

PG&E's A&G Unbundling Study

**Presentation to the
Ratesetting Working Group
October 8, 1996**



Electric Restructuring

- **As a prerequisite to offering customer choice for generation**
- **Utilities must unbundle (separate) their costs**
 - ***Generation***
 - ***CTCs [Competitive Transition Costs]***
 - ***Transmission***
 - ***Distribution***
 - ***Public Purpose Programs***
 - ***Nuclear Decommissioning***

Purpose of A&G Unbundling Study

To assign Administrative and General Costs, to the extent possible based on cost causation, to five basic cost categories:

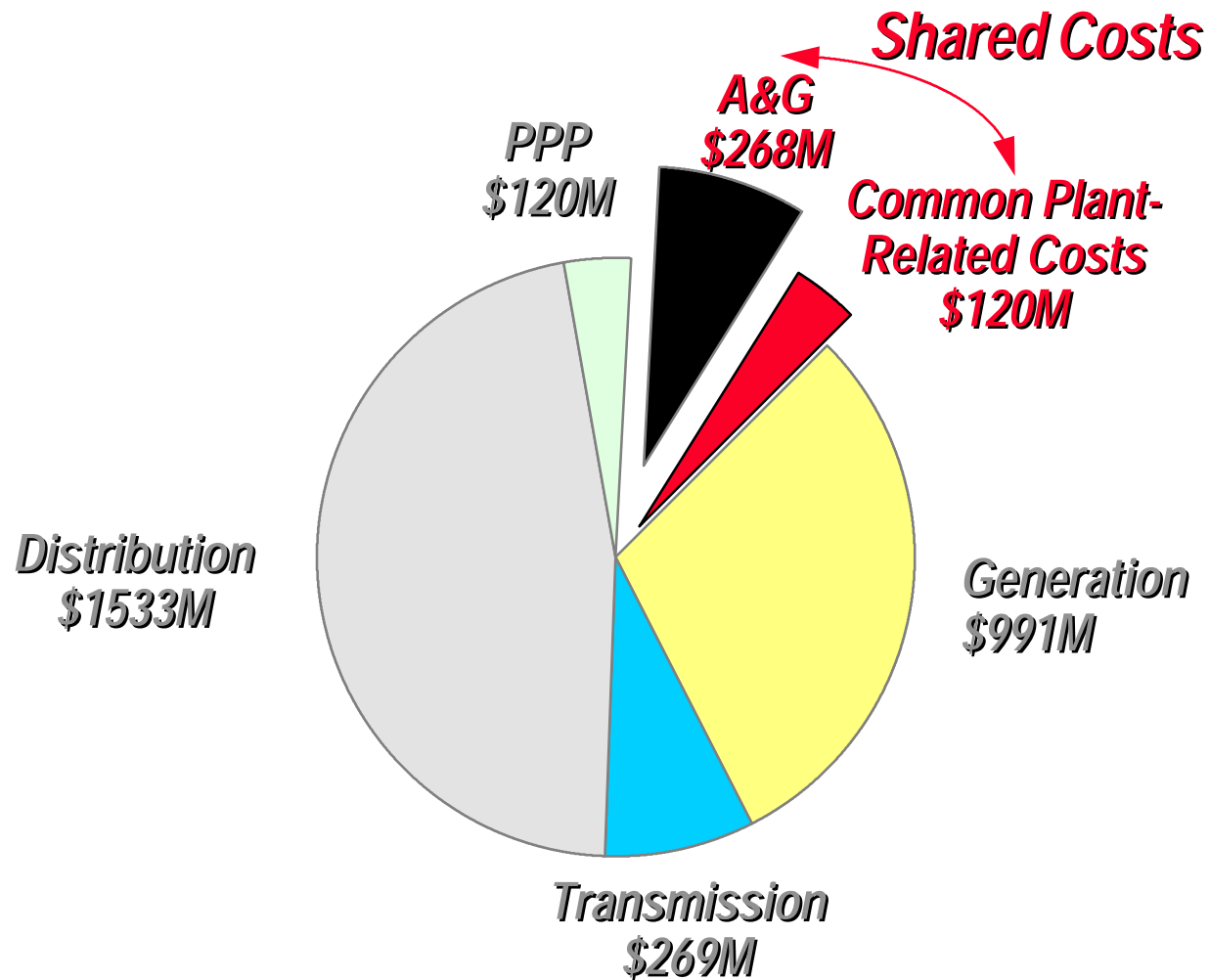
- Generation***
- Transmission***
- Distribution***
- Public Policy Programs***
- Nuclear Decommissioning***

PG&E's Preliminary Step

- **Unbundling Proposal of July 15, 1996 assigned some A&G and common costs to the basic categories**
- **Costs were not completely separated**
- **\$388 million “shared costs” not yet separated**

