Docket	:	A.12-02-014
Exhibit Number	:	DRA-4
Commissioner	:	Florio
ALJ	:	Long
Witness	:	Hunter

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for California Pacific Electric Company General Rate Case

Test Year 2013

Distribution, Operation and Maintenance, and Vegetation Management Expenses

San Francisco, California
July 27, 2012

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CALIFORNIA PACIFIC ELECTRIC COMPANY DISTRIBUTION, OPERATION AND MAINTENANCE EXPENSES, AND VEGETATION MANAGEMENT

I. INTRODUCTION/OVERVIEW

This Division of Ratepayer Advocates (DRA) Report presents its analyses and recommendations regarding Distribution Operation and Maintenance (O&M), and Vegetation Management Expenses for Test Year (TY) 2013 in the California Pacific Electric Company's (CalPeco) General Rate Case, Application (A.)12-02-014. DRA examined CalPeco's request for TY 2013 rate recovery and conducted an independent analysis of CalPeco's application, testimony, supporting workpapers, responses to data requests, and other discovery. DRA's analysis of CalPeco's Customer Accounts Expense (less Uncollectibles Expense) can be found in DRA-5, and its analysis of Administrative and General Expenses can be found in DRA-6.

II. SUMMARY OF RECOMMENDATIONS

DRA recommends that the Commission:

- Reject CalPeco's request for funding for fourteen unnecessary employees;
- Reject funding for excessive wage increases;
- Adopt a 0.11% uncollectable rate;
- Direct CalPeco to finance vehicles in the most cost-effective manner;
- Adopt DRA's recommended Vegetation Management expenses; and
- Adopt one-way balancing account treatment for Vegetation Management Expenses.

Table 4-1 below compares DRA's recommendations with CalPeco's total proposed O&M Expense estimates for TY 2013:

Table 4-1
CalPeco TY 2013 Operations & Maintenance Expenses
(In Thousands of 2013 Dollars)

Description (a)	DRA Recommended (b)	CalPeco Proposed (c)	Amount CalPeco>DRA (d=c-b)	Percentage CalPeco>DRA (e=d/b)
Operations & Maint.	$6,064	$7,005	$941	15.52%

Table 4-2 compares DRA's recommendations with CalPeco's total proposed Vegetation Management Expense estimates for TY 2013:

Table 4-2
CalPeco TY 2013 Operations & Maintenance Expenses
(In Thousands of 2013 Dollars)

Description (a)	DRA Recommended (b)	CalPeco Proposed (c)	Amount CalPeco>DRA (d=c-b)	Percentage CalPeco>DRA (e=d/b)
Vegetation Management	$1,712	$3,269	$1,557	90.95%

III. DRA'S ANALYSIS

A. Operations and Maintenance (O&M)

CalPeco's TY 2013 O&M forecast uses 2011 actual recorded O&M expenses as a starting point and then the following adjustments were made: to remove non-recurring or misclassified costs; to annualize salaries for employees hired during 2011; to remove transition service agreement costs for agreements that expire before 2013; to record expected savings from a new billing system; and to record expected incremental increases in salaries and pension contributions.[1] The resulting adjusted expenses were escalated by a standard labor or non-labor escalation rate to reach the TY 2013 forecast. CalPeco forecasts $7.005 million for O&M.[2] DRA recommends $6.064 million for O&M expense which is $0.941 million less than CalPeco's forecast.

[1] CalPeco workpapers, p. 20.

