Docket:	:	A.09-12-020
Exhibit Number	:	DRA-8
Commissioner	:	Peevey
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DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2011

Gas Distribution Capital Expenditures
(plus New Business, Work at the Request of Others, and Rule 20A)

San Francisco, California
May 5, 2010

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GAS DISTRIBUTION CAPITAL EXPENDITURES
(plus New Business, Work at the Request of Others, and Rule 20A)

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E) 2009 through Test Year (TY) 2011 forecasts for the following: (1) Gas Distribution capital expenditures; (2) capital expenditures for New Business and Work at the Request of Others (NB/WRO); and (3) capital expenditures for the Electric Tariff Rule 20A (Rule 20A) program.

Capital expenditures for gas distribution include plant investments to replace, repair, and protect PG&E's gas distribution system and to construct new gas distribution facilities. Capital expenditures for NB include investment to install gas and electric infrastructure required to connect new customers to existing PG&E's system, and to accommodate existing customers' demand for increased load requirements. Capital expenditures for WRO include capital investments for relocating existing PG&E gas and electric facilities at the request of others, including undergrounding of existing overhead electric facilities at the request of others or certain governmental agencies under tariff Rule 20B and 20C. Lastly, capital expenditures for Rule 20A program include investments for converting overhead electric distribution, telecommunication and other overhead facilities to underground at the request of cities or counties.

This exhibit does not specifically address PG&E's capital additions, which are automatically calculated by the Results of Operations (RO) computer model based on the capital expenditures that are loaded into it.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations for 2009-2011:

A. Gas Distribution Capital Expenditures

DRA bases its gas distribution capital expenditures forecast on historical averages, adjusted for inflation. The forecasts are categorized by Major Work Categories (MWCs). DRA's forecasts for four out of the five MWCs were based on 4-year historical averages while the remaining one was based on a 3-year historical average.

- For MWC 14 – Gas Pipeline Replacement Program (GPRP), DRA uses a three year average of historical costs to derive the test year forecast. This is to ensure that the data used includes only the data covering the years beginning from 2007 when PG&E expanded the scope of the GPRP to include the Copper Service Replacement Program (CSRP). DRA recommends the Commission adopt PG&E's 2009 recorded expenditures for MWC 14. The historical three year average, adjusted for inflation, amounts to $96.344 million and $98.280 million for 2010 and 2011 respectively.

- For MWC 27- Gas Meter Protection, DRA uses a 4-year average of historical costs to derive its forecast. DRA recommends the Commission adopt PG&E's recorded 2009 expenditures for MWC 27. The 4-year historical average, adjusted for inflation, amounts to $27,595 and $28,149 for 2010 and 2011 respectively.

- For MWC 47 – Gas Distribution New Capacity, DRA uses a 4-year average of historical costs to derive the test year forecast. DRA recommends the Commission adopt PG&E's 2009 recorded expenditures for MWC 47. The historical 4-year average, adjusted for inflation, amounts to $10.301 million and $10.508 million for 2010 and 2011 respectively.

- For MWC 50 – Gas Distribution Reliability, DRA's uses a 4-year average of historical cost to derive its forecast. DRA recommends the Commission adopt PG&E's 2009 recorded expenditures for MWC 50. The historical 4-year average, adjusted for inflation, amounts to $16.829 million and $17.168 million for 2010 and 2011 respectively.

- For MWC 52 – Gas Distribution Emergency Response, DRA recommends the Commission adopt PG&E's 2009 recorded expenditures for MWC 52. DRA takes no exception to PG&E's forecast of $219,000 and $280,000 for 2010 and 2011 respectively.

B. New Business and Work at the Request of Others

Pursuant to DRA discovery, PG&E recalculated its capital expenditures needs for NB/WRO.[1] The recalculated capital expenditure for 2009, 2010 and 2011 are lower that the amounts PG&E previously requested in its application. The revised forecast for 2009 is lower by approximately $91.00 million, $77.00 million for 2010 and for 2011 by approximately $99.00 million. DRA recommends the Commission adopt PG&E's 2009 recorded capital expenditures for NB/WRO. DRA's forecast is based upon a recalculated forecast for 2010 and 2011 provided by PG&E through discovery. Therefore:

- For MWC 16 - Electric NB, DRA's forecast is $286.145 million compared to $354.005 million forecast of PG&E.

- For MWC 29 – Gas NB, DRA's forecast is $46.632 million compared to $68.065 million forecast of PG&E.

- For MWC 10 – Electric WRO, DRA's forecast is $58.346 million compared to $64.810 million forecast of PG&E.

