

Application	:	<u>A.05-12-002</u>
Exhibit Number	:	<u>DRA-1</u>
Commissioner	:	<u>Bohn</u>
Admin. Law Judges	:	<u>Kenney, Econome</u>
Witness	:	<u>Tang</u>



**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**

Executive Summary

San Francisco, California
April 14, 2006

1 **EXECUTIVE SUMMARY**

2
3 **I. INTRODUCTION / OVERVIEW**

4 The Division of Ratepayer Advocates (DRA)
5 submits its exhibits in response to Pacific Gas and
6 Electric Company’s (PG&E) Application (A.) 05-12-002
7 for a test year (TY) 2007 general rate case (GRC).

DRA recommends a \$4.70 billion GRC revenue requirement compared to PG&E’s request of nearly \$5.25 billion for 2007.

8 **A. PG&E Requests Over \$5.2 Billion in GRC Base Rate**
9 **Revenues for Test Year 2007**

10 On December 2, 2005, PG&E filed an application requesting that the
11 California Public Utilities Commission (CPUC or Commission) authorize a CPUC-
12 jurisdictional base rate revenue requirement of \$5.238 billion for the utility’s electric
13 distribution, gas distribution, and electric generation operations, to be effective
14 January 1, 2007. Relative to authorized 2005 levels, PG&E’s application seeks an
15 \$849.0 million rate increase for electric distribution, gas distribution, and electric
16 generation operations, as shown below:

17 **Table 1-1**
18 **For 2007, PG&E is Seeking Over \$5.2 Billion in Base Rates¹**
19 **for CPUC-Jurisdictional Operations**
20 **(in Millions of Dollars)**

Area (a)	PG&E’s 2007 Base Revenue Requirement Request (b)	PG&E’s 2005 Authorized Base Revenue Requirement (c)	\$ Increase over 2005 Authorized Base Revenue Requirement (d=b-c)	% Increase over 2005 Authorized Base Revenue Requirement (e=d/c)
Electric Distribution	\$3,051	\$2,474	\$577	23.3%
Gas Distribution	\$1,097	\$947	\$150	15.8%
Electric Generation	\$1,090	\$968	\$122	12.6%
Total	\$5,238	\$4,389	\$849	19.3%

21
¹ The revenue requirement figures are for billed revenues (i.e., revenues from sales).

1 On January 31, 2006, PG&E filed an updated Results of Operations (Exhibit
 2 PG&E-14) which incorporated changes in rates effective on January 1, 2006. The
 3 increases in authorized base revenues were due to, for example, the adopted 2006
 4 attrition adjustments,² cost of capital,³ and pension contribution.⁴ The update filing
 5 reduces PG&E's requested increase by \$317 million, from \$849 million to \$532
 6 million, but increases the amount requested in base rates for 2007 from \$5.238 billion
 7 to \$5.246 billion for CPUC-jurisdictional operations. The updated figures appear in
 8 Table 1-2:

9
 10 **Table 1-2**
 11 **After Incorporating Changes in Rates Effective on January 1, 2006,**
 12 **PG&E's Test Year 2007 Revenue Requirement Request now Represents a**
 13 **\$532 Million Increase over 2006 Authorized Base Rates**
(in Millions of Dollars)

Area (a)	PG&E's Updated 2007 Base Revenue Requirement Request (b)	PG&E's 2006 Authorized Base Revenue Requirement (c)	\$ Increase over 2006 Authorized Base Revenue Requirement (d=b-c)	% Increase over 2006 Authorized Base Revenue Requirement (e=d/c)
Electric Distribution	\$3,055	\$2,648	\$407	15.4%
Gas Distribution	\$1,099	\$1,027	\$72	7.0%
Electric Generation	\$1,092	\$1,039	\$53	5.1%
Total	\$5,246	\$4,714	\$532	11.3%

14
 15 PG&E also proposes a post-test year ratemaking (PTYR) mechanism for 2008
 16 and 2009 prior to its next GRC proceeding. PG&E is seeking revenue requirement
 17 increases of \$186.0 million in 2008 and \$242.8 million in 2009. PG&E is also
 18 committing to reduce the requested 2008 and 2009 attrition-year revenue requirement
 19 increases by \$41.1 million and \$97.1 million, respectively, to capture estimated net

² PG&E's 2006 attrition Advice Letter 2667-G/2722-E was adopted by the Commission on November 4, 2005.

