Application	:	A.05-12-002
Exhibit Number	:	DRA-6
Commissioner	:	Bohn
Admin. Law Judges	:	Kenney, Econome
Witness	:	Phan

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

Gas Distribution
Operation and Maintenance Expenses

San Francisco, California
April 14, 2006

GAS DISTRIBUTION
OPERATION AND MAINTENANCE EXPENSES

I. INTRODUCTION

This exhibit presents DRA's analysis and recommendations regarding PG&E's gas distribution operation and maintenance (O&M) expenses.

PG&E is requesting $136 million[1] (SAP nominal dollars) for distribution O&M expenses in 2007. Translated to 2004 constant FERC dollars, PG&E is requesting $126.4 million for 2007. PG&E's 2004 recorded adjusted O&M expenses were $114.6 million in FERC dollars. PG&E's 2007 request is 10.3% higher than its 2004 level of spending. The increases in PG&E's request are presented in the following Major Work Categories (MWC): (1) MWC BI, Maintain Buildings, (2) MWC DD, provide field Service, (3) MWC DF, Mark and Locate, and (4) MWC EW, WRO maintenance, and (5) MWC FH, Preventive Maintenance.

II. SUMMARY OF RECOMMENDATIONS

- Overall, DRA recommends a reduction of $19.9 million to PG&E's 2007 request of $149.8 million for work activities associated with MWCs BI, DD, DF, EW, and FH.
- For MWC BI, DRA recommends a reduction of $3.6 million in gas O&M expenses. PG&E allocates $7.1 million of MWC BI, as presented in Exhibit PG&E-7, to gas distribution O&M expenses.
- DRA recommends a reduction of $4.5 million in expenses for work associated with field services captured in MWC DD. PG&E failed to provide adequate support for the requested increase.

[1] SAP dollars include certain labor-driven adders such as employee benefits and payroll taxes athat are charges to separate FERC accounts.

- DRA recommends a $6.5 million reduction to PG&E's forecast for work associated with USA tags captured by MWC DF. This amount is the savings associated with a change in California law in 2005 extending the life of a USA tag from 14 days to 28 days, which PG&E failed to include in its forecast.
- DRA recommends a reduction of $4.2 million for MWC EW due to PG&E's use of 2005 forecast as basis for the 2007 forecast and because PG&E did not provide adequate support for the requested increase.
- DRA recommends a reduction of $1.2 million in expenses for MWC FH. PG&E did not provide support for the requested work activity associated with Distribution System Integrity Management.

Table 6-1 compares DRA's recommended with PG&E's proposed estimates:

Table 6-1
Gas Distribution O&M Expense
(in Millions of Dollars)

Description (FERC)	DRA Recommended	PG&E Proposed	Difference PG&E>DRA	Percentage PG&E>DRA
MWC BI (alloc to Gas O&M)	$3.5	$7.1	$3.6	102.9%
MWC DD, Provide Field Ser.	$73.7	$78.1	$4.4	6.0%
MWC DF, Mark and Locate	$24.7	$31.2	$6.5	26.3%
MWC EW, Work Req. Other	$19.9	$24.1	$4.2	21.1%
MWC FH, Preventive Maint.	$8.1	$9.3	$1.2	14.8%
Total adjustments	$129.9	$149.8	$19.9	15.3%

III. DISCUSSION

A. MWC BI

PG&E forecasts $27.398 million for MWC BI for test year 2007 which is allocated to electric distribution O&M, gas distribution O&M, and customer accounts. MWC BI is discussed in Exhibit PG&E-7, Chapter 7. Of the $27.398 million for MWC BI, $7.1 million is allocated to gas distribution O&M. DRA recommends a forecast of $3.5 million, or $3.6 million less than PG&E's forecast for MWC BI – gas distribution O&M for test year 2007. DRA's analysis and discussion of the adjustments for MWC BI is discussed in Exhibit DRA-5.

B. MWC DD, Provide Field Service

MWC DD tracks work activities associated with field services employees. PG&E describes it as such, "…field services employees deliver the gas and electric services customers want and need at their homes and businesses."[2] PG&E is requesting $78.1 million in expense for 2007. The recorded expense for 2004 was $66.9 million. PG&E requests: (1) $1 million for positions that were not successfully filled until the fourth quarter of 2004, (2) a 1 percent increase in overtime for increased field service requests, (3) labor/non-labor escalation, and (4) shifting of resources between MWCs 74, HY, and FT.