- For MWC 51 – Gas WRO, DRA's forecast is $22.211 million compared to $20.951 million forecast of PG&E.

[1] PG&E's Data Response to DRA-207-02.

DRA supports the idea of one-way balancing account for NB/WRO,[2] based upon the DRA forecast. DRA does not support a combined balancing account for NB and WRO. Instead, DRA recommends that two separate one-way balancing accounts should be established. One account should be used exclusively for NB and the second account used exclusively for WRO including the Rule 20A program. This will allow PG&E the flexibility to shift funds between Rule 20A, 20B and 20C programs to where funds are most needed.

C. Rule 20A Program

The accumulation of work credits under Rule 20A program is approximately $818.4 million and could potentially grow by another $404.9 million to $1.223 billion for work that PG&E is obligated to perform in the various counties and cities in its franchise territories.[3]

- Although work credits are authorized in PG&E's budgets under Rule 20A during general rate cases, the authorized budgets have not translated into increased spending by PG&E or demand for underground constructions funding from communities. Consequently, the work credit balances has continued to grow[4].
- DRA recommends a ten-year moratorium to stop further accumulation or allocation of additional work credits to counties or cities until the currently accumulated credits of $818. 4 million and the potential estimated additional work credits of $404.9 million on Rule 20A projects is significantly worked down.
- DRA accepts PG&E's forecasted budget of $50 million. However, the $50 million should be used to work down the accumulated Rule 20A balance.

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[2] Ex. PG&E-3, p.6-55

[3] Ex. PG&E-3, p. 7-7

[4] Ex. PG&E-3, p. 7-6

The Commission should reject PG&E's proposal for an additional $30 million budget to work down the accumulated balance.

DRA supports the idea of balancing accounts for NB, WRO and Rule 20A. However, DRA recommends that two separate one-way balancing accounts should be established. One of the balancing accounts should be used exclusively for NB and the other used exclusively for WRO including the Rule 20A program. This will allow PG&E the flexibility to shift funds between Rule 20A, 20B and 20C programs to where they are most needed. By combining the WRO and Rule 20A PG&E will have the flexibility to shift approximately $135 million, the combined capital expenditures forecast that DRA is recommending for Rule 20A, Rule 20B and Rule 20C in this proceeding.

III. DISCUSSION / ANALYSIS OF GAS DISTRIBUTION CAPITAL EXPENDITURES

Gas distribution capital expenditures include plant investment to construct new gas distribution facilities for capacity additions, to replace, relocate, repair, and protect gas distribution system in general. PG&E proposes gas capital expenditures of $125.546 million in 2009, $135.389 million in 2010, and $167.3 million[5] in 2011. The test year request is $32.0 million higher compared to the 2008 recorded amount of $135.3 million.[6]

According to PG&E, the projected increases are driven by several factors including additional replacement of copper services and replacement of pipes under the Gas Pipeline Replacement Program (GPRP), service replacement due to leakages, replacement of district regulators stations, and two capital programs for Electronic Pressure Recorder (EPR) and Cathodic Protection Remote Monitoring

[5] Ex. PG&E-3, p. 19-1

[6] Ex. PG&E-3, p. 19-1

(CPRM).[7] In summary, PG&E asserts that the increased capital expenditures are needed to meet future capacity additions and to replace aging infrastructures to ensure that natural gas is delivered safely and reliably. PG&E manages gas capital activities by grouping related activities into the following five Major Work Categories (MWCs): MWC 14 – Gas Pipeline Replacement Program (GPRP); MWC 47 - Gas Capacity; MWC 50 – Gas Reliability; MWC 52 – Gas Emergency Response, and MWC 27 – Gas Meter Protection Program.

Table 8-1 compares DRA's and PG&E's 2009-2011 forecasts of Gas Distribution capital expenditures:

Table 8-1
Gas Distribution Capital Expenditures for 2009-2011
(In Thousands of Dollars)

Description	DRA Recommended			PG&E Proposed[8]		
	2009[9]	2010	2011	2009	2010	2011
MWC 14-Gas Pipeline Replacement Pgm	$99,551	$96,344	$98,280	$100,000	$100,657	$130,900
MWC 27-Gas Meter Protection	17	27	28	39	100	630
MWC 47-G Distribution New Capacity	8,403	10,301	10,508	11,000	11,000	13,550
MWC 50-G Distribution Reliability	28,583	16,829	17,168	13,897	23,350	21,940
MWC 52-G.Distr. Emergency Response	199	282	280	199	282	280
Manage Buildings				361	0	0
Total	$136,752	$123,787	$126,263	$125,496	$135,389	$167,300

Compared to PG&E's forecast, DRA is recommending that the Commission adopt capital expenditures of $136.752 million for 2009 based on PG&E's recorded 2009 figure, $123.787 million for 2010, and $126.263 million for 2011. Each of the gas distribution MWCs are discussed below.

