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Witnesses	:	G. Harpster

CALIFORNIA PUBLIC UTILITIES COMMISSION

ORA

Office of Ratepayer Advocates

Administrative and General Expenses And Allocations Report

For Pacific Gas and Electric Company

General Rate Case
Test Year 2003

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Chapter 1
Executive Summary

This report presents the results of an audit of the following areas of Pacific Gas & Electric Company's (PG&E) 2003 General Rate Case (GRC) application conducted by Overland Consulting (Overland) on behalf of the Office of Ratepayer Advocates (ORA) of the Public Utilities Commission of California (CPUC).

1. Administrative and General (A&G) Accounts 920 through 923

2. Cost allocations for A&G Accounts 924, 925, 926 and 930

3. Cost allocations for Common Plant

4. Selected income tax issues

Account 920 is A&G Salaries. Account 921 is A&G Office Supplies and Expenses. Account 922 reduces the costs recorded in Accounts 920 and 921 to transfer costs attributable to construction to plant accounts. Account 923 is Outside Services. Accounts 920 through 923 contain the expenses of PG&E's A&G departments, excluding employee benefits. Account 923 also includes the charges to PG&E from its parent company, PG&E Corporation.

Accounts 924 through 930 contain expenses applying generally to PG&E's entire operations. Account 924 is Property Insurance. Account 925 is Injuries and Damages. Account 926 is Employee Benefits. Account 930 is Miscellaneous General Expenses.

Summary of Findings - Accounts 920 Through 923

PG&E's forecasts for Accounts 920 through 923 were the primary focus of Overland's audit. The following table compares PG&E's and Overland's 2003 forecasts for those accounts.

Accounts 920 Through 923 2003 Forecasts - Total Utility A&G Expense (In Thousands of 2000 Dollars)			
Description	Overland	PG&E	Difference
Account 920 - A&G Salaries	112,277	141,826	(29,549)
Account 921 - Office Supplies and Expenses	17,318	23,307	(5,989)
Account 922 - A&G Expenses Transferred - Cr.	(18,795)	(9,837)	(8,958)
Account 923 - Outside Services Employed	59,797	124,818	(65,021)
Total	170,597	280,114	(109,517)
Source: PG&E Exhibit 6 workpapers and Overland workpapers			

The following table shows the total difference by source.

Accounts 920 Through 923 Summary of Differences By Source (In Thousands of 2000 Dollars	
Source	Amount
A&G Study - Utility	(39,495)
A&G Study - Holding Company	(40,237)
Performance Incentive Plan - Utility	(24,701)
Non-A&G Study Departments - Utility	(5,084)
Total Difference	(109,517)

Three broad themes apply to Overland's findings concerning Accounts 920 through 923.

1. PG&E's forecasts reflect a very detailed department-by-department forecasting approach. That approach required a detailed approach to auditing and correcting PG&E's forecasts.

2. PG&E's forecasts are inflated because PG&E disregarded long-standing CPUC policies concerning holding company costs and incentive pay.

3. PG&E's gross departmental cost forecasts reflect inflated estimates of labor, materials and contract costs.

Detailed Forecasting Approach

PG&E's forecasts were developed in its A&G Study. The A&G Study develops gross departmental cost forecasts for 42 utility A&G departments and 28 holding company departments and allocates those forecasts to regulatory categories to derive A&G expense costs on a department-by-department basis. Gross departmental costs are

total costs before allocations to capital, below-the-line, A&G expense and other accounts.

PG&E developed its gross departmental forecasts by making adjustments to recorded 2001 costs. PG&E's A&G Study includes over 800 forecast adjustments. PG&E allocated the gross departmental forecasts to regulatory categories using department-specific allocation factors. In total, PG&E's A&G study includes over 1,400 allocation factors.

Overland accepted PG&E's A&G Study framework and developed its forecasts and allocations on a department-by-department basis. PG&E's detailed department-by-department approach resulted in numerous forecast and allocation adjustments.

CPUC Holding Company Policy

The CPUC's holding company policies are clear. Incremental costs resulting from the formation of the holding company should be excluded from rates. Holding company charges for general supervisory activities should only be allowed in rates to the extent the supervisory activities provide a clear and tangible benefit to the utility. Holding company charges that reflect the provision of services that are clearly needed by the utility are reasonable and should be allowed in rates.

Overland included holding company charges in A&G expenses only to the extent that the holding company is expected to provide actual identifiable services to PG&E and the services actually benefit PG&E. That standard reflects the CPUC's holding company policies, as affirmed and expanded in PG&E's 1999 GRC Decision.

PG&E's forecast of holding company charges exceeds Overland's forecast by $40 million. Most of that difference is attributable to PG&E's non-compliance with the CPUC's holding company policies.

The following table shows the percentage of holding company labor and materials costs allocated to the utility by PG&E and Overland by department. The table also shows the difference in total holding company charges to PG&E by department.

A&G Study Differences Holding Company Departments (In Thousands of 2000 Dollars)				
	Labor and Materials Percent			Total Dollar Difference
Department	PG&E	Overland	Difference	
Chairman, CEO & President	76.39	0.00	(76.39)	(2,795)
VP and Assistant to the Chairman	76.39	0.00	(76.39)	(254)
Corporate Secretary	74.32	39.21	(35.11)	(1,953)
General Counsel	76.39	0.00	(76.39)	(687)
Law Department	75.99	20.00	(55.99)	(3,811)
Internal Audit	73.60	60.51	(13.09)	(1,686)
Legal Compliance & Business Ethics	89.50	47.80	(41.70)	(433)
Risk Initiatives	100.00	75.00	(25.00)	(99)
Risk Management	43.66	25.00	(18.66)	(224)
SVP Chief Financial Officer	38.20	0.00	(38.20)	(2,636)
SVP Controller	77.32	22.35	(54.97)	(675)
Corporate Accounting	81.13	8.70	(72.43)	(2,667)
Tax	54.16	54.16	0.00	(617)
Financial Planning	76.39	0.00	(76.39)	(499)
Financial Analysis	72.98	35.71	(37.27)	(497)
Tech. & Risk Management Accounting	68.38	42.43	(25.95)	(239)
Investor Relations	56.87	33.33	(23.54)	(317)
VP Treasurer	76.39	76.39	0.00	(303)
Banking and Money Management	72.87	67.70	(5.17)	(125)
SVP Pubic Affairs	76.39	0.00	(76.39)	(258)
Fed. Government & Reg. Relations	69.85	39.29	(30.56)	(1,498)
Regional Government Relations	34.99	0.00	(34.99)	(540)
Corporate Communications	30.56	0.00	(30.56)	(1,275)
Human Resources	89.50	28.32	(61.18)	(4,354)
Strategic Planning	76.39	0.00	(76.39)	(753)
Corporate Information Technology	76.39	0.00	(76.39)	(1,189)
Corporate Items	76.39	12.03	(64.36)	(9,854)
Total (Weighted Average)	71.06	29.30	(41.76)	(40,237)

The 76.39% factor PG&E used for many of the holding company departments is PG&E's "multi-factor" allocation factor. That factor reflects an average of assets, operating expenses (excluding fuel) and employees.

In total PG&E allocated 71% of the holding company costs to the utility. In contrast, Overland allocated 29% of the holding company's costs to the utility.[1]

CPUC Policy - Incentive Pay

The CPUC has a long-standing policy of allocating 50% of the cost of incentive pay, at the targeted payout level, to shareholders. PG&E's primary incentive pay plan is the Performance Incentive Plan (PIP). PG&E forecast a total cost of $41.6 million for the PIP. PG&E did not allocate any of its PIP costs to below-the-line shareholder funded accounts. PG&E's failure to comply with the CPUC's incentive pay rate-making policy inflated its utility A&G estimates by $14.1 million.

PG&E also made an error in its allocations of PIP costs to construction. That error overstated PG&E's A&G expenses by $10.6 million. In total, the two PIP errors overstated PG&E's PIP expenses by $24.7 million, in 2000 dollars.

CPUC Policy - Capital Allocations

A&G construction cost allocations should reflect the incremental cost approach adopted in PG&E's 1999 GRC Decision. PG&E failed to allocate adequate amounts of A&G costs to capital. Overland's capital factors allocate $5.6 million more (in 2000 dollars) of utility department labor and material costs to capital than PG&E's factors.[2] The following table shows that difference by department.

[1] The PG&E percentage (71%) reflects PG&E's allocation factors applied to Overland's adjusted forecast.

[2] The $5.5 million difference was calculated by applying PG&E's allocation factors to Overland's forecast and comparing the results to Overland's recommended costs (i.e. Overland forecast with Overland factors).

Labor and Materials Utility Department Capital Differences (in Thousands of 2000 Dollars)	
Department	Amount
Accounts Payable	388
Capital Accounting	410
Purchasing	619
Local Governmental Relations	215
HR Industrial Relations	245
HR Benefits	256
HR Services	1,671
HR Compensation	116
HR Professional Staffing & Diversity	359
Law	529
SH&C Director	38
SH&C Workers Compensation	321
SH&C Third Party Claims	411
Total	5,578

PG&E's Human Resources departments account for 47% of the increased capital allocation.

CPUC Policy - Below-the-Line Allocations

Overland's allocation factors allocate $5.5 million more to below-the-line accounts for utility departments than PG&E's factors. The following table shows that difference by department.

Accounts 920 Through 923 Utility Department Below -The-Line Differences (In Thousands of 2000 Dollars)		
Department	Basis	Amount
VP Controller	POR	189
Business & Financial Planning	POR	210
Corporate Accounting	POR/Affiliate	709
SVP Public Affairs	POR/Political/Image	128
VP Communications	POR/Political/Image	405
Internal & External Communications	POR	78
Media Relations	POR/Image	322
VP Governmental Relations	POR/Political/Image	97
Local Government Relations	POR/Political/Image/Dues	1,185
External Relations	Political/Image/Donations	307
Revenue Requirements	POR	143
Benefits	POR	111
Law	POR	1,446
Affiliate Rules Compliance	Affiliate	194
Total		5,525

In the table above, “POR” refers to the incremental costs of PG&E’s bankruptcy proceeding and Plan of Reorganization (POR). “Affiliate” refers to affiliate rules compliance costs. “Political” refers to political advocacy costs. “Image” refers to the cost of public relations activities primarily intended to enhance PG&E’s general corporate reputation. “Dues” refers to local chamber of commerce and other civic organization dues. “Donations” refers to donations to local community political and civic groups.

PG&E expects to incur substantial bankruptcy litigation and POR implementation costs in 2003. PG&E’s policy is to charge incremental bankruptcy and POR costs to shareholder funded below-the-line accounts. PG&E agrees it should not receive any increase in rates in this GRC based on bankruptcy or POR costs. Unfortunately, PG&E failed to identify and remove all incremental bankruptcy and POR costs from its forecasts.

PG&E failed to fully comply with the CPUC’s policies concerning political advocacy, corporate reputation enhancement, affiliate rules compliance and dues and donations costs. Those policies are described in Chapter 2.

Inflated Cost Forecasts - Utility Departments

Overland proposed adjustments to PG&E's gross cost forecasts for 17 utility departments. Those adjustments are shown below by department and type of cost.

Accounts 920 through 923 **Adjustments to PG&E's Gross Department Forecast** (in Thousands of 2002 Dollars)				
Department	Labor	Materials	Contracts	Total
SVP - Treasurer & CFO	0	0	(5,600)	(5,600)
SAP Operations & Control	0	(496)	(324)	(820)
VP & Controller	0	0	(530)	(530)
Budget	0	(478)	0	(478)
Accounts Payable	(164)	(174)	0	(338)
Corporate Accounting	0	(211)	0	(211)
Risk Management	(412)	(2,233)	(134)	(2,779)
Purchasing	0	0	(3,300)	(3,300)
Internal & Ext Communications	(177)	(33)	(192)	(402)
Local Government Relations	278	(355)	0	(77)
Revenue Requirements	(533)	(52)	(921)	(1,506)
External Relations	(254)	(371)	48	(577)
HR Business Ops, Svcs & Syst	(912)	(208)	0	(1,120)
Law	0	0	(11,956)	(11,956)
SH&C Workers Compensation	(672)	(57)	293	(436)
SH&C Third Party Claims	(175)	(55)	0	(230)
SH&C Safety Engineering	(342)	(48)	(1,245)	(1,635)
Total Gross Adjustments	(3,363)	(4,771)	(23,861)	(31,995)

The labor adjustments reflect differences in 2003 staffing forecasts. Overland's forecasts for utility departments include 50.7 fewer full-time equivalent employees than PG&E's forecasts. That staffing difference is shown on Schedule 1-1 by department. Overland reduced PG&E's staffing forecasts for 9 of the 42 utility departments included in the A&G Study. PG&E's staffing forecasts for those departments were excessive compared to historical and current levels. Overland made a corresponding adjustment to material costs for each staffing adjustment.

Overland reduced PG&E's contract forecast for the utility CFO by $5.6 million to eliminate tax consulting contract costs PG&E included in its forecasts twice, once in the forecast for the utility CFO and again in the forecast for the holding company Tax Department. The CFO contract adjustment also eliminates other unsupported costs.

The Risk Management Department materials and the Purchasing Department contracts adjustments eliminate the cost of unsupported and speculative information systems projects included in PG&E's forecasts.

The Revenue Requirements contract adjustment eliminates $500,000 that PG&E included in its forecast for reimbursement of ORA consultant costs in this GRC. The adjustment also reduces other GRC litigation contract costs.

The Law contract cost adjustment eliminates litigation costs for PG&E's gas transmission station chromium discharge litigation. Among other things, the complaints in those cases allege negligence, fraudulent concealment and destruction of evidence by PG&E. Overland recommended deferring consideration of the chromium litigation costs until the merits of the allegations against PG&E have been determined by the courts.

The contract adjustment for the Safety, Health & Claims (SH&C) Safety Engineering Section eliminates speculative and unsupported costs included in PG&E's forecast for an expanded ergonomics program. The remaining utility adjustments are described in the Chapter Summaries Section of this Chapter.

Inflated Cost Forecasts - Holding Company Departments

Overland proposed adjustments to PG&E's gross cost forecasts for 14 holding company departments. Those adjustments are shown below by department and type of cost. For ease of references, the table also shows the percentage of each department's labor costs that Overland allocated to the utility.

Account 923 Adjustments to PG&E's Gross Holding Company Forecasts (In Thousands of 2002 Dollars)				
Department	Utility Labor Percent	Labor & Materials	Contracts	Total
Chairman, CEO & President	0.00	0	(875)	(875)
Law Department	20.00	0	(2,592)	(2,592)
Internal Audit	60.51	(999)	0	(999)
Federal Government & Reg. Relations	39.29	(243)	0	(243)
Human Resources	28.32	0	(790)	(790)
Corporate Communications	0.00	(340)	0	(340)
SVP Chief Financial Officer	0.00	0	(2,621)	(2,621)
SVP Controller	22.35	0	(287)	(287)
Corporate Accounting	8.70	(243)	0	(243)
Tax	54.16	(1,206)	0	(1,206)
Financial Planning	0.00	(173)	0	(173)
Strategic Planning	0.00	210	0	210
VP Treasurer	76.39	(420)	0	(420)
Corporate Information Technology	0.00	(446)	0	(446)
Total Adjustments Before Allocations		(3,860)	(7,165)	(11,025)

The labor and materials adjustments for the Internal Audit and Tax Departments reflect reductions in forecasted staffing levels. PG&E's and Overland's holding company staffing forecasts are shown on Schedule 1-2 by department.

The CEO, CFO and Law Department contract adjustments eliminate unsupported and speculative amounts included in PG&E's forecasts. PG&E no longer supports its contract forecast for the holding company Law Department. Overland did not allocate any of the costs of the CEO or CFO to the utility. Therefore, those contract adjustments will not impact utility A&G costs if Overland's recommended allocations are adopted. The other holding company forecast adjustments are described in the Chapter Summaries Section of this Chapter.

Summary of Findings - Other A&G Accounts and Common Plant

Overland updated and corrected the labor factors PG&E used to allocate employee benefits costs to construction and below-the-line accounts. The following table shows the utility expense impact of Overland's employee benefits allocation factors, based on PG&E's forecast of employee benefits costs.

Account 926 - Employee Benefits Impact of Capital, Below-the-line and Affiliate Allocations (In Thousands of 2000 Dollars)			
	Overland	PG&E	Difference
Capital	32.22	30.35	1.87
Below-the-Line	0.49	0.08	0.41
Affiliates	0.10	0.16	(0.06)
Total	32.81	30.59	2.22
PG&E Gross Forecast			296,229
Utility Expense Impact			(6,576)
Source: PG&E Exhibit 6 WP 6-196 and Schedules 11-1 and 11-2			

ORA's employee benefits forecasts are lower than PG&E's forecasts. Therefore, the impact of Overland's recommended factors based on ORA's forecasts will be lower than the amounts shown above.

Overland also corrected PG&E's capital allocations for the workers compensation and third party claims costs included in Account 925. Those corrections reduce utility A&G expense by $3.5 million.

Overland reduced Account 925 by $1.3 million to allocate 50% of Directors' and Officers' liability insurance costs to shareholders, as required by PG&E's 1999 GRC Decision. Overland directly assigned the $4.3 million MCI-PG&E Exchange of Rights fee included in Account 930 to electric transmission to remove those costs from the GRC. PG&E agrees those fees should be excluded from the GRC.

Overland rejected PG&E's illogical and arbitrary approach of allocating residual common plant costs to Diablo Canyon based on 1994 plant costs and 1993 allocation factors. Overland increased the common plant allocation to Diablo Canyon by $82 million.

Summary of Findings - Income Taxes

Overland did not have primary responsibility for ORA's review of income tax issues. Overland addressed the following income tax issues.

- Hydro and fossil power plant Tax Regulatory Asset amortization
- Capitalized A&G overheads deduction

The hydro and fossil power plant Tax Regulatory Asset reflects amounts receivable from ratepayers for income tax temporary differences that were given flow-through ratemaking treatment prior to the implementation of electric industry restructuring. PG&E proposed a three-year amortization for the Tax Regulatory Asset based on the three-year GRC cycle. PG&E's proposed three-year amortization period is inconsistent with the CPUC's income tax accounting and rate-making policies. Overland recommended a 20-year amortization period based on the average remaining useful lives of the related plant. Overland's recommendation reduces PG&E's 2003 deferred income tax expenses by $23.4 million. A one dollar decrease in deferred income tax expense reduces PG&E's revenue requirements by $1.6889. The deferred tax adjustment reduces PG&E's retained generation revenue requirements by $39.5 million.

PG&E's 2003 current income tax calculations do not include a tax deduction for A&G overheads capitalized on PG&E's books but deducted currently for income tax purposes. Overland reduced current income tax expense by $9.7 million to correct that error.

Audit Approach and Scope

The primary objectives of the audit were:

1. Develop 2003 GRC forecasts for A&G Accounts 920 through 923 consistent with CPUC rate-making policies;

2. Develop cost allocations for PG&E's other A&G accounts and common plant; and

3. Review selected income tax issues as directed by ORA.

Overland's approach to the audit included the following key elements.

1. Developing a sound understanding of the CPUC's policies applicable to the audit objectives and complying with those policies.

2. Utilizing the experience gained in Overland's review of PG&E's A&G cost allocations conducted on behalf of the ORA in PG&E's 1999 GRC.

3. Working within the detailed framework of PG&E's A&G Study and

reviewing cost forecasts and allocations on a department-by-department basis.

4. Developing a sound understanding of the activities of PG&E's A&G Study Departments by conducting comprehensive discovery and interviewing selected A&G Study Department directors.

5. Using 2002 cost levels and current staffing levels, adjusted for verifiable expected changes, as a benchmark for evaluating the reasonableness of PG&E's gross departmental cost forecasts.

6. Developing department specific allocation factors based on direct measures of cost causation to the extent that direct measures are available.

The allocation standards used by Overland are described in more detail in Chapter 2. As of March 31, 2003, the audit included 2,100 hours of consulting effort. Overland submitted 524 data request and conducted 24 interviews.

Chapter Summaries

The following summaries appear at the beginning of Chapters 2 through 12 of this Report. They are repeated here to provide a central reference point for the issues developed by Overland.

Chapters 3 through 9 address PG&E's A&G study. The Chapter Summaries for those Chapters include tables showing the differences between PG&E's and Overland's A&G Study results in 2002 dollars. The labor and materials differences shown on those tables are divided into forecast adjustments and allocations differences. The forecast adjustment amounts reflect the change in total utility A&G expense resulting from Overland's adjustments to the total department cost forecast using PG&E's allocation factors. The allocation differences reflect the application of Overland's versus PG&E's allocation factors to Overland's adjusted total department cost forecast. Contracts are allocated individually in PG&E's A&G Study. As a result, it is not practical to divide the contract differences between forecast adjustments and allocation differences.

Chapter 2 - Regulatory Categories and CPUC Policy

The following recommendations concerning allocation policy are developed in Chapter 2.

1. Allocations of costs to construction activities should reflect the incremental cost approach adopted in PG&E's 1999 GRC Decision.

2. Incremental costs attributable to PG&E's bankruptcy proceeding and Plan of Reorganization (POR) should be assigned to the below-the-line category.

3. Allocations of holding company costs to the utility should reflect the CPUC's long-standing holding company cost policies as affirmed and expanded in PG&E's 1999 GRC Decision.

4. Costs incurred to influence elections and the decisions of elected government officials should be assigned to the below-the-line category.

5. The cost of public relations activities designed to enhance PG&E's general corporate reputation should be assigned to the below-the-line category.

The CPUC's policy concerning incentive pay is addressed in Chapter 10.

Chapter 3 - Utility CEO, CFO and Accounting

The following table summarizes the issues developed in Chapter 3 at a total utility A&G expense level by department.

Chapter 3 - Utility CEO, CFO and Accounting **Summary of Differences -Total Utility A&G Expense** (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total

SVP Treasurer and CFO	0	0	(4,153,000)	(4,153,000)
Business & Financial Planning	0	(224,479)	0	(224,479)
SAP Operations and Control	(486,272)	0	(324,344)	(810,616)
Controller	0	0	(729,679)	(729,679)
Budget	(478,372)	0	0	(478,372)
Payroll	(165,683)	0	0	(165,683)
Accounts Payable	0	(413,181)	0	(413,181)
Corporate Accounting	(205,343)	(756,169)	0	(961,512)
Capital Accounting	0	(437,427)	(111,000)	(548,427)
Risk Management	(2,379,970)	0	(133,841)	(2,513,811)
Purchasing	0	(659,812)	(3,300,000)	(3,959,812)
Total	(3,715,640)	(2,491,068)	(8,751,864)	(14,958,572)

The issues are described below by department.

1. **SVP CFO.** Reduced PG&E's contract forecast by $5.6 million forecast (before allocations) to eliminate contract costs included in PG&E's forecasts twice, once in the utility CFO forecast and again in the holding company Tax Department forecast. The adjustment also eliminates other unsupported contract costs included in PG&E's forecast.

2. **Business and Financial Planning.** Allocated an additional 15.4% of the Department's costs to the below-the-line category to eliminate incremental bankruptcy and POR costs.

3. **SAP Operations and Control.** Reduced PG&E's forecast by $820,491 to eliminate non-recurring SAP SI project costs. PG&E agrees that the contract costs should be eliminated.

4. **Controller.** Reduced PG&E's forecast of annual audit fees by $529,679 to reflect the 2003 cost estimate provided to the Board Audit Committee. Assigned $200,000 of the annual audit fee to the below-the-line category to eliminate incremental costs attributable to PG&E's bankruptcy proceeding.

5. **Budget Department.** Reduced PG&E's forecast by $478,372 to eliminate non-recurring SAP SI project costs. PG&E agrees with the proposed adjustment.
6. **Accounts Payable.** Reduced PG&E's forecast by $198,483 (before allocations) to reflect the current staffing level in the Department. Allocated an additional 11.25% of the Department's costs to capital.

7. **Corporate Accounting.** Allocated an additional 16.05% of the Department's costs to the below-the-line category to eliminate incremental bankruptcy and POR related costs and to eliminate the cost of affiliate rules compliance activities. Reduced PG&E's forecast by $210,522 to reflect current material cost levels.

8. **Capital Accounting.** Allocated an additional 10.28% of the Department's costs to capital based on a section-by-section review of the Department's activities.

9. **Risk Management.** Reduced PG&E's forecast by $2.37 million to eliminate speculative and unsupported information system projects. Reduced PG&E's forecast by $494,712 to reflect 2003 expected staffing levels.

10. **Purchasing.** Reduced PG&E's forecast by $3.3 million to eliminate speculative and unsupported information systems projects. Allocated 29.03% of the Department's costs to capital to reflect the activities of the Department.

Chapter 4 - Utility Public Affairs

The following table summarizes the issues developed in Chapter 4 at a total utility A&G expense level by department.

Chapter 4 - Utility Public Affairs **Summary of Differences -Total Utility A&G Expense** (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Public Affairs	0	(135,497)	0	(135,497)
VP Communications	0	(339,597)	(91,345)	(430,942)
Internal and Ext. Communications	(203,732)	45,572	(275,112)	(433,272)
Media Relations	0	(307,603)	(35,642)	(343,245)
VP Governmental Relations	0	(438,559)	(103,169)	(541,728)
Local Governmental Relations	(68,457)	(1,490,067)	0	(1,558,524)
External Relations	(551,503)	(271,973)	(23,997)	(847,473)
Total	(823,692)	(2,937,724)	(529,265)	(4,290,681)

The issues are described below by department.

1. **SVP Public Affairs.** Reduced utility A&G allocation by 25.04% to eliminate to eliminate political advocacy, corporate reputation enhancement and incremental bankruptcy and POR costs. The increased allocation reflects the weighted

average allocations of the departments reporting to the SVP.

2. **VP Communications.** Reduced utility A&G allocation by 40.42% to eliminate incremental bankruptcy and POR costs and the cost of managing reputation enhancement advertising.

3. **Internal and External Communications.** Decreased forecast (before allocations) by $210,033 to reflect current staffing levels. Decreased contract costs by $192,559 to reflect the Department's 2003 budget and assigned an additional $82,553 in contract costs to the below-the-line category to eliminate incremental POR contract costs.

4. **Media Relations.** Increased allocation to the below-the-line category by 15.73% to eliminate incremental POR costs and the costs of corporate reputation enhancement activities.

5. **VP Governmental Relations.** Allocated 58.28% of the Department's costs to the below-the-line category to eliminate political advocacy, reputation enhancement and incremental bankruptcy and POR costs. The increased allocation reflects the weighted average allocations for the department's reporting to the VP.

6. **Local Governmental Relations.** Increased forecast (before allocations) by $382,182 to reflect recent staffing additions in the Department. Reduced costs by $451,500 to eliminate local Chamber of Commerce membership fees. Increased below-the-line allocation by 31.4% to eliminate political advocacy, reputation enhancement and incremental bankruptcy and POR costs.

7. **External Relations.** Reduced forecast by $575,167 to reflect 2003 expected staffing levels. Allocated an additional 35.6% of the Department's costs to below-the-line to eliminate the costs of political advocacy and corporate reputation enhancement activities.

Chapter 5 - Utility Regulatory and Human Resources

The following table summarizes the issues developed in Chapter 5 at a total utility A&G expense level by department.

Chapter 5 - Utility Regulatory and Human Resources Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Revenue Requirements	(584,625)	(807)	(1,071,560)	(1,656,992)
Industrial Relations	0	(261,196)	0	(261,196)
HR BOSS	(910,567)	0	0	(910,567)
Benefits	0	(391,358)	0	(391,358)
HR Services	0	(1,780,425)	0	(1,780,425)
Compensation	0	(123,877)	0	(123,877)
Professional Staffing & Diversity	0	(382,421)	0	(382,421)
Total	(1,495,192)	(2,940,084)	(1,071,560)	(5,506,836)

The issues are described below by department.

1. **Revenue Requirements.** Reduced costs by $584,741 to reflect current staffing levels. Reduced contract costs by $857,627 to eliminate $500,000 included in PG&E's forecast for reimbursement of ORA GRC consultant costs and to reflect expected 2003 GRC contract costs. Increased below-the-line contract allocation by $151,625 to eliminate incremental POR costs. Corrected PG&E's allocation of the remaining GRC contract costs to UCCs.

2. **Industrial Relations.** Increased capital allocation by 15.78% to reflect the activities of PG&E's union workforce.

3. **HR Business Operations, Services & Systems.** Reduced costs by $1.12 (before allocations) to reflect expected 2003 staffing levels.

4. **Benefits Department.** Allocated 6.25% to the below-the-line category to eliminate incremental POR costs. Allocated 14.42% of the Department's costs to capital.

5. **HR Services**. Increased capital allocation by 21.55% to reflect the capital labor factors of the Department's client organizations and the current staffing assignments within the Department.
6. **Compensation Department.** Allocated 14.29% of the Department's costs to capital.

7. **Professional Staffing and Diversity**. Allocated 23.05% of the Department's costs to capital based on a review of the job vacancies recruited by the

Department in 2002.

Chapter 6 - Utility Law and Safety Health & Claims

The following table summarizes the issues developed in Chapter 6 on a total utility A&G expense level by department.

Chapter 6 - Utility Law and Safety Health & Claims Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Law Department	0	(2,074,443)	(11,956,000)	(14,030,443)
SH&C - Director	0	(40,304)	0	(40,304)
SH&C - Workers Compensation	(503,456)	(342,812)	184,606	(661,662)
SH&C - Third Party Claims	(215,861)	(437,686)	0	(653,547)
SH&C - Safety Engineering	(390,262)	0	(1,245,417)	(1,635,679)
Affiliate Rules & Reg. Compliance	0	(206,984)	0	(206,984)
Total	(1,109,579)	(3,102,229)	(13,016,811)	(17,228,619)

The issues are described below by department.

1. **Law Department**. Reduced contract by $11.96 million to eliminate costs for PG&E's gas transmission station chromium discharge litigation. Allocated 8.40% of the Department's labor costs to the below-the-line category to eliminate incremental bankruptcy proceeding and POR costs. Revised PG&E's other labor allocations to reflect actual 2002 time reporting data.

2. **Safety, Health & Claims - Director.** Allocated labor costs based on the weighted average allocation of the sections reporting to the Director.

3. **Safety, Health & Claims - Workers Compensation Section.** Reduced labor and material costs by $729,746 (before allocations) and increased temporary agency worked contract costs by $292,700 to reflect 2003 expected staffing levels. Allocated an additional 5.93% of the section's costs to construction based on an analysis of outstanding claims by originating department.
4. **Safety, Health & Claims - Third Party Claims Section.** Reduced costs by $229,763 to reflect forecasted 2003 staffing levels. Increased capital allocation by 13.9% based on an analysis of 2002 claims by originating department.

5. **Safety, Health & Claims - Safety Engineering Section.** Reduced PG&E's

forecast by $1.25 million to eliminate unsupported and speculative ergonomic program costs. Reduced costs by $390,262 to reflect 2003 expected staffing levels.

6. **Affiliate Rules and Regulatory Compliance.** Increased below-the-line allocation by 33% to eliminate affiliate transactions rules compliance costs consistent with the policy adopted in PG&E's 1999 GRC Decision.

Chapter 7 - Holding Company CEO and General Counsel

The following table summarizes the issues developed in Chapter 7 on a total utility A&G expense level by department.

Chapter 7 - Holding Company CEO and General Counsel Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Chairman, CEO & President	0	(1,964,904)	(993,070)	(2,957,974)
VP & Assistant to the Chairman	0	(269,333)	(302)	(269,635)
Corporate Secretary	0	(937,128)	(1,129,534)	(2,066,662)
General Counsel	0	(726,952)	0	(726,952)
Law Department	0	(1,911,331)	(2,122,618)	(4,033,949)
Internal Audit	(730,997)	(929,171)	(123,799)	(1,783,967)
Legal Compliance & Bus. Ethics	0	(355,740)	(102,497)	(458,237)
Risk Initiatives	0	(104,785)	0	(104,785)
Risk Management	0	(237,366)	0	(237,366)
Total	(730,997)	(7,436,710)	(4,471,820)	(12,639,527)

The issues are described below by department.

1. **Board of Directors.** Allocated 55% of the costs of the PG&E Corporation/PG&E Board of Directors to affiliates.

2. **Chairman, CEO & President.** Reduced contract costs by $875,000 to eliminate unsupported costs included in PG&E's forecast. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs caused by holding company formation.

3. **VP and Assistant to the Chairman.** Reduced utility allocation by 42.64% to reflect an activity-based analysis of the Department.