[2] CalPeco workpapers, pp. 7-9, less A&G and Customer Accounts but including Uncollectibles Expense ($16,148 - $7,355 - $1,245 - $823 + $280 = $7,005).

a. Increase in Number of Employees

CalPeco's TY 2013 forecast includes the forecasted addition of 17 new employees. This is a 24% increase over CalPeco's 2011 staffing level of 72 employees.[3] CalPeco has provided no justification for this massive increase. It has not shown that the $1.3 million expense for these proposed new employees[4] will increase safety, reliability, and/or customer satisfaction. According to the Customer Satisfaction Report included in CalPeco's testimony, less than half (47%) of the Company's customers are satisfied with the cost of service before these additional employees.[5] A clear majority of CalPeco's customers are already satisfied with the reliability (84%) and customer service (72%) they receive.[6]

In workpapers, CalPeco identified four employees who had been contract employees in 2011 and were hired as permanent employees in 2012.[7] DRA agrees to incorporate the cost related to these four employees in its forecast, given that they were essentially employed by CalPeco in the Base Year. The addition of these four new employees represents a 6.94% increase over staffing levels at the beginning of the base year. DRA excludes the remaining 14 employees from its TY 2013 labor calculation as CalPeco has failed to justify these additional positions as reasonably needed or beneficial to ratepayers. DRA calculated an O&M expense adjustment totaling $624,627, using the same allocation for capital, expense, O&M, and A&G, as CalPeco provided in the original version of the TY 2013 labor calculation.

b. Increase in Salaries

In addition to the new employees for whom CalPeco seeks funding, it is also proposing an average salary increase of 11.85% from the Base Year to the Test

[3] CalPeco's application refers to 17 employees, but workpapers show 14 employees to be hired in 2012 plus 4 contract employees who were hired permanently at the end of 2011.

[4] CalPeco Exh. 2, Ch. 1, p. 34.

[5] CalPeco Exh. 2, Ch. 1, pp. 66-68.

[6] CalPeco Exh. 2, Ch. 1, pp. 66-68.

[7] CalPeco workpapers, pp. 22-23.

Year for all employees. For 14 of the 72 employees, CalPeco is proposing a salary increase of more than 25%.[8]

Burdening ratepayers with such high wage increases during these dire economic times is unconscionable and inconsistent with the average wage increases throughout California and the U.S. According to the most recent surveys by two leading companies in human resources consulting, Mercer and Towers-Watson, the average wage increase nationally is expected to be around 3.0% in 2012.[9] [10] Global Insight, a leading provider of economic and financial analysis, forecasting, and market intelligence, is projecting wage increases in the utility sector for 2013 to be between 2.1% and 3.0%.[11] Global Insight is projecting even lower wage increases for 2014 and 2015 (See table 4-3 below.) For California, the Legislative Analyst's Office (LAO) is projecting average wage increases in the 2.0% range from 2012 to 2015.[12] CalPeco's ratepayers should fund wage increases consistent with the state and national average. CalPeco has not shown that its requested wage increases are reasonable or justified. DRA applied a 6% increase -- which is approximately the national average of 3% each year for two years -- to the remaining Base Year wages to reach a TY estimate, which results in an adjustment of $114,267.

Table 4-3
2012-2015 Projected Wage Increase Percentages
Utility Sector

Employee Category Description	2012	2013	2014	2015
Utility Service Workers	2.3	2.1	2.1	2.4
Electric Power Gen, and T&D	2.1	3.0	2.4	2.7
Managers and Administrators	2.2	2.9	2.8	2.9
Professional and Technical	2.1	3.0	3.0	2.9

Source: Global Insight "Power Planner," 1st quarter 2012.

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[8] Response to DRA data request DRA-MBE-18, Q. 1.

[9] http://www.mercer.com/press-releases/1421605

[10] http://www.towerswatson.com/united-states/press/5284

[11] Global Insight "Power Planner," 1st quarter 2012, page 54. 2013 forecast increases for: utility service workers, 2.1%; managers and administrators, 2.9%; electric power generation, transmission, and distribution workers, 3.0%; and professional and technical workers, 3.0%.