[7] Ex. PG&E-3, p. 19-1

[8] PG&E-3, p. 19-24.

[9] Updated recorded expenditures provided by PG&E in response to data request DRA-122.

A. MWC 14 - Gas Pipeline Replacement Program (GPRP) and Copper Service Replacement Program (CSRP)

This MWC was formerly used exclusively to cover capital expenditures for activities involving cast iron and steel distribution gas mains under the Gas Pipeline Replacement Program. Based on the result of a new risk analysis that was performed in 2007, PG&E expanded the program to include the new Copper Service Replacement Program (CSRP) because the analysis concluded that cooper services were deemed to be susceptible to the same relative risk as cast iron and steel mains. Therefore, beginning in 2007 and for the test year, the capital expenditures in MWC-14 are allocated between GPRP and CSRP. For both programs, PG&E forecasts $100.657 million for 2009, $100.657 million in 2010 and $130.900 million in 2011. PG&E bases its test year forecast of $130.900 million for MWC 14 on the estimated level of work that will need to be performed during the test year which is applied to an estimated unit cost of activities performed during the prior year.

DRA recommends that the Commission adopt PG&E's recorded expenditures of $99.550 million for 2009. DRA recommends that the forecast for MWC 14 should be $96.344 million for 2010 compared to PG&E's forecast of $100.657 million and $98.280 million for 2011 compared to PG&E's forecast of $130.900 million. DRA's forecast is based on a three year average of historical cost from 2007 to 2009, escalated to 2010 dollars for its 2010 forecast, and to 2011 dollars for its 2011 forecast.

When PG&E's forecasts are compared to historical costs, the company has been inaccurate with its forecasts for MWC 14, primarily because of unrealistic assumptions. For example, in PG&E's last GRC, the Commission in D.07-03-044 approved a Settlement outcome that provided PG&E a spending target of $68.353 million for the GPRP. In approving this spending target, the Commission cautioned that while the authorized level of funding for the program was necessary because of its essential impacts on public safety and the reliability of PG&E's Gas Distribution system, it "expects PG&E to use all $68.353 million provided for the GPRP for that

purpose only. If PG&E fails to do so, it should provide a detailed explanation in the next GRC."[10]

Historical data shows that PG&E spent less than the amount approved by the Commission for the GPRP by approximately $12.3 million for 2007 and also by significant amounts during the two attrition years in 2008 and 2009.[11]

PG&E explained that because it expanded the GPRP to include the CSRP in 2007, the combined spending for both programs was above the authorized amount, implying that they were in compliance with the Commission directive in D.07-03-044. While DRA acknowledges that both the GPRP and the CSRP programs are safety and reliability related activities, the Commission directive in D.07-03-044 was very specific in stating that the authorized amount was meant for the "GPRP only." In this proceeding, PG&E will again be expanding the scope of MWC 14 in 2011 to further include capital expenditures for a federal mandated program under the Distribution Integrity Management Program (DIMP). The financial forecast for MWC 14 for 2011-2013 assumes the continuation of GPRP and CSRP. As DIMP is developed, funds will be reallocated from GPRP and CSRP to support DIMP. This may result in further reallocation of any funds authorized by the Commission in this proceeding and the possibility that MWC 14 may include less GPRP and CSRP work than currently forecasted.

The following Table shows the authorized vs. recorded amounts in PG&E's last GRC and PG&E's vs. DRA's forecast for the test year.

[10] D.07-03-044, Pg.83

[11] PG&E-3, p. 19-7, Table 19-2.

Table 8-2
MWC 14 –Gas Pipeline Replacement Program
Authorized vs. Recorded Compared to PG&E's TY Request vs. DRA
($ in million)

Program	Authorized D.07-03-044	Recorded	PG&E's Forecast-2011	DRA Forecast-2011	PG&E Exceeds DRA
GPRP	$68.4	$56.1	$87.3		
CSRP	$0	$20.8	$43.6		
Total	$68.4	$76.9	$130.9	$98.280	$31.610

Because of the uncertainties associated with how funds that are authorized in MWC-14 are used or will be used, DRA is forecasting lump sum amounts of $96.344 million for 2010 and $98.280 million for 2011 for MWC 14 rather than allocating it between the programs. DRA believes that its forecast for MWC-14 is reasonable and provides PG&E the flexibility to allocate funds between the various programs as it deems appropriate during the test year.