4. **Corporate Secretary.** Reduced utility allocation by 35.6% to reflect the holding company policies adopted in PG&E's 1999 GRC Decision. Reduced utility contract cost allocation by $1.1 million.

5. **General Counsel.** Allocated 100% of the Department's costs to affiliates to eliminate incremental costs caused by holding company formation.

6. **Law Department.** Reduced costs by $2.6 million (before allocations) to eliminate unsupported contract costs and incremental bankruptcy costs. Reduced utility labor allocation by 55.98% to reflect the holding company policies adopted in the 1999 GRC Decision.

7. **Internal Audit.** Reduced costs by $1.0 million (before allocations) to reflect 2003 expected staffing levels. Reduced utility labor cost allocation by 13.09% based on the Department's 2001 and 2002 Annual Reports on Internal Auditing.

8. **Legal Compliance and Business Ethics.** Reduced utility allocation by 41.7% to reflect the CPUC's holding company cost policies.

9. **Risk Initiatives.** Reduced utility allocation by 25% to eliminate bankruptcy costs and to reflect the Department's activities.

10. **Risk Management.** Reduced utility allocation by 17.1% to eliminate incremental costs attributable to holding company formation and participation in non-regulated business activities.

Chapter 8 - Holding Company CFO, Controller and Treasurer

The following table summarizes the issues developed in Chapter 8 on a total utility A&G expense level by department.

Chapter 8 - Holding Company CFO, Controller and Treasurer Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Chief Financial Officer	0	(637,220)	(2,153,113)	(2,790,333)

SVP Controller	0	(360,348)	(354,430)	(714,778)
Corporate Accounting	(196,787)	(2,639,207)	13,331	(2,822,663)
Tax	(653,367)	0	0	(653,367)
Financial Planning	(131,876)	(395,628)	0	(527,504)
Financial Analysis	0	(525,747)	0	(525,747)
Tech. & Risk Management Accting	0	(225,637)	(26,545)	(252,182)
Investor Relations	0	(272,441)	(62,853)	(335,294)
VP Treasurer	(320,500)	0	0	(320,500)
Banking and Money Management	0	(131,921)	0	(131,921)
Total	(1,302,530)	(5,188,149)	(2,583,610)	(9,074,289)

The issues are discussed below by department.

1. **SVP Chief Financial Officer.** Reduced contract costs $1.3 to eliminate unsupported and excessive costs included in PG&E's forecast. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs attributable to holding company formation.

2. **SVP Controller.** Reduced costs by $287,119 to eliminate unsupported and excessive contract costs included in PG&E's forecast. Reduced utility allocation by 54.95% to reflect the CPUC's holding company policies.

3. **Corporate Accounting.** Reduced orders material costs by $242,528 (before allocations) to eliminate costs also included in PG&E's forecast for the utility Corporate Accounting Department. Reduced contract costs by $287,119 to eliminate unsupported and excessive costs included in PG&E's forecast. Reduced utility allocation by 68.85% to reflect the CPUC's holding company policies.

4. **Tax Department**. Reduced costs by $1.2 million (before allocations) to reflect 2003 expected staffing levels.

5. **Financial Planning.** Reduced costs by $172,635 to reflect the savings resulting from the merger of the Department into the new Financial Planning and Analysis Department. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs attributable to holding company formation.

6. **Financial Analysis.** Reduced utility allocation by 37.3% to reflect the CPUC's holding company policies.

7. **Technical and Risk Management Accounting.** Reduced utility allocation by 33.93% to reflect the Department specific analysis prepared by the Department's Director.

8. **Investor Relations.** Reduced utility allocation by 23.87% to reflect policy adopted in the 1999 GRC Decision.

9. **VP Treasurer**. Reduced costs by $419,558 (before allocations) to eliminate the cost of two employees who were included in the wrong department in PG&E's A&G Study.

10. **Banking and Money Management.** Reduce utility allocation by 5.17% to correct the treatment of POR activities.

Chapter 9 - Holding Company Public Affairs and Other

The following table summarizes the issues developed in Chapter 9 on a total utility A&G level.

Chapter 9 - Holding Company Public Affairs and Other Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Public Affairs	0	(134,497)	(138,819)	(273,316)
Fed. Government & Reg. Relations	(169,730)	(753,610)	(662,399)	(1,585,739)
Regional Government Relations	0	(246,026)	(325,421)	(571,447)

Corporate Communications	(103,890)	(531,083)	(713,808)	(1,348,781)
Human Resources	0	(3,129,039)	(1,478,983)	(4,608,022)
Strategic Planning	160,250	(918,309)	(39,482)	(797,541)
Corporate Information Technology	(340,726)	(711,385)	(205,659)	(1,257,770)
Corporate Items	0	(10,430,340)	0	(10,430,340)
Total	(454,096)	(16,854,289)	(3,564,571)	(20,872,956)

The issues are discussed below by department.

1. **SVP Public Affairs.** Allocated 100% to affiliates to eliminate incremental costs attributable to holding company formation.

2. **Federal Governmental and Regulatory Relations.** Reduced cost forecast by $243,000 (before allocations) to reflect expected 2003 staffing levels. Reduced utility labor allocation by 30.56% to reflect revised labor factors provided by PG&E.

3. **Regional Governmental Relations.** Allocated all costs to affiliates and below-the-line to eliminate political advocacy costs and incremental costs attributable to holding company formation.

4. **Corporate Communications.** Reduced forecast by $340,000 to reflect expected 2003 staffing levels. Allocated all labor costs to affiliates to eliminate incremental costs attributable to holding company formation. Reduced allocation of Annual Report to Shareholders costs by 43.4% to reflect the allocation approach adopted in the 1999 GRC Decision.

5. **Human Resources.** Reduced contract forecast by $789,548 to reflect the Department's 2002 budget. Reduced labor allocation by 61.18% to reflect the CPUC's holding company cost policies. Reduced contract allocation to reflect the CPUC's holding company policies.

6. **Strategic Planning.** Allocated all costs to affiliates and below-the-line to eliminate incremental costs attributable to the POR and holding company formation.

7. **Corporate Information Technology.** Reduced costs by $446,035 (before allocations) to reflect reduced staffing levels resulting from Departmental reorganization. Allocated 100% of costs to affiliates to eliminate incremental

costs attributable to holding company formation.

8. **Corporate Items.** Reduced utility allocations to reflect an item-by-item analysis of the costs. Recommended utility allocations reflect the allocations of other holding company departments and eliminate incremental costs attributable to holding company formation. Allocated 50% of the utility portion of incentive pay costs to below-the-line to reflect the CPUC's incentive pay policy. In total reduced utility costs by $10.4 million.

Chapter 10 - Accounts 920 Through 923

The following table shows Overland's and PG&E's forecasts for Accounts 920 through 923.

Accounts 920 Through 923 **2003 Forecasts - Total Utility A&G Expense** (In Thousands of 2000 Dollars)			
Description	Overland	PG&E	Difference
Account 920 - A&G Salaries	112,277	141,826	(29,549)
Account 921 - Office Supplies and Expenses	17,318	23,307	(5,989)
Account 922 - A&G Expenses Transferred - Cr.	(18,795)	(9,837)	(8,958)
Account 923 - Outside Services Employed	59,797	124,818	(65,021)
Total	170,597	280,114	(109,517)
Source: PG&E Exhibit 6 workpapers and Overland workpapers			

Most of the differences relate to A&G Study issues developed in Chapters 3 through 9. The following additional issues are developed in Chapter 10.

1. **M&O Labor Allocation Factor.** Increased allocation of A&G residual costs to electric transmission UCC by 1.62% to reflect M&O labor factor proposed by PG&E in its January 2003 FERC electric transmission rate application. Based on Overland's forecasts, that change increases the Account 920 through 923 costs allocated to electric transmission by $1.9 million. Based on PG&E's forecasts, the change increases the Account 925 through 935 costs allocated to electric transmission by $6.4 million.

2. **Performance Incentive Plan (PIP).** Reduced utility A&G expense by $24.7 million to reflect the CPUC's incentive pay policy and to correct PG&E's allocation of PIP costs to construction.

3. **Non-Study Department Costs.** Reduced utility A&G expense by $1.2 million to eliminate non-recurring accounting adjustments.
4. **Non-Study Department Costs.** Reduced utility A&G expense by $3.1 million to eliminate non-recurring costs for the SAP System Integration project.

5. **Non-Study Department Costs.** Reduced utility A&G expense by $1.0 million to eliminate accounting errors.

Chapter 11 - Allocation of Other A&G Accounts and Common Plant

The following issues are developed in Chapter 11.

1. **Accounts 925 and 926.** Increased the capital, below-the-line and affiliate allocations for workers compensation costs (excluding bonds and fees) by 2.46% to reflect 2002 labor costs and Overland's A&G study results. The recommended factors reduce utility expense by $1.2 million, based on PG&E's 2003 forecast.

2. **Accounts 925 and 926.** Revised the M&O labor allocation factor used to allocate utility expense to UCCs to reflect the factor contained in PG&E's January 2003 FERC electric transmission rate application.

3. **Account 925.** Reduced utility expense by $326,064 to correct PG&E's failure to allocate any of the workers compensation bonds and fees costs to capital.

4. **Account 925.** Allocated 19.9% of third party claims costs to capital based on a review of 2002 claims. Based on PG&E's 2003 forecast, the recommended capital allocation reduces utility expense by $2.3 million.

5. **Account 925.** Reduced utility expense by $1.3 million to allocate 50% of Director's and Officer's liability insurance costs to the below-the-line category consistent with the allocation adopted in PG&E's 1999 GRC.

6. **Account 926.** Increased capital, below-the-line and affiliate allocations by 2.22% to reflect 2002 labor costs and Overland's A&G Study results. The recommended factors reduce utility expense, based on PG&E's forecast, by $6.6 million.

7. **Account 930.** Directly assigned the $4.294 million MCI-PG&E Exchange of Rights fee to electric transmission to remove the costs from the GRC. PG&E agrees the costs should be excluded for the GRC.

8. **Common Plant.** Rejected PG&E's illogical approach of allocating residual common plant to Diablo Canyon based on 1994 plant costs and 1993 allocation factors. Allocated an additional $82 million in common plant to Diablo Canyon using the revised M&O labor factor.

9. **Common Plant.** Updated and corrected the M&O labor allocation factor used to allocate residual common plant to UCCs to reflect the factor contained in PG&E's 2003 FERC electric transmission rate application.

Chapter 12 - Selected Income Tax Issues

Chapter 12 recommends the following income tax expense adjustments.

1. PG&E's 2003 deferred income tax expense forecast should be reduced by $23.4 million to reflect a 20-year amortization period for PG&E's fossil and hydro power plant Tax Regulatory Asset.

2. PG&E's 2003 current income tax expense forecast should be reduced by $9.7 million to reflect the tax deduction for A&G overheads capitalized on PG&E's books but deducted currently for income tax purposes.

PACIFIC GAS AND ELECTRIC COMPANY
LABOR HEADCOUNT DIFFERENCES
UTILITY

SCHEDULE 1-1

FULL TIME EQUIVALENT EMPLOYEES				
PAGE REF	**PCC DESCRIPTION**	**PG&E**	**OVERLAND**	**DIFFERENCE**
3-4	President and CEO	4.0	4.0	0.0
3-4	SVP - Treasurer & CFO	4.0	4.0	0.0
3-11	Business and Financial Planning	13.0	13.0	0.0
3-13	SAP Operations and Control	14.0	14.0	0.0
3-15	VP and Controller	3.0	3.0	0.0
3-18	Budget	24.0	24.0	0.0
3-20	Payroll	32.0	32.0	0.0
3-22	Accounts Payable	48.0	45.0	(3.0)
3-26	Corporate Accounting	59.5	59.5	0.0
3-33	Capital Accounting	42.0	42.0	0.0
3-39	Risk Management	24.0	18.8	(5.2)
3-43	Purchasing	28.0	28.0	0.0
4-3	SVP Public Affairs	2.8	2.8	0.0
4-6	VP Communications	6.0	6.0	0.0
4-11	Internal and External Communications	16.0	14.0	(2.0)
4-17	Media Relations	19.0	19.0	0.0
4-21	VP Government Relations	5.0	5.0	0.0
4-27	Local Government Relations	30.8	34.0	3.2
4-37	External Relations	8.0	4.0	(4.0)
5-3	VP Regulatory Relations	10.0	10.0	0.0
5-4	Regulatory Relations	13.6	13.6	0.0
5-8	Revenue Requirements	103.5	96.5	(7.0)
5-17	VP - Human Resources	5.0	5.0	0.0
5-18	Industrial Relations	14.8	14.8	0.0
5-22	HR Business Ops, Services & Systems (HR BOSS)	61.0	45.8	(15.2)
5-25	Benefits	20.8	20.8	0.0
5-28	HR Services	99.6	99.6	0.0
5-32	Compensation	10.5	10.5	0.0
5-33	Professional Staffing and Diversity	21.0	21.0	0.0
6-2	VP General Counsel	2.0	2.0	0.0
6-5	Law Department	134.0	134.0	0.0
6-12	Safety Health & Claims - Director	5.0	5.0	0.0
6-15	Safety Health & Claims - Workers Compensation	90.0	79.3	(10.7)
6-19	Safety Health & Claims - Third Party Claims	41.0	38.3	(2.8)
6-23	Safety Health & Claims - Safety Engineering	21.0	17.0	(4.0)
6-27	VP Environmental Affairs	11.0	11.0	0.0
6-30	Affiliate Rules Compliance	7.0	7.0	0.0
6-31	Corporate Secretary	0.0	0.0	0.0
6-32	Records Center	4.0	4.0	0.0
Totals		1,057.9	1,007.3	(50.7)

Public Version

PACIFIC GAS AND ELECTRIC COMPANY
LABOR HEADCOUNT DIFFERENCES
HOLDING COMPANY

SCHEDULE 1-2

FULL TIME EQUIVALENT EMPLOYEES				
PAGE REF	**PCC DESCRIPTION**	**PG&E**	**OVERLAND**	**DIFFERENCE**
7-5	Chairman, CEO & President	3.0	3.0	0.0
7-9	VP and Assistant to the Chairman	2.0	2.0	0.0
7-11	Corporate Secretary	17.4	17.4	0.0
7-17	General Counsel	2.0	2.0	0.0
7-19	Law Department	15.4	15.4	0.0
7-25	Internal Audit	53.0	46.0	(7.0)
7-32	Legal Compliance and Business Ethics	5.0	5.0	0.0
7-35	Risk Initiatives	1.0	1.0	0.0
8-4	SVP Chief Financial Officer	4.0	4.0	0.0
8-7	SVP Controller	2.0	2.0	0.0
8-11	Corporate Accounting	23.0	23.0	0.0
8-18	Tax	42.0	35.0	(7.0)
8-24	Financial Planning	4.0	3.0	(1.0)
8-25	Financial Analysis	8.0	8.0	0.0
8-29	Technical & Risk Management Accounting	6.0	6.0	0.0
8-30	Investor Relations	5.0	5.0	0.0
8-32	VP Treasurer	4.0	2.0	(2.0)
8-34	Banking and Money Management	14.0	14.0	0.0
8-37	Inusurance	9.0	9.0	0.0
8-37	Investment and Benefit Finance	4.0	4.0	0.0
9-3	SVP Public Affairs	0.0	0.0	0.0
9-6	Federal Governmental and Regulatory Relations	11.0	9.0	(2.0)
9-9	Regional Governmental Relations	4.0	4.0	0.0
9-12	Corporate Communications	7.5	6.0	(1.5)
9-17	Human Resources	26.0	26.0	0.0
9-25	Strategic Planning	3.0	4.0	1.0
9-28	Corporate Information Technology	5.0	3.0	(2.0)
Totals		280.3	258.8	(21.5)

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Chapter 2
Regulatory Categories and CPUC Policy

The allocation of administrative and general costs to regulatory categories was a central element of Overland's audit. Regulatory categories reflect the division of costs into categories that receive different ratemaking treatment. The number of regulatory categories has expanded significantly in recent years as a result of regulatory changes in California.

The various regulatory categories can be divided into two types, accounting categories and unbundling categories. The accounting categories must be recognized on PG&E's accounting books pursuant to the CPUC's accounting requirements. The unbundled cost categories reflect allocations of costs done for GRC purposes and are not recorded on PG&E's books.

The regulatory categories are described below

Accounting Categories

- Capital - Costs excluded from GRC expenses because they are capitalized as part of the cost of constructing new plant.

- Below-the-line - PG&E costs charged to non-operating accounts and excluded from GRC expenses because they do not qualify for rate recovery under CPUC policies

- Maintenance and Operations - Costs incurred by A&G Study Departments that are excluded from the GRC A&G expense forecasts because they are charged to other operating expense accounts

- Charges to PG&E Corporation and affiliates - PG&E costs that are excluded from the GRC because they are charged to the holding company or other affiliates.

- Non-recoverable holding company costs - Charges from the holding company that are recorded in below-the-line accounts and excluded from the GRC because they do not qualify for rate recovery under the CPUC's holding company cost policies.

Unbundling Categories

- # Generation - Costs included in the GRC generation revenue requirement.
- # Electric Transmission - Costs excluded from the GRC because they are attributable to electric transmission operations regulated by the FERC.
- # Gas Transmission -Costs excluded from the GRC because they are included in the revenue requirement established in separate CPUC “Gas Accord” ratemaking proceedings.
- # Electric and Gas Public Purpose Programs - Costs excluded from the GRC because they are recovered through separate CPUC approved rates for public purpose programs.
- # Electric Distribution, Wires and Services - Costs included in the GRC electric distribution revenue requirement.
- # Electric Transaction Administration - Costs of energy procurement activities included in the GRC electric distribution revenue requirement.
- # Gas Distribution, Wires and Services - Costs included in the GRC gas distribution revenue requirement.
- # Gas procurement - Costs of gas procurement activities included in the GRC gas distribution revenue requirement.
- # Utility Common Costs - Cost not directly assigned to an unbundled cost category that are allocated to unbundled cost categories using the M&O labor allocation factor.

Capital

The cost of constructing new plant is capitalized and depreciated over the life of the plant. That accounting matches the expense recognition of the cost with the benefits produced by the plant. Most construction costs can be readily identified and directly charged to construction. However, many of the activities charged to A&G expense jointly benefit construction and other business objectives. The capital component of those costs must be determined through specific analysis of the joint activities.

The Electric Plant Instructions included in the FERC Uniform System of Accounts govern the determination of construction costs. Electric Plant Instruction 3 lists the components of construction costs to be capitalized, including the following.

A. General administrative capitalized includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

Electric Plant Instruction 4 provides the following additional guidance concerning the capitalization of construction overheads.

A. All overhead construction costs, such as engineering, supervision, general officers salaries and expenses, ...law expenses, insurance, injuries and damages, relief and pensions, taxes and interest shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable portion of such costs....

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

The Revised Interpretations of the Uniform System of Accounts for Electric and Gas Utilities, published by the National Association of Regulatory Commissioners in September 1988 includes the following guidance concerning construction overhead costs.

> The amounts of administrative and general expenses which are capitalized are only those which have a provable relationship to construction. The use of percentage distributions, based on assumed relationships between operating expenses and cost of construction, either in total or restricted to labor only is a violation of Paragraph B of the Utility Plant Instruction 4, Overhead Construction Costs...
>
> In general, it is believed that the incremental cost basis is the preferred method of determining amounts of administrative and general expenses which should be capitalized. Under this method only the costs specifically incurred for construction - costs which would not be incurred if construction were not undertaken - are chargeable to construction. The use of this plan will avoid the effect of showing greater net income merely because of increased construction

> work. Where the incremental cost basis is not employed, general and administrative expenses can properly be distributed to construction only if studies are made to determine the amounts thereof which relate to construction activities. In the case of compensation for personal services, such studies should be based upon time records or upon periodic surveys of the activities of the employee....

PG&E's recorded transfers of A&G expense to construction reflect the allocations adopted in its GRCs. PG&E's A&G Study is intended to satisfy the requirement contained in Plant Instruction 4 for "special studies" of A&G overheads chargeable to construction.

The CPUC addressed A&G overhead capitalization policies in PG&E's 1999 GRC Decision. The 1999 GRC decision states: [1]

> The [NARUC] interpretation...indicates that an incremental approach is preferred to determine the amounts of A&G costs which should be capitalized. Under this method, only costs specifically incurred for construction are chargeable to construction. Thus, the question to be answered is whether the cost would be incurred if the construction was were not undertaken.
>
> PG&E and ORA agree that an incremental approach should be used for allocations to construction, and they appear to agree that the criterion for determining incremental costs is the extent to which a department's activities would be reduced in the absence of ongoing construction activities...

The CPUC applied the incremental cost approach to seven departments at issue in the 1999 GRC. The following example taken from the 1999 GRC Decision discuss the Business Systems Integration Department (BSID).[2]

> PG&E attributed 3.53% of BSID to capital, while ORA allocates 24.1%....to construction. PG&E asserts that BSID does not work to directly support field production, and that the only incremental effect elimination of construction might have on the department is a reduction in record storage costs.
>
> ORA has shown that the volume of accounting transactions processed by the 21 employees in the BSID's Business Systems Operations section would be significantly lower in the absence of PG&E's ongoing construction program. Also, PG&E's workforce would be significantly smaller in the absence of a construction program, reducing the staffing requirements for the SAP help desk and training

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[1] D.00-02-046, page 287

[2] D.00-02-046, page 289

> activities performed by the BSID Change Management Section. Major systems addressed by the BSID include PG&E's general ledger, capital accounting, accounts payable, materials management, and Non-Energy Billing System/Mainline Extension Systems. The transactions volumes processed by those systems are all significantly increased by construction activities. Accordingly, the staffing and non-labor cost requirements in the BSID related to those systems would be significantly lower in the absence of PG&E's ongoing construction program.
>
> PG&E's position that only record storage costs would be eliminated with the elimination of construction activity is not realistic in light of ORA's testimony described above. We therefore adopt ORA's allocation of BSID costs.

Similarly, the 1999 GRC Decision contains the following discussion of the Industrial Relations Department. [3]

> ORA attributed 26.7% of the department expenses to Capital. ORA analyzed the construction related activities of PG&E's union employees and determined that the staffing in this department could be reduced by at least 26.7% in the absence of PG&E's ongoing construction program. ORA's recommended allocation is reasonable and will be adopted.

The A&G capitalization policy adopted in the 1999 GRC Decision is clear. A&G costs that would be avoided in the absence of PG&E's ongoing construction program should be charged to capital. Overland accepts and supports the A&G capitalization policy adopted in the 1999 GRC Decision.

The A&G costs that would be avoided in the absence of PG&E's ongoing construction program should be estimated based on the specific activities of the A&G Department under review. Overland's adherence to the incremental cost approach is demonstrated by the fact that it did not allocate any of the costs of the following PG&E departments to capital.

1. President and CEO
2. Business Process Improvement
3. SAP Operations and Control
4. VP Controller
5. Budget
6. Corporate Accounting
7. Internal and External Communications

[3] D.00-02-046, page 291

8. Media Relations
9. Regulatory Relations
10. Revenue Requirements
11. External Relations
12. VP General Counsel
13. VP Human Resources
14. SH&C Safety Engineering
15. Records Center

Portions of several of the departments listed above arguably would be avoided in the absence of PG&E's ongoing construction program. Overland limited its capital allocations to costs that clearly and demonstrably would be avoided in the absence of PG&E's ongoing construction program.

Bankruptcy and Plan of Reorganization

PG&E filed for bankruptcy protection on April 6, 2001.[4] PG&E's bankruptcy filing was caused by extremely high prices PG&E paid for wholesale purchased power beginning in June 2000.

PG&E filed a Plan or Reorganization (POR) with the Bankruptcy Court on September 20, 2001.[5] PG&E's POR calls for the transfer of PG&E's generation, electric transmission and gas transmission assets to three newly created PG&E Corporation subsidiaries and the distribution of PG&E's common stock to PG&E Corporation's shareholders. The POR results in PG&E being an independent electric and gas distribution company that is not an affiliate of PG&E Corporation or the newly created generation, electric transmission and gas transmission companies. Under the POR, the new generation company will sell power to PG&E for 12 years through a bi-lateral power sale agreement. The electric and gas transmission companies will provide services to PG&E under FERC regulated tariffs.

PG&E incurred substantial bankruptcy and POR related costs in 2001 and 2002. Those costs included bankruptcy litigation, claims administration, POR preparation, POR approval and POR implementation costs. The POR implementation costs include the costs of (1) obtaining required regulatory approvals, licenses and permits; (2) financial

[4] PG&E Corporation 2001 Annual Report, page 13

[5] PG&E Corporation 2001 Annual Report, page 3

transactions required to capitalize the newly created companies; (3) implementing the contracts and other business arrangements between the newly created companies; (4) transferring employees, records, assets and liabilities to the newly formed companies; and (5) creating the organizations and operational and administrative systems required for the new companies. During 2001 and 2002, PG&E created over 75 teams and working groups to address bankruptcy and POR matters.[6]

PG&E began tracking bankruptcy and POR costs in June 2001 when the first accounting instructions were issued. [7] The accounting instruction included separate instructions for external and internal costs. The instructions for external costs are shown below. [8]

> Generally, external costs for consultants and advisors will be charged to central orders established by the Budget Department. The Law Department will administer these orders, including the billing process and obtain appropriate approvals for invoices.
>
> The court must approve professional services agreements in support of Chapter 11.

The Accounting instructions for internal costs are shown below.

> Generally, internal costs (including some staff augmentation) should be specific work in support of a filing, motion or formal data request and the costs are:
>
> 1. Material in nature (for example, the time spent on the work is greater than 15% of the total work).
>
> 2. Incremental (for example, time should be tracked for a position established to manage the monthly financial reporting for the US Trustee. However, time spent by the accounting department to produce the income statement and balance sheet information should not be tracked -- this is normal work that is produced by the department; the filing just requires a different format.).

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[6] OC-347

[7] OC-30

[8] OC-30

PG&E supplemented the accounting instructions in March 2002 to address POR activities. The March 2002 instructions indicate:[9]

1. Chapter 11 Reporting, Litigation, and POR Development expenditures will continue to be tracked as in 2001.

   Incremental costs will be tracked in separate SAP orders and a high level utility budget. Consistent with previous instructions, these costs are incremental to our normal level of spending, most often including contract costs, or filling of new positions.

   Charge-back costs will continue to be tracked in separate orders and can be incremental, non-incremental or 'non-incremental with no funding unit budget.' (A 'non-incremental cost with no funding unit budget' can occur when a charge-back organization reallocates existing resources from funding unit budgeted projects to POR work)...

2. In the course of preparing for Plan implementation, there may be utility work identified which has an independent business justification for implementation in 2002. These projects should be approved through the normal budget process, which includes reviewing opportunities for re-prioritization of planned work, and if necessary requesting budget variances through the program review process. Normal utility standard for review should be applied....

Schedule 2-1 shows the bankruptcy and POR costs tracked by PG&E by order for the period June 2001 through September 2002.[10]

PG&E employees charged 193,743 hours to bankruptcy and POR orders from June 2001 through November 2002.[11] PG&E's Law Department accounted for 61,613 of those hours. PG&E's document reproduction services department accounted for 28,681 of the hours.[12]

PG&E charges incremental bankruptcy and POR costs to below-the-line accounts. Non-incremental bankruptcy and POR costs are charged to above-the-line accounts using

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[9] OC-30

[10] OC-31

[11] OC-344

[12] OC-344

the department's normal accounting. The response to OC-345 provides the following explanation of PG&E's accounting for non-incremental costs.

> In summary, all external bankruptcy and POR costs are charged below the line. For internal bankruptcy and POR costs, only incremental costs that are material are charged below the line.
>
> Regarding non-incremental costs, PG&E believes that these costs should be booked above the line because the activities employees engage in are part of normal business. That is, the employees would have engaged in these activities whether or not PG&E filed or bankruptcy. Examples of bankruptcy-related activities that PG&E employees engage in that would have occurred regardless of bankruptcy include preparing financial statements, responding to customer questions, preparing employee communications for PaGEOne, answering discovery in regulatory proceedings, and preparing the annual accounting and financial statements.

Overland did not audit the bankruptcy and POR costs PG&E charged to above-the-line accounts in 2001 and 2002 to determine if the costs were truly non-incremental because doing so was not necessary for forecasting 2003 A&G costs.
PG&E's GRC application does not assume any reorganization of PG&E's current structure. PG&E agrees it should not receive any increase in rates in this GRC based bankruptcy or POR costs.[13] Overland accepted PG&E's general approach of excluding incremental bankruptcy and POR costs from 2003 GRC A&G forecasts.

A&G costs that would be avoided in the absence of PG&E's bankruptcy proceeding and POR should be transferred to below-the-line accounts and excluded from 2003 GRC A&G expense forecasts. Overland's approach to identifying incremental bankruptcy and POR costs is the same as the approach used for capital costs. Overland reviewed the activities of each A&G Study Department and identified the reductions in costs that would occur in the absence of the bankruptcy proceeding and POR.

Holding Company Costs

PG&E's parent company, PG&E Corporation, can be viewed as a vendor that provides services to PG&E. However, unlike other vendors, PG&E Corporation owns PG&E. As a result, transactions between PG&E and PG&E Corporation are not subject to arm's length negotiation. The CPUC has a long history of reviewing holding company

[13] OC-36

charges. Decision 81896, dated September 25, 1973, includes the following discussion of affiliate transactions.[14]

> The Commission has often expressed its concern with affiliated interests and their impact on the cost of service furnished to the public. When a utility purchases services...from its parent or an affiliate, there is an absence of arm's length bargaining with the loss of all of the protection which independent bargaining affords the investors and consumers....A special burden must be borne by the applicant in a rate case to demonstrate conclusively not only that affiliated intercompany transactions are reasonable in that they do not create a burden on the consumer, but that the affiliated relationship affords the maximum gains in efficiency or productivity and the greatest savings in costs to the consumer.

The CPUC's long-standing policy is to exclude incremental costs attributable to the formation of a holding company from utility rates. D.86-01-026 indicates:[15]

> We believe that holding company costs should not be allowed if they would not have been incurred in the absence of [the holding company] structure and will adopt this position as Commission policy. The Commission has taken the view that determining the corporate structure is a management decision, yet the Commission obviously must be concerned with the public policy concerns for fairness and reasonableness to both shareholders and ratepayers as a result of such management decisions.

The 1999 GRC affirmed the CPUC's holding company cost policies. The 1999 GRC Decision states:[16]

> We have already noted that PG&E Corporation was formed to allow shareholders to participate in non-regulated business opportunities. PG&E has not demonstrated that ratepayers receive substantial benefits from the non-regulated business activities of PG&E's affiliates. While it is reasonable to allow in utility rates those holding company charges that reflect the provision of services that are clearly needed by the utility, (and that are provided efficiently, without duplication of effort), it is also reasonable to require that incremental costs resulting from the formation of the PG&E Corporation that provide no demonstrable benefit to the utility be allocated to the utility's affiliates.

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[14] Continental Telephone Company of California, Decision 81896, September 25, 1973

[15] Re Pacific Bell (1986) 20 CPUC 2d 237, 264

[16] D.00-02-046, page 276

The 1999 GRC Decision also states:[17]

> To the extent that the holding company structure results in two layers of senior officers providing the same or similar functions formerly provided by utility officers alone, we are concerned that there is significant potential for duplication of effort that should not be reflected in utility rates. Except where PG&E is able to demonstrate a clear, tangible benefit of holding company supervision, particularly by senior officers, allocating the costs of such supervision to PG&E would be unfair to ratepayers.

The CPUC's holding company policies are clear. Incremental costs resulting from the formation of the holding company should be excluded from rates. Holding company charges for general supervisory activities should only be allowed in rates to the extent the supervisory activities provide a clear and tangible benefit to the utility. Holding company charges that reflect the provision of services that are clearly needed by the utility are reasonable and should be allowed in rates.

Overland included holding company charges in A&G expenses only to the extent that the holding company is expected to provide actual identifiable services to PG&E and the services actually benefit PG&E. That standard reflects the CPUC's holding company policies, as affirmed and expanded in the 1999 GRC Decision.

Below-The-Line Costs

The CPUC has a long-standing policy of excluding the costs of legislative advocacy from utility rates. That policy was described as follows in a 1964 decision.