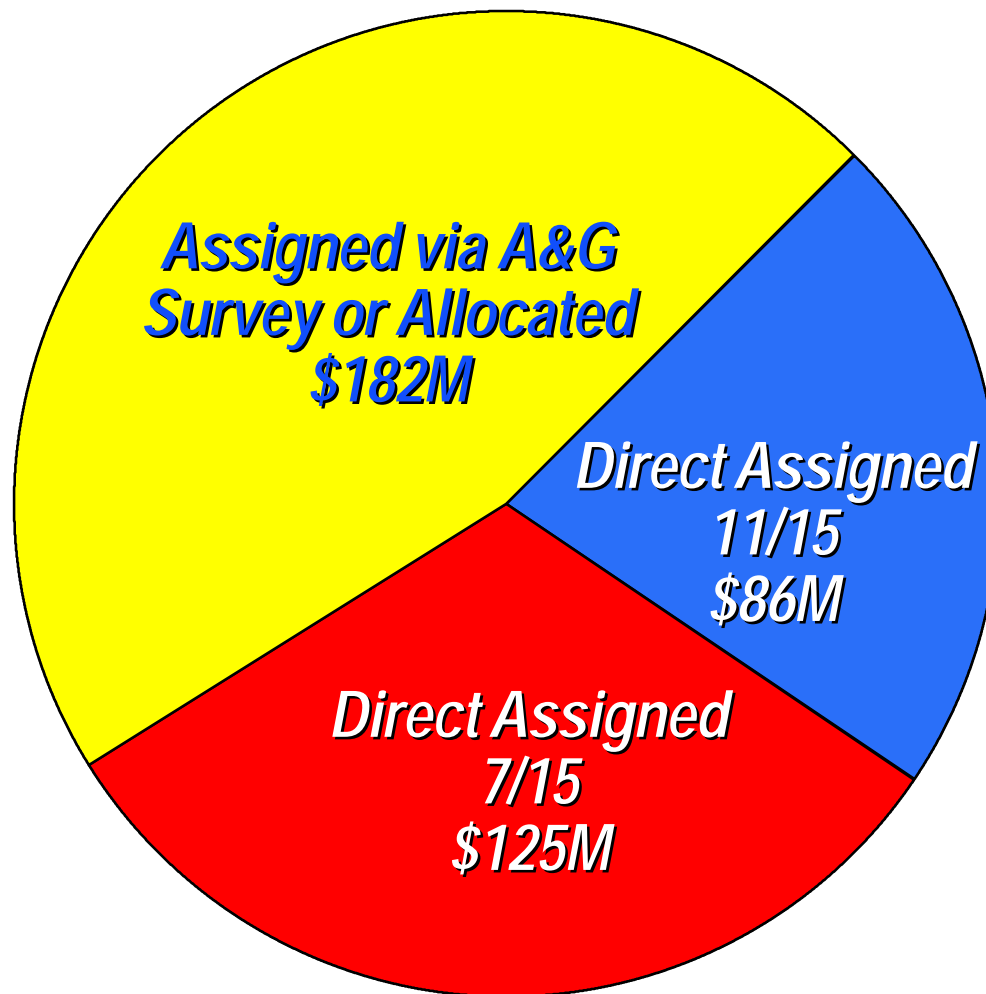
Revenues

July 15, 1996 Unbundling Filing



Utility A&G Costs

1996 Adopted-- \$393 Million



What is A&G?

- **FERC Definition**

- **Examples of A&G Costs:**

- ◆ *Personnel, supplies and contract costs for Corporate Services Departments*
- ◆ *Operating Department costs that are of a general nature, e.g., VP's time on general business issues.*

Separation of Administrative and General Expenses (A&G)

Stage 1: Direct assignment (all accounts except 920, 921, and 923)

Stage 2: Assignment of Accounts 920, 921, and 923 according to cost causation using a survey

Stage 3: Allocation of the residual shared cost

Incremental Concepts

- **A “with and without” methodology**
- **Assumes hypothetical nonexistence of a given type of business and asks what costs could be avoided**

P&GE's A&G Survey: 12 Cost Pools

Individual Lines of Business

Electric Distribution

Electric Transmission

Electric Production

**Electric Public Purpose
Programs**

Gas Distribution

**Gas Functions other than
Distribution**

**Gas Public Purpose
Programs**

Joint Lines of Business

Electric & Gas Distribution

Electric & Gas PPP

Gas -- All Functions

Electric -- G, T, & D

Residual Shared A&G Cost

Electric and Gas

Survey Walkthrough: Hypothetical Dept.

■ **General Activities**

What activities currently carried out by your organization could be avoided, eliminated, or reduced, if each of PG&E's lines of business were eliminated one at a time?

Please indicate your best estimate of the cost and percentage reduction for each.