B. MWC 27- Gas Meter Protection Program

The purpose of PG&E's Gas Meter Protection Program (MPP) is to correct gas meter related installations that do not conform to established Company standards and federal pipeline safety regulations. The 2007 GRC Decision authorized capital expenditures of $695,000 for 205 targeted services.[12] PG&E's forecast in that proceeding was based on the remaining scope of the program, the program schedule and unit costs. According to PG&E, zero services were relocated under the MPP and only 10 relocations were made in 2008.[13]

For 2010, PG&E's forecast is $100,000 and $630,000 for the test year 2011. PG&E's test year forecast is based on performing 76 services at a unit cost of

[12] D.07-03-044,Table p, 81

[13] PG&E-3,p.19-21

$8,300 per service for a total cost of $630,000.[14] Because PG&E bases its forecast of MWC 27 on a methodology that uses unit costs and the number of projected services to be completed, the methodology results in inaccurate forecast. Judging from historical data, the numbers of projected services were never attained and the unit costs were unrealistic. The following Table shows the 6-year historical costs for MWC-27:

Table 8-3
MWC-27 Recorded 2004-2009
($ in 000)

2004	2005	2006	2007	2008	2009
$31	$33	$0	$15	$75	$17

The Table shown below lists the total authorized capital expenditures for MWC 27 in PG&E's last GRC vs. the recorded amount and the capital expenditure forecasts by PG&E and DRA for the test year.

Table 8-4
MWC 27 –Gas Meter Protection Program
Authorized vs. Recorded Compared to PG&E's TY Request vs. DRA
($ in 000)

Description	Authorized-2007 (D.07-03-044)	Recorded 2007	PG&E's Forecast-2011	DRA Forecast-2011	PG&E Exceeds DRA
WMC-27	$695	$15	$630	$28	$602

DRA recommends that the Commission adopt PG&E's recorded expenditures of $17,108 for 2009. DRA also recommends that the capital expenditure forecast for MWC-27 should be $27,594 for 2010 and $28,149 for 2011. DRA bases its forecast on a historical four-year average (2005-2009) adjusted for inflation. According to PG&E, there are difficulties associated with forecasting capital expenditures for MWC 27 because they involve "services requiring relocation that are not known in

[14] PG&E-3, p.19-22.

advance."[15] Therefore, using the four year historical average is appropriate for MWC-27 and consistent with the method used by PG&E to forecast capital expenditures for MWC 52 in which PG&E argued that "these are emergency-related work that cannot be planned or scheduled in advance; therefore reliance on historical costs is the best method for forecasting".[16]

C. MWC 47- Gas Distribution New Capacity

MWC 47 is used for capacity additions to accommodate load growth resulting from additions of new customers and increased gas usage of existing customers. The scope of activities in MWC 47 includes the installation of new mains and installation of new or replacing existing regulators station or equipments.

PG&E's forecasts for MWC 47 are $11.000 million for 2009, $11.000 million for 2010 and $13.550 million for the test year 2011. PG&E asserts that there are forecasted SmartMeter-related savings for MWC 47 in 2011 and the years beyond, although those savings have not been reflected in the $13.6 million forecast for 2011. PG&E proposes to handle all projected SmartMeter savings through a different mechanism. PG&E's forecast is based on a planning forecast to install 11 regulator stations and 55,000 feet of main in 2011. The forecast "assumes that load growth remains near the 2008 levels for 2009, and then increases modestly as the economy recovers."[17]

PG&E maintains that the "actual project that will be constructed are difficult to predict due to project timing and priorities of developers. Capacity project are typically identified only 9 to 12 months in advance to ensure the latest local economic information and gas usage data are used. Therefore, the main installation and new regulator activities are forecasted using a combination of unit cost and planning forecast. The miscellaneous activities are forecasted based on a

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[15] Ex. PG&E-3, p. 19-22

[16] Response to DRA's Data Request –DRA -195-02 Q.2

[17] PG&E-3, p.19-10

combination of historical costs and planning forecasts"[18] The following Table shows the 6-year historical costs for MWC-47:

Table 8-5
MWC-47 Recorded 2004-2009
($ in Million)

Units Completed	2004	2005	2006	2007	2008	2009
Total	$6.099	$9.063	$11.599	$8.149	$12.063	$8.403
Feet of Main	49,476	57,166	50.647	42,985	58,789	24,100
Regulator Station	5	9	9	8	10	4

DRA recommends that the Commission adopt PG&E's recorded expenditures of $8.403 million for 2009. DRA also recommends that forecast for MWC 47 should be $10.301 million in 2010 compared to PG&E's forecast of $11.000 million and $10.508 million in 2011 compared to PG&E's forecast of $13.6 million. DRA bases its forecast on the historical four-year average of capital spending, adjusted for inflation. The Table below shows the lists of the total authorized capital expenditures for MWC 47 in PG&E's last GRC vs. the recorded amount and the capital expenditure forecasts by PG&E and DRA for the test year.