> ....We do not here reach the issue of [Pacific's] right to engage in such activity....[But when Pacific] claims benefits to its ratepayers from such activities, it is presuming to determine without the consent or prior knowledge of such ratepayers, what pending legislation is or is not beneficial to them. Even conceding that such activity in a given instance may prove to be beneficial to ....ratepayers, we hold that they should not be required to pay for costs of such legislative advocacy without having the opportunity to make their own judgments on what legislative proposals they would or would not favor and to designate who, if anyone, should advocate their interests before the Legislature....Accordingly, we find that test year...expenses should be adjusted....downward....to reasonably exclude for rate-fixing purposes [Pacific's] claimed costs of legislative advocacy. (RE Pacific Telephone & Telegraph (1964) D. 67369 cited in Pacific Telephone and Telegraph v. Public Utilities Commission (1965) 62 Cal. 2d 634, 670).

[17] D.00-02-046, page 277

The CPUC also has a policy of excluding dues, donations and contributions from rates. In D.67369 the CPUC stated "[Pacific Bell] hereby is placed on notice that it shall be the policy of this Commission henceforth to exclude from operating expenses for rate fixing purposes all amounts claimed for dues, donations, and contributions." The CPUC has a long-standing policy of disallowing membership dues to social, athletic and service clubs or organizations, including civic organizations. That policy does not extend to professional societies.[18]

The CPUC has a long-standing policy of excluding the cost of corporate image advertising from rates because those costs do not benefit ratepayers and are not necessary for the provision of utility service. [19] Corporate image advertising is advertising with a primary purpose of enhancing the utility's general corporate reputation.

The CPUC has also disallowed the cost of public relations activities designed primarily to enhance the utility's general corporate image. [20] PG&E agrees that some public relations costs should be charged to below-the-line accounts. PG&E charges the cost of preparing the "Spotlight" publication to shareholders. Spotlight is included in the monthly billing envelope mailed to customers. Shareholders have funded the cost of Spotlight and its predecessor Progress since at least 1982.[21]

PG&E engaged in a number of political activities in 2001 and 2002 including garnering political support for its POR and opposing the November 2002 San Francisco municipalization ballot initiative. Overland assigned the cost of overtly political activities, including (but not limited to) legislative lobbying activities, to the below-the-line category. For purposes of this report, political activities are limited to activities with a primary purpose of influencing positions of elected officials or the outcomes of elections. Overland did not assign the costs of lobbying regulatory agencies or lobbying local officials concerning day-to-day utility operational matters to the below-the-line category.

Overland assigned the cost of public relations activities with a primary purpose of enhancing PG&E's corporate reputation to the below-the-line category. Overland also

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[18] D.86-01-026, page 41

[19] D.86-01-026, pages 41, 150 and 151

[20] D.86-01-026, page 170

[21] OC-446

assigned the cost of dues, donations and contributions to the below-the-line category, with the exception of dues for professional societies.

Unbundled Cost Categories

Overland used the following approach to allocate costs to unbundled cost categories.

1. The cost of activities that solely benefit one UCC should be assigned directly to that UCC.

2. The costs of activities that benefit multiple UCCs should be allocated using factors that directly reflect cost causation, such as the number of job vacancies filled by a human resources recruiting organization.

3. When direct cost causation factors are not available, joint costs should be allocated using factors that indirectly reflect cost causation, such as the allocation of executive management costs based on the allocation of the departments reporting to the executive.

4. When neither direct or indirect factors are available, joint A&G costs should be allocated using the M&O labor factor.

Overland's cost allocation approach is consistent with the Federal Communications Commission's Part 64 standards for allocating costs between regulated and non-regulated activities.[22] Overland's cost allocations approach is a fully distributed cost approach as opposed to an incremental cost approach.

The M&O labor factor reflects the labor charged to operations and maintenance expense accounts excluding A&G accounts.[23] PG&E uses the M&O labor factor to allocate common A&G costs in its FERC electric transmission rate cases. The M&O labor factor is the method preferred by the FERC Staff for allocating A&G common costs.[24] The CPUC adopted the use of the M&O labor factor to allocate residual A&G costs in the 1999 GRC Decision. The M&O labor factor reflects the activities of PG&E's operating personnel and provides a sound basis for allocating residual A&G costs to

[22] Federal Code of Regulations, Title 47, §64.901

[23] PG&E Exhibit 6 WP pages 6-306 to 6-238

[24] OC-506, PG&E Exhibit 7, page 7-4 in FERC T.O. 6 filing.

UCCs. Overland supports using the M&O labor factor to allocate A&G utility common costs that cannot be directly assigned or allocated using more direct factors.

PG&E's Diablo Canyon Nuclear Power Plant was excluded from the revenue requirements adopted in prior GRCs because those costs were recovered through a separate performance-based ratemaking mechanism. The standards used to allocate A&G costs to Diablo Canyon in prior GRCs were subject to considerable confusion and debate.[25] The Diablo Canyon incentive ratemaking mechanism has been terminated. The revenue requirements for Diablo Canyon are now determined on a cost-of-service basis.[26] There is no longer any basis for treating Diablo Canyon differently than PG&E's other power plants. Overland used the general allocation approach described above to allocate A&G costs to Diablo Canyon.

Overland's standards for allocating costs to UCCs are consistent with the standards advocated by PG&E. Overland is not aware of any differences between the general allocation approaches used by Overland and PG&E.

[25] D.89-12-057, page 50 and D.00-02-046, page 264

[26] D.02-04-016, page 7

Chapter 3
Utility CEO, CFO and Accounting

This Chapter addresses the 2003 cost forecast for the following PG&E Departments.

- President & CEO
- SVP- Treasurer and Chief Financial Officer (CFO)
- Business and Financial Planning
- SAP Operations and Control
- Controller
- Budget
- Payroll
- Accounts Payable
- Corporate Accounting
- Capital Accounting
- Risk Management
- Purchasing

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G expense level by department.

Chapter 3 - Utility CEO, CFO and Accounting Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Treasurer and CFO	0	0	(4,153,000)	(4,153,000)
Business & Financial Planning	0	(224,479)	0	(224,479)
SAP Operations and Control	(486,272)	0	(324,344)	(810,616)
Controller	0	0	(729,679)	(729,679)
Budget	(478,372)	0	0	(478,372)
Payroll	(165,683)	0	0	(165,683)
Accounts Payable	0	(413,181)	0	(413,181)
Corporate Accounting	(205,343)	(756,169)	0	(961,512)
Capital Accounting	0	(437,427)	(111,000)	(548,427)
Risk Management	(2,379,970)	0	(133,841)	(2,513,811)
Purchasing	0	(659,812)	(3,300,000)	(3,959,812)
Total	(3,715,640)	(2,491,068)	(8,751,864)	(14,958,572)

The issues are described below by department.

1. **SVP CFO.** Reduced PG&E's contract forecast by $5.6 million forecast (before allocations) to eliminate contract costs included in PG&E's forecasts twice, once in the utility CFO forecast and again in the holding company Tax Department forecast. The adjustment also eliminates other unsupported contract costs included in PG&E's forecast.

2. **Business and Financial Planning.** Allocated an additional 15.4% of the Department's costs to the below-the-line category to eliminate incremental bankruptcy and POR costs.

3. **SAP Operations and Control.** Reduced PG&E's forecast by $820,491 to eliminate non-recurring SAP SI project costs. PG&E agrees that the contract costs should be eliminated.

4. **Controller.** Reduced PG&E's forecast of annual audit fees by $529,679 to reflect the 2003 cost estimate provided to the Board Audit Committee. Assigned $200,000 of the annual audit fee to the below-the-line category to eliminate incremental costs attributable to PG&E's bankruptcy proceeding.

5. **Budget Department.** Reduced PG&E's forecast by $478,372 to eliminate non-recurring SAP SI project costs. PG&E agrees with the proposed adjustment.

6. **Accounts Payable.** Reduced PG&E's forecast by $198,483 (before allocations) to reflect the current staffing level in the Department. Allocated an additional 11.25% of the Department's costs to capital.

7. **Corporate Accounting.** Allocated an additional 16.05% of the Department's costs to the below-the-line category to eliminate incremental bankruptcy and POR related costs and to eliminate the cost of affiliate rules compliance activities. Reduced PG&E's forecast by $210,522 to reflect current material cost levels.

8. **Capital Accounting.** Allocated an additional 10.28% of the Department's costs to capital based on a section-by-section review of the Department's activities.

9. **Risk Management.** Reduced PG&E's forecast by $2.37 million to eliminate speculative and unsupported information system projects. Reduced PG&E's forecast by $494,712 to reflect 2003 expected staffing levels.

10. **Purchasing.** Reduced PG&E's forecast by $3.3 million to eliminate speculative and unsupported information systems projects. Allocated 29.03% of the Department's costs to capital to reflect the activities of the Department.

The forecast adjustment amounts shown in the table reflect the impact of the adjustment on utility A&G expense using PG&E's allocation factors. The adjustment amounts shown in the table are sometimes smaller than the total department forecast amounts included in the issue descriptions whenever part of the total department adjustment is allocated to capital or below-the-line.

President and CEO

PG&E's President and Chief Executive Officer is responsible for overall executive management of the utility. [1] The President and CEO Immediate Office PCC includes the CEO, an executive secretary, an executive assistant and the Director - PG&E Restructuring.[2] The Director - PG&E Restructuring is responsible for overseeing POR separation issues.[3]

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[1] PG&E A&G Study WP page 2-1

[2] PG&E A&G Study WP page 2-19, excludes Guillermo Rodriguez who is included in the External Relations A&G Study PCC.

[3] PG&E A&G Study WP 2-5

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials costs for 4 FTE and $225,132 in contract costs. Overland accepted PG&E's cost forecast for the President and CEO Immediate Office.

Cost Allocations

PG&E allocated 83.63% of the labor and materials costs of the Department to the utility common category, 3.87% to the holding company common category and 12.5% to the below-the-line category. The holding company allocation reflects time the CEO spends attending PG&E Corporation Board meetings and other holding company meetings. The below-the-line allocation reflects time worked on POR matters by the Director - Separation Issues.

PG&E allocated 12.5% of costs of the Department to the below-the-line category for POR activities. The Director - Separation Issues is an incremental position directly attributable to the POR. The Director represents 25% of the headcount within the Department. However, the Director's salary is significantly lower than the CEO's salary. PG&E's recommended allocation effectively allocates the Director's costs to the below-the-line category. PG&E did not allocate any of the President's labor costs to bankruptcy and POR activities. Overland accepts that allocation as being consistent with the incremental approach.

PG&E only allocated approximately 6 hours a month of the President's time to holding company matters. PG&E's allocation is low. However, PG&E's allocation is consistent with Overland's overall approach of disallowing holding company costs caused by redundant layers of management. Therefore, Overland accepts PG&E's 2003 allocations for the PG&E President and CEO Immediate Office.

SVP - Treasurer and Chief Financial Officer (CFO)

PG&E's SVP Treasurer and CFO is responsible for managing PG&E's financial functions. The following PG&E Departments report to the CFO. [4]

- Information Systems Technology Services
- Business and Financial Planning

[4] PG&E A&G Study WP 2-41

- Business Process Improvement Initiatives
- VP and Controller
- Risk Management
- Gas and Electric Supply

The CFO's Immediate Office consists of the CFO, an executive secretary and the Director - Capital and Expense Programs. The headcount in the CFO's immediate office was 3 FTE as of December 31, 2002.[5]

Cost Forecast

PG&E's 2003 forecast includes labor costs for 4 FTE and $6.53 million in materials and contract costs.[6] PG&E's forecasted headcount is reasonably close to the actual headcount of 3 FTE. Overland accepted PG&E's labor cost forecast.

The workpapers supporting PG&E's forecast of materials and contract costs are internally inconsistent and inconsistent with PG&E's Account 921 and Account 923 workpapers and data request responses. Page 2-28 of PG&E's A&G Study workpapers support a materials cost of $533,340. The summary of costs shown on Page 2-21 of PG&E's A&G Study workpapers shows $3,533,340 of materials costs. Pages 2-21 and 2-29 of PG&E's A&G Study workpapers show a 2003 contract forecast of $3,030,000. However, that contract forecast is inconsistent with the response to OC-123 which indicates the 2003 contract forecast amount is $6,030,000.

PG&E's Account 921 and Account 923 workpapers show materials costs of $529,000 and contract costs of $6,030,000.[7] The costs included in PG&E's Account 921 and 923 workpapers are the costs actually reflected in PG&E's GRC results of operations. Therefore, the amounts contained in the Account 921 and Account 923 workpapers will be used as "PG&E's forecast" in Overland's analysis.

Overland accepted PG&E's forecast of $529,000 in materials costs. PG&E's contract forecast of $6,030,000 is significantly overstated. PG&E's A&G study workpapers do provide any breakdown of its $6.03 million contract forecast by category or contract.

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[5] OC-372

[6] PG&E A&G Study WP 2-21

[7] PG&E Exhibit 6 Workpapers, Chapter 6, page 34 and page 52

The following table shows the CFO's actual contract costs for 2001 and the first nine months of 2002.

Utility CFO Actual Contracts - 2001 and Sept. 2002 YTD		
Description	2001	Sept. 2002 YTD
Standard & Poors	0	50,000
Bank of America (including White & Case)	1,051,057	558,221
Banque National De Paris	0	168,849
The Brattle Group	3,255	195,831
Orrick Harrington & Sutcliffe	156,525	0
Deutsche Bank AG	0	251,294
Lehman Brothers	5,063,208	0
D&T Tax-San. Fran. Users Tax 2000	197,600	0
D&T Tax- 2000 Software Deduct Planning	553,581	0
D&T-Comfort Letter, Floating Rate Notes	32,585	0
D&T Tax - NOL Tax Planning 2001	0	235,000
D&T Tax-Public Purpose Prog. 2001	0	492,895
D&T Tax-Software Deduct 1997 & 1998	0	1,051,640
D&T Tax - 1997 Casualty Loss	0	667,070
Reverse YE 2000 Accrual	(912,288)	0
Other small items	164,898	(42,096)
Total	6,310,421	3,628,704
Source: OC-124 and OC-390		

PG&E's revolving credit facility with the Bank of America requires PG&E to reimburse professional services costs incurred by the Bank of America in connection with the agreement. The Bank of America charges reflect those reimbursements.[8]

The notes to PG&E Corporation's 2001 annual financial statements include the following discussion of PG&E's credit facilities.

> As of December 31, 2000, the Utility had a $1 billion revolving credit facility which was scheduled to expire in December 2002. In October 2000, the utility obtained an additional $1 billion credit facility which was subsequently reduced to $850 million in December 2000. These facilities were used to support the Utility's commercial paper and other liquidity requirements. On December 15, 2000, due to an uncertain and volatile environment, the utility suspended the issuance of its Commercial Paper Program. As a result, the utility began to draw on its five-year revolving credit facility in order to finance its liquidity needs and pay off maturing commercial paper.

[8] OC-390

> On January 16 and 17, 2001, S&P and Moody's downgraded the Utility's credit ratings to below investment grade. This downgrade resulted in an event of default under the $850 million credit facility, while the Utility's non-payment of commercial paper constituted events of default under both the $1 billion and $850 million credit facilities. Consequently the banks refused any additional borrowing requests, and terminated their outstanding commitments under the Utility's two credit facilities. In 2001, prior to the event of default, the Utility had drawn $324 million on its five-year revolving facility.

Orrick, Harrington and Sutcliffe was PG&E's bankruptcy attorney in 2001. The Brattle Group provided consulting services and testimony in PG&E's annual CPUC cost of capital proceedings.[9]

The Lehman Brothers charges are for financial advice and assistance provided in the fall of 2000 related to the energy crises. Lehman Brothers assisted PG&E in arranging a new bank credit facility, obtaining CPUC approval for the financing, and issuing bonds, all to finance cash requirements caused by the energy crises.[10]

The Deloitte & Touche tax contracts are managed by PG&E Corporation's Tax Department. PG&E Corporation incurs the costs and bills the costs to PG&E. There is usually a time lag between when the holding company incurs the costs and when it bills PG&E.[11] The $783,766 in Deloitte &Touche Tax contract costs recorded in 2001 relate to services provided in 2000. The $2.44 million in tax contract costs recorded during the first nine months of 2002 relate to services provided in 2001.[12]

The **Confidential** Report to PG&E Corporation's Audit Committee, titled Selection of Independent Public Accountants and Pre-Approval of Auditing and Non-Audit Services and Fees for 2002, February 18, 2003, provides a listing of all charges from Deloitte & Touche to PG&E Corporation and subsidiaries in 2002. That report indicates Deloitte & Touche **(REDACTED)**. The Report shows the following tax services charges to PG&E Corporation in 2002.

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[9] OC-390

[10] OC-390

[11] OC-123

[12] OC-124 and OC-390

(REDACTED)

The Bankruptcy matters / POR Private Letter Ruling contract cost is an incremental cost directly attributable to PG&E's POR. Section 29 credits are non-conventional fuel credits. The section 29 credits do not relate to the utility.[13]

PG&E's 2003 forecast for the holding company Tax Department includes $1.1 million of contract costs. Based on the analysis presented in the February 18, 2003 audit committee presentation and the billings to the Utility CFO PCC provided in OC-390, it is clear that the contract costs reported by the Tax Department and tax contract costs charged to the Utility CFO by the holding company reflect the same underlying costs. PG&E included those costs in its 2003 forecasts twice, once in its forecast for the holding company Tax Department and again in its forecast of the utility CFO's contract costs. That error significantly overstates PG&E's Account 923 forecast. PG&E's double counting of income tax contract costs is discussed in more detail in the Tax Department section of Chapter 8.

The Tax Department manages the contracts for tax consulting services. Therefore, Overland recommends including the tax contracts in the forecast for the holding company Tax Department and excluding the tax contracts from the utility CFO forecast. Overland's 2003 forecast of tax contract costs for the holding company Tax Department is discussed in Chapter 8.

PG&E's 2003 contract forecast of $6.03 million for the utility CFO PCC is unsupported and double counts contract costs also included in PG&E's forecast for the holding company Tax Department. PG&E' 2003 utility CFO contract forecast is also inconsistent with the actual costs incurred in 2001 and 2002. The 2000 and 2001 Lehman Brothers and Bank of America charges are clearly non-recurring incremental costs directly attributable to PG&E's financial crises.

[13] OC-476

Overland's forecast of 2003 contract costs and recommended forecast adjustment are shown below.

Utility CFO 2003 Contract Adjustment Per Overland	
Description	Amount
Credit Facilities	250,000
Cost of Capital Testimony	150,000
Income Tax Consulting	0
Administrative and Other	30,000
Overland Forecast	430,000
PG&E Forecast	6,030,000
Forecast Adjustment	(5,600,000)
Source: OC-124, OC-390 and OC-263	

Overland's contract forecast is based on actual 2001 and 2002 costs. Overland included all income tax consulting costs in the 2003 forecast for the holding company Tax Department.

Cost Allocations

The following table shows PG&E's allocation of the CFO's 2003 labor and material costs.

SVP CFO Immediate Office 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	24.00
Generation	7.50
Electric Transmission	4.00
Gas Transmission	1.00
Public Purpose Programs	1.00
Electric Distribution	22.50
Gas Distribution	15.00
Utility Common	25.00
Total	100.00
Source: PG&E A&G Study WP 2-22	

The capital allocation reflects the construction budgeting activities of the Director - Capital and Expense Projects. Overland accepted PG&E's labor and material cost allocations for the utility CFO Immediate Office.

PG&E used the Department's labor allocations to allocate contract costs. The CFO's contract costs are general in nature and are not attributable to any specific functional area. Overland allocated 100% of its contract cost forecast to the utility common category.

Business and Financial Planning

PG&E's Business and Financial Planning Department is responsible for preparing PG&E's financial plans. The department evaluates potential utility projects and prepares PG&E's multi-year financial forecasts and business plans. The department is also responsible for PG&E's cost-of-capital testimony in CPUC and FERC proceedings. Overland interviewed the Department's Director.[14]

The Department had extensive involvement in POR matters in 2002. One of Directors and two of the Managers in the Department worked primarily on POR financing and separation matters in 2002.[15] PG&E estimates that the Department worked the equivalent of 4.74 FTE on POR matters in 2002. [16]

The organization chart in PG&E's A&G Study workpapers shows a headcount of 15. The following table shows that headcount by area.

Business and Financial Planning Headcount by Area	
Area	FTE
Director and Secretary	2.0
POR Director (Stoner)	1.0
POR Managers	2.0
Projects	1.0
Economic Analysis	1.0
Regulatory Finance	3.0
Financial Forecasting	5.0
Total	15.0
Source: Campbell interview & PG&E WP 2-61	

[14] Campbell interview

[15] Campbell interview

[16] OC-306

PG&E excluded one of the POR managers from its A&G study.[17] The financial forecasting area prepares PG&E's business plan, financial forecasts and cash flow forecasts. The financial forecasting area prepared the financial forecasts included in PG&E's POR submission to the bankruptcy court.[18] The actual headcount in the Department was 12.8 FTE as of December 31, 2002.[19]

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials costs for 13 FTE and a very small amount of contract costs. PG&E's headcount forecast is close to the actual headcount of 12.8 FTE as of December 31, 2002. Overland accepted PG&E's 2003 cost forecast for the Business and Financial Planning Department.

Cost Allocations

The following table shows PG&E's allocation of the Department's 2003 labor costs.

Business and Financial Planning 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	7.00
Below-The-Line	1.70
Generation	7.00
Electric Transmission	3.70
Gas Transmission	2.60
Electric Distribution	3.40
Gas Distribution	2.90
Utility Common	71.70
Total	100.00
Source: PG&E A&G Study WP 2-44	

The capital allocation reflects time the economist spends developing capital investment guidelines and economic inputs for capital investment decisions and time spent evaluating capital projects. The below-the-line allocation reflects time spent managing

[17] Campbell interview, Kassisieh not included in A&G study headcount.

[18] Campbell interview

[19] OC-372

PG&E's non-regulated investment in low-income housing.[20] The time spent on POR matters was assigned to the utility common category.[21]

PG&E estimates the Department worked the equivalent of 4.74 FTE on POR matters in 2002. That estimate does not include the POR manager who was excluded from PG&E's study. PG&E's POR estimate represents 36.5% of PG&E's forecasted headcount of 13 FTE. PG&E's forecasted headcount includes four employees that each worked at least 70% on POR matters in 2002.[22] One of those positions was the Director and another was the Manager of the Financial Forecasting Section. Those positions are necessary for utility operations and do not represent incremental costs caused by the POR. The other two positions that worked heavily on POR matters in 2002 were flexible project manager positions.[23] Overland attributes those two project manager positions to incremental POR activities. Overland allocated 17.08% of the Department's costs to the below-the-line. That allocation includes 15.38% for incremental POR costs and 1.70% for low-income housing investments. Overland's POR allocation reflects 2.0 FTE. Overland's POR allocation is conservative because it only represents 42% of the time the Department actually worked on POR matters in 2002.

Overland accepted PG&E's allocations to capital and specific utility categories. Therefore, the increased allocation to below-the-line directly reduces PG&E's allocation to the utility common category.

SAP Operations and Control

The SAP system is PG&E's main business enterprise accounting system. The SAP Operations and Control Department is responsible for certain aspects of SAP operations. Overland interviewed the Director of the SAP Operations and Controls Department.[24] The A&G Study includes the portions of the SAP Operations and Control Department that are charged to A&G expense. The following table shows the current headcount in the portions of the Department that are charged to A&G expense.

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[20] PG&E A&G Study WP 2-58

[21] Campbell interview and PG&E A&G Study WP 2-58

[22] OC-306

[23] Campbell interview and OC-306

[24] Argenal interview

SAP Operations and Control Current A&G Headcount	
Section	FTE
Director's Office	2
Operational Support	8
Profile Management	3
Change Control	2
Total	15
Source: OC-430	

The operations support section monitors the system on a 24-hours-a-day basis and manages a hot line for clients. The operational support section is also responsible for optical archiving of accounting documents and coordination work for SAP upgrades. The profile management section develops procedures for SAP system access and approval authorizations and for testing compliance with those procedures. The change control group manages updates to SAP programs and data.[25]

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials for 14 FTE, $1.3 million in orders materials costs and $1.7 million in contracts costs.[26] PG&E's headcount forecast is reasonably consistent with the current and historical headcount in the Department. Overland accepted PG&E's labor and non-order material cost forecast.

The following table shows PG&E's contract cost forecast by contract.

SAP Operations and Control Department 2003 Contracts Per PG&E	
Description	Amount
Hardware Maintenance Contracts	330,101
SAP Software License	858,773
Other Software Licenses	185,403
SAP SI Orders	324,344
SAP Consulting	30,597
Miscellaneous	2,784
Total	1,732,002
Source: PG&E A&G Study WP 2-112	

[25] Argenal interview

[26] PG&E A&G Study WP 2-97 and 2-100

The hardware maintenance and SAP software license contract amounts are consistent with costs incurred in 2002 and prior years.[27] SAP SI refers to the SAP System Integration project. The SAP SI project was designed to (1) integrate the SAP financial/materials management system with the Utility Operations SAP Work Management System into a single database; and (2) Upgrade SAP from the previous Version 3.1 to Version 4.6.[28] The SAP SI project was completed in June 2001. The SAP SI orders costs included in PG&E's contract forecast reflect actual 2001 charges. Those charges are non-recurring and should not be included in PG&E's 2003 forecast. PG&E agrees that the $324,344 in SI Upgrade costs should be removed from the 2003 contract forecast.[29] Therefore, Overland recommends an adjustment to reduce PG&E's 2003 contract forecast by $324,344 to exclude non-recurring SAP SI project costs. Overland accepts the other elements of PG&E's contract cost forecast.

PG&E's orders materials forecast reflects actual 2001 orders materials costs plus two minor adjustments that increase costs. The Department's orders materials costs during the first nine months of 2001 exceeded the orders materials costs in the first nine months of 2002 by $691,992. [30] PG&E's 2003 orders materials cost forecast is excessive compared to actual 2002 costs.

PG&E's recorded 2001 orders materials costs include $496,247 for the SAP SI project.[31] Those costs will not recur in 2003 and should be removed from PG&E's forecast. Overland recommends a 2003 forecast adjustment of $496,247 to remove the SAP SI upgrade costs from PG&E's 2003 orders materials forecast. PG&E has agreed to make a similar adjustment to remove SAP SI contract costs from its forecast and the orders materials costs should receive the same treatment.

Cost Allocations

PG&E allocated 2.01% of the Department's costs to the holding company common category. PG&E Allocated the remaining 97.99% of the Department's costs to the utility common category. The holding company's employees use SAP. The allocation to the holding company reflects the ratio of holding company SAP users to total SAP users.

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[27] Argenal interview and OC-96

[28] OC-96

[29] PG&E A&G Study WP page 2-118

[30] OC-8

[31] OC-8

Overland accepted PG&E's cost allocations for the SAP Operations and Control Department.

VP & Controller

PG&E's VP & Controller is responsible for managing PG&E's financial and regulatory accounting and reporting functions. PG&E's Corporate Accounting, Budget, Capital Accounting, Accounts Payable and Payroll Department's report to the Controller.[32]

The Controller's Immediate Office PCC includes the Controller, an executive secretary and the Director - Business Projects. The Director Business Projects worked primarily on the 2003 GRC in 2002. In addition to the GRC, the Director Business Projects also worked on general business planning matters.[33]

The headcount in the Controller's Immediate Office was 3 FTE as of December 31, 2002. [34]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 3 FTE and $1.7 million in contract costs. The contract forecast consists primarily of charges from PG&E's independent financial statement auditor, Deloitte & Touche.[35]

PG&E's headcount forecast is consistent with the current headcount in the Department. Overland accepted PG&E's forecast of 2003 labor and materials costs.

PG&E's contract forecast of $1.7 million for annual audit fees is excessive. All of the above the line contract costs incurred by the Controller's department in 2001 and 2002 were for Deloitte & Touche audit services.[36] Therefore, the Controller's contract forecast should equal the expected 2003 Deloitte & Touche audit costs. The following **Confidential** table shows the actual audit costs for 2000, 2001 and 2002.

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[32] PG&E A&G Study WP, page 2-139

[33] OC-432

[34] OC-372

[35] OC-128

[36] OC-127, OC-432 and PG&E A&G Study WP 2-137

(REDACTED)

The February 18, 2003 **Confidential** presentation to the Audit Committee of the PG&E Corporation Board of Directors shows forecasted 2003 audit fees of **(REDACTED)** for PG&E excluding POR audit and review procedures and POR registration statements.[37] The POR audit procedures relate to developing pro forma historical financial statements for the newly separated companies.

The forecasted 2003 audit fees are 63% higher than the actual 2000 audit fees. Two factors have contributed to that increase, PG&E's bankruptcy and increased audit requirement caused by the Sarbanes-Oxley Act. The Sarbanes-Oxley Act was passed in response to a series of corporate accounting scandals.

Deloitte & Touche's **Confidential** 2001 Audit Plan notes **(REDACTED)**

The 2003 audit fee forecast does not provide a separate breakout of bankruptcy related costs. The cost of the bankruptcy related audit activities are included in the forecasted fee of **(REDACTED)** for 2003.

Overland forecasts 2003 contract costs of $1,186,321 for the Controller's Department. That forecast reflects the 2003 audit fee projection presented to the PG&E Corporation Audit Committee in February 2003 de-escalated to 2002 dollars. Overland recommends the following adjustment to reflect its 2003 contract cost forecast.

[37] OC-432

(REDACTED)

Cost Allocations

PG&E assigned 100% of the utility Controller Immediate Office to the utility common category. Overland accepted PG&E's 2003 cost allocations for labor and materials.

Overland's 2003 audit fee forecast represents a 56% increase over actual 2000 fees. Part of that increase is the result of the Sarbanes-Oxley Act and part is the result of PG&E's bankruptcy filing.

Overland allocated $200,000 to the below-the-line category as an estimate of the incremental bankruptcy costs reflected in the 2003 audit fee forecast. After reflecting that allocation, Overland's above-the-line 2003 audit fee forecast is $986,321. That forecast represents an increase of 28% over actual 2000 costs. That increase reflects the requirements of the Sarbanes-Oxley Act.

Budget Department

The primary functions of PG&E's Budget Department are listed below. [38]

- Provide budget planning tools and assistance in preparation of budgets to lines of business;
- Develop policies regarding overhead allocations, cost element classification and utilization of FERC accounts;
- Provide systems support for SAP and management reporting tools.

[38] OC-368, page 763

The following table shows the Department's headcount as of October 2001.

Budget Department Headcount by Section	
Description	FTE
Director's Office	3
Special Projects	1
Financial Analysis and Reporting	9
Cost Accounting - Director	1
Cost Accounting - Policy, Design, Analysis	5
Cost Accounting- Support & Enhancement	4
Total	23
Source: PageOne Organization Chart 10/18/02	

The Financial Analysis and Reporting section summarizes the budgets and financial forecasts prepared by PG&E's business units and analyzes budget variances. The Cost Accounting Policy, Design, Analysis & Client Services section develops cost accounting policies and provides accounting policy support and training to client organizations. The Support and Enhancement section works on SAP management reporting system operations and enhancements. PG&E's Capital Accounting Department is responsible for capital budgeting. The headcount in the Department was 23 FTE as of December 31, 2002.[39]

Cost Forecast

PG&E's 2003 cost forecast for the Budget Department includes labor and materials for 24 FTE, $796,961 of orders materials costs and $129,314 of contract costs. [40] PG&E's forecasted headcount is reasonably close to the current headcount in the Department. Overland accepted PG&E's forecast of labor and non-order materials costs. PG&E's forecast of contract costs is consistent with 2001 actual costs. Overland accepted PG&E's 2003 forecast of contract costs.

PG&E's forecast of orders materials costs reflects actual 2001 costs, plus a 2002 forecast adjustment of $203,339 for additional SAP maintenance and enhancement costs resulting from the 2001 SAP System Integration (SI) project.[41] The SAP SI

[39] OC-372

[40] PG&E A&G Study WP 2-141

[41] PG&E A&G Study WP 2-150

project was completed in June 2001.[42] The Department's actual 2001 orders materials costs included several non-recurring orders for the SAP SI project. The Department's actual orders materials costs were $318,589 in 2002.[43]

PG&E provided a revised forecast of 2003 orders materials costs in the response to OC-307. PG&E's revised 2003 forecast of orders materials costs is $318,589. PG&E's response to OC-307 indicates that PG&E will change the cost estimates in its GRC application to reflect the revised forecast at the next available opportunity. Overland recommends a forecast adjustment to reduce orders materials costs by $478,372 to reflect PG&E's revised forecast.