DRA reviewed PG&E's request and accepts the forecast for items 1 through 3 above. DRA opposes the inclusion of $4.38 million in expenses for what PG&E has identified as a "shifting of resources." The shifting of costs and employees from MWCs 74 and FT means an increase in expenses for MWC DD. PG&E is requesting this increase, but it has not forecasted any increase in work activities for MWC DD. PG&E simply shifted costs and employees from MWCs FT and 74 to MWC DD in this Application. Part of the work for MWC 74 is the Regulator Replacement Program, which was scheduled to be completed in 2005.[3] As such, one would expect costs for this MWC to naturally decrease. However, PG&E has not explained why these costs or employees have to be shifted to MWC DD. PG&E also has not provided any reasons why costs or employees associated with MWC FT need to be transferred to MWC DD.

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[2] Exhibit PG&E-5, page 4-12.

[3] Exhibit PG&E-4, page 10-9.

PG&E states, "PG&E forecasts expenses of $78.1 million, an increase that is attributable to …shifting of resources between programs."[4] Additionally, PG&E's workpapers simply notes, "Regulator Replacement Program concludes, shift approximately 21 employees from MWC 74 to customer generated work at $120,000 each," and, "Credit activity stabilizes, shift approximately 15 employees from MWC FT to MWC DD for customer generated work at $123,000 each."[5] PG&E does not provide any reason for why employees belonging to MWCs 74 and FT need to be transferred to MWC DD. PG&E does not forecast an increase in work activities associated with MWC DD in 2007 requiring these employees to be transferred. Moreover, the resources PG&E allocates to MWC DD must be adequate to perform customer generated work because PG&E is able to reallocate resources from MWC DD to other MWCs such as MWC FT. PG&E states in testimony, "…In order to address the restored shut-off for non-payment activity that commenced in 2003, PG&E reallocated resources from MWC DD to MWC FT in 2004-2006."[6] Moreover, PG&E has recently been able to fill all Gas Service Representative (GSRs) vacancies in the 2004-2005 timeframe. DRA does not oppose the $1 million in expenses, which carries forward in the 2007 forecast, for these vacancies; however, DRA opposes the shifting of resources from other MWCs.

DRA finds that the $4.4 million increase in expense unjustified. As such, DRA recommends the removal of this amount from the forecast. DRA's forecast is $73.7 million for MWC DD. This amount is $4.4 million lower than PG&E's request of $78.1 million.

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[4] Exhibit PG&E-5, Chapter 4, page 4-12.

[5] Exhibit PG&E-5 Workpapers, Chapter 4, page 4-10.

[6] Exhibit, PG&E-5, Chapter 4, pages 4-8 to 4-9.

C. MWC DF, Mark and Locate

PG&E is requesting $31.2 million in expenses for gas and electric distribution mark and locate work for 2007 as captured in MWC DF. Mark and locate activities are required by Federal pipeline safety regulations and state law. According to PG&E, builders, contractors, and others planning to excavate use a notification system to notify underground facility owners, like PG&E, of their plans. PG&E then provides the excavators with information about the location of its underground facilities. Information is normally provided by having company personnel visit the work site and place color-coded surface markings to show where any pipes and wires are located. The one-call systems that PG&G belongs to are commonly referred to as "USA," an acronym for underground service alert.[7]

The unit of work for MWC DF is a USA tag. In 2004, PG&E processed 711,476 tags. From 2003 to 2004, the number of tags received by PG&E increased by 7.3 percent. PG&E states that over the past 10 years, the average increase has been 11.2 percent per year. PG&E is requesting an annual increase of 7% in tags for 2006 and 2007. Prior to 2005, a USA tag was valid for 14 calendar days. Starting in 2005, a change in California law now increased the life of a USA to 28 calendar days. As a result of this change, PG&E has forecasted a full 20 percent decrease in the number of tags in 2005, based on an expected 27 percent decrease due to the 28 day window, offset by a 7 percent increase in tags due to construction activity.[8] PG&E is also forecasting an overall increase in unit cost of $1.36 from 2004 recorded adjusted unit cost of $44.72 to $46.08 per tag. The unit cost increase is based on standard escalation less 2% productivity.[9]

DRA does not object to the increase in the unit cost or the 7% annual increase in tags. However, DRA disagrees with PG&E's overall expense forecast for 2007.