³ Decision (D.) 05-12-043 adopted an 11.35% return on equity (ROE) for PG&E.

⁴ D.05-12-046 authorized PG&E to file an application (A.05-12-021) for a revenue requirement increase to fund the estimated pension contribution for 2006 only, and to make that revenue requirement effective in rates on January 1, 2006, subject to refund.

savings from Business Transformation.⁵ Those savings would reduce PG&E's requested attrition year revenue requirement increase to \$144.9 million in 2008 and \$145.8 million in 2009, as shown in Table 1-3:

Table 1-3
PG&E is Seeking Nearly \$429 Million in Attrition Year Revenue Requirement Increases, but Net Savings from Business Transformation Reduces the Request by \$138 Million (in Thousands of Dollars)

Year (a)	Electric Distribution Attrition Increase (b)	Gas Distribution Attrition Increase (c)	Electric Generation Attrition Increase (d)	Total Attrition Increase (e=b+c+d)	Net Savings from Business Transformation (f)	Total Attrition Increase Net of Transformation Savings (g=e+f)
2008	\$87,906	\$32,581	\$65,507	\$185,994	(\$41,095)	\$144,899
2009	\$108,419	\$33,822	\$100,591	\$242,832	(\$97,059)	\$145,773
Total	\$196,325	\$66,403	\$166,098	\$428,826	(\$138,154)	\$290,672

B. DRA Recommends \$4.7 Billion in GRC Base Revenue Requirement for 2007, Resulting in a Rate Increase for Electric Distribution but Rate Decreases for Gas Distribution and Electric Generation

DRA recommends that the Commission authorize \$4.695 billion in 2007 GRC base rates for PG&E, compared to the utility's request for \$5.246 billion. Relative to what the Commission has authorized for PG&E's 2006 base rates, DRA recommends the following changes for 2007:

- *Increasing* PG&E's Electric Distribution revenue requirement by \$136 million (or 5.1%)
- *Decreasing* PG&E's Gas Distribution revenue requirement by \$37 million (or 3.6%)
- *Decreasing* PG&E's Electric Generation revenue requirement by \$118 million (or 11.4%)

Overall, DRA recommends a 2007 GRC revenue requirement that is \$18 million lower than what PG&E was authorized for 2006. This information is also presented in Table 1-4:

⁵ Business Transformation is essentially PG&E's effort to evaluate its core business processes and to identify areas for improvement and restructuring, in order to improve operating efficiency and customer service.

Table 1-4
DRA Recommends a Test Year 2007 Revenue Requirement
Which is \$18 Million Lower than PG&E's 2006 Authorized Base Rates⁶
(in Millions of Dollars)

Area (a)	DRA's Recommended 2007 Base Revenue Requirement (b)	PG&E's 2006 Authorized Base Revenue Requirement (c)	\$ Increase over 2006 Authorized Base Revenue Requirement (d=b-c)	% Increase over 2006 Authorized Base Revenue Requirement (e=d/c)
Electric Distribution	\$2,784	\$2,648	\$136	5.1%
Gas Distribution	\$990	\$1,027	-\$37	-3.6%
Electric Generation	\$921	\$1,039	-\$118	-11.4%
Total	\$4,695	\$4,714	-\$18	-0.4%

DRA also recommends 2008-2009 attrition increases totaling nearly \$149.0 million (see Table 1-5, below) in revenue requirement, compared to PG&E's request for \$290.7 million (from Table 1-3 on the prior page). PG&E's request exceeds DRA's recommendation by \$141.7 million, or 95.1%.