Cost Allocations

PG&E allocated 100% of the Budget Department's costs to the Utility Common category. Some of the activities performed by the Analysis and Reporting section and the Cost Accounting Policy, Design, Analysis and Client Services sections would be avoided if PG&E's on-going construction program was not undertaken. Therefore, some portion of the Budget Department's labor costs arguably should be capitalized. However, the required capital allocation is relatively small and difficult to quantify. Therefore, Overland accepted PG&E's decision to allocate 100% of the Budget Department's costs to the Utility Common category.

Payroll Department

The primary functions of the Payroll Department are listed below.[44]

- Pay employees
- Prepare W-2's and perform other payroll accounting
- File and submit payroll taxes to tax authorities
- Manage third party payments (garnishments, 401 (k) contributions and other benefits)

The following table shows the current headcount in the Payroll Department by section.

[42] OC-307

[43] OC-307

[44] OC-368, page 763

Payroll Department Headcount by Section	
Description	FTE
Manager's Office	2
Special Checks and Controls	9
HelpLine/Time Reporting & Change Tags	11
Tax Compliance & Benefit Payrolls	9
Total	31
Source: OC-433	

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials costs for 32 FTE, $1.65 million of orders materials costs and a very small amount of contract costs. The orders materials costs consist primarily of information systems charges for the maintenance and enhancement of PG&E's payroll accounting systems.[45] PG&E's 2003 forecasts are reasonably consistent with the current headcount in the Department and 2001 recorded costs. Overland accepted PG&E's 2003 forecasts for the Payroll Department.

Cost Allocations

PG&E allocated 31% of the Department's costs to capital and 20% to the M&O category. PG&E allocated the remaining 49% of the Department's costs to the Utility Common category.[46] PG&E's capital allocation is consistent with the percentage of PG&E's total labor costs that were capitalized in 2001. [47] Overland accepted PG&E's allocations for the Payroll Department.

Accounts Payable

The primary functions of the Accounts Payable Department are listed below.[48]

- Make timely and accurate payments to vendors for goods and services
- Reimburse employees for travel expenses
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[45] OC-308

[46] PG&E A&G Study WP 2-160

[47] OC-418

[48] OC-368, page 764

Maintain master vendor file
Prepare 1099, escheatment and other required reports.

Overland interviewed the Manager of the Accounts Payable Department.[49] The following table shows the current headcount in the Accounts Payable Department by section.

Accounts Payable Department Current Headcount by Section	
Description	FTE
Manager's Office	3
SAP Team	1
Non-Purchase Order Payments	9
Purchase Order Payments	13
Payee Services and Controls	10
Records Management	9
Total	45
Source: OC-311	

The Accounts Payable Department had significant involvement in the claims processing activities for the bankruptcy proceeding in 2001. The claims processing work was done largely by contract employees whose costs were charged to below-the-line accounts.[50]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 48 FTE, $556,608 in orders material costs and $159,342 in contract costs.[51]

The headcount in the Department averaged 59 in 2000 and 55 in 2001.[52] The headcount in the department fell in 2001 and 2002 because of the introduction of internet based electronic invoicing systems (e-commerce).[53] In early 2000, approximately 18% of the purchase order invoices processed by the Department were electronic invoices. During the first 10 months of 2002, 29.4% of the purchase order

[49] Shaffer interview

[50] Shaffer interview

[51] PG&E A&G Study WP 2-179

[52] PG&E A&G Study WP 2-182

[53] Shaffer interview

invoices processed by the Department were electronic invoices.[54] The Department Manager anticipates further headcount reductions as the use of electronic invoices increases.[55] The Department's 2003 budget includes 46 positions.[56]

The current headcount in the Department is 45. The current headcount is reasonably consistent with the Department's 2003 budget and reflects the efficiencies resulting from electronic invoicing. The current headcount provides a reasonable, if not conservative, basis for forecasting 2003 labor costs. Overland recommends the following forecast adjustment to reflect the current headcount in the Department.

Accounts Payable Department Headcount Adjustment			
Description	Labor	Materials	Total
PG&E 2003 Forecast	2,627,645	548,083	3,175,728
Average 2003 Headcount per PG&E	48	48	48
Average Cost per Employee	54,743	11,418	66,161
Headcount Adjustment	(3)	(3)	(3)
Forecast Adjustment (excludes employee benefits)	(164,228)	(34,255)	(198,483)
Note: Costs exclude employee benefits and orders materials costs			
Source: PG&E A&G Study WP 2-179			

PG&E's forecast of 2003 orders materials costs reflects 2001 recorded costs with one very minor forecast adjustment. The 2001 recorded orders materials costs include $139,645 for the non-recurring SAP SI upgrade project.[57] PG&E has agreed to remove SAP SI project costs from the 2003 forecasts for the SAP Operations and Control Department and Budget Department. The Accounts Payable Department SAP SI project costs should receive the same treatment. Overland recommends a forecast adjustment to reduce orders materials costs by $139,645 to eliminate non-recurring SAP SI project costs.

Cost Allocations

The following table summaries PG&E's allocation of the Department's labor costs.

[54] OC-158

[55] Shaffer Interview

[56] Shaffer interview

[57] OC-8

Accounts Payable Department Labor Allocation Per PG&E	
Description	Percent
Capital	9.68
M&O	6.50
Holding Company	0.68
Generation	7.00
Electric Transmission	1.78
Gas Transmission	0.00
Public Purpose	1.05
Electric Distribution	38.97
Gas Distribution	12.14
Utility Common	22.20
Total	100.00
Source: PG&E A&G Study wp 2-180	

PG&E's labor allocations are based on a study of year 2000 invoices paid by the Accounts Payable Department.[58] PG&E revised its allocations in the response to OC-434. PG&E's revised allocations are shown below.

Accounts Payable Department Revised 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	9.81
Affiliate	0.07
Below-the-line	0.14
Generation	7.06
Electric Transmission	1.80
Gas Transmission	2.56
Public Purpose	1.07
Electric Distribution	39.14
Gas Distribution	12.07
Utility Common	26.28
Total	100.00
Source: OC-434, DCS split per OC-160	

PG&E's invoice study counted the accounting lines for invoices processed in 2000. The invoice lines are referred to as "records" in PG&E's study. The records were assigned

[58] OC-160

to capital based on the "regulatory indicator" for the associated order.[59] PG&E did not review records that were not charged to orders to determine if they were capital related. PG&E did not assign materials inventory purchase records to capital. Instead, those purchases were assigned to the utility common category.[60]

The capital allocation indicated by PG&E's invoice study is not reasonable. Schedule 3-1 shows the total and capital records counted in PG&E's invoice study by organization. The organization with the largest number of records is the Operations, Maintenance and Construction organization. That organization accounted for 34% of the records included in PG&E's invoice study. The OM&C organization charged 62% of its labor costs to capital in 2002.[61] PG&E only assigned 10.96% of the OM&C records to construction.

The General Services organization accounted for 14% of the records included in PG&E's invoice study. That organization includes PG&E's fleet, materials and purchasing departments. The General Services organization charged 44% of its labor costs to capital in 2002. PG&E only assigned 4.5% of the invoice records for that organization to capital.

One of the categories shown in PG&E's invoice study is materials burden. A significant percentage of PG&E's materials burden is charged to capital. PG&E did not assign any of the records in the materials burden category to capital.

PG&E's invoice study restricted capital records to invoices that were charged to orders. As a result, PG&E's invoice study systematically undercounted capital records. PG&E charges 32.04% of its labor costs to capital in 2002.[62] The capital allocation of 9.81% is inconsistent with PG&E's labor capitalization rates.

The invoice study has some limited value because it does reflect actual accounts payable record processing. Overland recommends a capital allocation of 20.93% for the Accounts Payable Department. That allocation gives equal weight to the results of PG&E's invoice study and PG&E's 2003 overall labor capitalization rate.

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[59] OC-160 and OC-399

[60] OC-399

[61] OC-389 and OC-468

[62] Chapter 11, Account 926 Section and OC-418

Overland accepted PG&E's allocations to generation, transmission and distribution UCCs. The increase capital allocation recommended by Overland directly reduces the utility common category.

Corporate Accounting

The Corporate Accounting Department is responsible for maintaining PG&E's accounting books and records and for financial reporting. Overland interviewed the Department Director.[63] The Corporate Accounting Department includes the following sections:[64]

- Financial Accounting - prepares financial statements and performs general ledger accounting functions including account reconciliations.
- Revenue Accounting - analyzes and reconciles revenues
- Cash Reconciliation - reconciles bank accounts
- Compliance - develops internal controls over balance sheet accounts
- Technical Accounting - interprets GAAP and regulatory accounting requirements
- Reporting - prepares SEC, FERC and CPUC financial reports
- Energy Accounting - maintains regulatory balancing accounts
- Bankruptcy - addresses bankruptcy reporting and accounting requirements
- Affiliate Accounting - affiliate billing and affiliate rule compliance.

The current staffing in the Department is 54.8 FTE.[65]

Cost Forecast

PG&E's 2003 forecast includes labor and materials costs for 59.5 FTEs, $480,000 in orders materials costs and $504,000 in contract costs. PG&E's contract forecast reflects 2001 recorded costs less a forecast adjustment of $423,762 to reflect lower contract

[63] Wikle interview

[64] PG&E Exhibit 6, page 2-27 and OC-152

[65] OC-312

employee costs resulting from the replacement of contractors with permanent employees. [66] The Department's actual contract costs were $1.14 million in 2002.[67]

PG&E's 2003 labor and contract forecasts reflect anticipated replacements of contract employees with permanent employees that have not occurred. As a result, PG&E's 2003 forecasted labor costs are overstated and its 2003 forecasted contract costs are understated. Those forecasting differences largely offset each other. Overland accepted PG&E's 2003 forecasts of labor, non-order material and contract costs for the Corporate Accounting Department.

PG&E's forecast of orders materials costs reflect actual 2001 costs plus an adjustment of $121,060 for "SAP support related to operational system upgrades."[68] The Department's recorded 2001 orders materials costs included $89,462 in SAP SI upgrade costs.[69] The Department's actual 2002 orders materials costs were $142,226.[70] PG&E's 2003 forecast of $480,000 in orders materials costs is excessive compared to actual 2001 and 2002 costs. Overland recommends setting the 2003 forecast equal to the Department's actual 2001 orders materials costs excluding SAP SI upgrade costs. Overland's recommended forecast adjustment is shown below.

Corporate Accounting Department 2003 Orders Materials Forecast Adjustment	
Description	Amount
Actual 2001 costs	358,940
Less: SAP SI Upgrade	(89,462)
Overland Forecast	269,478
PG&E Forecast	480,000
Forecast Adjustment	(210,522)
Source: OC-8 and PG&E A&G Study WP 2-209	

[66] PG&E A&G Study WP 2-217

[67] OC-312

[68] PG&E A&G Study WP 2-220

[69] OC-8

[70] OC-435, excludes credit for PSEA billing and trust and escrow orders.

Cost Allocations

The following table summarizes PG&E's labor allocations for the Corporate Accounting Department.

Corporate Accounting Department Labor Allocation Per PG&E	
Description	Percent
Capital	0.00
M&O	0.00
Holding Company	0.61
Other Affiliates	0.05
Below The Line	1.80
Generation	1.99
Electric Transmission	1.84
Gas Transmission	0.54
Public Purpose	0.72
Electric Distribution	3.78
Gas Distribution	3.40
Utility Common	85.27
Total	100.00
Source: PG&E A&G Study WP 2-210	

PG&E assigned the activities of the energy accounting section to UCCs. The other sections within Corporate Accounting were assigned to the Utility Common category. The holding company allocation reflects treasury accounting functions preformed for PG&E Corporation by the financial accounting section.[71] The below -the-line allocation reflects 1 FTE for the bankruptcy project manager. PG&E assigned all of the Department's contract costs to the Utility Common category.

The bankruptcy section includes 3 permanent employees and two contractors. In addition, the technical accounting, reporting and energy accounting sections perform bankruptcy functions. The technical accounting section prepared 26 technical accounting memos in 2001 and 2002. Six of those memos addressed bankruptcy issues.[72] The Corporate Accounting Department prepares "task lists" detailing the responsibilities of each section. The technical accounting and reporting task lists include several bankruptcy related tasks such as:

[71] Wikle interview

[72] OC-151

- Update Genco POR to reflect Q3 10-Q Reg Matters Disclosure
- Research Accounting and Financial Statement Presentations/Disclosures for Reorganized Entity
- CPUC POR - no return
- Update Note 2: Chapter 11 Filing of 2003 Annual Report

The task lists for the energy accounting section include the following bankruptcy related tasks:

- Validate principle balances used in calculating interest
- Federal Preemption Lawsuit - Support and reference final schedules as these will be used by expert witnesses in the court case
- Create a sub-ledger for each PPL - include in a binder and have a list of issues and an action plan for each

PG&E forecasts an increase in staffing levels from 42 as of December 2000 to an average of 59.5 in 2003. Therefore, it is reasonable to conclude that the POR related activities in the Corporate Accounting Department have produced incremental staffing and costs. Based on the technical accounting memoranda and the task lists, Overland estimates that the reporting and technical accounting sections spend at least 10% of their time on bankruptcy related matters. Based on the task lists, Overland estimates the bankruptcy section spends 100% of its time on bankruptcy matters and the energy accounting section spends 8.3% (1 FTE) of its time on bankruptcy matters.

The following table summarizes Overland's allocation of Corporate Accounting costs to bankruptcy and POR activities.

Corporate Accounting Department Allocation to Bankruptcy and POR Activities			
Section	Headcount	Bankruptcy Percent	Bankruptcy Headcount
Directors Office	4.00	0.000	0.00
Reporting and Technical Accounting	15.20	0.100	1.52
Bankruptcy	6.00	1.000	6.00
Energy Accounting	16.00	0.083	1.33
Affiliate Transactions	4.00	0.000	0.00
Compliance	3.00	0.000	0.00
Revenue Accounting	5.80	0.000	0.00
Cash Reconciliation	4.00	0.000	0.00
Financial Accounting	10.00	0.000	0.00
SAP Support	1.80	0.000	0.00
Total	69.80	0.127	8.85
Note: Headcount is current headcount including contractors			
Source: OC-312			

PG&E's 2003 forecast of labor and contract costs does not reflect the actual staffing in the department because it reflects replacements of contractors with employees that have not occurred. The contract costs of the department consist almost entirely of temporary labor costs. The labor and contract costs of the department are generally interchangeable substitutes for each other. Accordingly, Overland developed a single allocation factor for the Department's costs based on the current combined contractor and permanent employee staffing for each section.

The CPUC determined that the cost of assuring compliance with affiliate transactions rules should be borne by shareholders in PG&E's 1999 GRC Decision. Specifically, page 273 of D.00-02-046 states:

> PG&E has not demonstrated that the utility ratepayers benefit from the profits earned by affiliates, or that ratepayers are in any other way the primary beneficiaries of its decisions to diversify into non-regulated activities. PG&E's establishment of a holding company which oversees affiliates that engage in non-regulated activities was largely, if not entirely, the consequence of management decisions that benefit shareholders. As TURN states, if PG&E had no affiliates, it would have no need of an affiliate compliance department. Moreover, ratepayers would have no exposure to risks of non-regulated activities to be protected against in the first instance. Accordingly, the costs of affiliate rules compliance properly belong with the utility's affiliates. We therefore adopt ORA's recommendation to allocate compliance costs to the affiliates.

The function of the affiliate section of the Corporate Accounting department is to ensure compliance with affiliate rules. Therefore, the costs of the section should be charged below the line for the reasons stated in D.00-02-046. The task list for the affiliate section indicates that the section is also responsible for billing the Standard Pacific Gas Line (Stanpac), a pipeline joint venture between PG&E and a Chevron Pipeline Company.[73] Stanpac's costs are included in PG&E's regulated cost of service. Overland assigned 10% of the affiliate section's costs to gas transmission to account for the Stanpac activities. Overland allocated a headcount of 3.6 FTE to the below-the-line category for the affiliate section. That represents 5.15% of the Department's current combined employee and contractor headcount.

The following table compares PG&E's and Overland's labor cost allocations for the Corporate Accounting Department.

Table _-_
Corporate Accounting Department
2003 Labor Allocation Per Overland

Department	Overland	PG&E	Difference
Holding Company	0.61	0.61	0.00
Affiliates	0.05	0.05	0.00
Below-the-line	17.85	1.80	16.05
Generation	1.99	1.99	0.00
Electric Transmission	1.84	1.84	0.00
Gas Transmission	0.54	0.54	0.00
Public Purpose Programs	0.72	0.72	0.00
Electric Distribution	3.78	3.78	0.00
Gas Distribution	3.40	3.40	0.00
Utility Common	69.22	85.27	(16.05)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-210			

Overland's below-the-line allocation of 15.85% includes 12.70% for bankruptcy/POR activities and 5.15% for affiliate rules compliance.

Capital Accounting

The Capital Accounting Department is responsible for accounting for plant and depreciation, including tax depreciation. The Capital Accounting Department develops policies and guidelines concerning capital versus expense accounting issues and

[73] PG&E's Gas Accord II testimony, page 2-6

reviews capital orders to determine compliance with those policies. The Capital Accounting Department is also responsible for developing and sponsoring PG&E's plant and income tax estimates in rate-making proceedings and for property tax reporting.[74]

The following table shows the current headcount in the Department by section.

Capital Accounting Department Current Headcount by Section	
Section	FTE
Director's office	2.0
Plant Accounting Manager	1.0
Plant & Depreciation	4.8
Asset Management & Controls	4.0
SAP Support	1.0
Project Analysis	11.5
Capital Recovery	8.0
Tax & Valuation Manager	1.0
Income Tax	3.0
State & Local Tax	2.0
Valuation Services	2.0
Total	40.3
Source: OC-436. One employee LTD. Intern set at .5 FTE	

The Plant Accounting Manager supervises the Plant & Depreciation, Asset Management and Controls and SAP Support sections. The Plant & Depreciation Section maintains plant and depreciation reserve records. The section reconciles plant and depreciation accounts and works on accounting for property sales. The Plant Accounting Section also calculates the monthly Allowance For Funds Used During Construction Rate.[75] The Asset Management & Controls section maintains PG&E's asset data base. The section works on computer data base support and analysis. One of the reports prepared by the Asset Management & Controls section is the annual property tax report showing property by tax jurisdiction.

The Project Analysis section works primarily on capital orders. The Section audits capital orders to determine compliance with capital accounting requirements and performs reviews and variance analysis of capital orders. The Project Analysis section also provides guidance to field organizations concerning capital versus expense

[74] PG&E A&G Study WP 2-235

[75] Marre telephone interview

accounting decisions. The Project Analysis Section also prepares PG&E's plant related billings to third parties and responds to data requests from plant related regulatory audits.[76]

The Capital Recovery Sections works on regulatory matters. The Section is responsible for developing and sponsoring testimony concerning capital rate base items and unbundling. PG&E's line organizations are responsible for developing the capital budgets and forecasts used in PG&E's rate cases. The Capital Recovery Section assembles those budgets and forecasts into a plant forecast and reviews the forecasts of capital additions for reasonableness. One of the members of the Capital Recovery Section is PG&E's depreciation witness. Another member of the Section works on Section 851 asset sale filings. The remaining 6 members of the section work primarily on rate base and unbundling matters.[77]

The Tax & Valuation Manager supervises the Income Tax Section, the State & Local Tax Section and the Valuation Services Section. The Manager also serves as PG&E's Income Tax witness in regulatory proceedings. The Income Tax Section prepares the fixed asset information reflected in PG&E's federal and state income tax returns. The State and Local Tax Section works on property, sales and use tax matters. The Valuation section prepares asset valuations used for insurance and property tax purposes. The section also prepares valuations related to local government franchise work and asset sales.[78]

The Capital Account Department worked on POR asset separation in 2002. The Asset Management and Controls section worked on mapping the asset transfers required by the POR within PG&E's large asset data base. The Department also **(REDACTED)**.[79] The Director estimates the Department worked the equivalent of 2 FTE on POR matters in 2002. [80]

The Capital Recovery Section worked on the GRC and PG&E's recent Gas Accord and FERC Electric Transmission Owner's cases in 2002. PG&E estimates the Capital

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[76] Marre telephone interview

[77] Marre telephone interview

[78] Marre telephone interview

[79] OC-41, page 22 **Confidential**

[80] Marre telephone interview

Recovery section worked the equivalent of 2.2 FTE on the FERC Transmission Owner's case in 2002. [81]

Cost Forecast

PG&E's cost forecast includes labor and materials for 42 FTE, $221,100 in orders materials costs and $370,000 in contract costs. [82] The actual headcount in the Department was 40 FTE as of December 2000 and 40 FTE as of December 2001.[83] The current headcount in the Department is 40.3 FTE. PG&E's forecasted headcount is reasonably close to the current and historical headcount. Overland accepted PG&E's labor cost forecast for the Capital Accounting Department.

PG&E's orders materials costs reflect actual 2001 costs with an adjustment to reduce costs to eliminate $98,413 in non-recurring SAP SI project costs.[84] Overland accepted PG&E's orders materials forecast.

The following table shows PG&E's forecast of contract costs.

Capital Accounting Department 2003 Contract Cost Forecast Per PG&E	
Description	Amount
Income Tax Software	35,000
Copy Machines	72,000
Staff Augmentation	250,000
Miscellaneous	13,000
Total	370,000
Source: PG&E A&G Study WP 2-254	

The Department's actual 2002 staff augmentation costs were $278,806.[85] Overland accepted PG&E's contract forecast.

[81] OC-314

[82] PG&E A&G Study WP 2-237 and 2-240

[83] PG&E A&G Study WP 2-240

[84] PG&E A&G Study WP 2-247

[85] OC-373

Cost Allocations

The following table shows PG&E's allocation of the Department's 2003 labor and materials costs.

Capital Accounting Department 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	19.50
Generation	3.30
Electric Transmission	5.20
Gas Transmission	2.40
Electric Distribution	6.70
Gas Distribution	3.60
Utility Common	59.30
Total	100.00
Source: PG&E A&G Study WP 2-238	

The Capital Accounting Department does not track time by project or activity function. PG&E's allocations were prepared on a section by section basis and reflect the judgment the supervisor of each section.[86] The capital allocation reflects 8 FTE in the Project Analysis section for the review of capital orders.[87] PG&E did not allocate any time to capital for the other sections in the Department.

The allocations to generation, transmission and distribution primarily reflect the regulatory support activities of the Capital Recovery and Tax Sections. [88] PG&E assigned most of the Director's Office, Plant Accounting and Tax & Valuation Sections to the utility common category.

Overland recommends the following capital allocation for the Department.

[86] OC-314

[87] OC-313 and OC-314

[88] OC-313

Controller's Department 2003 Contract Forecast Adjustment per Overland			
Section	FTE	Capital Factor	Capital FTE
Director's Office	2.0	0.0000	0.00
Plant Accounting	10.8	0.0926	1.00
Project Analysis	11.5	0.8261	9.50
Capital Recovery	8.0	0.1250	1.00
Tax and Valuation	8.0	0.0625	0.50
Total	40.3	0.2978	12.00
Source: OC-436 and Marre telephone interview			

Overland's capital estimate of 12 FTE represents the reduction in staffing in the Capital Accounting Department that would occur in the absence of PG&E's ongoing construction program. The Plant & Depreciation Accounting Section works the equivalent of .25 FTE on AFUDC rate calculations.[89] Those calculations would not be necessary if PG&E did not undertake its construction program. The asset data base work done by the Plant Accounting Section is also impacted by PG&E's ongoing construction program. Overland assigned 1 FTE to capital for the Plant Accounting Section.

The Project Analysis Section works primarily on Capital Accounting matters. The 8.5 FTE order management group contained in the Project Analysis Section works on auditing capital orders. The remaining employees in the Section perform capital order variance analysis and provide guidance on capital versus expense decisions. Those activities would not be necessary in the absence of PG&E's ongoing construction program. The third party billing activities of the Project Analysis Section are not allocable to capital. Overland assigned 9.5 FTE to capital for the Project Analysis Section.

The Capital Recovery Section reviews and processes capital forecasts for regulatory proceeding. Overland estimates that at least 1 FTE could be eliminated from the Capital Recovery Section in the absence of PG&E's ongoing construction program. The Income Tax Section processes data concerning book/tax construction basis differences. For example, the Income Tax Section analyzes PG&E's computer applications capital orders to identify software costs that are currently deductible for tax purposes. The section also tracks construction overheads and AFUDC related construction basis

[89] Marre telephone interview

differences. The State and Local Tax Section is also impacted by ongoing construction. Overland attributed .5 FTE to capital for the tax area.

Overland did not identify any incremental staffing in the Capital Accounting Department attributable to the POR. The current headcount in the department is consistent with pre-POR levels. Accordingly, Overland did not allocate any of the Department's costs to the below-the-line category.

Overland accepted PG&E's allocations to generation, transmission and distribution. The increased capital allocation directly reduces the utility common category.

Risk Management

PG&E's Risk Management Department performs an internal control function. The Risk Management Department establishes energy procurement risk management controls and monitors compliance with those controls. The actual energy procurement functions are performed by PG&E's California Gas Transmission, Core Gas Procurement and Electric Portfolio Management organizations. The Risk Management Department focuses on risk measurement and reporting, controls compliance and setting credit limits for counter-parties.[90] Overland interviewed the Director of PG&E's Risk Management Department.[91]

The following table shows the current headcount in the Department by section.[92]

Risk Management Department Current Headcount by Section	
Section	FTE
Director Office	2.0
Risk Strategy & Analysis	4.0
Risk Control	6.8
Credit Risk Management	4.0
Total	16.8
Source: OC-438	

[90] OC-300

[91] White interview

[92] OC-438

The Risk Strategy and Analysis Section evaluates risk management strategies, internal controls and the models used to forecast energy demand and prices. The Credit Risk Management Section evaluates the credit worthiness of PG&E wholesale customers and suppliers and sets credit limits for the customers and supplies. The credit limits apply across business lines (California gas transmission, core gas procurement, electric procurement) and address the aggregate permissible total credit exposure for each customer/supplier. The Risk Control Section processes daily volumetric and unit pricing data to determine whether the credit limits have been violated.[93]

Cost Forecast

PG&E's 2003 cost forecast includes labor costs for an average headcount of 24 FTE, $3.125 million in materials costs and $2.0 million in contract costs. [94] The materials and contract costs largely reflect the risk management internal controls improvement project.

PG&E's A&G study reflects an average 2003 headcount of 24 FTE and a year-end 2003 headcount of 25 FTE.[95] PG&E revised the year-end 2003 headcount to 23 FTE in the response to OC-129. The following table compares the actual December 2002 headcount to PG&E's revised forecast of the December 2003 headcount by section.

Risk Management Department Current and Forecasted Headcount			
Section	Dec. 2002	Dec.2003	Increase
Directors Office	2	2	0
Risk Strategy and Analysis	3	8	5
Risk Control	5	8	3
Credit	4	5	1
Total	14	23	9
Source: OC-129			

The response to OC-129 provides the following explanation for the forecasted increase of 9 FTE.

[93] White interview

[94] PG&E A&G Study WP 2-260

[95] PG&E A&G Study WP 2-263

There are two major factors affecting this increase in headcount:

1. The CPUC's order that utilities resume the electric procurement function; and
2. A need for controls improvement. The key factor is having an appropriate level of middle office resources to measure, monitor, and evaluate risk embedded in the utility energy procurement portfolio (Core Gas Procurement, Gas Transmission, and Electric Procurement).

The specific positions that will be added are as follows: In the Risk Strategy and Analysis Section, two positions will be added to do modeling and three positions will be added to analyze and report on portfolio strategy, portfolio trends, industry trends, financial statements and technical support for credit. The headcount increases will allow the department to validate and monitor models such as load and price forecasts used by the procurement functions, to build, maintain, and manage pricing and other risk models, to run scenario analysis for the procurement and transportation portfolios, to report key risk metrics on portfolios, and to analyze industry trends, etc.

In the Risk Control Section, three positions will be added...to cover electric procurement, including the gas procurement component associated with managing the electric portfolio. In the Credit Section, one credit analyst position will be added to cover the increased workload from the resumption of the electric procurement function.

The Department is currently actively recruiting two vacancies, a financial analyst position and a senior financial analyst position.[96] The other vacancies in PG&E's staffing plan were not being actively recruited as of March 4, 2003. The current headcount and the two positions currently being actively recruited total 18.8 FTE. That headcount provides a sound basis for forecasting 2003 costs. Forecasted headcount additions for vacancies that are not being actively recruited as of March 2003 are speculative and should not be included in the 2003 forecast. Overland recommends the following adjustment to reflect a headcount of 18.8 FTE in the Risk Management Department.

[96] OC-439

Risk Management Department Forecast Headcount Adjustment			
Section	Labor	Materials	Total
Forecast Per PG&E (exc. emp. benefits)	1,900,936		
FTE Per PG&E	24		
Average Cost Per FTE	79,206	15,931	95,137
FTE Adjustment	(5.2)	(5.2)	(5.2)
Forecast Adjustment	(411,871)	(82,841)	(494,712)
Source: PG&E A&G Study WP 2-260 and 2-263. Materials reflect 2001 actual			

The addition of electric supply procurement responsibilities has increased the staffing requirements in the Risk Management Department. The average headcount in the Department was 13 FTE in 2001.[97] Overland's forecasted headcount of 18.8 FTE exceeds that historical headcount by 5.8 FTE and provides a reasonable provision for average 2003 electric procurement related headcount increases.

The actual headcount in the Department was 14 FTE as of December 31, 2002.[98] PG&E currently forecasts a year-end 2003 headcount of 23 FTE. The average of PG&E's year-end 2003 forecast and the actual 2003 beginning headcount is 18.5 FTE. Overland's 2003 forecasted headcount of 18.8 FTE is consistent with that average.

PG&E forecasts 2003 materials costs of $3,125,000. That forecast includes $2,885,540 in material costs for the Risk Management Internal Controls Project. PG&E's contract forecast includes $1.95 million for the same project. The following table shows PG&E's 2003 contract forecast by contract.

Risk Management Department 2003 Contract Forecast Per PG&E	
Description	Amount
Credit and Price Information Services	34,000
Other	11,889
Controls Project	1,954,111
Total	2,000,000
Source: PG&E A&G Study WP 2-273	

PG&E included materials and contract costs totaling $4.84 million in its 2003 forecast for the risk management controls project. The internal controls project includes two main

[97] PG&E A&G Study WP 2-263

[98] OC-372

components: (1) documenting and improving risk management internal controls over energy procurement and sales activities and (2) acquiring new deal capture, credit analysis and price forecasting systems.[99]

PG&E revised its 2003 forecast for the internal controls project to $5.8 million in the response to OC-246. The following table shows the details of PG&E's revised forecast.

Risk Management Department Revised 2003 Controls Project Forecast Per PG&E			
Description	Materials	Contracts	Total
Deal Capture System for GES - Power only	1,600,000	0	1,600,000
Deal Capture System Mods - Epsilon	237,000	0	237,000
Credit Exposure and Reporting System -CGT	272,000	0	272,000
Credit Analysis System	800,000	0	800,000
Centralized Pricing Data Base	82,000	0	82,000
Price Forecasting System	823,000	0	823,000
Risk Management Reporting	67,000	0	67,000
Project Management	0	720,000	720,000
Technology Manager	0	400,000	400,000
Credit Consulting	0	25,000	25,000
Technical Writer	0	14,000	14,000
Model Validation	0	25,000	25,000
Settlement, Fuel Procurement Model Validation	0	266,000	266,000
Gen Trader Seat Fee (annual)	0	124,000	124,000
Sas SimEngine (annual)	0	70,000	70,000
Other Annual Fees	0	171,270	171,270
Not Supported	0	129,730	129,730
Total	3,881,000	1,945,000	5,826,000
Source: OC-246 and OC-442			

PG&E does not have a written business plan for the controls project. [100] The controls project has not been approved by PG&E's Risk Management Committee.[101]

The deal capture, credit analysis and price forecasting systems account for $3.2 million of the 2003 cost forecast. Data Request OC-441, submitted on January 31, 2003, asked PG&E to identify the vendors for those systems or provide the list of qualified vendors if a vendor had not yet been selected. OC-441 also requested the system descriptions,

[99] White interview

[100] White interview

[101] OC-247

vendor proposals, contracts and implementation schedules for the systems. As of April 3, 2003, PG&E had not responded to that request.

