance and A&G expense will be required on an annual basis. Moreover, there is an annual allowance for emergency repair and replacement work to respond to unplanned building system failures. PG&E's forecast for Building and Yard Maintenance for 2007 is $3,842,000 (nominal dollars) for MWC-BI-A&G in Corporate Real Estate.[196]

CRE's expense forecasts for the Building and Yard Redevelopment/New Construction Program are based on changing business needs, customer growth and a facility assessment process of condition and functionality. As business needs change, and the customer base grows, buildings and yards must be appropriately modified, expanded or replaced. PG&E states that redevelopment of existing buildings and yards no longer meeting condition or functionality requirements is often a cost-effective alternative to relocation. PG&E's forecast for Building and Yard Redevelopment/New Construction Program for 2007 is $3,445,000 (nominal dollars) for MWC-BI-A&G in Corporate Real Estate.[197]

PG&E's Green Building Initiative responds to the Governor's executive order and the Commission's support for energy conservation. With this initiative, PG&E's buildings and yards will become more environmentally sustainable and PG&E will

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[195] Also see Table 7-26, page 7-44 of Exhibit PG&E-7.

[196] Exhibit PG&E-7, "Workpapers Supporting Corporate Real Estate," page 7-126.

[197] Ibid.

apply the same energy efficiency investments to its own buildings that the Company recommends for its customers' buildings. PG&E's forecast for the Green Building Initiative for 2007 is $1,074,000 (nominal dollars) for MWC-BI-A&G in Corporate Real Estate.[198]

Other categories in MWC-BI for CRE include the American with Disabilities Act Initiative, a Building Permit Initiative, and Ergonomic and Replacement Furniture. PG&E's forecast for these three together for 2007 is $198,000 (nominal dollars) for MWC-BI-A&G in Corporate Real Estate.[199]

PG&E's total forecast for 2007 for the above categories within MWC-BI-A&G for CRE is $8,559,000. While acknowledging the benefits of these undertakings, DRA finds PG&E's schedule to complete these projects by 2010 too ambitious. Many of the projects are voluntary and not subject to a mandatory rule or schedule. DRA recommends that the time frame to complete these MWC BI-A&G projects be extended to 2014, effectively doubling the time to completion. This adjustment results in a more reasonable impact on ratepayers that are responsible for funding these programs. This recommendation effectively reduces PG&E's annual request for MWC BI-A&G by 50% and so DRA recommends reducing the proposed A&G forecast for 2007 for Account 935 by $4,280,000. This is one half the 8,559,000 million cited in the Table on page 7-126 of Exhibit PG&E-7 ("Workpapers Supporting Corporate Real Estate"). DRA's recommended adjustment is reflected in Table 10-Q-1 above.

The adjustments to CRE described above are similar to MWC BI-O&M adjustments made by DRA witnesses in Exhibits DRA-5 and DRA-6.

[198] Ibid.

[199] Ibid.