Table 1-5
DRA Recommends Nearly \$149 Million in Attrition Revenue Requirement Increases,
Net of Savings from Business Transformation
(in Thousands of Dollars)

Year (a)	Electric Distribution Attrition Increase (b)	Gas Distribution Attrition Increase (c)	Electric Generation Attrition Increase (d)	Total Attrition Increase (e=b+c+d)	Net Savings from Business Transformation (f)	Total Attrition Increase Net of Transformation Savings (g=e+f)
2008	\$72,188	\$24,315	\$42,254	\$138,757	(\$41,095)	\$97,662
2009	\$85,376	\$25,096	\$37,916	\$148,388	(\$97,059)	\$51,329
Total	\$157,564	\$49,411	\$80,170	\$287,145	(\$138,154)	\$148,991

**C. DRA is Recommending Reasonable Test Year and Attrition
Year Changes, Compared to PG&E's Request**

PG&E's TY2007 request exceeds DRA's recommendation by \$551 million, or 11.7%. The differences between DRA's recommended and PG&E's proposed level of base rate revenue requirement are shown in Table 1-6:

⁶ See Exhibit DRA-2 (Summary of Earnings) for tables containing more detailed calculations.

Table 1-6
DRA Recommends a 2007 GRC Base Revenue Requirement
\$551 Million Lower Than PG&E's Request
(in Millions of Dollars)

Area (a)	DRA Recommended (b)	PG&E Proposed (c)	\$ Amount PG&E > DRA (d=c-b)	% Difference PG&E > DRA (e=d/b)
Electric Distribution	\$2,784	\$3,055	\$271	9.7%
Gas Distribution	\$990	\$1,099	\$109	11.0%
Electric Generation	\$921	\$1,092	\$171	18.6%
Total	\$4,695	\$5,246	\$551	11.7%

Tables 1-7 and 1-8 show the differences between DRA's recommendation and PG&E's request for attrition increases in 2008 and 2009, respectively:

Table 1-7
DRA's PTYR Estimated Revenue Requirement Increase for 2008
(in Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	\$ Amount PG&E>DRA (d=c-b)	% Difference PG&E>DRA (e=d/b)
Electric Distribution	\$72,188	\$87,906	\$15,718	21.8%
Gas Distribution	\$24,315	\$32,581	\$8,266	34.0%
Electric Generation	\$42,254	\$65,507	\$23,253	55.0%
Total	\$138,757	\$185,994	\$47,237	34.0%
Less: Net Savings from Business Transformation	-\$41,095	-\$41,095	\$0	0.0%
Net PTYR Increase	\$97,662	\$144,899	\$47,237	48.4%

Table 1-8
DRA's PTYR Estimated Revenue Requirement Increase for 2009
(in Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed (c)	\$ Amount PG&E>DRA (d=c-b)	% Difference PG&E>DRA (e=d/b)
Electric Distribution	\$85,376	\$108,419	\$23,043	27.0%
Gas Distribution	\$25,096	\$33,822	\$8,726	34.8%
Electric Generation	\$37,916	\$100,591	\$62,675	165.3%
Total	\$148,388	\$242,832	\$94,444	63.6%
Less: Net Savings from Business Transformation	-\$97,059	-\$97,059	\$0	0.0%
Net PTYR Increase	\$51,329	\$145,773	\$94,444	184.0%

1 **II. DRA’s ANALYSIS**

2 On August 1, 2005, PG&E tendered its Notice of Intent (NOI) with the
3 Commission to file a GRC application for test year 2007, as well as post-test years
4 2008 and 2009. The Commission accepted the NOI for filing on October 4, 2005. On
5 December 2, 2005, PG&E filed its TY2007 GRC application, A.05-12-002, with the
6 Commission, to which DRA is responding with the issuance of its reports. DRA is
7 serving the majority of its testimony today as scheduled in the Assigned
8 Commissioner’s Ruling and Scoping Memo of February 3, 2006.