PG&E's inability to provide basic information about the major systems included in the controls project implies that PG&E is not committed to proceeding with those systems in 2003. In addition to those systems, PG&E's response to OC-442 indicates that PG&E does not have good support for $129,730 of materials costs included in its revised project forecast. The deal capture, credit analysis and price forecasting system costs included in PG&E's forecast are unsupported and speculative. Overland recommends the following adjustment to PG&E's 2003 forecast for the controls project.

Risk Management Department Revised 2003 Controls Project Forecast Per PG&E			
Description	Materials	Contracts	Total
Revised Forecast Per PG&E	3,876,000	1,950,000	5,826,000
Deal Capture System	(1,600,000)	0	(1,600,000)
Credit Analysis System	(800,000)	0	(800,000)
Price Forecasting System	(823,000)	0	(823,000)
Costs Not Supported	0	(129,730)	(129,730)
Overland Forecast	653,000	1,820,270	2,473,270
PG&E A&G Study Forecast	2,885,540	1,954,111	4,839,651
Forecast Adjustment	(2,232,540)	(133,841)	(2,366,381)
Source: OC-246 and OC-442 and PG&E A&G Study WP 2-267			

Cost Allocations

PG&E's labor and material cost allocations for the Risk Management Department are shown below.

Risk Management Department Labor Allocation Per PG&E	
Description	Percent
M&O	10.00
Generation (Diablo Canyon)	8.50
Electric Distribution (procurement)	35.50
Gas Distribution (procurement)	26.00
Gas Transmission	20.00
Total	100.00
Source: PG&E A&G Study WP 2-261	

Overland accepted PG&E's allocations for the Risk Management Department.

Purchasing

The Purchasing Department is responsible for purchasing goods and services. The A&G Study only includes a small portion of the Purchasing Department's total costs. Most of the Purchasing Department's costs are included in the purchasing burden loaded onto the cost of materials. The costs that are excluded from the burden are charged to A&G expense and are included in the A&G Study.[102] Overland interviewed the Director of the Purchasing Department.[103]

The following table shows the current headcount, including contract employees, in the Purchasing Department sections that are included in the A&G Study.

Purchasing Department A&G Sections Current Headcount Including Contractors	
Section	FTE
Manager IT & Consulting Services	1
Consulting Services	10
Information Technology	9
Supplier Diversity	4
Travel & Supplier Certification	1
C-Card	2
Total	27
Source: OC-461	

The Information Technology section purchases equipment and software for PG&E's Information Systems Technology Services (ISTS) organization. ISTS is PG&E's primary information systems organization. The Consulting Services section administers PG&E's professional services contracts. Supplier Diversity manages PG&E's supplier diversity program. The C-card section administers PG&E's commercial card program. The commercial card is a credit card used by PG&E employees to purchase low dollar value items. [104]

[102] Dowd interview

[103] Dowd interview

[104] Dowd interview

Cost Forecast

PG&E's 2003 forecast includes labor and material costs for 28 FTE, $373,252 in non-order contract costs and $3.3 million in order contract costs. The order contract costs are for the acquisition and installation of a new automated purchasing system and the upgrade of PG&E's existing e-procurement system.

PG&E did not include any costs in its contract forecast for contract employees.[105] PG&E's forecasted headcount is reasonably consistent with the current headcount, including contract employees. Overland accepted PG&E's cost forecast for labor, materials and non-order contract costs.

PG&E's 2003 cost forecast for order contract costs consists of $2,500,000 for the automated purchasing project and $800,000 for the e-procurement system upgrade.[106] The automated purchasing system will enable PG&E to create contracts, route electronic approvals and send requests for proposals and bids electronically. [107] The e-procurement system is used for electronic ordering and invoicing. The current vendor for the e-procurement system will no longer support PG&E's current version of the software.

PG&E's 2003 forecast for the e-procurement and automated purchasing projects was not supported by a detailed cost estimate or a cost/benefit analysis.[108] Prior to March 2003, PG&E did not have a plan for implementing either project and had not selected the software for the projects.

In March 2003, PG&E replaced the e-procurement and automated purchasing projects with the Supply Chain Technology Project. PG&E's 2003 expense forecast for the Supply Chain Technology Project is $3,385,485 stated in 2002 dollars. [109] That forecast is close to the $3.3 million forecast included in PG&E's A&G Study.

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[105] PG&E A&G Study WP 2-318

[106] PG&E A&G Study WP 2-313

[107] PG&E Exhibit 4, page 2-76

[108] OC-459

[109] OC-459, $3,487,051 divided by 1.03 de-escalation factor

The Supply Chain Technology Project has been approved by PG&E's Information Technology Advisory Committee (ITAC).[110] The project proposal submitted to the ITAC on March 12, 2003 contains the following description of the project.

> It is recommended that PG&E management authorize an expense expenditure of $11.66 million for the deployment of the Supply Chain Technology Strategy. The deployment....includes: 1) the replacement of Commerce One's EBuy procurement product with SAP's SRM [Strategic Resource Management product suite]; 2) the removal of the 1995 software application customizations within SAP's Plant Maintenance (PM) and Materials Management (MM) modules and 3) the replacement of the obsolete Warehouse Management System (WMS) and the Demand Solutions Requirements Planning tool (DSRP) with PG&E's existing SAP warehouse inventory management software. The deployment of this Supply Chain Technology Strategy serves to fully integrate all of PG&E's core supply chain systems on a single SAP platform.

The proposal contains the following background discussion of the SAP Plant Maintenance and Material Management modules.

> In 1994, PG&E acquired SAP R/3 as its enterprise software solution addressing the needs of over 50% of its core business systems. Due to limitations within the SAP software at the time of implementation, PG&E made code modifications to supplement the solution. The PM and MM modules within SAP received the majority of these code modifications. These modifications remain in place today and have significantly impeded PG&E's ability to take advantage of new functionality offered by SAP releases issued since our implementation in 1996.
>
> The decision by PG&E in 1994 to retain its in-house Warehouse Management System (WMS) placed significant requirements on SAP R/3. One major requirement was the development of the "Custom Requisition" functionality between SAP, WMS and the Job Estimating Tool (JET). This interface creates material requests that are channeled between both SAP and WMS from JET. SAP performs the purchasing functions for indirect materials, whereas WMS performs the majority of the direct material fulfillment. If there is a deficit of materials, WMS generates a request for fulfillment to the SAP system. This process is very complicated and redundant, and is caused primarily by the modifications performed by the SAP PM/MM areas that were necessary for continued support of WMS and Custom Requisition.
>
> PG&E's WMS system was put into place in 1984. Both the code and the hardware on which it runs have been obsolete for over 10 years. As a result, PG&E pays a premium for WMS technical support and hardware replacement parts...In order to keep WMS operating, PG&E holds a scavenged spare parts inventory for hardware repairs. The forced integration between WMS and SAP

[110] OC-459

requires batch updating of inventory data and inaccurate data duplication between multiple systems.

The proposal concludes "progressing through several SAP technical upgrades, and the consolidation of its two SAP instances, PG&E's original decisions to customize the MM/PM modules of SAP have outlived their usefulness and now place a burden upon PG&E's ability to take full advantage of SAP's supply chain functionality."

The proposal contains the following discussion of the project.

The PN/MM integration has the largest beneficial impact to PG&E. Significant progress can be gained to satisfy several of the Supply Chain Process Improvement recommendations. Placement of the PM/MM integration as the primary stage delays projected benefits beyond a twelve-month threshold.

The existing supply chain systems are in operation today. Although reliability is a concern, we do no know when a system will fail. It is possible that temporary postponing replacement of the supply chain systems could be done without negative impact. On the other hand, loss of the supply chain systems for an extended period would result in significant financial and operational impacts to the utility and its customers.

There is no urgency placed on the immediate replacement of Commere One's Ebuy. PG&E can maintain its existing platform of Commerce One until fourth quarter 2004 before undergoing transition to another platform. However, the manufacturer's future support of product offerings will be minimal.

Integration of PG&E's WMS will be complex due to the various functional aspects of the existing system. It has been customized to meet the Materials Warehouse department's business requirements. No other systems will meet all of these requirements.

The project proposal includes the following project cost estimate in nominal dollars.

Purchasing Department Supply Chain Technology Strategy Cost Forecast			
Description	2003	2004	Total
Capital	508,000	0	508,000
Expense	3,487,051	7,665,277	11,152,328
Total	3,995,051	7,667,281	11,660,328
Source: OC-459			

The cost forecast includes a contingency provision of 10%. The project proposal does not contain any support for the cost forecast amounts shown above. For example,

although the project has three main components, the project proposal does not provide any breakdown of the cost forecast by those components. Similarly, the project proposal does not provide any breakdown of the cost forecast by type of cost such as software, contracts, internal labor or materials. [111]

The project proposal indicates a project start date of June 2003 and a project completion date of December 2004. The project is divided into three phases. The project proposal indicates phase 1 is scheduled to begin on July 1, 2003, after an initial one month project planning period. Phase 1 is scheduled for completion on March 1, 2004 and includes the following activities.[112]

- SRM
  - Business process analysis/redesign
  - Design/engineering
  - Hardware or software development/construction
  - Testing
  - Rollout
  - Change Management

- Warehouse Management
  - Business Process analysis
  - Design

- PM/MM Integration
  - Business Process Analysis
  - Design

Phase 2 is scheduled to begin on March 1, 2004 and conclude on September 30, 2004. Phase 2 includes:

- SRM Reporting

- Warehouse Management
  - Design/engineering

[111] OC-459

[112] OC-459, presentation page 13

    - Software development/construction
    - Testing
    - Rollout
    - Change Management

- PM/MM Integration
    - Design/engineering
    - Software development/construction
    - Testing
    - Rollout
    - Change Management

Phase 3 is described as centralized planning. Phase 3 is scheduled to begin on September 30, 2004 and conclude on December 30, 2004. PG&E's project proposal does not contain any breakdown of the project cost estimate by phase or phase sub-components.

The proposal includes the following discussion of the benefits of the project.

> The primary driver behind this project is ensuring reliability for PG&E's core supply chain systems. However, there are other benefits that will be derived from implementing this project.
>
> The identified benefits fall into three categories: inventory reduction, capture of early payment discounts offered by suppliers and reduced system support costs. These benefit categories can be characterized as "hard savings" with a high probability of PG&E being able to capture these savings.

The proposal anticipates that the net savings from reduced technical support and supplier discounts will reduce expenses by $655,000 on an ongoing basis.[113] In addition, the proposal indicates the project will reduce 2005 inventory purchases by $1.02 million. The proposal does not show any savings for 2003.

The proposal lists eight "project risks" including the following:

- **Legal**: Pending decision with PG&E's restructuring and its impact on workforce and direction of the Supply Chain Technology Strategy. **Mitigation:** Project planned with small teams and flexible schedules.

[113] OC-459, Attachment A to proposal, page 4, 2005 operating expenses.

Legal: A portion of the funding for this initiative is included in PG&E's current general rate case. Recovery of costs is subject to the general rate case. **Mitigation**: This business case is being presented to the Office of Ratepayer Advocates in order to explain the critical need for this work.

Legal: An approval from the Bankruptcy Court and the Official Creditors Committee may be required for this project. **Mitigation:** Work with Law Department to obtain the necessary approvals.

Manpower: Limited availability of qualified PG&E employees to work on this project. **Mitigation:** Gain leadership commitment and resource requirements appropriate for project.

The proposal notes:

> The possibility of deferral or cancellation of the project can occur if the following circumstances are present:
>
> # Lack of funding
> # Change of priorities among PG&E business objectives.

PG&E's 2003 forecast of $3.3 million in expense for the Supply Chain Technology Project is speculative and unsupported. PG&E has not provided a detailed job estimate for the project or an executed job authorization.

If implemented, the POR will significantly affect PG&E's information technology systems. PG&E's ability to allocate scarce ISTS resources to the Supply Chain Technology Project in 2003 when it is working on separating its operations into four different companies is questionable. The POR requires separation of PG&E's purchasing, materials management and warehouse operations as well. Implementing significant modifications to PG&E's Plant Maintenance, Materials Management and Warehouse Management System while the POR is pending is also questionable. The proposal indicates deferral and cancellation of the project could occur due to a lack of resources of a change in priorities.

The 2003 expense forecast of $3.3 million is also questionable from an accounting standpoint. The project involves significant modification of software code and the conversion of systems to new software. Those changes are expected to produce future benefits. Under Generally Accepted Accounting Principles, the costs of acquiring new software applications must be capitalized. In addition upgrades or enhancements to

existing software applications must be capitalized if they add additional functionality. [114] The costs to be capitalized include design, coding, installation and testing.

PG&E's proposal indicates that only $508,000 of the $11.66 million total cost of the project will be capitalized. PG&E's proposal provides no indication of how the capital amount was determined. Therefore, PG&E has not provided the information needed to confirm if its separation of the total cost of the project into capital and expense components is consistent with accounting requirements. The Supply Chain Technology Project is expected to produce on-going savings. Capitalizing the costs of the project matches the cost recognition of the project with the benefits.

PG&E's software accounting policy is inconsistent with GAAP. PG&E's policy is to expense all internal software development costs if the cost of the project is less than $5 million.[115] The cost of the Supply Chain Technology Project exceeds $5 million. Therefore, the $5 million threshold included in PG&E's software accounting policy does not support the expense treatment shown in the proposal.

Overland recommends a $3.3 million forecast adjustment to remove the Supply Chain Optimization Project from the 2003 expense forecast. PG&E's cost forecast is speculative and unsupported. In addition, PG&E has not provided sufficient evidence to support its proposal to charge 96% of the costs of the project to expense.

Cost Allocations

The following table summarizes PG&E's labor and material cost allocations for the Purchasing Department.

Purchasing Department Labor Allocation Per PG&E	
Description	Percent
Holding Company	2.60
Generation	3.60
Gas Transmission	10.70
Utility Common	83.10
Total	100.00
Source: PG&E A&G Study WP 2-302	

[114] Accounting Standards Executive Committee Statement of Position 98-1

[115] OC-263, page 672

The holding company allocation reflects time spent on services provided to the holding company in the commercial procurement card, travel and information technology and consulting services procurement sections. The generation and gas transmission direct assignments are for work done by the consulting services section.

Many of the items purchased by the information technology section are charged to plant. PG&E estimates that 66.5% of the items purchased by the IT section were charged to capital in 2002.[116]

The consulting services group is responsible for legal, engineering and other consulting contracts. Some of those contracts are charged to construction. In 2002, approximately 18.4% of PG&E's professional services contracts were charged to construction. [117]

The staffing in the Information Technology and Consulting Services sections is largely a function of the volume of transactions processed.[118] Capital items account for a significant portion of the transactions processed by those sections. Therefore, the staffing in those sections would be reduced in the absence of PG&E's ongoing construction program.

Overland recommends the following allocation to capital for the A&G study Purchasing Department.

Purchasing Department 2003 Labor Allocated to Capital Per Overland			
Section	FTE	Capital Percent	Capital FTE
Manager IT & Consulting Services	1.0	0.00	0.0
Consulting Services	10.0	18.42	1.8
Information Technology	9.0	66.50	6.0
Supplier Diversity	4.0	0.00	0.0
Travel & Supplier Certification	1.0	0.00	0.0
C-Card	2.0	0.00	0.0
Total	27.0	29.03	7.8
Source: OC-463 and OC-462			

[116] OC-462 and OC-208

[117] OC-463

[118] Dowd interview

Overland's capital allocations reflect the capital factors for items purchased by the Information Technology and Consulting Services Sections discussed above. Overland accepted PG&E's allocations to the holding company, generation and gas transmission. The capital allocation directly reduces the allocation to the utility common category.

Pacific Gas & Electric
Accounts Payable Analysis
Year Ended 2000

Group 2	Group 3	Group 4	Total Records	Total Capital Records	Capital Percentage
Common (note: no break-out by group)			75,075	0	0.00%
CHAIRMAN			1	0	0.00%
CORPORATE			1,267	0	0.00%
CORPORATE SUPPORT			9,559	0	0.00%
GEN BU - ORG					
	NPG-ORG		62,655	375	0.60%
	PWRGEN-ORG		80,109	8,751	10.92%
GEN BU RCC					
	NPG - RCC		3,801	881	23.18%
	PWRGEN - RCC		10,354	152	1.47%
GES-ORG			3,669	11	0.30%
HOLD-ADMIN			2	0	0.00%
GES-RCC			30	0	0.00%
MF BURDEN			44,783	0	0.00%
CFO					
	CFO-BLOCKD		54	0	0.00%
	CFO IMMEDIATE		1,120	0	0.00%
	COMPTELECOM		57,638	5,669	9.84%
	CONTROLLER		5,069	72	1.42%
CORP SECRETARY			756	350	46.30%
GOV-REGREL			13,964	39	0.28%
HUMAN RES			14,429	21	0.15%
VPGENCOUNSEL					
	PRESCEO		260	0	0.00%
	GEN COUNSEL		12,231	244	1.99%
	SH&C		12,448	0	0.00%
SPECIAL CC			855	0	0.00%
UTILITY OPS ORG					
	CAL GAS TRANS - ORG		66,634	19,010	28.53%
GEN SERVICES					
	BLDG LAND SVCS		68,047	3,937	5.79%
	CORP SECURTY		940	0	0.00%
	FLEET		155,517	6,878	4.42%
	GEOSCIENCE		250	2	0.80%
	MATERIALS		15,924	145	0.91%
	PURCHASE		5,651	12	0.21%
	R&D		75	0	0.00%
	TECH & ECO SVCS		10,414	703	6.75%
	TRANS EQUIP		920	0	0.00%
	VP GEN SVS		877	14	1.60%
UTILITY ORG					
	CUST SVC		226,137	2,030	0.90%
	TRANSDISTR				
		DCS	38,660	35,900	92.86%
		ENG PLAN (EXC VEG MAMT)	57,414	29,526	51.43%
		VEG MAGMT	112,366	6	0.01%
		ETBLKORG	1,536	322	20.96%
		OPS-MTC-CN	649,478	71,182	10.96%
	UTIL OPS SUPP		5,181	89	1.72%
CGT RRC			1,200	0	0.00%
DCS RRC			62,128	30	0.05%
ELTRANS RRC			14,992	515	3.44%
GEN SVC RRC			283	94	33.22%
WORKFORCE			164	0	0.00%
TOTAL			**1,904,917**	**186,960**	**9.81%**

SOURCE: OC-399

Chapter 4
Utility Public Affairs

This Chapter addresses the 2003 cost forecast for the following PG&E Departments:

- SVP Public Affairs
- VP Communications
- Internal and External Communications
- Media Relations
- VP Governmental Relations
- Local Government Relations
- External Relations

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G expense level by department.

Chapter 4 - Utility Public Affairs Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Public Affairs	0	(135,497)	0	(135,497)
VP Communications	0	(339,597)	(91,345)	(430,942)
Internal and Ext. Communications	(203,732)	45,572	(275,112)	(433,272)
Media Relations	0	(307,603)	(35,642)	(343,245)
VP Governmental Relations	0	(438,559)	(103,169)	(541,728)
Local Governmental Relations	(68,457)	(1,490,067)	0	(1,558,524)
External Relations	(551,503)	(271,973)	(23,997)	(847,473)
Total	(823,692)	(2,937,724)	(529,265)	(4,290,681)

The issues are described below by Department.

1. **SVP Public Affairs.** Reduced utility A&G allocation by 25.04% to eliminate to eliminate political advocacy, corporate reputation enhancement and incremental bankruptcy and POR costs. The increased allocation reflects the weighted average allocations of the departments reporting to the SVP.

2. **VP Communications.** Reduced utility A&G allocation by 40.42% to eliminate incremental bankruptcy and POR costs and the cost of managing reputation enhancement advertising.

3. **Internal and External Communications.** Decreased forecast (before allocations) by $210,033 to reflect current staffing levels. Decreased contract costs by $192,559 to reflect the Department's 2003 budget and assigned an additional $82,553 in contract costs to the below-the-line category to eliminate incremental POR contract costs.

4. **Media Relations.** Increased allocation to the below-the-line category by 15.73% to eliminate incremental POR costs and the costs of corporate reputation enhancement activities.

5. **VP Governmental Relations.** Allocated 58.28% of the Department's costs to the below-the-line category to eliminate political advocacy, reputation enhancement and incremental bankruptcy and POR costs. The increased allocation reflects the weighted average allocations for the department's reporting to the VP.

6. **Local Governmental Relations.** Increased forecast (before allocations) by $382,182 to reflect recent staffing additions in the Department. Reduced costs by $451,500 to eliminate local Chamber of Commerce membership fees. Increased below-the-line allocation by 31.4% to eliminate political advocacy, reputation enhancement and incremental bankruptcy and POR costs.

7. **External Relations.** Reduced forecast by $575,167 to reflect 2003 expected staffing levels. Allocated an additional 35.6% of the Department's costs to below-the-line to eliminate the costs of political advocacy and corporate reputation enhancement activities.

SVP - Public Affairs

The SVP - Public Affairs oversees PG&E's communications, regulatory, governmental and external relations organizations. [1] All of the Department's reviewed in this chapter ultimately report to the SVP. The SVP is a "dual officer" of both PG&E and the holding company.

[1] PG&E A&G Study WP 2-329

The SVP Public Affairs PCC consists of the Vice President, an administrative assistant and an executive secretary. The SVP maintains two offices, one in the utility headquarters (77 Beale Street) and one in PG&E Corporation's headquarters (One Market Street).

The costs of the SVP's holding company office are charged to a holding company PCC. That holding company PCC is addressed in Chapter 9. All of the labor costs of the SVP's immediate office are charged to the utility PCC.[2]

Cost Forecast

PG&E's 2003 cost forecast consists of labor and material costs for 2.8 FTE and a small amount of contract costs. Overland accepted PG&E's 2003 cost forecast for the utility SVP Public Affairs.

Cost Allocations

PG&E's allocation of the labor and materials costs of the utility PCC are shown below.

Utility SVP Public Affairs PCC Labor Cost Allocations Per PG&E	
Description	Percent
Holding Company	35.70
Diablo Canyon	1.60
Utility Common	62.70
Total	100.00
Source: PG&E A&G Study WP 2-331	

The holding company allocation reflects 50% of the hours of the SVP and executive secretary. The administrative assistant works exclusively on utility matters.[3] PG&E's holding company allocation provides a reasonable estimate of the time the SVP spends on activities that benefit PG&E Corporation's non-regulated business activities. Those costs should not be reallocated to PG&E. Therefore, Overland recommends shifting the allocation from the holding company common category to the non-utility subsidiary (affiliate) category.

[2] OC-287

[3] OC-3, PG&E interview notes for Sr VP Public Affairs PCC

The allocation to Diablo Canyon is an artifact of the previous ratemaking treatment for Diablo Canyon costs. Diablo Canyon currently receives the same allocation treatment as PG&E's other operations. Therefore, the small allocation to Diablo Canyon should be reclassified to the Utility Common category.

The SVP supervises the following Departments:

- Regulatory Relations
- Governmental Relations
- Communications
- External Relations

The Governmental and External Relations Departments spend significant amounts of time on activities that should be charged below-the-line. The SVP Public Affairs also seeks to influence legislation and public policy directly. Therefore, some portion of the costs of the SVP's immediate office should be allocated to the below-the-line category.

Overland recommends the following allocation to the below-the-line category.

SVP Public Affairs 2003 Below-The-Line Allocation Per Overland	
Description	Percent
Total Utility Related Labor	64.30
Below-the-Line Factor	0.3895
Below-the-Line Percent	25.04
Source: Following Table and PG&E A&G Study WP 2-331	

The below-the-line factor reflects the weighted average of the labor allocations for the departments reporting to the SVP. The following table shows the calculation of the below-the-line factor.

SVP Public Affairs 2003 Below-The-Line Allocation Per Overland			
Department	FTE	Below-the-Line Percent	Below-the-Line FTE
VP Communications	6.0	40.42	2.43
Internal and Ext. Communications	14.0	0.00	0.00
Media Relations	19.0	15.73	2.99
VP Governmental Relations	5.0	58.28	2.91
State Governmental Relations	7.0	100.00	7.00
Contributions	5.5	100.00	5.50
Local Governmental Relations	34.0	42.81	14.56
External Relations	4.0	35.60	1.42
Total	94.5	38.95	36.81
Source: Cost Allocations Sections in this Chapter			

The following table compares Overland's and PG&E's recommended allocations for the SVP Public Affairs Department.

SVP Public Affairs 2003 Labor Allocation Per Overland			
Department	Overland	PG&E	Difference
Holding Company	0.00	35.70	(35.70)
Affiliates	35.70	0.00	35.70
Below-the-line	25.04	0.00	25.04
Generation	0.00	1.60	(1.60)
Utility Common	39.26	62.70	(23.44)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-331			

VP Communications

PG&E's Vice President - Communications oversees PG&E's communications with employees, customers, retirees, the media and the general public. [4] The VP's immediate office includes the six following positions: [5]

- Vice President
- Executive Secretary

[4] PG&E A&G Study WP 2-347

[5] OC-321 and OC- 322

- Senior Budget Analyst
- Director Advertising, Public Relations and Strategic Communications
- Two Managers of Strategic Communications.

PG&E provided the following breakdown of the Director Advertising, Public Relations & Strategic Communications' time in the response to OC-322:

- Advertising contract management - 20%
- Advertising design - 40%
- Customer Research and Analysis - 25%
- Internal Communications - 15%

The two Managers of Strategic Communication were added in late 2001 to address increased work requirements caused by the "energy crises." [6] The job descriptions for the two managers positions list the following major areas of responsibility:

1. Develop strategies and tactics for communicating information about major issues including the energy crisis, BK/POR, energy efficiency, safety, [and] customer service with employees, officers, retirees and customers.

2. Enhance the employee communications program by managing internal Q&A/information dissemination process to employees, officers, retirees and customers.

The headcount in the VP's immediate office was 6 FTE as of December 31, 2002.[7]

Cost Forecast

PG&E's 2003 cost forecast consists of labor and materials for 6 FTE and $544,000 in contract costs.[8] PG&E's labor and materials costs forecast is consistent with the current headcount in the Department. Overland accepted those forecasts.

PG&E's 2003 contract cost forecast is shown below by contract.

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[6] OC-321

[7] OC-372

[8] PG&E A&G Study WP 3-348

VP Communications 2003 Contract Costs Per PG&E	
Description	Amount
Facilitator - Director Team Building	27,000
POR Communications	308,000
Bankruptcy Media Services	10,000
Media and Management Training	40,000
Polling and Benchmarking	25,000
Public Relations Counsel	75,000
Recruiting - Staff Planning	15,000
Copier Maintenance	6,000
Emergency Communications Center	18,000
Public Briefings	20,000
Total	544,000
Source: PG&E A&G Study WP 2-364	

PG&E assigned the POR communications and the bankruptcy media services contract costs to the below-the-line category.

PG&E charges the advertising contract costs managed by the Director of Advertising, Public Relations and Strategic Communications to below-the-line accounts. PG&E's 2002 budget for the Communications Department includes $18.7 million in below-the-line advertising contract costs.[9] PG&E excluded those costs from its A&G study. Overland accepted PG&E's 2003 contract cost forecast, before allocations.

Cost Allocations

PG&E's allocated 98.45% of the labor and material costs of the VP Communications PCC to Utility Common. PG&E allocated the remaining 1.55% to Diablo Canyon.[10] PG&E assigned the POR communications and bankruptcy media services contracts to the below-the-line category. The remaining contract costs were assigned to the utility common category.

The two Managers of Strategic Communications were hired in late 2001 to address increased workload resulting from the "energy crises." The Managers work exclusively

[9] OC-3-3, page 14

[10] PG&E A&G Study WP, page 2-349

on strategic communications and officer consultation.[11] The job descriptions for the new managers specifically list bankruptcy and POR communications as major areas of responsibility. The VP Communications PCC is responsible for bankruptcy and POR communications. POR communications contracts account for 57% of the Department's contract cost forecast. The costs of the two new managers are incremental costs caused by the bankruptcy and POR and should be assigned to the below-the-line category.

The other members of the VP's immediate office also work on bankruptcy and POR communications. The time they spend on bankruptcy and POR matters would be available for other duties in the absence of the POR. Therefore, to the extent that the two new managers perform non-POR tasks, those tasks could be performed by other members of the department under normal circumstances.

The Director of Advertising, Public Relations and Strategic Communications is responsible for managing PG&E's advertising program. PG&E charges the cost of the advertising to below-the-line accounts.

The **Confidential** Spring 2002 Program Profile for the Communications Department includes the following discussion of the purpose of the advertising program.[12]

(REDACTED)

[11] OC-322

[12] OC-195, page 365

(REDACTED)

The **Confidential** 2002 Program Review goes on to state:

(REDACTED)

Reputation enhancement is the primary purpose of the advertising conducted by PG&E's Communications Department. The CPUC requires image building advertising costs to be recorded below-the-line. The Director of Advertising, Public Relations and Strategic Communications spends 85% of her time managing advertising contracts and designing advertising campaigns and related customer research. Therefore, 85% of the Director's time arguably should be allocated to the below-the-line category. The advertising also promotes energy conservation and public safety.[13] In recognition of the dual purposes of the advertising, Overland recommends allocating 42.5% of the advertising director's time to the below-the-line category. That allocation reflects 50% of the total time the Director spends on advertising matters.

[13] OC-322. Overland did not review the advertising in detail because PG&E charges the costs of the advertising to below-the-line accounts.

The following table shows Overland's recommended below-the-line allocation of the labor and materials costs for the Department.

VP Communications Recommended Below-The-Line Allocation	
Section	FTE/Percent
Bankruptcy and POR	2.000
Reputation Enhancement Advertising	0.425
Total Below-The-Line	2.425
Total FTE	6.000
Percent Below-The-Line	40.42
Source: PG&E A&G Study WP 2-351 and 2-372	

Overland allocated the remainder of the Department's labor and materials costs to the utility common category. PG&E assigned the POR communications and bankruptcy media services contracts to below-the-line. The remaining contracts should be allocated using the labor allocator.

Internal and External Communications

The Internal and External Communications Department is responsible for communications with employees and customers. Approximately 90% of the Department's activities focus on internal employee communications. The customer communications work focuses on the customer communications requirements of PG&E's call centers and Rates and Accounts Services Department. Overland interviewed the Department's Director.[14]

The current headcount in the Department is 14 FTE.[15] The managers and communications specialists in the department are organized by the client organizations they serve. For example, one communications representative is assigned to the General Services and Information Systems Technology Services Departments. The managers and communications specialists provide communications counsel to their assigned departments. The Department is also responsible for employee communications

[14] Tuttle interview

[15] OC-445, excludes Stallings who is on rotation to the holding company through June 2003.

appearing on PG&E's "PageOne" intranet site.[16] The Department had extensive involvement in POR and municipalization opposition activities in 2002.

Cost Forecast

PG&E's cost forecast includes labor and material costs for 16 FTE and $1.04 million in contract costs. [17] The average headcount in the Department was 13.6 FTE in 2001. [18] The actual headcount in the Department as of December 2000 was 12 FTE. PG&E's forecasted headcount of 16 FTE is excessive compared to the current and historical headcount in the Department.

The Internal and External Communications Department is responsible for internal communications regarding the bankruptcy and POR. The Department publishes a monthly POR employee newsletter.[19] The POR creates significant communications issues for PG&E's employees, including staffing assignments, employee benefits matters and other issues associated with the creation of the new companies.

The headcount increase forecasted by PG&E is largely POR related. Therefore, the cost of the additional employees would not be allowable in rates even if they are hired. The current headcount is reasonably consistent with historical levels and provides a sound basis for forecasting the Department's costs. Overland recommends the following forecast adjustment to reflect the current headcount.

Internal / External Communications Department Headcount Adjustment			
Description	Labor	Materials	Total
Cost Per PG&E (exc. emp. benefits)	1,417,340	262,923	1,680,263
FTE Forecast Per PG&E	16	16	16
Average Cost Per PG&E	88,584	16,433	105,016
Headcount Adjustment	(2)	(2)	(2)
Forecast Adjustment	(177,168)	(32,865)	(210,033)
Source: PG&E A&G Study WP 2-375 and 2-378			

[16] Tuttle interview

[17] PG&E A&G Study WP 2-375

[18] PG&E A&G Study WP 2-378

[19] OC-447

The following table compares PG&E's 2003 contract cost forecast to actual 2001 contract costs for the department.