Table 8-6
MWC 47 –Gas Dist. New Customer -Gas
Authorized vs. Recorded Compared to PG&E's TY Request vs. DRA
($ in million)

Description	Authorized-2007 (D.07-03-044)	Recorded 2007	PG&E's Forecast-2011	DRA Forecast-2011	PG&E Exceeds DRA
WMC-47	$11.182	$8.149	$13.600	$10.508	$3.092

[18] Ex. PG&E-3, p. 19-10

Historical data shows a discernable trend shown for MWC-47 over the four-year period 2006-2009. Therefore, it is inappropriate and amounts to cherry picking to base the forecast for MWC-47 entirely on the 2008 recorded simply because the largest expenditure was incurred that year. DRA believes that using a four-year historical average is appropriate. A four year average of historical costs is more representative of the transactions that occurred in this MWC during the last four years.

D. MWC 50- Gas Distribution Reliability

MWC 50 represents capital installation or replacement of gas facilities to improve and enhance the reliability of PG&E's gas distribution infrastructure and maintain compliance with pipeline safety regulators. According to PG&E, by 2011, both MWC 14 and MWC 50 will be used for DIMP related expenditures. PG&E's forecast for MWC 50 is $13.897 million in 2009, $23.350 million in 2010 and $21.940 million in 2011. PG&E bases its forecast for MWC-50 on historical expenditures and known future projects. The following Table shows the 6-year historical costs for MWC-50:

Table 8-7
MWC-50 Recorded 2004-2009
($ in 000)

2004	2005	2006	2007	2008	2009
$10.251	$11.308	$12.128	$10.844	$14.146	$28.583

DRA recommends that the Commission adopt PG&E's recorded expenditures of $28.583 million for 2009. DRA also recommends that the forecast should be $16.829 million in 2010 and $17.168 million for 2011. The Table below shows the total authorized capital expenditures for MWC 50 in PG&E's last GRC vs. the recorded amount and the capital expenditure forecasts by PG&E and DRA for the test year.

Table 8-8
MWC 50 –Gas Dist. Reliability
Authorized vs. Recorded Compared to PG&E's TY Request vs. DRA
($ in million)

Description	Authorized-2007 (D.07-03-044)	Recorded 2007	PG&E's Forecast-2011	DRA Forecast-2011	PG&E Exceeds DRA
WMC-50	$15.767	$10.844	$21.940	$17.168	$4.772

Similar to the methodology used by PG&E in the last GRC, PG&E's forecast for MWC-50 in this proceeding is also based on historical expenditures and known future projects. In the 2007 GRC, the Commission approved PG&E's proposed forecast of $15.767 million and as shown above, the historical costs for 2007 was about 40 percent lower than the authorized targeted spending.[19] PG&E also stated that "Similar to MWC 14, the forecast for MWC-50 is based on continuing the existing MWC replacement programs. By 2011, both MWC 14 and MWC 50 will be used for DIMP related expenses in order to maintain historical expenditures by asset type."[20] This assertion adds to the level of uncertainty with PG&E's forecasts for MWC-50 and supports DRA recommendation to use a historical five-year average of capital spending, adjusted for inflation to forecast the 2010 and 2011 capital expenditures for MWC-50.

E. MWC 52- Gas Emergency Response

MWC 52 covers capital expenditures for work and materials required to replace damaged or failed facilities. It includes cost for the replacement of main and services due to gas dig-ins and external forces such as landslides and earthquakes. PG&E argues that these are emergency-related work that cannot be planned or scheduled in advance; therefore "reliance on historical costs is the best method for

[19] Table 8-8.

[20] Ex. PG&E-3, p. 19-13

forecasting."[21] However, due to the establishment of the Catastrophic Emergency Management Account (CEMA), PG&E does not consider catastrophic events in this forecast. The following Table shows the 5-year historical costs for MWC-50:

Table 8-9
MWC-52 Recorded 2004-2008
($ in 000)

2004	2005	2006	2007	2008
$402	$95	$286	$256	$375

DRA recommends that the Commission adopt PG&E's recorded expenditures of $199,000 for 2009. And because PG&E bases its forecast for MWC 52 on historical four-year average cost adjusted for inflation, DRA takes no exception to PG&E's forecasts of $219,000 for 2010 and $280,000 for 2011. The Table below shows the total authorized capital expenditures for MWC 52 in PG&E's last GRC vs. the recorded amount and the capital expenditure forecasts by PG&E and DRA for the test year.

