



California Public Utilities Commission

505 Van Ness Avenue, San Francisco, CA 94102 – 3298

Summary – PG&E 2007 GRC

Division of Ratepayer Advocates

April 2006

DRA RECOMMENDS REDUCTIONS TO PG&E'S REQUEST FOR A GENERAL RATE CASE INCREASE STARTING IN 2007, AND OPPOSES PG&E'S PROPOSAL TO CLOSE LOCAL OFFICES

On April 14, 2006, the Division of Ratepayer Advocates (DRA) issued its reports addressing the request of Pacific Gas and Electric Company (PG&E) to increase electric distribution, gas distribution and electric generation revenues and rates for 2007, 2008 and 2009. DRA recommends an electric distribution revenue increase of \$136 million (or 5.1%), a gas distribution revenue decrease of \$37 million (or -3.6%), and an electric generation revenue decrease of \$118 million (or -11.4%) for 2007. These reports are issued in response to Application No. 05-12-002, which PG&E filed with the California Public Utilities Commission (PUC) on December 2, 2005 requesting base revenue increases of \$407 million (or 15.4%) for electric distribution, \$72 million (or 7.0%) for gas distribution and \$53 million (or 5.1%) for electric generation for its test year 2007 general rate case (GRC). PG&E also requests revenue increases in 2008 and 2009 for the combined electric and gas distribution, and electric generation of \$145 million and \$146 million. By contrast, DRA recommends revenue increases of \$98 million and \$51 million in 2008 and 2009 for the combined GRC functions. DRA also opposes PG&E's request to close all 84 of its local offices in 2007, where customers can make payments and request services.

DRA's project team conducted a thorough investigation, review and audit of PG&E's GRC filing and test year estimates of projected revenues, sales, operation and maintenance expenses, customer-related expenses, administrative and general expenses, capital expenditures, working capital, and depreciation, and developed its own independent forecasts. As an initial matter, approximately \$118 million of the overall difference between DRA and PG&E is associated with the estimate of pension contributions in 2007. PG&E, DRA and the Coalition of California Utility Employees filed a settlement agreement with the PUC on March 8, 2006, regarding this matter.

The settlement proposes a pension contribution for the period 2007-2009 that is lower than the original PG&E request and has been reflected in DRA's report.

The primary differences between the DRA and PG&E are a result of the following DRA adjustments relative to PG&E's request:

- Electric distribution operation and maintenance expenses of \$48 million.
- Gas distribution operation and maintenance expenses of \$20 million.
- Electric generation operation and maintenance expenses of \$54 million.
- Customer related costs of \$25 million.
- Administrative and general costs of \$221 million, including the following:
 - Pension contribution: \$113 million (expense portion).
 - Allocation of Holding Company costs: \$35 million.
 - Performance Incentive Plan: \$25 million.
 - Various administrative functions: \$28 million.
 - Medical costs escalation and other benefit costs: \$20 million.
- Depreciation expense, primarily related to different negative net salvage rates, of \$90 million.
- Removal of fuel inventory from GRC rates amounting to \$35 million.
- Various working cash changes amounting to \$20 million.
- Estimates of capital expenditures and various other expenses comprise the balance of the difference.

DRA is an independent arm of the PUC, created by the Legislature to represent the interests of all public utility customers throughout the state to obtain the lowest possible rate for service consistent with reliable and safe service levels. DRA has a multidisciplinary staff with expertise in economics, finance, accounting and engineering. DRA's views do not necessarily reflect those of the PUC.

The DRA report on PG&E's GRC request is available on its website at www.dra.ca.gov.

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