[12] http://www.lao.ca.gov/analysis/2012/update/economic-revenue-update-022712.aspx

The Commission should not increase benefits to CalPeco's employees at ratepayer expense when many of those same ratepayers are struggling. As of May 2012, California as a whole is experiencing 10.8% unemployment, which is higher than the national unemployment rate of 8.2%. CalPeco's service area includes El Dorado, Sierra, Plumas, Mono and Alpine Counties, which are all experiencing higher unemployment than the California average, and Placer and Nevada Counties, which have higher unemployment than the national average.[13]

c. Uncollectibles

CalPeco proposes a TY uncollectibles forecast of $280,337, which translates to 0.39% of CalPeco's forecast revenue of $72,493,515.[14] According to CalPeco, its bad debt provision rate is .0037, which is based on historical write-off activity provided by its Customer Billing Department and is reviewed quarterly.[15]

In response to a DRA data request, CalPeco provided its actual uncollectible write-offs for 2011. This data shows that, in five of the eleven months in which bad debt expense was recorded, CalPeco collected more in old write-offs than it wrote off in new expense, resulting in a negative expense amount.[16] This indicates that CalPeco is writing off as "uncollectible" amounts that are actually still collectible in the near future.

CalPeco's predecessor company, Sierra Pacific, requested an uncollectibles rate of 0.11% in its TY 2009 GRC, which was adopted. DRA recommends an uncollectibles rate of 0.11% in this GRC, which when applied to DRA's forecast revenue of $75.548 million, results in an uncollectibles expense of about $83,000, i.e., an adjustment of $202,000. The rate of 0.11% is more reliable than the rate proposed by CalPeco.

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[13] Employment Development Department statistics found at http://www.calmis.ca.gov/file/lfmonth/countyur-400c.pdf

[14] CalPeco workpapers, p. 97.

[15] CalPeco response to DRA data request DRA-STA-21, Q.4.

[16] CalPeco response to DRA data request DRA-STA-21, Q.4. No bad debt was written off in December 2011.

d. Vehicle Leasing

CalPeco is expensing vehicle leases that might be more cost-effective to be purchased and capitalized. The Commission should direct CalPeco in its next GRC to provide an analysis to show that leasing is more cost-effective than purchasing and capitalizing vehicles. DRA has made no adjustment in this case relative to this recommendation.

B. Vegetation Management

CalPeco's TY 2013 Vegetation Management forecast is based on a study performed in early 2011, which inventoried a sample of CalPeco's distribution lines for compliance with California regulatory and industry-recognized standards.[17] This sampling resulted in a breakdown of units per circuit line, which were multiplied by the expected cost per unit. CalPeco requests $3.296 million for Vegetation Management;[18] DRA recommends $1.712 million.

Table 4-4
2007-2011 Recorded Data for Vegetation Management
(In Thousands of Dollars)

Description	2007	2008	2009	2010	2011
Vegetation Mgmt. in nominal dollars	1,300	1,367	1,402	1,504	856
CPI inflation factor to 2011 dollars	1.0849	1.0448	1.0485	1.0316	1.0000
Vegetation Mgmt. in constant 2011 dollars	1,410	1,429	1,470	1,552	856

Sources: 2007-2010 data from "Sierra's Tree Trimming Expenditures.pdf."[19] 2010 data was corrected in response to DRA data request DRA-STA-027, Q.1b.[20] 2011 data from CalPeco testimony. CPI inflation factors from Bureau of Labor Statistics.

[17] CalPeco response to DRA data request DRA-3-STA, Q.3.

[18] CalPeco Exh. 4, Ch. 1, p. 144.

[19] This document was provided as an attachment to "Response to CPUC Request for Additional Information Regarding CalPECo AL 11-5-A."

[20] CalPeco response to DRA data request DRA-STA-027, Q.1b, provided a spreadsheet in which the 2010 total was $1,559,045.83. However, CalPeco's share of one line item is only 64% of the $152,733.40 listed, which results in a total for CalPeco's share of 2010 costs of $1,504,061.81.

a. Analysis

CalPeco is proposing to nearly quadruple its Vegetation Management expense from its Base Year expense of $856,000. Under California's regulatory system, the level of funding authorized in this GRC will be incorporated into rates for a minimum of three years. CalPeco claims that the lower 2011 Base Year expense was due to the extreme winter weather and shortened summer available for tree-trimming activities.[21] CalPeco argues that recent CPUC regulations in CPUC decision (D.)12-01-032 require more stringent tree-trimming practices, which in turn will increase CalPeco's costs to comply.