Table 8-10
MWC 52 –Gas Dist. Emergency Response
Authorized vs. Recorded Compared to PG&E's TY Request vs. DRA
($ in 000)

Description	Authorized-2007 (D.07-03-044)	Recorded 2007	PG&E's Forecast-2011	DRA Forecast-2011	PG&E Exceeds DRA
WMC-47	$203	$256	$280	$280	$0

IV. DISCUSSION / ANALYSIS OF NEW BUSINESS AND WORK AT THE REQUEST OF OTHERS

PG&E'S forecast for gas and electric capital expenditures includes estimated expenditures for work that PG&E anticipates to perform in the NB/WRO program during the test year. According to PG&E, the NB/WRO work is externally driven and

[21] PG&E's Data Response to DRA-195-01, Q.2

the amount of work performed depends mainly on requests by third parties. The NB program entails installing gas and electric infrastructure required to connect new customers to existing PG&E's system, and accommodate existing customers increase their load requirements. The WRO program entails investments in capital expenditures to relocate existing gas and electric facilities at the request of others, including undergrounding existing overhead electric and gas facilities at the request of governmental agencies under Rules 20B and 20C of PG&E's tariff rules. PG&E manages gas and electric capital activities for NB/WRO by functional areas of gas and electric and are categorized into the following four Major Work Categories (MWCs):

- MWC 10 – E Distribution Request by Other
- MWC 16 - E Distribution Customer Connect
- MWC 29 - G Distribution Connect
- MWC 51 - G Distribution request by others

The following Table shows the capital expenditure forecasts filed by PG&E on December 21, 2009, in Exhibit PG&E-3.

Table 8-11
New Business and Work at the Request of Other
Summary of Dollar Request for Capital Work
(In Thousands of Dollars)[22]

Description	2008	2009	2010	2011
MWC 10 - Electric WRO	$50,747	$54,093	$60,308	$64,723
MWC 16 - Electric New Business	$279,057	$283,926	$279,118	$356,806
MWC 29 – Gas New Business	$46,371	$52,809	$45,100	$68,065
MWC 51 – Gas WRO	$27,101	$20,046	$24,084	$22,669
Total	**$412,277**	**$413,483**	**$408,610**	**$512,263**

[22] Ex. PG&E-3, Table 6-1, p.WP.6-2

In the December 21, 2009 filing, PG&E requested that the Commission adopt its capital expenditures for the NB/WRO of $413.483 million for 2009, $408.610 million for 2010 and $512.263 million for 2011. The capital expenditures request for 2011 is $97.2 million greater than the 2008 recorded.[23]

On March 29, 2010, PG&E provided updated data in response to data request DRA-207-02. The following Table shows the recalculated capital expenditure forecasts for NB/WRO that PG&E provided to DRA in that data request response.

Table 8-12
New Business and Work at the Request of Other
Summary of Recalculated Dollar Request for Capital Work
(In Thousands of Dollars)

Description	2009	2010	2011
MWC 10 - Electric WRO	52,609	53,870	58,346
MWC 16 - Electric New Business	$214,779	$218,385	$286,145
MWC 29 – Gas New Business	31,882	35,615	46,632
MWC 51 – Gas WRO	21,589	22,343	22,211
Total	**$322,868**	**$332,223**	**$413,334**

Compared to PG&E's December 21, 2009 Application, the recalculated capital expenditures forecast for NB/WRO is lower for 2009 by approximately $91.00 million, $77.00 million for 2010 million, and for 2011 by approximately $99.00 million. The recalculated capital expenditures are based on more recent publications of both Moody's Economy.com and IHS Global Insights that PG&E used to recalculate its annual connection and capital forecast, including updated NB connections.

DRA recommends the Commission adopt PG&E's recorded expenditures for 2009. Also, because PG&E's recalculated capital expenditures forecast for 2010 and 2011 falls within an acceptable range of DRA's forecast which was based on an

[23] Ex. PG&E-3, p. 6-2

analysis of historical costs for NB/WRO, DRA recommends a forecast based upon PG&E's revised NB/WRO forecast for 2010 and 2011 obtained through discovery.

PG&E's Request for a Combined One-Way Balancing Account for Capital Expenditures for NB/WRO and Rule 20A Program

PG&E proposes a one-way balancing account treatment for capital expenditures for NB/WRO similar to the proposal for its Rule 20A program. Under this proposal, PG&E will be allowed the flexibility to shift funds between Rule 20A and capital expenditures for NB/WRO as it deems appropriate. Any unspent funds at the end of the rate case cycle will be refunded to ratepayers. DRA agrees that because of the challenges and uncertainty with the timing and strength of an economic recovery, a one-way balancing account will provide both a spending control and the flexibility to shift funds to where they are most needed.