Internal and External Communications Department Contract Costs Per PG&E			
Description	2001 Actual	2003 Forecast	Difference
Creative Services	242,194	428,000	185,806
Genesys Conferencing	8,846	72,000	63,154
Legal Notice Advertising	65,020	65,020	0
Misc. (Xerox, Corestaff, etc)	7,671	3,500	(4,171)
Utility Ops Process Improve. Comm.	0	80,000	80,000
Video Production	0	150,000	150,000
20/20 Utility Notice	173,704	241,612	67,908
Total	497,435	1,040,132	542,697
Source: PG&E A&G Study WP 2-391			

The 20/20 Utility Notice contract addresses the California state energy conservation program for rebating 20% of a customer's bill if the customer reduces peak season energy consumption by 20% below a baseline amount. The contract cost forecast covers the advertising portion of the administrative and implementation costs associated with the 20/20 program.[20] The program is subject to annual authorization and authorization for 2003 has not yet occurred.

The California Department of Water Resources reimburses PG&E for the 20/20 Utility Notice costs. The reimbursement is included in other operating revenues. [21] PG&E assigned the 20/20 Utility Notice contract costs to the utility common category. PG&E's response to Data Request OC-393 indicates that assignment was incorrect. The response states.

> The 20/20 Program costs shown in the A&G Study response for the Internal and External Communications Department were incorrectly allocated to the Utility Common cost pool. As a result, some of the 2003 expenses were included in the distribution and generation requests in this GRC. The 20/20 Program costs should have been unbundled to the Public Purpose Program Unbundled Cost Category. PG&E will correct this at the next opportunity in the GRC schedule.

[20] OC-241

[21] OC-393

The Public Purpose Program UCC is excluded from GRC revenue requirements. Excluding the 20/20 program, the Department's recorded 2001 contract costs were $323,721 and its 2002 recorded contract costs through November were $211,251.[22]

The following table shows the Department's 2003 approved contract budget.

Internal / External Communications Department 2003 Contract Budget Per PG&E	
Description	Amount
Customer Relationship Management-Utility Ops.	80,000
Employee Pride Campaign	582,000
Employee Research (focus groups)	68,000
POR and GRC Special Communications	143,000
Total	873,000
Source: OC-162	

The following table provides a breakdown of the 2003 contract budget for the employee pride campaign.

Internal / External Communications Department 2003 Contract Budget - Employee Pride Campaign	
Description	Amount
Employee Heritage - PG&E Centennial	50,000
PageOne Redesign	50,000
CEO Employee Outreach	10,000
New Field Employee Newsletter	80,000
Expand Monthly Retiree Newsletter	46,000
Tailboard Topics - Printed and Online Material	12,000
Bankruptcy Update Newsletter	52,000
Internal Speakers Bureau Products	72,000
Designer and PG&E PageOne Support	150,000
Creative Services - Design, Writing, Photo	60,000
Total	582,000
Source: OC-162 and OC-447	

PG&E's 2003 contract forecast of $1.04 million exceeds the 2001 and 2002 actual contract costs and 2003 budgeted contract costs of the Department by a significant amount. PG&E's 2003 contract forecast is excessive. The Department's 2003 budget

[22] OC-240

provides a reasonable basis for forecasting 2003 contract costs. Overland recommends the following 2003 forecast adjustment to reflect the 2003 contract budget for the Department.

Internal / External Communications Department 2003 Contract Forecast Per Overland	
Description	Amount
2003 Budget Per PG&E	873,000
De-escalate to 2002 Dollars	(25,427)
Overland Forecast in 2002 Dollars	847,573
PG&E Contract Forecast	1,040,132
Forecast Adjustment	(192,559)
Source: OC-447	

Overland's forecasted contract costs significantly exceed 2001 and 2002 recorded levels. That increase reflects the cost of the new employee pride campaign.

Cost Allocations

PG&E allocated 3% of the Department's labor and material costs to the Holding Company category and 97% to the Utility Common category. The allocation to the holding company reflects an employee on rotational assignment to the holding company through at least June 9, 2003. [23] Overland excluded that employee from its forecasted headcount. Therefore, the holding company allocation should be eliminated.
The Department is responsible for significant bankruptcy and POR employee communications. The Department's October 2001 **Confidential** program review presentation lists **(REDACTED)**.[24]

The Department also works on opposing municipalization initiatives. The Department's **Confidential** Fall 2002 program review lists **(REDACTED)**[25]

[23] OC-445 and OC-446. The employee's duties prior to the rotational assignment related to below-the-line advertising and should be excluded from the GRC.

[24] OC-41, page 303

[25] OC-195

(REDACTED)

Overland's headcount forecast of 14 FTE is reasonably consistent with historical levels. Overland's forecasted headcount does not include any incremental staffing caused by POR communications requirements. Accordingly, Overland does not recommended an allocation of labor costs to the below-the-line category for POR matters. If PG&E's forecasted headcount of 16 FTE is adopted, 2 FTE should be allocated below-the-line for POR matters. Opposition to municipalization ballot initiatives occurs primarily in the governmental relations area. Any allocation of the Department's time to the below-the-line category for municipalization activities would be relatively small. Therefore, Overland recommends allocating 100% of the Department's labor costs to the Utility Common category.

PG&E allocated $65,020 in contract costs to the below-the-line category. [26] The Department's 2003 budget includes $52,000 for the monthly bankruptcy newsletter and $143,000 for special communications related to the POR and GRC. Overland allocated $100,000 of the special communications contract to the POR. Overland recommends assigning $147,573 of contract costs to the below-the-line category for POR and bankruptcy communications.[27] Overland assigned the remainder of its contract forecast to the utility common category.

Media Relations

The Media Relations Department is responsible for all communications with the news media, including press releases, interviews and responses to media inquiries. Many of the media communications are routine communications with local media concerning service outages and construction projects. Overland interviewed the Department's Director.[28]

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[26] PG&E A&G Study WP 2-377

[27] $152,000 converted to 2002 dollars using an escalation factor of 3%.

[28] Nelson interview

The Media Relations Department currently has 19 permanent employees and three contract employees.[29] The following table shows the Department's current employee headcount by section.

Media Relations Department October 2002 Headcount	
Section	FTE
Director's Office	2
General Office Media Services	7
Field Media Services	7
Diablo Canyon	2
Public Relations Services	1
Total	19
Source: Nelson interview, October 2002 Organization Chart	

The General Office Media Services section consists of news representatives assigned to various organizations located in PG&E's headquarters complex. The Field Media Services section is organized geographically and consists of 7 news representatives and one contract employee assigned to PG&E's eight service areas. The other two contract employees staff the news call center function. The news call center function responds to media inquiries outside of normal business hours. The after-hours media calls initially go to PG&E's large customer service call center. The call center transfers the calls to the contractors.

The Media Relations Department is responsible for media contacts concerning PG&E's bankruptcy and POR. The Department Director estimates that POR and bankruptcy matters accounted for approximately 5% of the Department's time in 2002.[30] The Department was also responsible for media contacts for PG&E's opposition to the November 2002 San Francisco municipalization ballot initiative.[31] PG&E listed two of the media representatives in the Department as "primary participants" on that campaign in the response to OC-343. The news representatives did not track the time they spent on the campaign.[32]

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[29] Nelson interview, October 2002 organization chart.

[30] Nelson interview

[31] Nelson interview and OC-343.

[32] OC-343, no charges to orders by Ramp or Moreno.

Cost Forecast

PG&E's 2003 cost forecast reflects labor and material costs for 19 FTE and $226,585 in contract costs. The contract costs consist primarily of contract employee costs and charges for news wire services. PG&E's forecast is consistent with the current headcount in the Department. Overland accepted PG&E's 2003 cost forecast for the Media Relations Department.

The average headcount in the Department was 16 FTE in 2001.[33] As noted below, a substantial portion of the increase in the Department's headcount since that time is attributable to POR communications requirements.

Cost Allocations

The following table summarizes PG&E's 2003 labor and materials cost allocation for the Media Relations Department.

Media Relations Department Labor Cost Allocation Per PG&E	
Description	Percent
Holding Company	2.06
Generation	17.73
Utility Common	80.21
Total	100.00
Source: PG&E A&G Study WP 2-400	

The holding company allocation reflects time spent transferring media inquiries concerning PG&E Corporation on to PG&E Corporation's Corporate Communications Department and providing PG&E's daily news article clipping service to PG&E Corporation. The direct assignment to generation largely reflects Diablo Canyon matters.[34]

The **Confidential** Media Relations Department 2001 program review provides the following breakdown of the Department's staffing by function.

[33] PG&E A&G Study WP 2-402

[34] PG&E A&G Study WP, page 2-413

(REDACTED)

The activities shown in PG&E's A&G Study for the Media Relations Department are similar to those shown in the 2001 program review. The A&G study activities are shown below.

Media Relations Department Activities Per A&G Study	
Description	Percent
Ethnic Media	2.31
Safety/Emergency Response	34.68
Media Support (hydro and Diablo Canyon)	17.73
Media Support and News Clips (holding company)	2.06
PG&E in the Community	10.43
Support Financial Goals / End of Rate Freeze Transition / Energy in Balance	32.79
Total	100.00
Source: OC-41, page 244	

The PG&E in the community / good news / brand image function refers to placing "good news" stories about PG&E in the media. The Department's **Confidential** 2002 program review indicates the Department **(REDACTED)**.

The program review indicates one purpose of the good news story placements is brand image enhancement. Brand image enhancement activities should be charged below-the-line. Overland recommends allocating 50% of the "PG&E in the Community" activity to the below-the-line category. Overland's recommended allocation is equivalent to 1 FTE. That allocation provides a conservative provision for the total time the Department spends on reputation/brand image enhancement activities.

PG&E allocated 33% of the Department's time to the "Support Financial Goals / End of Rate Freeze Transition / Energy in Balance." That activity includes bankruptcy, POR and municipalization opposition activities. Energy in Balance refers to PG&E's efforts to encourage energy conservation.[35] Bankruptcy and POR were the the most significant media relations issues facing PG&E in 2001 and 2002. The Department Director estimated that the Media Relations Department devoted approximately 5% of its time (.9 FTE) in 2002 to bankruptcy and plan or reorganization matters.[36] That estimate is highly questionable.

PG&E was the primary opponent of the San Francisco municipalization ballot initiative in the November 2002 election.[37] PG&E created and controlled the campaign in opposition to the measure. The Media Relations Department is responsible for media contacts opposing the San Francisco and other municipalization efforts.[38] According to PG&E, three members of the Media Relations Department participated in the campaign.[39] The Media Relations Department did not track the time it spent on the campaign. The CPUC's policy is to charge activities designed to influence public opinion concerning legislative and ballot initiatives to below-the-line accounts. The department's Director estimates the Media Relations Department devoted approximately 1.6% of its time (.3 FTE) in 2002 to opposing municipalization efforts. That estimate is also highly questionable. PG&E's Local Governmental Relations Department expects municipalization efforts to continue in 2003 and beyond.[40]

Overland estimates that at least 2 FTE (10.52%) should be assigned to the below-the-line category in 2003 for ongoing bankruptcy, POR and municipalization opposition activities.[41] Overland's estimate of bankruptcy, POR and municipalization activities represents only about one third of the time PG&E assigned to the "support financial goals/ end of rate freeze transition / energy in balance activity." That allocation is

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[35] Nelson interview

[36] Nelson interview

[37] OC-343

[38] OC-343

[39] OC-343

[40] Takashima interview

[41] 2 FTE divided by PG&E forecast of 19 FTE equals 10.52%

conservative because bankruptcy, POR and municipalization activities are expected to be the most significant media relations issues facing PG&E in 2003.

PG&E added three news representatives and one ethnic media position to the Media Relations Department in 2001 and 2002. Bankruptcy and POR media communications requirements contributed significantly to the need to increase staffing.[42] Therefore, the time spent on bankruptcy and POR activities directly resulted in incremental costs that should be allocated to the below-the-line activity.

Overland allocated a total of 15.73% of the Media Relations Department's labor and material costs to the below-the-line activity. That total includes 5.21% for reputation enhancement and 10.52% for bankruptcy, POR and municipalization opposition activities.

The following table compares Overland's and PG&E's labor allocations for the Media Relations Department.

Media Relations Department 2003 Labor Allocation Per Overland			
Department	Overland	PG&E	Difference
Holding Company	2.06	2.06	0.00
Affiliates	0.00	0.00	0.00
Below-the-line	15.73	0.00	15.73
Generation	17.73	17.73	0.00
Utility Common	64.48	80.21	(15.73)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-400			

VP Governmental Relations

PG&E's Vice President Governmental Relations is responsible for overseeing PG&E's governmental relations and corporate contributions activities. The key activities of the VP Government Relations Department are: [43]

Manages functions to assure public policy and legislation supports the business objectives of each line of business

[42] PG&E A&G Study WP 2-402

[43] OC-368, page 656

- Positions and protects each line of business by interacting in the development of public policy and legislation at all levels of government
- Identifies issues, develops and implements strategies in partnership with other departments.

The VP supervises the following departments. [44]

- Corporate Contributions
- State Government Relations
- Local Government Relations

The costs of the Corporate Contributions and State Government Relations Departments are charged to below-the-line accounts. The State Government Relations Department is PG&E's lobbying group in Sacramento.

The VP's immediate office consists of the Vice President, an executive secretary, a project manager, a business analyst and an administrative clerk. [45] In 2002, the project manager worked on: (1) PG&E's voter outreach program named California Currents; (2) the economic development outreach with PG&E's Rates and Accounts Services and Contributions Departments; and (3) PG&E's POR centralized coalition data base. In addition, the project manager worked on communications organization planning and served as a community representative in the San Francisco Bay Area.[46] The headcount in the Department was 5 FTE as of December 2002.[47]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 5 FTE and $279,500 in contract costs. PG&E's forecast is consistent with the current headcount. Overland accepted PG&E's 2003 cost forecast, before allocations.

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[44] OC-41, page 226

[45] PG&E A&G Study WP 2-448.

[46] OC-324

[47] OC-372

Cost Allocations

PG&E's labor and material cost allocations for the VP Governmental Relations Department are shown below.

VP Governmental Relations Labor Cost Allocations Per PG&E	
Description	Percent
Holding Company	2.43
Below-the-line	2.76
Generation	0.85
Electric Transmission	0.85
Gas Distribution	0.85
Public Purpose Programs	1.16
Utility Common	91.10
Total	100.00
Source: PG&E A&G Study WP 2-427	

The holding company allocation represents time spent in consultations with PG&E Corporation officers on government relations issues.[48] The below-the-line allocation represents time spent opposing municipalization efforts.[49]

PG&E allocated 37% of the Department's contract costs to the below-the-line category. The below-the-line contracts are political consulting contracts.

The Governmental Relations Department's **Confidential** Fall 2002 Program Profile contains the following "program objective statement":[50]

(REDACTED)

[48] PG&E A&G Study WP 2-439

[49] PG&E A&G Study WP 2-442

[50] OC-195

The **Confidential** fall 2002 Program Profile identifies the following "program goals" for the Governmental Relations Department, listed in order of importance:

(REDACTED)

The **Confidential** Fall 2001 Governmental Relations program profile lists the following "program drivers/challenges." [51]

(REDACTED)

[51] OC-41, page 217

The “competitive issues” program driver refers to opposition to municipalization efforts. The “taxes and fees” program driver refers to POR franchise fee issues. [52] The 2002 elections program driver is described as “identify and support appropriate candidates for key local, state assembly, state senate, and statewide campaigns for March 2002 and November 2002 elections.”[53]

Data Request OC-324 asked PG&E to identify the bankruptcy and POR related activities of the five employees in the VP Governmental Relations Department in 2002. The response identifies the following activities

- Vice President: seven percent for responding to data requests, planning and attending POR meetings.
- Project Manager: five percent for managing the POR centralized coalition database and outreach for the Public Affairs area.
- Business Analyst: five percent for responding to data requests and managing the POR solicitation of the Class Five Non-financial class for Governmental Relations.

Data Request OC-324 asked PG&E to identify the hours spent on municipalization related activities in 2002. PG&E’s response identifies the following activities.

- Vice President: seven percent for supervision and oversight of the San Francisco ballot initiative and other municipalization activities.
- Project Manager: sixteen percent for managing the “California Currents” voter outreach program.
- Business Analyst: two percent for administrative support.
- Administrative Clerk: four percent for administrative support.

PG&E’s allocation of 2.76% of the VP Governmental Relations Department’s labor costs to the below-the-line category is not adequate. Two of the three Departments supervised by the VP Governmental Relations are charged entirely to below-the-line accounts. The members of the Vice President’s immediate office engaged directly in below-the-line POR and municipalization activities in 2002 and those activities are

[52] OC-41, page 217

[53] OC-41, page 217

expected to continue in 2003. Overland recommends the following allocation of the Department's time to the below-the-line category.

VP Governmental Relations 2003 Below-The-Line Allocation Per Overland			
		BLTL	BLTL
Section	FTE	Percent	FTE
State Governmental Relations	7.0	100.00	7.0
Contributions	5.5	100.00	5.5
Local Government Relations	34.0	42.81	14.6
Total	46.5	58.28	27.1
Source: PG&E A&G Study WP 2-471 and OC-449			

Overland's allocation reflects the weighted average allocation of the Departments that report to the Vice President. Overland accepted PG&E's allocations to the holding company, generation, electric transmission and public purpose program categories. The increased allocation to the below-the-line category directly reduces PG&E's allocation to the utility common category.

Local Government Relations

The Local Government Relations Department is responsible for managing PG&E's relationship with local and state government officials and community groups in PG&E's eight service areas. The Department's mission statement is shown below.[54]

> Local Government Relations' mission is to position and protect the Company by interacting in the development of public policy at the local government level. The three main objectives of the department are:
>
> 1. Position the Company by identifying issues, developing strategies, and implementing those strategies in partnership with other departments.
>
> 2. Protect the integrity and financial well-being of the Company by resolving public issues and crises quickly and professionally.
>
> 3. Contribute to the success of the Company by working with the political, business and societal environment.

[54] PG&E A&G Study WP 2-449

The Local Government Relations Department was reorganized in February 2003.[55] PG&E's A&G Study does not reflect the reorganization. Prior to the reorganization, the Local Government Relations Department A&G Study PCC included two sections: (1) Governmental Relations and (2) Local Area Affairs. The Governmental Relations section was eliminated in the reorganization and the name of the Department was changed to the Area Public Affairs Department.

The staffing in the old Governmental Relations section was small, one Director and 1.5 FTE administrative support. The Governmental Relations section focused primarily on political strategy and political contributions issues. [56]

As part of the reorganization, the Director of PG&E's External Relations Department assumed a dual role as Director of both the new Area Public Affairs Department and the existing External Relations Department.[57] The Director's costs are included in the External Relations Department for purposes of the A&G study.

The current staffing in the Area Public Affairs Department consists of 34 public affairs representatives organized into eight geographical areas and one temporary agency contractor.[58] The local public affairs representatives are responsible for day to day contacts with local government officials and community groups, including local chambers of commerce. Overland interviewed the Director of the old Government Relations section and the budget analyst that prepared the Local Government Relations Department's A&G study.[59]

The new Area Public Affairs Department has substantial POR related responsibilities including: (1) obtaining required changes in local permits; (2) addressing franchise tax issues; (2) addressing hydro plant ownership transfer issues; and (4) creating local political support for the POR. [60]

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[55] OC-449

[56] Takashima interview and OC-41

[57] OC-449

[58] OC-449

[59] Takashima interview.

[60] Takashima interview and OC-179

Cost Forecast

PG&E's 2003 cost forecast includes labor costs for 30.8 FTE, $1.45 million in material costs and $84,900 in contract costs. The materials cost forecast includes $451,500 in chamber of commerce and civic association membership fees.[61]

The Department's headcount was 30.8 FTE as of December 31, 2001.[62] The current headcount in the Department is 34 FTE. The current headcount exceeds the historical headcount and PG&E's forecasted headcount by 3.2 FTE. The increase in area public affairs staffing is, to some extent, the result of POR communications requirements and the related desire to rebuild PG&E's reputation. Those issues are addressed below in the cost allocation section.

Overland recommends the following forecast adjustment to reflect the current headcount in the new Area Public Affairs Department.

Local Governmental Relations Department 2003 Headcount Adjustment			
Description	Labor	Materials	Total
PG&E Forecast (exc. emp. benefits)	2,675,419	1,003,083	3,678,502
FTE Forecast Per PG&E	30.8	30.8	30.8
Average Cost Per PG&E	86,864	32,568	119,432
FTE Adjustment	3.2	3.2	3.2
Forecast Adjustment	277,966	104,216	382,182
Source: PG&E A&G Study WP 2-451 & OC-176, materials exclude Civic Assoc. fees			

Cost Allocations

PG&E divided the Department's 2003 time into 16 activities. Those activities are shown below.

[61] OC-176

[62] PG&E A&G Study WP 2-454

Local Government Relations Department Labor Cost Allocation Per PG&E		
Activity	Percent	Category
Barge Project (NEG power plants on barges)	0.04	Holding Company
Develop Legislative Policy	0.86	Utility Common
Develop Political Strategies	0.86	Utility Common
Local Charitable Contributions Management	9.00	Utility Common
Local Govt, Comm. Rels and Regional Activities	19.31	Utility Common
Local / Regional Political Outreach	11.64	Utility Common
Manage Political Contributions Program	0.86	Utility Common
Manage Political Resources	0.86	Utility Common
Manage Post Divestiture Issues	9.30	Utility Common
Manage T&D Issues	9.30	Utility Common
Nuclear and Decommissioning Issues	6.98	Generation
Peaker Projects	0.02	Holding Company
Safety and Emergency Response	9.30	Utility Common
Strategic Communications	9.40	Utility Common
Tri-Valley Transmission Line	0.89	Elect. Transmission
Municipalization Issues	11.40	Below-the-Line
Rounding	-0.02	
Total	100.00	
Source: PG&E A&G Study WP 2-462		

As shown above, PG&E only allocated 11.40% of the Department's labor costs to the below-the-line category. PG&E's allocation consists entirely of municipalization opposition activities.

The following activities included in PG&E's A&G Study reflect the activities of the prior Director of the Governmental Relations section.

- Develop legislative policy
- Develop political strategies
- Manage political contributions program
- Manage political resources

PG&E assigned 3.44% of the Department's time to the activities listed above. That allocation is equivalent to 1.06 FTE. During his interview with Overland, the Director admitted his activities should be charged to the below-the-line category.

The Director of Government Relations position was eliminated in the February 2003 reorganization and his activities should be excluded from the allocations. Therefore, the

four activities listed above should be eliminated and the remaining activities should be multiplied by a factor of 1.0356 to gross up the activities so they total 100 percent.[63]

The "manage post-divestiture issues" activity title was taken from the Department's Fall 2000 program review. In 2000 that activity represented time spent on power plant divestiture issues. The Director of Governmental Relations indicated the "manage post-divestiture issues" currently represents time spent by the public affairs representatives on bankruptcy and POR issues. The Director estimated that the public affairs representatives spent 10% to 15% of their time on bankruptcy and POR issues in 2002.[64] The public affairs representatives are responsible for explaining the company's POR to local government officials and community groups. The public affairs representatives are also working on the permit and franchise applications and transfers that will be required under the POR.[65]

The public affairs representatives in area 1 participated directly in the campaign to oppose the San Francisco municipalization ballot initiative in 2002. The Director of Governmental Relations estimated that two of the public affairs representatives spent 90% of their time in 2002 on the campaign and three others averaged 25% of their time on the campaign.[66]

The contributions management activity represents time spent on identifying charitable contributions recipients, distributing contributions and publicizing contributions to enhance PG&E's reputation. The T&D issues activity largely reflects time spent on issues related to construction projects, tree trimming and Rule 20 undergrounding.[67]

The **Confidential** Governmental Relations Fall 2001 program review contains the following list of "2001 Accomplishments" for local government relations:[68]

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[63] 100 percent minus 3.44 percent equals 96.56 percent. One divided by .9656 equals 1.0356.

[64] Takashima interview

[65] OC-179

[66] Takashima interview

[67] Takashima interview

[68] OC-41, page 221

(REDACTED)

The **Confidential** Fall 2001 program review contains the following list of "2002 plans" for local government relations:[69]

(REDACTED)

The **Confidential** Fall 2001 program review contains the following list of "cost drivers" for local government relations:[70]

[69] OC-41, page 223

[70] OC-41, page 227

(REDACTED)

PG&E provided the “2002 Area Plans” for each local governmental relations area in the response to OC-179. Although the plans for each of the eight areas vary in format, they are generally organized into the following activity areas.

- Utility Operations
- Emergency Response and Safety
- Key Legislature Outreach Program
- Contributions Program
- Department Administration / Human Resources

- Implementation of California Currents
- Reputation Enhancement
- Competitive (Municipalization) Issues
- POR Support and Advocacy.

California Currents is a voter outreach survey program. [71] The 2002 Area Plan for Area 5 is representative of the plans for the other areas. The projects included in the Area 5 plan are listed on Schedule 4-1. The 2002 Area Plans confirm that influencing political decisions, opposing municipalization, supporting the POR and enhancing PG&E's reputation are primary goals of the Area Public Affairs Representatives.

PG&E's allocations to the below-the-line category are inadequate. Overland recommends the following changes.

- The "local / regional political outreach" activity identified in PG&E's A&G Study should be charged below-the-line as an estimate of the non-POR political influence and lobbying activities conducted by the Department. That activity accounts for 12.05% of the Department's time.[72]

- The "local charitable contributions management" activity identified in PG&E's A&G Study should be charged below-the-line as an estimate of the brand image / reputation enhancement activities of the Department. That activity accounts for 9.32% of the Department's time.[73]

- As noted previously, the activity titled "manage post-divestiture issues" in PG&E's A&G Study actually represents POR advocacy and support. That activity should be charged below-the-line as an estimate of the incremental costs incurred in the Department for bankruptcy and POR matters. That activity represents 9.63% of the Department's time.[74]

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[71] OC-324

[72] PG&E A&G Study WP 2-464, activity 7, 11.64% times 1.0356 equals 12.05%.

[73] P&GE A&G Study WP 2-463, 9.00% times 1.0356 equals 9.32 percent

[74] PG&E A&G Study WP 2-465, 9.30% times 1.0356 equals 9.63%

PG&E assigned the municipalization activity to the below-the-line category. That activity represents 11.81% of the Department's time.[75]

The headcount for the Area Public Affairs section increased from 29 FTE as of March 2002 to 34 FTE as of March 2003.[76] That staffing increase of 5 FTE is primarily attributable to the POR. Overland allocated the equivalent of 3.3 FTE to the below-the-line category for POR activities. Overland's POR allocation clearly reflects incremental costs that would not have been incurred in the absence of PG&E's bankruptcy and POR.

Overland's recommended allocation to the below-the line category is summarized below.

Local Governmental Relations Department Below-The-Line Allocation Per Overland	
Activity	Percent
Local / Regional Political Outreach	12.05
Local Charitable Contributions Management	9.32
POR Advocacy and Support	9.63
Municipalization Issues	11.81
Total	42.81
Source: PG&E A&G Study WP 2-462	

Overland's recommended below-the-line allocation exceeds PG&E's below-the-line allocation by 31.41%.

The Public Affairs representatives in the local areas also address issues concerning construction projects, including permitting and community meetings for transmission lines and substations. Area 3 is working on several transmission projects in the San Jose area. The Tri-Valley transmission project is in Area 2. In 2003, Area 7 will work on a transmission line upgrade in the Napa Valley. [77]

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[75] PG&E A&G Study WP 2-468, 11.40% times 1.0356 equals 11.81 percent

[76] PG&E NOI A&G Study WP 2-473 and OC-449

[77] Takashima interview

PG&E's "manage T&D issues" activity focuses primarily on construction projects, rule 20 undergrounding and tree trimming issues.[78] PG&E's GRC construction forecast includes $55 million of 2003 capital expenditures for Rule 20 undergrounding.[79] PG&E's "Tri-Valley Transmission Line" activity is directly related to construction. PG&E did not allocate any of the costs of the Department to construction. Overland recommends allocating 5.71% of the Department's costs to capital. That allocation represents 50% of the "manage T&D issues" activity and 100% of the "Tri-Valley Transmission Line" activity. The allocation equals 1.9 FTE and represents the force reductions in local area staffing that could be made if PG&E did not undertake its ongoing construction program.

PG&E's 2003 materials cost forecast includes $459,500 of local chamber of commerce and civic organization membership dues. The CPUC's policy is to exclude chamber of commerce and civic association dues from rates. Therefore, $459,500 in materials costs should be directly assigned to the below-the-line category. The remaining materials costs should be allocated using Overland's recommended labor allocation factor.

The following table compares Overland's and PG&E's recommended labor allocations for the Local Governmental Relations Department.

Local Governmental Relations Department 2003 Labor Allocation Per Overland			
Department	Overland	PG&E	Difference
Capital	5.71	0.00	5.71
Holding Company	0.06	0.06	0.00
Affiliates	0.00	0.00	0.00
Below-the-line	42.81	11.40	31.41
Generation	6.97	6.97	0.00
Electric Transmission	0.00	0.89	(0.89)
Utility Common	44.45	80.68	(36.23)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-452			

[78] Takashima interview

[79] PG&E Exhibit 2, pages 3-31 and 3-36

External Relations

The External Relations Department uses governmental, regulatory and community expertise to build support among external stakeholders for utility business objectives.[80] The key activities of the External Relations Department are: [81]

- Identify and build relationships with local, state and national advocacy organizations and chambers to support company agendas in Sacramento, Washington, and locally.
- Support and advocate communications with hard-to-reach customers.
- Organize support (letters, testimony) from individuals and organizations for company initiatives (POR, GRC, legislation)

Overland interviewed the Department's Director.[82] The current headcount in the Department is 4 FTE, consisting of a Director and secretary and two External Affairs representatives. In addition, the Department has three part-time contract employees who work the equivalent of 2 FTE.[83] The Department expects to add 3 new External Affairs representatives and one new administrative support employee in 2003.[84]

Cost Forecast

PG&E's 2003 cost forecast includes labor costs for 8 FTE, $778,989 in material costs and $104,860 in contract costs.[85] The material costs include $362,239 of "advocacy expenses." Advocacy expenses are payments made to community organizations and leaders. The contract costs include $30,000 for a database contractor, $50,000 for a retiree program contractor and approximately $25,000 for miscellaneous contracts.[86]

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[80] OC-41, Fall 2001 Program Review, Program Objective Statement

[81] OC-368, page 660

[82] Rodriguez interview

[83] OC-450

[84] Rodriguez interview

[85] PG&E A&G Study WP page 2-557 and 2-560

[86] PG&E A&G Study WP page 2-573

PG&E's forecasted headcount exceeds the current headcount by 4 FTE. PG&E's 2003 cost forecast exceeds the Department's approved 2003 budget by 24%.[87] In total, PG&E's 2003 cost forecast exceeds recorded 2001 costs by 65%. PG&E's 2003 cost forecast for the External Relations Department is clearly excessive.

PG&E's 2003 forecast reflects 2001 recorded costs and nine forecast adjustments. Those forecast adjustments are shown below.

External Relations Department Forecast Adjustments Per PG&E	
Description	Amount
2002 pay raise (3%)	14,170
Four new FTEs (including employee benefits)	292,500
Restore Advocacy Expenses to 2000 levels	98,000
Increase Regional Advocacy Support	150,000
Employee travel and expenses	52,000
Computers and facility costs for new employees	46,000
Direct PCC services	13,000
Reduce contract costs	(48,000)
Meeting expenses and Partner Stipends	43,000
Total	660,670
Source: PG&E A&G Study WP 2-561 to 2-570	

The response to OC-167 provides the following justification for the $150,000 increase for regional advocacy support.

> An increase in regional advocacy support is meant to establish and nurture relationships with key organizations and community leaders. Resources will be targeted to small business, non-profit and consumer organizations to make local communities stronger. These localized resources will be leveraged with shareholder-funded contributions dollars whenever possible to maximize the benefits and impact. External Relations will hire three new regional coordinators, with each coordinator responsible for approximately one third of the PG&E service territory. Each coordinator will be allocated one-third of the requested $150,000 increase in regional advocacy support. During the first year of this effort, it is expected that 10-15 organizations [in each of the three regions - total of 30 to 45 organizations company wide] may benefit from this new resource, with an average support amount of $2,500 to $5,000.

[87] OC-451 and PG&E A&G Study WP 2-557, 2003 Forecast including employee benefits and excluding orders materials compared to 2003 budget.