9 DRA’s team for this case consists of nearly 20 persons responsible for the
10 project coordination, support, financial review, and analytical responsibilities needed
11 to process PG&E’s GRC application. DRA’s “Qualifications of Witnesses” exhibit
12 provides details on DRA’s multi-disciplinary team with backgrounds in engineering,
13 accounting, economics, finance, and policy.

14 DRA submits the following reports in support of its recommendations:

- 15 • Report on the Results of Operations Electric and Gas Distribution Electric
16 Generation for Pacific Gas and Electric Company General Rate Case Test
17 Year 2007 (Exhibits DRA-1 through DRA-19)
- 18 • Report on the Results of Examination for Pacific Gas and Electric
19 Company General Rate Case Test Year 2007 (Exhibit DRA-20)
- 20 • Report on Total Factor Productivity for Pacific Gas and Electric Company
21 General Rate Case Test Year 2007 (Exhibit DRA-21)
- 22 • Qualifications of Witnesses for Pacific Gas and Electric Company General
23 Rate Case Test Year 2007 (Exhibit DRA-22)

24 The Assigned Commissioner’s Ruling and Scoping Memo of February 3, 2006,
25 established a schedule whereby: (1) DRA may file testimony regarding pensions at
26 the same time that intervenors file their testimony (April 28, 2006); and (2) parties
27 must file testimony regarding PG&E’s proposed Performance Incentive Mechanism
28 (PIM) by January 4, 2007. DRA submits its pension testimony today, in Exhibit
29 DRA-10, and intends to submit its PIM testimony by January 4, 2007.

30

1 **III. ORGANIZATION OF RESULTS OF OPERATIONS SHOWING /**
2 **SUMMARY OF DIFFERENCES**

3 This section briefly: (1) indicates how DRA’s Results of Operations showing
4 is organized; and (2) highlights the major differences between DRA and PG&E with
5 respect to the various elements of revenues, operating expenses, and capital-related
6 costs (capital expenditures and/or plant additions).

7 As an initial matter, one of the primary differences in the revenue requirement
8 recommendations between DRA and PG&E is a result of different forecasts
9 associated with pension contributions. On March 8, 2006, PG&E, DRA and the
10 Coalition of California Utility Employees (CCUE) filed a Motion requesting that the
11 Commission adopt and find reasonable a “Settlement in Applications 05-12-021 and
12 05-12-002.” This settlement agreement would resolve all issues in A.05-12-021 as
13 well as the pension contribution issue in the GRC proceeding. In its showing, DRA
14 has incorporated the pension contribution cost for 2007 as recommended in the
15 settlement agreement, which comprises approximately \$118 million of the combined
16 revenue requirement differences in electric distribution, gas distribution and electric
17 generation between PG&E and DRA.

18

Exhibit DRA-1 Executive Summary
This exhibit provides a brief overview of PG&E’s request, presents the overall organization of DRA’s Results of Operations report, summarizes the differences between DRA’s and PG&E’s estimates for test year 2007, and addresses other matters.

19

Exhibit DRA-2 Summary of Earnings
This exhibit presents the Summary of Earnings, discusses DRA’s concerns about the Results of Operations (RO) model which PG&E uses in this GRC, and makes recommendations regarding the presentation of the RO model for PG&E’s next GRC.

20

21

22

**Exhibit DRA-3
Sales, Customers, and Other Operating Revenues**

This exhibit addresses issues related to Sales, Customers, and Other Operating Revenues. DRA estimates about 1,000 GWh more in electric sales for TY2007 due to differences with PG&E in the forecast of residential sales, and recommends about \$6 million more in other operating revenues to incorporate a full year of late payment fees into the estimate.

1

**Exhibit DRA-4
Cost Escalation**

This exhibit addresses issues related to Cost Escalation. DRA does not take issue with PG&E's estimating methodology and recommends that, for purposes of this GRC, PG&E's labor and non-labor escalation rates be accepted as reasonable. DRA also recommends that the escalation rates be updated in accordance with the Commission Rate Case Plan.