DRA does not take issue with PG&E proposed one-way balancing accounts to track these costs. However, DRA takes issue with PG&E's proposal for an integrated one-way balancing account that tracks both capital expenditures for NB and WRO including Rule 20A in a single account. Instead, DRA recommends that two separate balancing accounts should be established – one for NB and a second for WRO including Rule 20A. This will allow PG&E the flexibility to shift funds within the NB activities in the NB tracking account and the ability to shift funds in the WRO tracking account for activities under Rule 20A, Rule 20B and Rule 20C. Each of the tracking accounts should be evaluated separately to determine whether or not a refund should be made to ratepayers at the end of the rate cycle.

Because of the special circumstances with the large balance accumulated for Rule 20A, and the ratemaking treatment that DRA recommends for Rule 20A which DRA discusses in the next section of this testimony, DRA recommends a combined one-way balancing account treatment for WRO and Rule 20A expenditures. The combined one-way balancing account will provide PG&E the opportunity to shift capital expenditures between Rule 20A, Rule 20B and Rule 20C which amounts to approximately $130 million. The $130 million is comprised of the following: $59.854 million that DRA is recommending for MWC 10-Electric WRO, $22.211 million that

DRA is recommending for MWC 51-Gas WRO and $50 million spending target that DRA is recommending for Rule 20A program.

V. DISCUSSION / ANALYSIS OF RULE 20A PROGRAM

Under tariff Rule 20A, each governmental agency in PG&E's service territory is allocated a portion of PG&E's capital budget to convert overhead electric distribution, telecommunication and other overhead facilities to underground based on a system-wide formula. Each city and county served by PG&E has the primary responsibility of determining whether projects qualify and meet the established criteria for Rule 20A. All customers, regardless of location, pay for Rule 20A projects. Therefore, to ensure equitable distribution of Rule 20A capital budget around PG&E's service territory, each year, "work credits" are allocated according to a given formula for each community served by PG&E electric distribution system. The formula consists of 2 parts, a base allocation of $46.9 million that was actually allocated in 1990 (inception date of the program) plus a share of any change from the 1990 level. Cities and communities can accumulate these annual allocations until sufficient funds are available to complete the projects. According to PG&E, the average work credit allocated to a city in 2009 was $315,130.[24] These credits do not represent cash flow but are analogous to the accumulation of frequent flyer miles.

According to PG&E, as of December 31, 2009, cities and counties have accumulated work credits of approximately $818.4 million.[25] Because Rule 20A allow communities to borrow up to five years of work credit in advance of earning such credits, PG&E projects that communities could potentially borrow and redeem up to $404.9 million[26] in addition to the accumulated unspent balance of $818.4

[24] PG&E-3 , p.7-6

[25] PG&E-3 , p.7-7

[26] PG&E-3, p.7-7

million. According to PG&E "taken together communities could, in theory, request PG&E to spend as much as $1.223 billion for Rule 20A work as of the end of March 2009, of which $478.4 million are committed to specific projects, leaving $744.9 million of uncommitted work credits."[27]

In this proceeding, PG&E proposes certain changes to the tariff Rule 20A program. The proposed changes will modify how PG&E calculates and allocates work credits. Specifically, PG&E proposes the following:[28]

1. Adjust the way it calculates the work credits that are allocated to cities and counties starting in 2011. PG&E will allocate work credits at the same level and in the same amount as the Rule 20A annual budgeted amount and not an escalated amount as currently done.

2. An annual capital expenditure forecast of $80 million for 2011, 2012 and 2013. The $80 million forecast is comprised of two distinct components: (i) $50 million represents the annual budgeted amount, and (ii) $30 million represents the amount that PG&E will dedicate to reduce or work down the $818 million accumulated unspent balance of the Rule 20A account. The revenue requirement for the test year is affected by the capital expenditures forecast for Rule 20A.

3. An exception to existing rules by allowing communities with projects already in progress to continue with their projects even though they exceeded the 5-year allowable borrowing limit.

4. A one-way balancing account treatment for its Rule 20A forecast similar to the proposal for NB/WRO expenditures. Under this proposal, PG&E will be allowed the flexibility to shift funds between Rule 20A and capital expenditures for NB/WRO as it deems

[27] PG&E-3 , p. 7-7

[28] PG&E-3, p.7-2

appropriate. Any unspent funds at the end of the rate case cycle will be refunded to ratepayers.