The Department's recorded advocacy expenses were $114,239 in 2001. Approximately $40,000 of the recorded 2001 expenses are designed to promote the company's supplier and hiring diversity programs and the company's programs for low-income customers.[88] PG&E's 2003 forecast includes $362,239 in "advocacy expenses."[89]

Meeting expenses and partner stipends refers to PG&E's "greenlining partnership" program. PG&E created the greenlining partnership to increase communication between PG&E and community leaders. The membership in the partnership currently consists of 13 PG&E employees and 16 community representatives.[90] PG&E pays a stipend to the community representatives for each meeting attended. In 2001, PG&E's costs for the greenlining partnership were $53,139, including $17,400 in stipends.

The four new employees included in PG&E's forecast have not been hired. Only one of the four new employees is included in the Company's 2003 authorized budget.[91] The new employees are the principal factor driving the 65% increase in External Relations Department costs forecast by PG&E.

PG&E has not demonstrated a business need for increasing the staffing of its External Relations Department. The Department's average headcount was 4 FTE in 2001.[92] The current headcount of 4 FTE equals the average 2001 headcount. The current headcount and recorded 2001 costs provide a sound basis for forecasting the Department's 2003 costs. Overland recommends the following adjustment to PG&E's 2003 forecast to reflect the Department's 2001 actual costs, adjusted for wage inflation.

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[88] OC-248

[89] Recorded costs of $114,239 plus adjustments of $98,000 and $150,000

[90] OC-250

[91] OC-451

[92] PG&E A&G Study WP 2-560

External Relations Department 2003 Forecast Adjustment Per Overland				
Description	Labor	Materials	Contract	Total
2001 Recorded (exc. emp. benefits)	391,944	359,474	152,860	904,278
Wage inflation at 3%	11,758	0	0	11,758
Overland Forecast	403,702	359,474	152,860	916,036
PG&E Forecast	656,341	730,002	104,860	1,491,203
Forecast Adjustment	(252,639)	(370,528)	48,000	(575,167)
Source: PG&E A&G Study WP 2-557 and 2-561				

Cost Allocations

The following table shows PG&E's allocation of the Department's 2003 labor and material costs.

External Relations Department Labor Cost Allocation Per PG&E	
Description	Percent
Holding Company	11.50
Electric Public Purpose Programs	15.00
Utility Common	73.50
Total	100.00
Source: PG&E A&G Study WP 2-558	

The holding company allocation reflects time spent on coalition building with organizations located outside of PG&E's service territory including national organizations and organizations in Southern California. The national organizations include the Consumers League, Common Cause and the national office of the AARP [93] The electric public purpose allocation reflects time spent promoting PG&E's CARE program.

The following table shows the activities charged to the utility common category in PG&E's A&G Study.

[93] Rodriguez interview

External Relations Department Utility Common Labor Allocation Per PG&E	
Activity	Percent
Consumer advocacy, support and relationships	48.10
Emergency Response	10.00
Coalition / Partnership Building	15.40
Total	73.50
Source: PG&E A&G Study WP 2-571	

The consumer advocacy and support activity covers relationship building with community groups and public speaking. The Director and External Affairs Representatives currently each average 40 speaking engagements a year. [94] The subject matter of the speaking engagements includes the POR and PG&E's conservation and low-income programs. The Director indicated that the POR accounted for "a good portion" of the public speaking engagements in 2002. [95]

The consumer advocacy and support activity also includes the Department's foreign language activities. The External Affairs Department is responsible for ensuring that the company's messages are translated into the appropriate languages and for identifying company employees who can provide speaking engagements in various languages.

The coalition / partnership building activity includes the Department's retiree program. The External Affairs Department maintains a database of retirees willing to support the Company's position on issues such as the POR. The Department sent out 4 mailers to retirees in 2002 addressing the energy crises, bankruptcy filing and POR. [96] The department also maintains a retiree web-site.

The **Confidential** External Relations Department's Fall 2001 Program Review lists the following five goals in order of importance: [97]

(REDACTED)

[94] Rodriguez interview

[95] Rodriguez interview

[96] Rodriguez interview

[97] OC-41, page 373

(REDACTED)

The **Confidential** Fall 2001 Program Review also lists the following "program drivers / challenges" for the department.[98]

(REDACTED)

[98] OC-41, page 373, note 3 administrative "drivers" omitted from table

The Director of External Affairs indicated that **(REDACTED)**.

PG&E did not allocate any of the External Relations Department's labor costs to the below-the-line category. Influencing political and regulatory decisions and image building are clearly the primary purposes of the External Relations Department. Overland recommends allocating 50% of the Consumer Advocacy Support and Relationships activity and 75% of the Coalition / Partnership Building activity to the below-the-line category. The total recommended allocation to below-the-line is 35.6%. The above-the-line portions of those activities reflects efforts to promote conservation and low-income programs and language translation activities. Overland accepted PG&E's allocations to the holding company and electric public purpose program categories. The increase in the below-the-line allocation directly reduces PG&E's allocation to the utility common category.

Overland recommends using the labor allocator to allocate the Department's materials and contract costs. Overland's recommended allocation results in 52.9% of the Department's costs remaining above the line (15% Care program, 10% emergency response, 24.05% consumer advocacy and support and 3.85% coalition/partnership building).

The following table compares Overland's and PG&E's recommended labor allocations for the External Relations Department.

External Relations Department 2003 Labor Allocation Per Overland			
Department	Overland	PG&E	Difference
Holding Company	11.50	11.50	0.00
Below-the-line	35.60	0.00	35.60
Public Purpose Programs	15.00	15.00	0.00
Utility Common	37.90	73.50	(35.60)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-558			

If the three new Public Affairs representatives forecasted by PG&E are included in the cost forecast, the below-the-line allocation should be increased substantially. The $150,000 “regional advocacy support” budget for those positions confirms that their primary purpose is reputation enhancement and political influence.

Pacific Gas & Electric Company
Local Governmentl Relations
2002 Area Plan - Area 5

Goal	Category	Project
1	**Basic Area Plan**	
	Utility Operations	
		Support Planning, permitting/ public invovlement issues
		Customer Assistance - Respond to customer needs from public officials and key community leaders
		Rule 20 A projects (Undergrouding)
	Key Legislators Outreach Program	
		Develop a local relationship with members-elect
		Develop a recommendation on PG&E's position on the AD 26, AD 20 , SD 12 and AD 17
		Develop a recommendation on PG&E's position on the next state senator race in 2004
		Develop a recommendation on PG&E's position on the next Assm seat in 2004
		Engage in local elected positions, Democratic Clubs or commity orgs.
	State and Local Coordination Program	
		Directors day in Sacramento - A day-long initiative to meet and confer with state elected officials from the area
		State/Local Buddy System -- Assign a Sacramento Lobbyist as liason for each (area) Director
		PG&E Resources Binder - Organize and produce a PG&E resource binder for each new Assembly/Senate member
		Gordon Day in the District - Organize a day wherein the CEO will visit each areas for meetings with local & state officials
	Contributions Program	
		Expend all alloted funds (including Foundation budget)
		Implement Area Strategic Plan
		Create new relationships with nonprofit organizations, as well as re-establish relationships with prior grantees
		Fufill sucessful "signiture event" (success defined as gaining new amount and type of recognition for utility)
	Human Resources / Administration	
		Individual Development of Government Relations Staff
		PMP reviews 3 times a year
2	**Implementation of California Currents**	
		Meet with key contact to share products (California Currents)
3	**Competitive Issues**	
		Address competitive challenges by implementing communications/ action plan
		Educate elected officials and city/county staff
		Ethnic and local media outreach
		Rebuild relationships
		Regional Strategy - Valley Issues Team
		Political Stategy - Monitor and develop recommendations for local elections includng irrigation districts, water boards
		Legislative Strategy - Assist State Governmental Relations Team in securing third party support/oppositon to legislation
		Corporate Contributions and Targeted Outreach - local contributions program
4	**Rebuild the Reputation**	
		Area 5 newsletter - San Joaquin Currents
		Blue Truck Strategy - media stories photo opportunities
		Cross functional team to address reputation and customer satisfaction in area 5
		Provide medial relations support for news as it relates to governmental relations activities
5	**POR Support and Advocacy**	
		POR Support and Advocacy
		Third Party Support - Letters, editorials, Op Ed pieces, coalitions

Source: OC-179 **Public Version**

Chapter 5
Utility Regulatory and Human Resources

This Chapter addresses the 2003 cost forecast for the following PG&E Departments:

- VP Regulatory Relations
- Regulatory Relations
- Revenue Requirements
- VP - Human Resources
- Industrial Relations
- HR Business Operations, Services & Systems (HR BOSS)
- Benefits
- HR Services
- Compensation
- Professional Staffing and Diversity

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G expense level by department.

Chapter 5 - Utility Regulatory and Human Resources Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Revenue Requirements	(584,625)	(807)	(1,071,560)	(1,656,992)
Industrial Relations	0	(261,196)	0	(261,196)
HR BOSS	(910,567)	0	0	(910,567)
Benefits	0	(391,358)	0	(391,358)
HR Services	0	(1,780,425)	0	(1,780,425)
Compensation	0	(123,877)	0	(123,877)
Professional Staffing & Diversity	0	(382,421)	0	(382,421)
Total	(1,495,192)	(2,940,084)	(1,071,560)	(5,506,836)

The issues are described below by department.

1. **Revenue Requirements.** Reduced costs by $584,741 to reflect current staffing levels. Reduced contract costs by $857,627 to eliminate $500,000 included in PG&E's forecast for reimbursement of ORA GRC consultant costs and to reflect expected 2003 GRC contract costs. Increased below-the-line contract allocation by $151,625 to eliminate incremental POR costs. Corrected PG&E's allocation of the remaining GRC contract costs to UCCs.

2. **Industrial Relations.** Increased capital allocation by 15.78% to reflect the activities of PG&E's union workforce.

3. **HR Business Operations, Services & Systems.** Reduced costs by $1.12 (before allocations) to reflect expected 2003 staffing levels.

4. **Benefits Department.** Allocated 6.25% to the below-the-line category to eliminate incremental POR costs. Allocated 14.42% of the Department's costs to capital.

5. **HR Services**. Increased capital allocation by 21.55% to reflect the capital labor factors of the Department's client organizations and the current staffing assignments within the Department.

6. **Compensation Department.** Allocated 14.29% of the Department's costs to capital.

7. **Professional Staffing and Diversity**. Allocated 23.05% of the Department's costs to capital based on a review of the job vacancies recruited by the Department in 2002.

VP Regulatory Relations

The Vice President - Regulatory Relations supervises the following Departments:[1]

Regulatory Relations
Revenue Requirements

[1] OC-326

Electric Transmission Rates
Interconnection Services

The VP's immediate office includes the Vice President, the Lead Director of the Revenue Requirements Department, the Director of the Interconnection Services Department, two regulatory analysts assigned to electric transmission matters and five department administrative support positions.[2]

The Electric Transmission Rates and Interconnection Services Departments work exclusively on electric transmission matters. Those departments are excluded from the A&G study because their costs are charged to electric transmission M&O accounts. [3]

Cost Forecast

PG&E's 2003 cost forecast for the VP Regulatory Relations immediate office consists of labor and material costs for 10 FTEs and a minimal amount of contract costs. The current headcount in the Department is 10 FTE.[4] Overland accepted PG&E's 2003 cost forecast, before allocations.

Cost Allocations

PG&E allocated 31% of the Department's labor and material costs to electric transmission and 69% to the Utility Common category. [5] Three of the ten FTEs in the PCC work almost exclusively on electric transmission matters. [6] Overland accepted PG&E's allocations for the VP Regulatory Relations Department.

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[2] OC-326

[3] OC-326

[4] OC-325 plus the Director of Wholesale Customer Relations and Strategy who is included in the A&G study per OC-326

[5] PG&E A&G Study WP 2-475

[6] OC-326 (Mosley, Hitson and Tran)

Regulatory Relations

The Regulatory Relations Department is responsible for managing PG&E's relationship with the CPUC.[7] The Regulatory Relations Department has two sections, the Advocacy Group and the Tariff Group. The Advocacy Group monitors regulatory developments and advocates the Company's regulatory positions before the CPUC. The Tariff Groups is responsible for filing all tariffs and advice letters with the CPUC. The Tariff Group is not responsible for FERC tariff filings.[8]

The Department's current headcount is shown below by section.

Regulatory Relations Department Headcount by Section	
Section	FTE
Director and Assistant	2.0
Advocacy Group	3.6
Tariff Group	8.0
Total	13.6
Source: OC-325 and PG&E A&G Study WP 2-524	

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 13.6 FTEs and a small amount of contract costs. The current headcount in the Department is 13.6 FTE. Overland accepted PG&E's 2003 cost forecast, before allocations.

Cost Allocations

The following table shows PG&E's allocation of the Department's labor and materials costs.

[7] PG&E A&G Study WP 2-500

[8] OC-327

Regulatory Relations Department Labor Cost Allocation Per PG&E	
Category	Percent
Holding Company	0.45
Generation	0.85
Electric Transmission	5.88
Gas Transmission	6.28
Electric Distribution	19.66
Gas Distribution	12.67
Public Purpose Programs	3.53
Utility Common	50.68
Total	100.00
Source: PG&E A&G Study WP 2-502	

PG&E's allocation produces a result that is similar to the M&O labor factor used to allocate the utility common category. Overland reviewed the advice letters filed by PG&E in 2002 and PG&E's tariff book. Overland also reviewed the activities of the members of the advocacy group.[9] Based on those reviews, Overland accepted PG&E's cost allocations for the Regulatory Relations Department.

Revenue Requirements

The Revenue Requirements Department is responsible for PG&E's base rate, balancing account and asset disposition regulatory proceedings. Overland interviewed the Lead Director of the Revenue Requirements Department.[10] The Department's current headcount is shown below by section.

[9] OC-327

[10] McManus interview

Revenue Requirements Department Headcount by Section	
Section	FTE
Director's Office - Energy Revenue Requirements	3.0
Electric Energy Cost Recovery & Analysis	9.0
Electric Revenue & Analysis & Ratemaking	5.0
Gas Revenue Requirements	8.0
Rate Case Production	28.0
Director's Office - Operations Revenue Requirements	4.0
General Rate Case	14.0
Administrative & General Expense Recovery	6.6
Asset Disposition Proceedings	6.0
Revenue and Cost Analysis	12.0
Total	95.6
Source: OC-325	

The Energy Revenue Requirements area is responsible for PG&E's electric industry restructuring and energy crises proceedings.[11] In addition, the Energy Revenue Requirements Director oversees the Gas Revenue Requirements and Rate Case Production Sections.

The Electric Energy Cost Recovery & Analysis Section and the Electric Revenue & Analysis & Ratemaking sections work on electric industry restructuring and energy crises proceedings, including transition cost recovery. The group was divided into two sections for administrative reasons.[12] The sections worked on the Annual Transition Cost Proceeding (ATCP), the Revenue Adjustment Proceeding (RAP) and the Rate Stabilization Proceeding in 2001 and 2002.[13] In addition, two of the employees in the sections work primarily on public purpose program matters.

The Gas Revenue Requirements Section works on the gas transmission and distribution matters. In 2001 and 2002, the section worked on the Gas Accord, Biannual

[11] OC-328

[12] McManus interview

[13] OC-134

Cost Allocation Proceeding (BCAP), undergrounding OII, core procurement and Wild Goose Storage proceedings.[14]

The Rate Case Production section consists of case coordinators, word processing support positions and the regulatory intranet web-team. The rate case coordinators are assigned to specific cases and are responsible for case management. The rate case coordinators role is similar to that of a paralegal.[15] As of June 2002, there were 14 case coordinators in the section.

The Operations Revenue Requirements area is responsible for PG&E's GRC and other base revenue proceedings.[16] One of the employees in the Operations Revenue Requirements Director Immediate Office Section works primarily on FERC electric transmission matters.[17]

The General Rate Case and the Administrative & General Expense Recovery sections work on base rate case proceedings including the GRC, FERC Transmission Owner and Gas Accord cases.

The Asset Disposition section works on CPUC section 851 proceedings. The section spent a significant amount of time on generation divestiture matters in 2001 and 2002.[18]

The Revenue and Cost Analysis section was previously PG&E's Regulatory Analysis Department. The Regulatory Analysis Department was merged into the Revenue Requirements Department in November 2002.[19] The Revenue and Cost Analysis section is responsible for forecasting revenues and demand and for rate design analysis. [20]

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[14] OC-134

[15] McManus interview

[16] OC-328

[17] OC-134

[18] OC-134

[19] McManus Interview

[20] PG&E NOI A&G Study Workpapers, page 2-553

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for an average of 103.5 employees and $4.9 million in contract costs. The contract cost forecasts includes $3.4 million of contracts for the 2003 GRC.

The current headcount in the Revenue Requirements Department is 96.5 FTE. PG&E's forecasted 2003 headcount of 103.5 FTE exceeds the current headcount by 7 FTE. The Department's average headcount was 89 in 2001.[21] The current headcount represents an 8.4% increase over 2001 levels. The current headcount is reasonable compared to historical staffing levels and provides an objective and verifiable basis for forecasting 2003 costs. The current headcount also captures any efficiencies resulting from the merger of the Regulatory Analysis Department into the Revenue Requirements Department. PG&E's forecast was prepared prior to the reorganization and does not reflect any savings for the reorganization.

Overland recommends a forecast adjustment to reduce PG&E's forecasted headcount by 7 FTE to reflect the current headcount in the reorganized Department. The forecast adjustment is calculated below.

Revenue Requirements Department 2003 Headcount Adjustment			
Section	Labor	Materials	Total
PG&E Cost Forecast (excludes emp. benefits)	7,877,853	767,964	8,645,817
Headcount Forecast per PG&E (average)	103.5	103.5	103.5
Average Cost Per FTE	76,115	7,420	83,534
FTE Adjustment	(7)	(7)	(7)
Forecast Adjustment	(532,802)	(51,940)	(584,741)
Source: PG&E A&G Study WPs 2-530 and 2-533			

PG&E's 2003 contract forecast is shown below by contract.

[21] PG&E A&G Study WP 2-533, includes headcount of old Regulatory Analysis Department.

Revenue Requirements Department 2003 Contract Cost Forecast Per PG&E	
Description	Amount
Strategies For Power	500,000
Temporary Employee Services	131,250
Copier Contracts	157,500
POR Contracts	300,000
GRC Contracts	3,335,500
Training	150,000
DRI and Other Forecasting Services	45,348
Other Expert Testimony Contracts	110,000
Other Miscellaneous	136,500
Total	4,866,098
Source: PG&E A&G Study WP 2-547	

Strategies For Power is the firm name used by an individual contractor.[22] The forecast covers 2,000 consulting hours at an hourly rate of $250 per hour. PG&E's forecast for the contract was not developed on a project specific basis. The response to OC-137 indicates "the projects [the contractor] works on in 2003 will depend on PG&E's overall needs and will likely reflect the overall workload facing the Revenue Requirements Department."

The actual Strategies For Power contract cost was 397,688 in 2002. The following **Confidential** table summarizes the 2002 billings by case.

(REDACTED)

[22] McManus interview

The objective of the **(REDACTED)**

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PG&E's 2003 forecast for the Strategies For Power contract is not supported by a project level analysis and is excessive. Actual 2002 contract costs provide a sound basis for forecasting the 2003 costs under the contract. Therefore, Overland recommends a forecast adjustment to reduce contract costs by $102,313 to reflect actual 2002 costs for the Strategies For Power Contract. The allocation of the contract between above-the-line and below-the-line activities is addressed in the contract cost allocation section.

The following table shows PG&E's 2003 forecast of GRC contract costs.[23]

Revenue Requirements Department 2003 GRC Contract Costs Per PG&E	
Description	Amount
A&G Study and Audit Support	900,000
Litigation Support	400,000
Distribution Capital	600,000
ORA Consultant Reimbursement	500,000
CIS/IT Testimony/Support	400,000
Gen-in Showing Support	268,000
Depreciation Study	150,000
Temporary Administrative Support	75,000
Compensation Study	50,000
Depositions	25,000
Transcripts & Hearing Room Expenses	20,000
Settlement Expenses	5,000
Miscellaneous Other Costs	25,000
Total	3,418,000
Source: OC-138	

PG&E also forecasted $6.5 million of GRC contract costs for 2002.[24] PG&E's actual GRC contract costs were $2.58 million in 2002.[25] PG&E filed its rate case application in

[23] PG&E's A&G Study WPs show 2003 GRC contract costs of $3,335,500 on page 2-551. OC-138 indicates the Application is in error and the amount should be $3,418,000.

[24] PG&E A&G Study WP 2-551

[25] OC-452, excludes $53,813 for Strategies For Power which PG&E included in a separate contract forecast.

November 2002. The large disparity between its 2002 actual GRC contract costs and its 2002 forecast confirms that the forecasts included in PG&E's GRC application are outdated.

The CPUC has not authorized reimbursement of ORA consultant costs for the 2003 GRC. Accordingly, PG&E's 2003 contract forecast should be reduced by $500,000 to eliminate the provision for ORA consultant reimbursement.

PG&E submitted its NOI in April 2002 and its GRC application in November 2002. ORA began submitting data requests in early August 2002.[26] The 2002 recorded contract costs include the costs of preparing PG&E's direct case and a substantial portion of discovery related efforts. The evidentiary hearings for this GRC are scheduled to end on July 24, 2003.[27] Therefore, it is reasonable to conclude that 2003 GRC contract costs will be lower than 2002 contract costs. Indeed, the 2003 forecast included in PG&E's November 2002 application is 48% lower than the 2002 forecast.

PG&E's 2002 actual GRC contract costs totaled $2.58 million. There is no basis for expecting 2003 GRC contract costs to exceed 2002 costs. Overland conservatively recommends the following adjustment to set PG&E's 2003 GRC contract cost forecast equal to actual 2002 costs.

Revenue Requirements Department 2003 GRC Contract Costs Per Overland	
Description	Amount
Actual 2002 GRC Contracts	2,580,526
PG&E Forecast	3,335,500
2003 Forecast Adjustment	(754,974)
Source: OC-452	

The actual 2002 GRC contract costs shown above exclude Strategies For Power charges of $53,813 because PG&E included those costs in a separate contract forecast. The PG&E forecast shown above is the amount actually included in its application rather than the $3,418,000 amount that PG&E currently supports.

[26] PGE.com web site, GRC Data Requests

[27] Assigned Commissioner's Ruling Establishing Scope, Schedule, and Procedures for Proceeding, February 13, 2003

As previously noted, PG&E's 2003 forecast include $500,000 for reimbursement of ORA contractors that has not been authorized by the CPUC. After accounting for that amount, Overland's recommended GRC contract forecast is only $254,974 lower than the 2003 forecast included in PG&E's application.

Cost Allocations

The merger of the Regulatory Analysis Department into the Revenue Requirements Department occurred after PG&E completed its A&G Study. PG&E combined the two departments into a reorganized Revenue Requirements Department in its GRC Application workpapers. The new combined cost allocations included in PG&E's application reflect a weighted average of the A&G study results for the two previously separate departments.[28] The weighted average is based on headcount. PG&E gave the old Revenue Requirements Department a weighting of 81.65% and the old Regulatory Analysis Department a weighting of 18.35%. PG&E's historical time tracking data and A&G study documentation reflect the two separate departments. Therefore, the departments will be addressed separately in this Chapter.

Labor Allocations - Old Revenue Requirements Department

The following table shows PG&E's allocation of the old Revenue Requirements Department.

Old Revenue Requirements Department Labor Allocation Per PG&E	
Description	Amount
Holding Company	0.03
Generation	8.83
Electric Transmission	10.00
Gas Transmission	10.00
Public Purpose Programs	10.00
Electric Distribution	35.92
Gas Distribution	15.79
Utility Common	9.43
Total	100.00
Source: PG&E NOI A&G Study WP 2-544	

[28] OC-3-3, page 318

PG&E's allocation of the old Revenue Requirements Department reflects hours charged to orders in 2000 and 2001, adjusted to reflect expected 2003 conditions based on the judgment of the analyst.[29]

PG&E's analysis of labor hours assigns 100% of all GRC activities to electric and gas distribution.[30] The GRC includes generation revenue requirements and a portion of the GRC should be allocated to generation.

A substantial portion of the Department's 2000 and 2001 hours were spent on transition cost recovery and energy crises matters, including the ATCP, RAP and Rate Stabilization Plan proceedings. PG&E allocated 75% of the time spent on those proceedings to electric distribution and 25% to generation based on judgment.[31] A substantial portion of the Department's time in 2000 and 2001 was also spent on generation divestiture activities. PG&E assigned those hours to generation. PG&E expects another ATCP proceeding in 2003.[32] The energy crises and generation divestiture activities are not expected to recur in 2003.

The ATCP and RAP address generation transition costs recovery. The assignment of 75% of those proceedings to electric distribution is arguably incorrect. The Rate Stabilization Plan proceeding focused on PG&E's financial viability. Preserving PG&E's financial viability benefits all of its operations. Therefore, at least part of that proceeding arguably should be assigned to the utility common category.

PG&E filed its GRC application on November 8, 2002. PG&E filed an electric Transmission Owners rate case with the FERC on January 13, 2003. PG&E also submitted its Gas Accord application to the CPUC on January 13, 2003.[33] Those three base rate proceedings will be the primary focus of the Revenue Requirements Department in 2003.

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[29] OC-3-3, page 335

[30] OC-133 and OC-330

[31] OC-330

[32] McManus interview

[33] PG&E Corporation 2002 10-K Report

PG&E's assignments are arguably incorrect for some regulatory proceedings. However, based on a review of the Department's time charging data and anticipated 2003 proceedings, Overland concluded that PG&E's recommended 2003 allocation factors for the old revenue requirements department were reasonable.

Overland recommended a forecast adjustment to limit the Department's forecasted headcount to the current level. After giving effect to that adjustment, the Department's labor costs do not reflect any substantial POR related incremental labor costs. Therefore, Overland did not allocate any of the Department's time to the below-the-line category. If Overland's recommended headcount adjustment is rejected, approximately 7% of the Department's time should be allocated to the below-the-line category to reflect incremental POR activities.[34]

Labor Allocations - Old Regulatory Analysis Department

The following table shows PG&E's allocation of the old Regulatory Analysis Department.

Old Regulatory Analysis Department Labor Allocation Per PG&E	
Description	Amount
Generation	1.00
Electric Transmission	2.00
Gas Transmission	2.00
Electric Distribution	59.00
Gas Distribution	19.00
Utility Common	17.00
Total	100.00
Source: PG&E NOI A&G Study WP 2-555	

PG&E's allocation of the old Regulatory Analysis Department reflects the judgment of the old department's Director. There are no workpapers supporting the labor allocation percentages for the old Regulatory Analysis Department.[35]

[34] PG&E forecasted headcount of 103.5 minus current headcount of 96.5 equals 7 FTE. Seven divided by 103.5 equals 6.8%.

[35] OC-332

Approximately 60% of the Department's productive time was charged to orders in 2000 and 2001.[36] The remaining time was not tracked. Overland reviewed the time charging data for 2000, 2001 and the first nine months of 2002. The time tracking data indicates that PG&E's allocations to electric distribution are excessive. However, because of the incomplete nature of the time tracking data, Overland accepted PG&E's allocation.

Labor Allocation - Combined Departments

PG&E combined the labor allocations for the old Revenue Requirements and old Regulatory analysis departments based on the forecasted headcount for the old departments. The current headcount is lower than PG&E's forecasted headcount. The current headcount in the Revenue and Cost Section of the new Revenue Requirements Department is 12. That represents 12.55% of the new Department's total staffing. Therefore, Overland gave a weight of 12.55% to the old revenue analysis department. The combined allocation recommended by Overland is calculated on Schedule 5-1. The following table compares the allocations recommended by Overland and PG&E.

Revenue Requirements Department (Combined) Labor Allocation Per Overland Compared to PG&E			
Description	Per Overland	Per PG&E	Difference
Holding Company	0.03	0.02	0.01
Generation	7.85	7.40	0.45
Electric Transmission	9.00	8.53	0.47
Gas Transmission	9.00	8.53	0.47
Public Purpose	8.74	8.16	0.58
Electric Distribution	38.82	40.16	(1.34)
Gas Distribution	16.19	16.38	(0.19)
Utility Common	10.37	10.82	(0.45)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-531 and Schedule 5-1			

Contract Cost Allocation

PG&E's contract forecast includes a $300,000 contract titled "incremental POR-related contracts." The contract covers the services of two individual contractors who are

[36] OC-135 and PG&E NOI A&G Study WP 2-557

working on POR implementation matters. PG&E allocated 100% of that contract to the below-the-line category.[37]

PG&E allocated 100% of the Strategies For Power contract to above-the-line utility categories.[38] Overland's recommended 2003 forecast for the contract includes **(REDACTED)**. Those costs are clearly incremental costs caused by the POR and should be allocated to the below-the-line category. The remaining Strategies For Power contract costs should be assigned to the utility common category.

PG&E allocated 100% of its forecasted GRC contracts to electric and gas distribution. The GRC includes generation costs and part of the GRC contracts should be allocated to generation. Indeed, one of the GRC contracts that PG&E allocates entirely to distribution is titled "Gen-in Support."

In addition, the largest GRC contract is the A&G Study contract and PG&E used its GRC A&G Study in its January 2003 FERC electric transmission rate application and its January 2003 Gas Accord II gas transmission rate application. Therefore, a substantial portion of the A&G Study Contract should be allocated to electric and gas transmission.

Overland used PG&E's GRC application forecast to develop allocation factors for Overland's 2003 forecast of GRC contract costs. Overland's analysis is shown on Schedule 5-2. Overland assigned costs that benefit the GRC generally to a GRC common category and allocated those costs between generation, electric distribution and gas distribution based on the M&O labor. Overland allocated A&G Study costs between generation, distribution and transmission using M&O labor factors.

Overland assigned the distribution capital and CIS/IT contracts directly to distribution and allocated those amounts 55% to electric distribution and 45% to gas distribution. Overland assigned the gen-in only showing contract to generation.

The following table shows the recommended allocation for Overland's 2003 GRC contract forecast.

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[37] PG&E A&G Study WP 2-550

[38] PG&E A&G Study WP 2-547, $135 allocated to holding company is immaterial

Revenue Requirements Department 2003 GRC Contract Allocation Per Overland		
Description	Factor	Amount
Generation	22.43	578,812
Electric Transmission	2.59	66,836
Gas Transmission	1.54	39,740
Electric Distribution	43.76	1,129,238
Gas Distribution	29.68	765,900
Total	100.00	2,580,526
Source: Schedule 5-2		

The Departments' remaining contracts total $730,598 and are largely for training, temporary agency workers and miscellaneous unidentified consulting matters. Overland assigned those contracts to the utility common category.

The following table compares Overland's and PG&E's total contract forecasts for the Revenue Requirement's Department by UCC.

Revenue Requirements Department 2003 Contract Allocation Per Overland			
Department	Overland	PG&E	Difference
Holding Company	0	292	(292)
Below-the-line	451,625	300,000	151,625
Generation	578,812	94,914	483,898
Electric Transmission	66,836	107,525	(40,689)
Gas Transmission	39,740	107,525	(67,785)
Public Purpose Programs	0	107,525	(107,525)
Electric Distribution	1,129,238	2,286,779	(1,157,541)
Gas Distribution	765,900	1,692,731	(926,831)
Utility Common	976,660	168,807	807,853
Total	4,008,811	4,866,098	(857,287)
Source: Schedule 5-2 and PG&E A&G Study WP 2-532			

VP Human Resources

The Vice President Human Resources oversees PG&E's human resources (HR) organization. The VP's immediate office consists of the Vice President, an executive

assistant, a budget analyst and two managers. The managers support HR planning and projects such as employee benefits open enrollment.[39]

Cost Forecast

PG&E's 2003 cost forecast for the VP Human Resources immediate office consists of labor and material costs for 5 FTEs and a modest amount of contract costs. The current staffing is 5 FTEs.[40] Overland accepted PG&E's cost forecast.

Cost Allocations

PG&E allocated 100% of the Department's costs to the utility common category. Overland accepted PG&E's allocations. Overland allocated a substantial portion of the department's reporting to the VP Human Resources to capital. However, Overland did not identify any incremental staffing in the VP Human Resources Department attributable to PG&E's ongoing construction program. Therefore, consistent with CPUC policy, Overland did not allocate any of the Department's costs to capital.