2

**Exhibit DRA-5
Electric Distribution Operation and Maintenance Expenses**

This exhibit addresses issues related to Electric Distribution Operation and Maintenance (O&M) expenses. DRA recommends adjustments of about \$48 million for TY2007, primarily due to differences with PG&E in Major Work Categories (MWCs) BG (Preventative Maintenance), HN (Vegetation Management), GA (Test & Treat and Pole Restoration), FM (Manage Information Technology), and BI (Maintain Buildings).

3

**Exhibit DRA-6
Gas Distribution Operation and Maintenance Expenses**

This exhibit addresses issues related to Gas Distribution O&M expenses. DRA recommends adjustments of about \$20 million for TY2007, primarily due to differences with PG&E in MWCs DD (Field Services), DF (Mark and Locate), EW (Work Requested by Others), and BI (Maintain Buildings).

4

**Exhibit DRA-7
Electric Generation Costs**

This exhibit addresses issues related to Electric Generation O&M expenses and capital expenditures. DRA recommends adjustments of about \$54 million in expenses for TY2007, primarily due to differences with PG&E in Nuclear (\$15 million), Hydro (\$35 million), and Electric Supply Administration (\$4 million). DRA also recommends adjustments of about \$69 million in capital expenditures for TY2007, related to the Fairchild Dornier 328 airplane replacement cost (\$25 million), removing the Diablo Canyon Reactor Vessel Head costs from the GRC (\$42 million), and removing some Humboldt Bay power plant upgrade costs (\$2 million).

1

**Exhibit DRA-8
Customer Accounts Expenses**

This exhibit addresses issues related to Customer Accounts expenses. DRA recommends adjustments of about \$13 million for TY2007, due to differences with PG&E in MWCs DC (Field Service Dispatch), EZ (Customer Care), and FM (Management Information Technology).

2

**Exhibit DRA-9
Customer Service Issues and Office Closures**

This exhibit addresses issues related to Customer Service Issues and Office Closures. DRA opposes PG&E's proposal to close all 84 front counters/local office operations in mid-2007. DRA recommends adjustments of about \$4 million in expenses and \$2 million in capital expenditures for TY2007, primarily due to differences with PG&E in MWCs GM (Emission Reduction Customer Service Program) and 31 (Natural Gas Vehicles), respectively. DRA also recommends a lower uncollectible factor of 0.002582 compared to PG&E's proposed factor of 0.002917.

3

**Exhibit DRA-10
Administrative and General Expenses**

This exhibit contains 16 chapters which address issues related to Administrative and General (A&G) expenses. DRA recommends adjustments of about \$221 million for TY2007, primarily due to differences with PG&E concerning labor costs tied to staffing levels, Performance Incentive Plan (PIP) expenses, pension costs (because of the proposed pension contribution settlement agreement), medical benefits costs, and the amount of PG&E Corporation (holding company) costs allocated to the utility.

4

**Exhibit DRA-11
Information Technology Costs**

This exhibit addresses issues related to Information Technology costs. DRA recommends adjustments of about \$20 million in expenses for TY2007, due to differences with PG&E in the Security Risk Management, Customer Information System (CIS), and non-CIS Utility Applications areas. DRA also recommends an adjustment of about \$2 million in capital expenditures for TY2007, due to differences with PG&E in the Desktop Computers area.

5

6

7

8

1

Exhibit DRA-12 Income, Payroll, and Property Taxes
This exhibit addresses issues related to Income, Payroll, and Property Taxes. DRA does not have any recommended adjustments in this area for TY2007, but does recommend that any changes in federal and/or state tax law enacted before the close of the record in this proceeding be incorporated into the tax estimate for the test year, after review of the new law by DRA.