DRA agrees with some of PG&E's proposals but disagrees with others. Although DRA believes that PG&E should have acted sooner, thereby avoiding the large accumulated work credit balance, the company's proposal to change the way work credits are calculated is a positive change. The proposed change will help to mitigate against the growing accumulated work credit balance for Rule 20A program. Under the proposed change, PG&E will stop applying an escalation factor to calculated work credits, and the work credits that are allocated to cities and communities will be on par with the annual budget that is approved by the Commission for Rule 20A projects. In short, this will ensure that there is parity between the annual credit allocations, the annual GRC forecast, and the amount being budgeted and spent on the Rule 20A projects.

Currently, both the budgeted amount and the amount spent have been outpaced by the annual credit allocations largely due to the existing methodology used by PG&E for calculating annual work credit allocations. Also, the methodology that PG&E is proposing is consistent with the methodology that both SCE and San Diego Gas & Electric Company (SDG&E) have used and currently use. Unlike PG&E, SCE and SDG&E do not have large accumulated work credit balances and both allocate smaller annual work credits to cities and counties.[29] For example, compared to PG&E's accumulated unspent balance of $818 million, SCE reported having unexpended/unused balance of $194.585 million as of March 31, 2010,[30] while SDG&E has accumulated unused work credit of $4.9 million at the end of 2008.[31]

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[29] PG&E-3, p.7-7

[30] Exhibit A of SCE's 2009 Completion Report for Underground Conversion of Overhead Electrical Facilities Filed with the CPUC on March 31, 2010.

[31] PG&E's response to DRA's data request DRA-095-04, Q.4c

For 2009 through the test year, PG&E forecasts $80 million in annual capital expenditures for Rule 20A. This amount is comprised of $50 million budget to fund on-going capital expenditures for Rule 20A, and $30 million annual budget to reduce or work down the $818 million balance currently accumulated for Rule 20A. DRA supports the idea of providing PG&E with an annual budget of $50 million to fund Rule 20A projects. However the funds should be used to fund only projects that have already been encumbered and are part of the $818 million accumulated in the Rule 20A balance.

Secondly, DRA recommends that a ten-year moratorium be placed on the Rule 20A program to prevent any further accumulation of work credits to the existing balance until the existing balance has been significantly worked down. Therefore, under the proposed moratorium, no additional credits will be allowed or allocated to cities or communities and the $50 million proposed annual budget will be used entirely to work down the existing balance. Although some may argue that a moratorium will short-change cities and counties from much needed Rule 20A projects, based on historical data, authorized budgets and increased work credit allocations have not translated into increased spending by PG&E or demand for underground constructions funding from cities and communities.

For example, the average annual amounts that PG&E spent on Rule 20A projects based on demands from counties and cities over the last 9 years is approximately $43 million while PG&E allocated approximately $74 million average work credit during the same period. There is no evidence that this trend will change anytime soon. The economic downturn and budget deficit currently afflicting most cities and counties have been projected to continue for several years to come. The demands for underground construction requests from cities and communities are likely to remain low. Therefore, DRA believes that a moratorium at this point is appropriate. It provides all parties the opportunities to reset and use up the work credits currently on PG&E's books.

At this time, DRA believes that PG&E's proposal for an additional $30 million capital expenditure budget to reduce or work down the $818 million balance currently accumulated for Rule 20A is unnecessary. The nine year historical data

has shown that increasing the annual budget has not translated into increased spending or demands for Rule 20A projects. Therefore, supplementing the annual budget by an additional $30 million will neither translate to increased spending nor increased demand.

The following table compares DRA's and PG&E's 2009-2011 forecasts for Rule 20A capital expenditures.

Table 8-13
Rule 20A Capital Expenditures for 2009-2011
($ in Million)

Description	DRA Recommended			PG&E Proposed		
	2009	2010	2011	2009	2010	2011
Rule 20 A Budget	$44.60	$46.80	$50.00	$44.60	$46.80	$50.00
Budget to Work Down Accumulated Balance			$0.00			$30.00

Regarding PG&E's proposal for a combined one-way balancing account for Rule 20A and NB/WRO

PG&E proposes a one-way balancing account treatment for its Rule 20A forecast similar to the proposal for NB/WRO expenditures. As discussed above, DRA is recommending that two separate balancing accounts should be established – one for NB and a second for WRO including Rule 20A. This will allow PG&E the flexibility to shift funds between activities under Rule 20A Rule 20B and Rule 20C. Each of the tracking accounts should be evaluated separately to determine whether or not a refund should be made to ratepayers at the end of the rate cycle.