Departmental A&G Activities

A&G UNBUNDLING SURVEY HYPOTHETICAL

TABLE 1: Departmental A&G Activities

Department Name _____ Regulatory Filings _____ (40 FTEs, \$400K Nonlabor)

1995 Recorded A&G Expenditure ____ \$2,800K _____

<u>1996-97 Activity List</u>
1. Gas reg filings
2. Electric reg filings
3. Combined utility filings

Costs Incremental to A Single Line of Business

A&G UNBUNDLING SURVEY HYPOTHETICAL

TABLE 2: Costs Incremental To A Single Line of Business

Department Name Regulatory Filing

Line of Business Eliminated	Activities Avoided or Reduced As A Result of Discontinuing A Single Line of Business		Total <u>Reduction</u> in A&G Labor Cost Resulting from Discontinuing a Single Line of Business	Total <u>Reduction</u> in A&G <i>Nonlabor</i> Cost Resulting from Discontinuing a Single Line of Business
Gas Distribution	Activities # <u>1</u> # <u>3</u> # _____	FTEs <u>10</u> <u>2</u> _____	\$ <u>720K</u> <u>26</u> % of 1995 actual total Department A&G	\$ <u>120K</u> <u>4</u> % of 1995 actual total Department A&G
Electric Distribution	Activities # <u>2</u> # <u>3</u> # _____ # _____ # _____	FTEs <u>14</u> <u>2</u> _____ _____ _____	\$ <u>960K</u> <u>34</u> % of 1995 actual total Department A&G	\$ <u>160K</u> <u>6</u> % of 1995 actual total Department A&G

GD
\$840

ED
\$1120

Shared Cost Identification

A&G UNBUNDLING SURVEY HYPOTHETICAL

TABLE 3 – Shared Cost Identification

Department Name _____ Regulatory Filing _____

Combined Lines of Business Eliminated	Activities Avoided or Reduced As A Result of Discontinuing A Combined Line of Business	Total <u>Reduction</u> in A&G Labor Cost Resulting From Discontinuing A Combined Line of Business	Total <u>Reduction</u> in A&G <i>Nonlabor</i> Cost Resulting From Discontinuing A Combined Line of Business								
Total Distribution (Gas & Electric)	<table border="0"> <tr> <td>Activities</td> <td>FTEs</td> </tr> <tr> <td># <u> 1 </u></td> <td><u> 10 </u></td> </tr> <tr> <td># <u> 2 </u></td> <td><u> 14 </u></td> </tr> <tr> <td># <u> 3 </u></td> <td><u> 10 </u></td> </tr> </table>	Activities	FTEs	# <u> 1 </u>	<u> 10 </u>	# <u> 2 </u>	<u> 14 </u>	# <u> 3 </u>	<u> 10 </u>	\$ <u> 2,040K </u> <u> 73 </u> % of 1995 actual total Department A&G	\$ <u> 340K </u> <u> 12 </u> % of 1995 actual total Department A&G
Activities	FTEs										
# <u> 1 </u>	<u> 10 </u>										
# <u> 2 </u>	<u> 14 </u>										
# <u> 3 </u>	<u> 10 </u>										

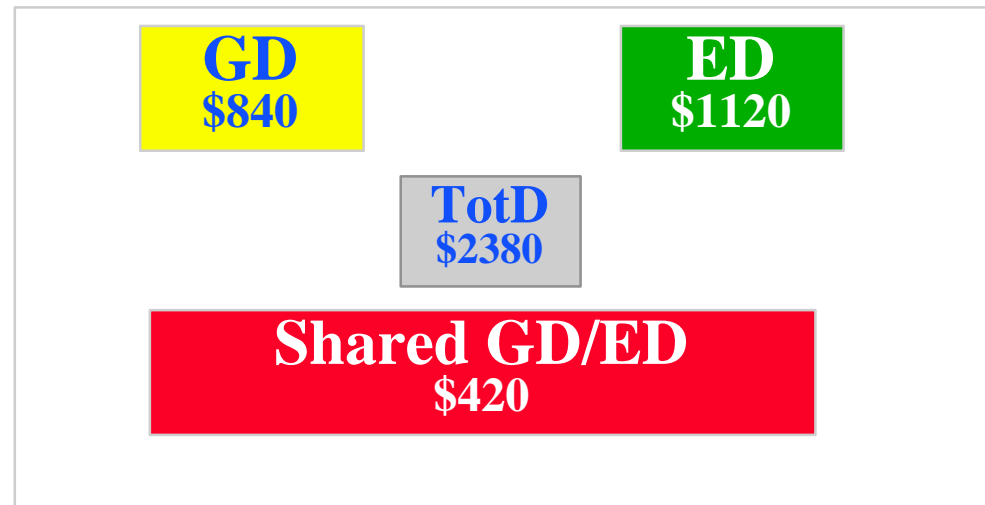
TotD
\$2380

Hypothetical Department Example

Incremental Cost

Total Avoided Cost

Joint Cost



Hypothetical Example Continued

Stand-Alone Cost (GD) SAC-GD \$1260 = GD \$840 + Shared GD/ED \$420

Stand-Alone Cost (ED) SAC-ED \$1540 = ED \$1120 + Shared GD/ED \$420

Economy of Scope EcSc \$420 = SAC-GD \$1260 + SAC-ED \$1540 - TotD \$2380

EcSc \$420 = Shared GD/ED \$420