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[7] Exhibit PG&E-4, page 15-12.

[8] Exhibit PG&E-4, page 15-15.

[9] Exhibit PG&E-4 workpapers, Chapter 15, page 15-12.

As presented in PG&E's workpapers, the company's 2007 forecast is derived by including annual incremental adjustments to the 2004 recorded expenses and to the 2005 and 2006 forecasts.[10] As such, the 2007 forecast is influenced by adjustments made to the 2004 recorded and the 2005 and 2006 forecasts. PG&E's calculations, as they appear in its workpapers for MWC DF, do not take into account the 20% decrease in the number of tags for 2005, due to the change in California law extending the life of a USA tag from 14 days to 28 days. DRA's calculation shows that a 20% decrease from the 2004 recorded number of USA tags, 711,476 [11] for the 2005 forecast, yields a savings of $6.5 million. This amount of savings, which should be carried through and reflected in the 2007 forecast, is not captured in PG&E's workpapers.

DRA's recommendation adopts the savings of $6.5 million. DRA's forecast is $24.7 million instead of PG&E's request of $31.2 million for MWC DF.

D. MWC EW, Work Requested by Others

PG&E is requesting $24.1 million in expense for MWC EW to cover work activities such as (1) Work Requested by Others (WRO)—Relocation, (2) Generation Interconnection Services (GIS), and (3) Pre-Parallel Inspections—labor to check whether or not generators are hooking to PG&E's grid safely and within operating standards. The $24.1 million is a net expense request comprised of a forecast of $15.7 million in expenses plus $8.5 million in revenues that PG&E expects to collect from others. DRA accepts PG&E's revenue forecast for 2007. However, DRA objects to the expense forecast because PG&E has not provided adequate justifications for the increase in expense above the 2004 level. DRA's discussion of each cost component is discussed below.

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[10] Ibid.

[11] Exhibit PG&E-4, page 15-14.

For the first work component, WRO Relocations, PG&E's 2007 forecast of $11.5 million is based on its 2005 forecast for the number of units and unit cost. As for the GIS work, PG&E is forecasting $3.5 million, an amount twice that of the annual recorded spending for 2002-2004. PG&E provided no justification for the increase. For the Pre-Parallel Inspections work, PG&E forecasts $711,000 and based the forecast on historical costs of $662,000 in 2004 coupled with an increase of 7 percent for labor costs from 2004.[12]

Overall, DRA's recommendation for MWC EW is $19.9 million compared to PG&E's request of $24.1 million. DRA's forecast is comprised of $11.5 million for expense compared to PG&E's request of $15.7 million, combined with the revenue amount of $8.5 million that PG&E has estimated. DRA's recommendation is $4.2 million lower than PG&E's request of $24.1 million. DRA disputes PG&E's forecast for each of the three work components, and a further discussion of each cost component is discussed below.

1. Work Requested by Others (WRO)—Relocation

PG&E did not provide any justification for why the company used a 2005 forecast to estimate 2007 expenses related to the unit and unit cost for WRO Relocations. PG&E states in testimony, "To forecast 2007 EW, PG&E basically held the 2005 forecast units flat."[13] As for the unit cost, PG&E states, "PG&E forecast 2007 EW average unit costs by increasing the average unit cost at the MAT code level by 4 percent per year from 2005."[14] PG&E claims that 2004 was the first full year that PG&E collected the number of units worked and the unit cost for all the work activities captured by WRO Relocations. PG&E explains this in its response to a DRA data request:

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[12] Exhibit PG&E-4, page 3-25.
[13] Exhibit PG&E-4, page 3-23.
[14] Exhibit PG&E-4, page 3-24.