2

Exhibit DRA-13 Electric Distribution Plant
This exhibit addresses issues related to Electric Distribution Plant. DRA recommends adjustments of about \$125 million for TY2007, consisting of \$45 million for functional capital expenditures and \$80 million for “global” expenditures that are allocated to all of PG&E’s capital areas. DRA’s recommended adjustments for the functional capital expenditures are primarily due to differences with PG&E in MWCs 07 (Replace/Reinforce Poles), 30 (Rule 20A), and 56 (Replace Underground Cable). DRA’s adjustments for the global expenditures are primarily related to capitalized pension and A&G expenses.

3

Exhibit DRA-14 Common, General, and Intangible Plant
This exhibit addresses issues related to Common, General, and Intangible Plant. DRA recommends adjustments of about \$107 million for TY2007, primarily due to differences with PG&E in MWCs 04 (Fleet Services) and 78 (Corporate Real Estate).

4

Exhibit DRA-15 Gas Distribution Plant
This exhibit addresses issues related to Gas Distribution Plant. DRA recommends adjustments of about \$10 million for TY2007, primarily due to differences with PG&E in MWCs 14 (Gas Pipeline Replacement Program) and 50 (Gas Distribution Reliability).

5

Exhibit DRA-16 Depreciation Expenses and Reserve
This exhibit addresses issues related to Depreciation Expenses and Reserve. DRA recommends adjustments of about \$86 million in depreciation & amortization expenses, and \$1 million in weighted average depreciation reserve for TY2007, primarily due to differences with PG&E in net salvage ratios but also because of differences in plant-in-service.

6

**Exhibit DRA-17
Rate Base**

This exhibit addresses issues related to Rate Base. For TY2007, DRA recommends adjustments of about \$103 million in electric distribution rate base, \$49 million in gas distribution rate base, and \$346 million in electric generation rate base, primarily due to differences with PG&E in certain working cash lead/lag assumptions and how nuclear fuel inventory is treated, but also because of differences in plant-in-service, depreciation reserve, and deferred taxes.

1

**Exhibit DRA-18
Business Transformation and Earnings Sharing Mechanism**

This exhibit addresses issues related to Business Transformation and the Earnings Sharing Mechanism. DRA does not take issue with PG&E's net savings estimates from Business Transformation for this GRC cycle. However, DRA proposes a mechanism that provides for earnings sharing between ratepayers and shareholders on the upside but not on the downside, unlike PG&E's proposal.

2

**Exhibit DRA-19
Post Test Year Ratemaking**

This exhibit addresses issues related to Post Test Year Ratemaking. DRA recommends adjustments of about \$47 million in 2008 and \$94 million in 2009 for estimated attrition revenue requirement increases. Unlike PG&E, DRA does not rely primarily on forecasted 2008-2009 plant additions and expenses in determining attrition-year revenue requirement increases. Instead, DRA relies more on escalating 2007 plant additions and expenses to determine the 2008 and 2009 figures.

3

4 **IV. OTHER MATTERS**

5 **A. DRA does not Take Issue with the Labor Allocation Factors**
6 **that PG&E Proposes for this GRC**

7 DRA reviewed the labor allocation percentages that PG&E uses in this GRC,
8 and observed that they are not significantly different than those authorized by the
9 Commission for TY2003. PG&E also employed the same methodology it used in the
10 last GRC to determine the allocation percentages by Unbundled Cost Category
11 (UCC). DRA does not take issue with the labor allocation percentages that PG&E
12 proposes for this GRC.

1 **B. Any Costs Associated with Advanced Metering Infrastructure**
2 **Should be Removed from this GRC**

3 PG&E included costs associated with Advanced Metering Infrastructure (AMI)
4 in this GRC, as discussed in Exhibit DRA-11. PG&E included the same costs in its
5 AMI application, A.05-06-028. All AMI-related costs requested in A.05-12-002
6 should be removed from the GRC and addressed in the AMI proceeding. PG&E's
7 AMI application, A.05-06-028, is the appropriate proceeding to address the matter of
8 incremental costs for AMI, relative to the GRC base rate revenue requirement.
9