D.12-01-032's vegetation management requirements mostly affect communication infrastructure providers (CIPs) by extending to CIPs the same vegetation management requirements that are applied to electric utilities.[22] It provides electric utilities with more authority to shut off power to customers who refuse access for vegetation management.[23] There are few vegetation management requirements in D.12-01-032 that do not currently exist for CalPeco, or that are likely to become effective before the end of the Test Year to affect CalPeco.[24] Its potential impact on CalPeco does not justify as reasonable CalPeco's request to quadruple its Base Year Vegetation Management expense or nearly double its historical Vegetation Management expense. As D.12-01-032 states:

[21] Meeting with CalPeco's Mike Smart at DRA offices, April 23, 2012.

[22] CPUC D.12-01-032, Appendix A strikes out all references to "utility" and replaces them with the phrase, "supply or communication company."

[23] CPUC D.12-01-032, pp. 175-176.

[24] Clearance for conductors operating between 72 kV and 110 kV was raised from 60 to 72 inches. Increased clearances for conductors operating at other voltages were contested and not adopted in D.12-01-032.

> The purpose of these new rules *is to formulate requirements* for overhead line design, construction, and maintenance, the application of which will ensure adequate service and secure safety to persons engaged in the construction, maintenance, operation or use of overhead lines and to the public in general.[25]

The Commission acknowledges that there is no history of catastrophic power-line fires in Northern California, and that there is not the same risk from Santa Ana windstorms as exists in Southern California.[26] In D.12-01-032, the Commission requires that CalPeco only *assess* if there is a credible risk of catastrophic power-line fires in its service territory. If so, it must prepare and submit a fire prevention plan by December 31, 2012.[27] CalPeco has not demonstrated that a credible risk of catastrophic power-line fires exists in its service area, nor has it presented any fire prevention plan to support such high expenses.

DRA compared CalPeco's request with historical data. CalPeco's predecessor, Sierra Pacific, had tracked vegetation management costs for its California service areas. The historical average of CalPeco's predecessor company from 2007 to 2010, adjusted to constant 2011 dollars, is $1.465 million per year, and the 2011 expense for CalPeco was only $856,000. When adjusted to constant 2011 dollars, Sierra Pacific's historical Vegetation Management costs increased only $141,220 over four years from 2007 to 2011, which is an average annual increase of 3.34%. CalPeco has not presented any data supporting its claim that its costs will double or quadruple Sierra Pacific's historical costs.

DRA applied Sierra Pacific's 3.24% average increase to the 2010 actual expense to arrive at a projected 2011 expense, to which DRA applied the same 3.24% average increase for the next two years to arrive at a TY 2013 expense of $1,712,194.

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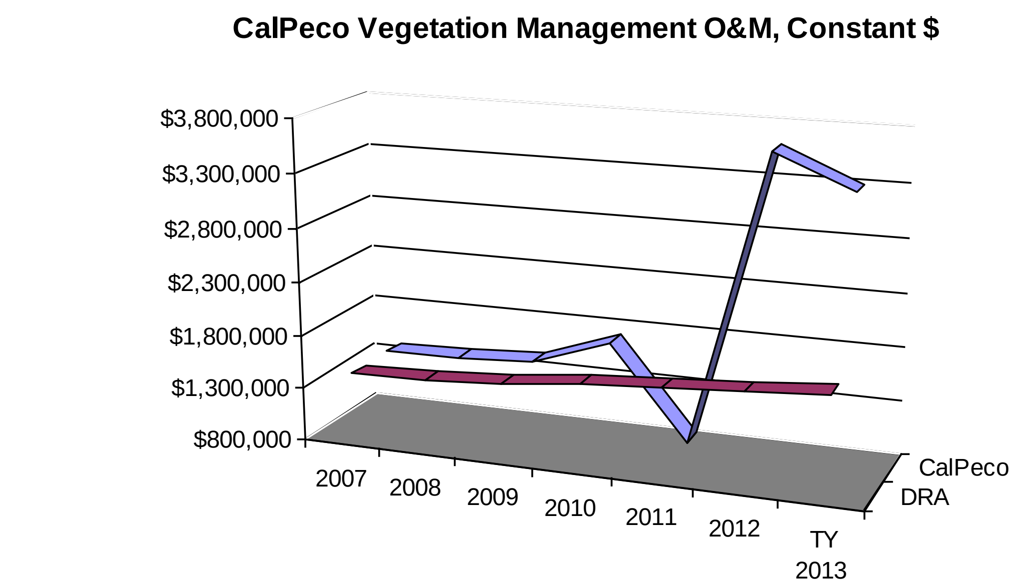
[25] CPUC D.12-01-032, Appendix B, p. B-2 (emphasis added).