> *2004 was the first full year that PG&E collected both units and unit costs for WRO work.* This substantial change in direction from collecting data at the planning order level, required many updates to the definitions for various types of WRO work. Examples include:
>
> 1) gas main replacement less than 100 feet in length is to be charged to EW. Any replacement >= 100 feet is to be charged to a capital order in MWC 51. 2) replacement of a partial gas service is charged to EW whereas replacement of a full gas service is charged to MWC 51. 3) when a third party paves over PG&E's gas valves, those frames and covers need to be uncovered and raised to the new pavement level. In the past this work was simply categorized as non-reimbursed work. PG&E now has a new MAT code to document the amount of this type of work being completed.
>
> *Clarification of issues such as these continued through 2004. As a result of refining the definitions for the various types of work, PG&E decided that the data recorded in 2005 was a more accurate depiction of the work being performed*[15] [Emphasis added]

Although PG&E's response implies that the use of 2005 recorded data was more accurate, PG&E used the 2005 forecast to forecast 2007 expenses. DRA objects to PG&E's use of 2005 forecast data. DRA recommends using the 2004 recorded number of units and unit cost to develop the 2007 forecast for WRO Relocations. DRA's forecast is $10.2 million compared to PG&E's unsupported forecast of $11.5 million for WRO Relocations. This is consistent with PG&E's annual recorded spending for this category for 2002 and 2003, which was $10.4 million and $10.6 million, respectively.

2. Generation Interconnection Services

As for GIS work, PG&E has not demonstrated why it needs twice as much in expenses for 2007 compared to the base year. PG&E's justification is as follows, "The forecast is based on the number of applications processed per full time

[15] PG&E's response to Data Request ORA-082, Q.1

equivalent employee (FTE) times a standard average labor rate per FTE."[16] In other words, PG&E's 2007 forecast is based on an estimate of the number of units worked times the unit cost for labor. PG&E does not use historical expenses or the number of units worked to develop the 2007 forecast. PG&E cannot provide any recorded number of applications or cost per full time employee for any year, but the company shows the forecast for 2006 and 2007.[17] PG&E states, "In years 1999-2001, PG&E did not collect units for WRO work…In 2002, PG&E started to collect expenditures at the MAT Code level without the units."[18] DRA finds PG&E has not adequately supported its request to double the expense for this work activity in 2007. Since GIS labor expense appears to be stable between 2002 and 2004 and ranges from $1.2 million to $1.4 million, DRA recommends using the three-year average recorded expense for 2002-2004, which is $1.3 million, as the 2007 forecast. DRA's recommendation of $1.2 million is $2.3 million lower than PG&E's request of $3.5 million.

3. Pre-Parallel Inspections

With regard to PG&E's request to include $711,000 for Pre-Parallel inspection costs, DRA recommends that the entire amount be removed from MWC EW because PG&E has no support for this request. According to PG&E's testimony, the company's forecast is "…based on historical costs of $662,000 in 2004…increased by 7 percent for labor costs from 2004." However, DRA requested historical costs for 2004 and PG&E responded that there was no data for year 2004 available.[19] PG&E has no support for this request and the entire amount should be removed from PG&E's 2007 forecast.

[16] Exhibit PG&E-4, page 3-24.
[17] PG&E's response to Data Request ORA-082, Q.2
[18] Ibid.
[19] Ibid.

E. MWC FH, Preventive Maintenance

PG&E is requesting $9.3 million for work activities such as regulator station maintenance, miscellaneous maintenance on mains and services, distribution valve maintenance, service valve replacement, and atmospheric corrosion as captured in MWC FH.

In 2004, recorded expense for MWC FH was $7.4 million. The main increases in 2007 for each work activity described above were mainly due to system growth of 1.3% annually. DRA does not object to these increases. However, for 2007, PG&E is forecasting $1.2 million for a work activity called Distribution System Integrity Management. DRA asked PG&E to show how the company determined this cost and to provide support for its request.[20] No calculations or documentations were provided. PG&E claims that it expects the Office of Pipeline Safety to issue new rules that PG&E would need to comply with, but PG&E has not presented any information to assure that these new rules are forthcoming in this rate case cycle.

DRA recommends the removal of $1.2 million from PG&E's 2007 forecast. DRA's request is $8.1 million. DRA's recommendation is consistent with PG&E's recent historical spending in 2004 and should be adopted.

[20] PG&E's response to Data Request ORA-047, Question 1.