[26] CPUC D.12-01-032, p. 165.

[27] CPUC D.12-01-032, p. 169.

The following chart summarizes CalPeco's historical expenses, CalPeco's Test Year request, and DRA's recommended expense.



	2007	2008	2009	2010	2011	2012	TY 2013
DRA	$1,410,370	$1,428,630	$1,470,035	$1,551,590	$1,603,377	$1,656,893	$1,712,194
CalPeco	$1,410,370	$1,428,569	$1,470,035	$1,720,651	$856,000	$3,602,476	$3,296,000

b. One-Way Vegetation Management Balancing Account

CalPeco has only one year of operating history. All historical data is from its predecessor, Sierra Pacific, which had a multi-jurisdictional allocation process. Sierra Pacific did track location-specific operational expenses for the CalPeco area, but the allocation process may have added more expenses from the corporate level that will not be incurred by CalPeco.

To protect CalPeco's ratepayers from rate-shock in this transitional period, DRA proposes that CalPeco's Vegetation Management expense be subject to a one-way balancing account treatment. Without this balancing account treatment, CalPeco could use the money intended for vegetation management for other unrelated purposes or not spend it at all without any consequence or penalty. One-way balancing account treatment will ensure that all funding intended for vegetation management will be spent for that goal and for nothing else. Because of concerns about accountability and to assure close matching of authorized revenues and actual expenditures, the Commission has required a one-way balancing account for vegetation management expense for Pacific Gas and Electric Company (PG&E) since PG&E's 1999 GRC.[28] Balancing account treatment would also provide that, in the next GRC cycle, there will be an accurate accounting of CalPeco's vegetation management costs.

[28] CPUC D.00-02-046, p. 148.

IV. QUALIFICATIONS OF WITNESS

Q.1 Please state your name and business address.

A.1 My name is Stacey Hunter. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst IV in the Division of Ratepayer Advocates Energy Cost of Service and Natural Gas Branch.

Q.3 Briefly describe your educational background and work experience.

Q.3 I received a Bachelor of Sciences degree in Accounting from Golden Gate University.

I joined the Commission in the Division of Ratepayer Advocates as a Financial Examiner in January 2003, and was promoted to a Public Utilities Regulatory Analyst in March 2005; I was most recently promoted to the fourth level of Regulatory Analyst in November 2011.

I have prepared testimony for DRA in many General Rate Cases, including Southern California Gas, San Diego Gas and Electric, Pacific Gas and Electric Company, Bear Valley Electric Service, and Southern California Edison. I have also provided analysis and testimony for other proceedings including CalPeco's recent upstream-ownership change. I also review affiliate transaction advice letters and Section 851 property transfer advice letters, and I assist DRA's Budget Control Officer with his duties.

Q.4 What is the purpose of your testimony?

A.4 I am responsible for Exhibit DRA-4, Distribution, Operation and Maintenance Expenses, and Vegetation Management.

Q.5 Does that complete your prepared testimony?

A.5 Yes, it does.