Industrial Relations

The Industrial Relations Department is responsible for managing PG&E's relationship with its employee unions, including labor contract negotiation and administration. The current staffing in the Department is 12.8 FTEs.[41] The Department includes 5 FTEs with the job title of negotiator or principal negotiator and 4.8 FTEs with the title of Industrial Relations Representative. The IR representatives are assigned to field locations.

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 14.8 FTE and a minimal amount of contract costs.[42] The average headcount in the Department was 13.3 FTE in 2001. PG&E's forecasted headcount is 2 FTE higher than the current level

[39] OC-317

[40] OC-372

[41] OC-454, excludes 1/2 FTE on rotational assignment that is included in HR Boss headcount.

[42] PG&E A&G Study WP 2-597

and 1.5 FTE higher than the average level in 2001. Overland accepted PG&E's forecasted headcount as being reasonably close to current and historical levels.

Cost Allocations

PG&E allocated 18% of the Department's costs to capital and 82% to Utility Common. [43] In the 1999 GRC, the CPUC adopted ORA's proposal to allocate 26.7% of the Department's costs to capital. [44] That allocation was based on an analysis of the construction related activities of PG&E's union employees.

PG&E's proposed 18% allocation to capital reflects the number of union employees in PG&E's General Construction Department divided by PG&E's total number of union employees.[45] PG&E's allocation method is not reasonable because it does not reflect the construction activities of PG&E union employees in other departments. For example, PG&E did not assign any of the time of the 714 union employees who work in PG&E's Fleet and Materials Operations Departments to capital. Those department's charge a substantial portion of their costs to capital through PG&E's fleet and material burdens. Similarly, PG&E did not allocate any costs to construction for the 740 union employees in its California Gas Transmission Department, Information Systems Technology Services, and Distribution and Transmission Engineering organizations to construction. Those organizations charge a substantial portion of their labor costs directly to construction.

Schedule 5-3 shows: (1) PG&E's union workforce by Department; (2) capital labor factors for each department; and (3) the weighted average percentage of PG&E's union labor costs that are charged to construction. PG&E's Budget Department provided the capital labor factors by department.[46] The analysis indicates that 38.54% of the labor costs of PG&E's union workforce are charged to construction.

PG&E's union work force would be substantially reduced in the absence of PG&E's ongoing construction program. A substantial reduction in PG&E's union work force would result in substantial reduction in the staffing of the Industrial Relations

[43] PG&E A&G Study WP 5-598

[44] D.00-02-046 page 291

[45] OC-167

[46] OC-389

Department. Overland estimates the Department's forecasted headcount of 14.8 FTE would be reduced by 5 FTE in the absence of PG&E's on-going construction program. Overland recommends a capital allocation of 33.78% for the Industrial Relations Department. That allocation is calculated below.

Industrial Relations Capital Allocation Per Overland	
Description	Amount
Reduction in FTE	5.00
Forecast FTE	14.80
Percent Capital	33.78
Source: PG&E A&G Study WP 2-600 & OC-454	

Overland's estimate of the Department's headcount in the absence of PG&E's ongoing construction program is 9.8 FTE. That estimate excludes temporary agency workers and is only 3 FTE lower than the current headcount in the Department.

Human Resources Business Operations, Services and Systems (HR BOSS)

The HR BOSS Department has three primary functions: (1) filling non-professional job vacancies; (2) providing the benefits call center for PG&E employees and retirees; and (3) managing PG&E's human resources computer applications. Overland interviewed the Director of the HR BOSS Department.[47] The Department's current staffing is shown below by section.

[47] Danels interview

HR BOSS Department Current Headcount by Section	
Section	FTE
Director's Office	2.0
Contract Compliance	2.0
External Placement	9.0
Internal Placement	10.0
Benefits Service Center	15.0
HR Information Services	7.8
Total	45.8
Source: OC-318	

The contract compliance section oversees PG&E's contracts for temporary agency workers. The external placement section is responsible for recruiting and hiring for all non-exempt positions. The internal placement section is responsible for the centralized job bank bidding system for union vacancies required by PG&E's union contracts. Under the job bidding system, existing PG&E employees are given an opportunity to fill job vacancies based on seniority. The benefits service center is a call center that answers benefit related questions from employees and retirees and handles benefit enrollment and termination processing. Approximately 50% of the service center telephone minutes are for retiree calls. The HR information services section is responsible for all human resources computer applications. The information services section serves as the HR liaison with PG&E's Information Systems Technology Systems (ISTS) Department. The HR information services section also generates human resources reports and responds to requests for human resources demographic and statistical information. [48]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 61 FTE, $1.27 million in orders material costs and $847,427 in contract costs.[49]

[48] Danels interview

[49] PG&E A&G Study WP 2-619

The orders material costs are primarily charges from PG&E's ISTS Department for maintaining human resources computer applications.[50] The following table shows PG&E's 2003 contract cost forecast by contract.

HR BOSS Department 2003 Contract Costs Per PG&E	
Contract	Amount
Agency Workers	300,000
Recruiting and Job Testing	40,000
Office Equipment and Expenses	57,427
Software Licenses and Fees	150,000
External Hiring Vendor	300,000
Total	847,427
Source: PG&E A&G Study WP 2-637	

The external hiring vendor screens people seeking non-exempt positions at PG&E and schedules testing of applicants. Tests of technical proficiency are required for many of PG&E's operating department positions. Overland accepted PG&E's 2003 forecasts for contracts and orders materials costs.

The current staffing in the HR BOSS Department is 45.8 FTE. PG&E's 2003 cost forecast reflects a headcount of 61. Thus, PG&E's forecasted headcount exceeds the actual headcount by 15.2 FTE. The headcount in the Department is down because PG&E has fewer job vacancies to fill. When the A&G Study was prepared, hiring levels were expected to be higher.[51] The poor performance of the stock market reduced the number of retirements in 2002. In addition, the cooling job market has reduced the time needed to fill positions. [52] The Department has also implemented changes to increase efficiency. The Department implemented new phone switch features in the HR service center in December 2002 and is currently investigating additional automation of service center processes using knowledgebase systems.[53] The external placement section implemented a new Internet system called PeopleScout in July 2002.[54]

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[50] OC-8

[51] Danels Interview

[52] Danels interview

[53] OC-142

[54] Danels interview

The headcount in the Department was 51 as of December 2001. PG&E forecasted an additional eight new employees in 2002 to replace contractors in the Department. Currently, the Department has only one contract employee and the headcount has fallen to 45.8. [55]

The current staffing level provides a sound basis for forecasting 2003 labor and materials costs in the HR Boss Department. Accordingly, Overland recommends the following adjustment to reduce 2003 forecast costs to reflect the current headcount.

HR BOSS Department Forecast Adjustment To Reflect Current Headcount			
Contract	Labor	Materials	Total
PG&E 2003 Forecast	3,659,936	834,839	4,494,775
FTE Forecast Per PG&E	61	61	61
Average Cost per FTE	59,999	13,686	73,685
FTE Adjustment	(15.2)	(15.2)	(15.2)
Forecast Cost Adjustment	(911,984)	(208,025)	(1,120,010)
Note: Labor excludes employee benefits, Materials excludes orders materials			
Source: PG&E A&G Study WP 2-619			

The 2003 contract cost forecast accepted by Overland includes $300,000 for temporary agency workers. Overland estimates the annual cost of the sole temporary worker currently working in the Department to be $60,000 per year. Overland accepted PG&E's temporary agency contract cost estimate of $300,000 to include a provision for additional staffing above current levels. That additional provision provides assurance that Overland's 2003 cost forecast is adequate.

Cost Allocations

PG&E's 2003 labor and material cost allocation for the HR BOSS Department is shown below.

[55] OC-318

HR BOSS Department Labor Cost Allocation Per PG&E	
Category	Percent
Capital	18.0
Holding Company	0.7
Utility Common	81.3
Total	100.0
Source: PG&E A&G Study WP 2-620	

PG&E's capital cost allocation is based on judgment and the 1999 GRC Decision. [56] The 1999 GRC Decision adopted a capital allocation of 26.7% for the Department. [57] The holding company allocation reflects time spent by benefits service center employees answering questions from holding company employees. The benefits service center no longer provides services to holding company employees.[58]

Overland reviewed the job vacancies filled by the internal and external placement sections in 2001 and 2002 and determined that a substantial number of those jobs were construction related.[59] The staffing of those sections is a direct function of the number of vacancies to be filled. Overland also reviewed the activities of the benefits service center. Overland estimates that the following portion of the Department's labor costs are allocable to capital.

HR BOSS Department Estimated Capital Percent Per Overland			
Category	FTE	Capital Factor	Capital FTE
Director's Office	2.0	0.000	0.0
Contract Compliance	2.0	0.000	0.0
External Placement	9.0	0.300	2.7
Internal Placement	10.0	0.300	3.0
Benefits Service Center	15.0	0.150	2.3
HR Information Services	7.8	0.100	0.8
Total	45.8	0.191	8.7
Source: OC-318 and Overland Estimate			

[56] Vaughn interview

[57] D.00-02-046, page 292

[58] Vaughn interview

[59] OC-140

PG&E's proposed 18% capital percentage is reasonably close to Overland's estimate of 19.1%. PG&E erroneously allocated 0.7% of the department's cost to the holding company category. That error offsets most of the difference between PG&E's capital percentage and Overland's estimate. Overland accepted PG&E's cost allocations for the HR BOSS Department.

Benefits

The Benefits Department is responsible for designing and managing PG&E's employee benefit plans. The current headcount in the Department is 20.4 FTEs. The Department's headcount is shown below by section.

Benefits Department Current Headcount By Section	
Section	FTE
Director's Office	3.8
Billing and Budget	2.0
Qualified Plans	4.0
Life, Disability, Time Off	4.0
Health and Welfare Plans	5.6
Employee Assistance Program	1.0
Total	20.4
Source: OC-456	

The Director's Office includes one manager that worked primarily on POR matters in 2002. [60] The Billing and Budget Section pays vendors and performs administrative tasks. The vendor payments relate primarily to PG&E's self-funded employee medical plan.[61] The Qualified Plans Section works on PG&E's pension and 401 K plans. The section addresses pension issues such as disputes concerning credited years of service. The Qualified Plans Section also processes retirements and works on 401 K plan contract administration record keeping.

The Life, Disability and Time-Off Section works primarily on long-term disability issues, including employee appeals of benefits decisions. The section also addresses leave of

[60] OC-457

[61] Smullin telephone interview

absence matters and administers PG&E's service awards program and child care center.

The Health and Welfare Plans Section works primarily on employee medical plan matters. The section administers PG&E's contracts with HMOs and insurance providers. Approximately 50% of the section's time is spent on employee appeals of medical benefits decisions. One of the employees in the Health and Welfare Plans Section also works on benefits strategic planning and benchmarking. The Employee Assistance Program section supervises PG&E's EAP contractor and works on fitness for duty issues.[62] All of the supervisors in the Department also worked on union contract general negotiation benefit issues in 2002.

Cost Forecast

PG&E's 2003 cost forecast for the Benefits Department includes labor and material costs for 20.8 FTE and $227,325 in contract costs. The current headcount of 20.4 FTE is reasonably close to the headcount forecast by PG&E. Overland accepted PG&E's cost forecast for the Benefits Department.

Cost Allocations

PG&E allocated 100% of the Department's labor and material costs to the Utility Common Category.

PG&E estimates the Department worked hours equivalent to 1.3 FTE's on bankruptcy and POR activities in 2002.[63] One project manager accounted for 50% of the bankruptcy and POR hours. The 2002 POR related activities included (1) research concerning active and retired employee claims in the bankruptcy case; (2) separation of PG&E's benefit plan assets; and (3) establishment of new plans for the separate companies.[64] The headcount in the Department was 19.2 as of December 2001. PG&E's forecasted headcount of 20.8 exceeds the December 2001 headcount by 1.8 FTE. Therefore, it is reasonable to conclude that the POR activities in the Department resulted in incremental costs in 2002 and will result in incremental costs in 2003.

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[62] Smullin telephone interview

[63] OC-457

[64] OC-457

The separation of plan assets and the design and implementation of new benefit plans for the separate companies is a significant task. The total time required in 2003 on POR benefit plan matters will exceed 1.3 FTEs. However, the holding company Human Resources Department will provide support for POR benefit matters. Therefore, Overland accepted PG&E's 2002 estimate of 1.3 FTE as a reasonable estimate of the 2003 POR incremental FTE in PG&E's Benefits Department. Overland allocated 6.25% of the Benefits Department's labor costs to the below-the-line category to reflect POR activities. That allocation was calculated by dividing 1.3 FTE by the total Department forecast staffing of 20.8 FTE.

Many of the activities in the Department are administrative in nature and are a function of employee levels. For example, the time required for the retirement processing in the Qualified Plans section and the employee appeals work in the long-term disability and medical plan areas would be reduced if PG&E had fewer employees. The Department includes 10 benefit analyst and 4 administrative support/clerical positions. The staffing assignments in the Department are flexible and many of the employees are interchangeable.[65] Construction activities accounted for 31.3% of PG&E's total labor costs in 2002.[66] PG&E's workforce would be approximately 30% lower in the absence of its ongoing construction program. Based on a position by position review, Overland estimates that the headcount in the Benefits Department would be at least 3 FTE lower in the absence of PG&E's construction program. Overland recommends an allocation of 14.42% to the capital category for the Benefits Department. [67]

The following table compares Overland's and PG&E's recommended labor allocations for the Benefits Department.

[65] Smullin interview

[66] OC-418

[67] Incremental staffing of 3 FTE divided by forecast headcount of 20.8 FTE.

Benefits Department 2003 Labor Allocation Per Overland			
Department	Overland	PG&E	Difference
Capital	14.42	0.00	14.42
Below-the-line	6.25	0.00	6.25
Utility Common	79.33	100.00	(20.67)
Total	100.00	100.00	0.00
Source: PG&E A&G Study WP 2-648			

HR Services

The HR Services Department consists of HR representatives who are organized by the client organizations that they serve. The HR representatives address employee performance, job classification, workforce planning and pay planning matters. The HR representatives do not address employee benefit issues. The HR representatives also address labor relations issues, including grievances filed under union contracts. Grievances that cannot be resolved by the HR representatives are forwarded to the Industrial Relations Department. Overland interviewed the Director of the HR Services Department.[68]

The following table shows the current headcount in the HR Services Department by section.

HR Services Department Current Headcount	
Section	FTE
Directors Office	2.0
Leadership Development & Plan.	4.0
Utility Operations	74.5
Nuclear Power Generation	7.0
Corporate Services	7.8
Other Power Generations	4.0
Total	99.3
Source: OC-395	

The Leadership Development and Planning Section works on succession planning for manager, director and officer positions, workforce planning and training and coaching of

[68] Silva interview

individual employees.[69] The other sections are staffed by the HR representatives described above. The following table shows the client organization assignments in the Utility Operations Section.

HR Services Department Utility Operations Section Headcount	
Section	FTE
Manager's Immediate Office	2.0
California Gas Transmission	3.0
Customer Revenue Transactions	3.5
Call Center & Support Services	4.0
Customer Service	1.0
Field Services Support & Dispatch	4.3
Metering	3.0
Meter Reading & Office Services	5.5
Engineering & Planning	2.0
General Services	7.3
Operations, Maint. & Construction	32.6
OM&C Electric Transmission	5.0
Rates and Accounts Services	1.3
Total	74.5
Source: OC-395	

The HR representatives responded to questions concerning the bankruptcy in 2001. For example, the Department addressed questions from employees about the status of outstanding employee expense reimbursements and deferred compensation. In 2002, the HR representatives worked with client organizations on workforce planning issues raised by the POR, including staffing of the new companies.[70]

Cost Forecast

PG&E's 2003 cost forecast for the HR Service Department includes labor and material costs for 99.6 FTE and a small amount of contract costs. The forecasted headcount is very close to the current headcount. Overland accepted PG&E's 2003 cost forecast for the HR Services Department.

[69] Silva interview

[70] Silva interview

Cost Allocations

PG&E's allocation of the Department's 2003 labor and material costs is shown below.

HR Services Department 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	10.00
Generation	10.40
Electric Transmission	4.00
Gas Transmission	3.00
Electric Distribution	21.09
Gas Distribution	9.04
Utility Common	42.47
Total	100.00
Source: PG&E A&G Study WP-2-669	

PG&E based the allocation to the various UCCs on the client assignments of the HR representatives.[71] PG&E's allocation to capital was based on client assignments and the percentage of labor charged to capital by the client organizations in 2000.[72] Unfortunately, the computational formula used by PG&E to calculate the capital percentage was illogical and resulted in an inadequate allocation to capital. PG&E's allocation also fails to reflect the current staffing levels in the Department.

The CPUC allocated 26.7% of the Department to capital in the 1999 GRC Decision.[73] PG&E agreed with that allocation.[74] PG&E's current 10% allocation is based on a faulty methodology, outdated information and is inconsistent with the allocation adopted in the 1999 GRC.

Overland corrected and updated PG&E's capital allocation. Overland also updated PG&E's allocations to the other categories based on the current staffing in the

[71] OC-213

[72] OC-212

[73] D.00-02-046, page 292

[74] D.00-02-046, page 292

Department. Overland's recommended allocations are calculated on Schedule 5-4. The following table shows Overland's recommended allocations by regulatory category.

HR Services Department 2003 Labor Allocation Per Overland	
Category	Percent
Capital	31.55
Generation	10.47
Electric Transmission	1.91
Gas Transmission	2.27
Electric Distribution	15.46
Gas Distribution	6.62
Utility Common	31.72
Total	100.00
Source: Schedule 5-4	

Overland's recommended capital allocation reflects staffing and labor capitalization rates by client organization. Staffing levels in the HR Services Department are largely a function of employee headcount in the client organizations.[75] Overland's capital allocation represents the reduction in staffing in the HR Services Department that would occur in the absence of PG&E's ongoing construction program.

Compensation

The Compensation Department sets compensation policy, develops and administers PG&E's base pay plan and provides compensation services to client organizations. The Compensation Department also develops and administers PG&E's incentive pay plans.[76]

[75] Silva interview

[76] PG&E A&G Study WP 2-699

The following table shows the current headcount in the Department by section.

Compensation Department Current Headcount	
Section	FTE
Director's Office	2.00
Base Pay/ Business Incentives	5.25
Executive Compensation	0.42
Incentives / Systems	2.83
Total	10.50
Source: OC-395, Part Time Employee Split Estimated	

The Base Pay/Business Incentives section works on PG&E's base pay plan and business unit specific incentive pay plans such as the gas marketing incentive pay plan and the incentive pay plan for Diablo Canyon refueling outage work. Approximately 90% of the section's time is spent on base pay issues. [77] The section conduct participates in market salary surveys with other corporations, analyze the survey results and develop and administer PG&E's base pay plan. In addition, each of the compensation consultants in the section provide compensation consulting services to their assigned client organizations.

The executive compensation section administers officer incentive pay plans. Most executive compensation matters are handled by the holding company Human Resources Department. The Manager of the Compensation Department also addresses executive compensation issues. [78]

The Incentive/Systems section works primarily on PG&E's Performance Incentive Plan (PIP) and the Compensation Department's PIP, base pay plan and market wage survey data bases. The section develops guidelines for setting PIP performance objectives and reviews the performance objectives developed by the PIP business units. The Incentive/Systems section also develops guidelines for measuring actual performance and reviews PIP objective actual performance claims submitted by the PIP business units.[79]

[77] Goyhenetche telephone interview

[78] Goyhenetche telephone interview

[79] Goyhenetche telephone interview

The Incentives/Systems section maintains the PIP data base used to calculate the actual PIP awards paid to employees. The section works with the Payroll Department to make sure the base pay information used to calculate the PIP awards is correct. The Incentives/Systems section also maintains the base pay and market wage survey data bases used by the Base Pay/Business Incentives section.

The work assignments in the Department are fairly flexible with a lot of cross assignments between the groups depending on current work requirements.[80]

Cost Forecast

PG&E's 2003 cost forecast for the Compensation Department includes labor and materials for 10.5 FTE and a small amount of contract costs. The current staffing in the Department is 10.5 FTE. Overland accepted PG&E's 2003 cost forecast for the Compensation Department.

Cost Allocations

PG&E allocated all of the department's costs to the utility common category. PG&E charged approximately 32% of its labor costs to construction in 2001. [81] PG&E's workforce would be substantially smaller in the absence of its ongoing construction program. A substantial reduction in PG&E's workforce would reduce the base pay plan administration and compensation consulting workload in the Base Pay/ Business Incentives Section and the PIP and data base workload in the Incentives/Systems section.

The Department includes 6.5 FTE of compensation consultants plus a data base technical assistant and an administrative assistant. The staffing assignments in the Department are flexible with considerable opportunities for cross-training and workload shifting. Overland estimates the staffing in the Compensation Department would be reduced by at least 1.5 FTE in the absence of PG&E's ongoing construction program. That represents 17.6% of the 8.5 FTE non-supervisory positions in the department.

[80] Goyhenetche telephone interview

[81] OC-418

Overland recommends a capital allocation of 14.29% for the Compensation Department.[82] The Department's other labor costs should be assigned to the utility common category.

Professional Staffing and Diversity

The Professional Staffing and Diversity Department is responsible for college recruiting, hiring above-entry level management and professional employees and PG&E's affirmative action plans.[83] The following table shows the current staffing in the Department by section.

Professional Staffing & Diversity Department Current Headcount	
Section	FTE
Director's Office	1.5
College Recruiting	5.5
Professional Staffing	7.0
AA/EEO and Diversity	5.0
Total	19.0
Source: OC-458	

The College Recruiting section serves as PG&E's liaison with college placement offices. The section is organized by college and function. The College Recruiting section screens applicants and schedules interviews with prospective employees and summer interns. The interviews are generally conducted by representatives of the applicable PG&E client organization.[84] The Professional Staffing Section recruits all above-entry exempt positions. The Section is organized by client organization. For example, one staffing consultant is assigned to PG&E's information systems organization.

The AA/EEO and Diversity section is responsible for preparing PG&E's affirmative action plans and investigating equal employment opportunity complaints. Three of the employees in the AA/EEO and Diversity section work primarily on EEO complaint

[82] 1.5 FTE capital divided by 10.5 FTE total

[83] PG&E A&G Study WP 2-718 and Leder telephone interview

[84] Leder telephone interview

investigations. The EEO investigators also work on diversity training, Americans with Disabilities Act issues and serve as the liaison to PG&E's minority employee organizations. PG&E's learning center organization also conducts diversity training.[85]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 21 FTE and $346,817 in contract costs. The contract costs include $134,300 for outsourcing equal employment opportunity investigations, $83,000 for memberships in minority and women professional societies and $81,478 for job postings on Internet employment services. PG&E's forecast headcount is reasonably close to the current headcount of 19 FTE. Overland accepted PG&E's 2003 cost forecast for the Professional Staffing and Diversity Department.

Cost Allocations

PG&E allocated 100% of the Department's costs to the utility common category. Many of the job vacancies filled by the Professional Staffing section are directly related to construction. For example, the Professional Staffing section recruits engineering and information systems employees who work primarily on construction projects. In addition, the Professional Staffing section recruits employees for the Materials, Purchasing, Building and Land Services and Fleet and Technical & Ecological Services Departments in PG&E's General Services Organization. Those Departments charge a significant portion of their costs to construction. PG&E's response to OC-320 provided a list of the job vacancies that the Professional Staffing section was recruiting as of each month end in 2002. PG&E's ISTS, Distribution Engineering and Planning and General Services organizations accounted for 43% of the open positions.

Schedule 5-5 provides an analysis of the open positions recruited by the Professional Staffing section in 2002 by client organization. Based on the capital labor percentages for the client organizations, Overland determined that 27.0% of the professional staffing section's costs are allocable to construction. The staffing levels in the Professional Staffing section are a function of the number of positions to be filled. Therefore, the capital allocation provides a reasonable estimate of the costs that would be avoided in the section if PG&E did not undertake its ongoing construction program.

[85] Leder telephone interview

The College Recruiting Section recruits college graduates. Staffing in the College Recruiting Section is largely a function of the number of positions to be filled. The disciplines recruited by the College Recruiting Section are similar to those recruited by the Professional Staffing Section. Overland recommends a capital allocation of 27.0% for the College Recruiting Section based on the analysis of the Professional Staffing Section described above.

The AA/EEO and Diversity section performs EEO investigations and provides training to all new PG&E employees on EEO/AA/Diversity policy. The time required for those activities is largely a function of employee levels. PG&E charged 31.3% of its total labor costs to construction in 2002. [86] Terminating PG&E's ongoing construction program would result in a substantial reduction in PG&E's workforce. Those force reductions would reduce the time required to investigate EEO complaints and train employees. The current headcount in the AA/EEO and Diversity section is 5 FTE. Overland estimates that at least one of those positions could be eliminated in the absence of PG&E's ongoing construction program. Therefore, Overland allocated 20% of the AA/EEO and Diversity section to capital.

The following table shows the overall capital percentage for labor and material costs recommended by Overland.

Professional Staffing & Diversity Department 2003 Labor Capital Allocation Per Overland			
Section	FTE	Capital Factor	Capital FTE
Director's Office	1.5	0.0000	0.0
College Recruiting	5.5	0.2703	1.5
Professional Staffing	7.0	0.2703	1.9
AA/EEO Diversity	5.0	0.2000	1.0
Total	19.0	0.2305	4.4
Source: OC-458			

The Department's contract costs are largely for EEO investigations and job recruiting. The labor factors shown above provide a sound basis for allocating the Department's contract costs to construction. The Department's non-capital labor, materials and contract costs should be assigned to the utility common category.

[86] OC-418

PACIFIC GAS & ELECTRIC
NEW REVENUE REQUIREMENTS DEPARTMENT
COMBINED ALLOCATION RECOMMENDED BY OVERLAND

CATEGORY	REVENUE REQUIREMENTS	WEIGHT	WEIGHTED	REGULATORY ANALYSIS	WEIGHT	WEIGHTED	COMBINED
HOLDING COMPANY	0.03	0.87448	0.026	0.00	0.125520	0.000	0.03
GENERATION	8.83	0.87448	7.722	1.00	0.125520	0.126	7.85
ELECTRIC TRANSMISSION	10.00	0.87448	8.745	2.00	0.125520	0.251	9.00
GAS TRANSMISSION	10.00	0.87448	8.745	2.00	0.125520	0.251	9.00
PUBLIC PURPOSE	10.00	0.87448	8.745	0.00	0.125520	0.000	8.74
ELECTRIC DISTRIBUTION	35.92	0.87448	31.411	59.00	0.125520	7.406	38.82
GAS DISTRIBUTION	15.79	0.87448	13.808	19.00	0.125520	2.385	16.19
UTILITY COMMON	9.43	0.87448	8.246	17.00	0.125520	2.134	10.38
TOTAL	100.00		87.448	100.00		12.552	100.00

Public Version

PACIFIC GAS & ELECTRIC
GRC CONTRACTS
ALLOCATION FACTOR BASED ON PG&E FORECAST

(EXCLUDES ORA REIMBURSEMENT)

CONTRACT	AMOUNT ALLOCATED	GENERATION	ELECTRIC TRANSMISSION	GAS TRANSMISSION	ELECTRIC DISTRIBUTION	GAS DISTRIBUTION	ALLOCATED TOTAL
A&G STUDY AND AUDIT SUPPORT	900,000	196,940	75,492	45,082	370,473	212,012	900,000
DISTRIBUTION CAPITAL	600,000	0	0	0	330,000	270,000	600,000
CIS/IT TESTIMONY/SUPPORT	400,000	0	0	0	220,000	180,000	400,000
GEN-IN SHOWING SUPPORT	268,000	268,000	0	0	0	0	268,000
GRC GENERAL	750,000	189,505	0	0	356,487	204,008	750,000
TOTAL	2,918,000	654,445	75,492	45,082	1,276,960	866,020	2,918,000
ALLOCATION FACTOR		22.43	2.59	1.54	43.76	29.68	100.00
M&O LABOR EXCLUDING PUBLIC PURPOSE		177,369	67,990	40,602	333,657	190,943	810,561
PERCENT		0.2188	0.0839	0.0501	0.4116	0.2356	1.0000
M&O LABOR - GENERATION & DISTR. ONLY		177,369	0	0	333,657	190,943	701,969
PERCENT		0.2527	0.0000	0.0000	0.4753	0.2720	1.0000

SOURCE: OC-405 AND OC-138

Public Version

SCHEDULE 5-2

PACIFIC GAS & ELECTRIC
INDUSTRIAL RELATIONS DEPARTMENT
PERCENT CAPITAL

EMPLOYEE DATA AS OF DECEMBER 2001

DEPARTMENT	REGULAR	HIRING HALL	TOTAL	CAPITAL PERCENT	CAPITAL FTE
POWER GENERATON	406	22	428	0.1500	64.2
NUCLEAR POWER GENERATION	638	1	639	0.0400	25.6
VP UTILITY OPERATIONS SUPPORT	3	0	3	0.0400	0.1
CALIFORNIA GAS TRANSMISSION	271	11	282	0.2500	70.5
CONTROLLER	67	0	67	0.1100	7.4
COMMUNICATIONS	1	0	1	0.0000	0.0
CUSTOMER REVENUE TRANSACTIONS	614	5	619	0.0000	0.0
CUSTOMER SERVICE	3,120	174	3,294	0.0300	98.8
D&T ENGINEERING & PLANNING	217	21	238	0.6200	147.6
ENVIRONMENTAL AFFAIRS	4	0	4	0.0000	0.0
BUILDING & LAND SERVICES	255	9	264	0.4400	116.2
FLEET SERVICES	450	0	450	0.4400	198.0
MATERIALS OPERATIONS	342	6	348	0.4400	153.1
PURCHASING	39	2	41	0.4400	18.0
TECH & ECOLOGICAL SVCS	50	1	51	0.4400	22.4
HUMAN RESOURCES	1	0	1	0.2400	0.2
INFORMATION SYSTEMS	205	15	220	0.3900	85.8
OPERATIONS, MAINT. & CONSTRUCTION	6,890	405	7,295	0.6200	4,522.9
VP PWR GEN & NUC SVCS	86	0	86	0.0400	3.4
RATES AND ACCOUNT SERVICES	25	5	30	0.0000	0.0
TOTAL	13,684	677	14,361	0.3854	5,534.3

SOURCE: OC-455 AND OC-389

Public Version

PACIFIC GAS & ELECTRIC
HR SERVICES
ALLOCATION TO REGULATORY CATEGORIES
REFLECTING CURRENT STAFFING AND 2002 LABOR CAPITALIZATION

	FTE	CAPITAL PERCENT	CAPITAL	COMMON	GENERATION	ELEC. TRANS	GAS TRANS	DIST. COMM	TOTAL
DIRECTORS OFFICE	2.0	0.0000	0.0	2.0	0.0	0.0	0.0	0.0	2.0
LEADERSHIP DEVELOPMENT & PLANNING	4.0	0.2400	1.0	3.0	0.0	0.0	0.0	0.0	4.0
UTILITY OPERATIONS									
IMMEDIATE OFFICE	2.0	0.0000	0.0	2.0	0.0	0.0	0.0	0.0	2.0
CALIFORNIA GAS TRANSMISSION	3.0	0.2500	0.8	0.0	0.0	0.0	2.3	0.0	3.0
CUSTOMER REVENUE TRANSATIONS	3.5	0.0000	0.0	3.5	0.0	0.0	0.0	0.0	3.5
CALL CENTER / SUPPORT SVC	4.0	0.0000	0.0	0.0	0.0	0.0	0.0	4.0	4.0
CUSTOMER SERVICE	1.0	0.0000	0.0	1.0	0.0	0.0	0.0	0.0	1.0
FIELDS SVCS SUPPORT / DISPATCH	4.3	0.0000	0.0	4.3	0.0	0.0	0.0	0.0	4.3
METERING	3.0	0.0000	0.0	3.0	0.0	0.0	0.0	0.0	3.0
METER READING/ OFC SVCS	5.5	0.0000	0.0	0.0	0.0	0.0	0.0	5.5	5.5
ENGINEERING & PLANNING	2.0	0.6200	1.2	0.8	0.0	0.0	0.0	0.0	2.0
GENERAL SERVICES	7.2	0.4400	3.2	4.0	0.0	0.0	0.0	0.0	7.2
OPERATIONS, MAINT. & CONSTRUCT	32.7	0.6200	20.3	0.0	0.0	0.0	0.0	12.4	32.7
OM&C ELECTRIC TRANSMISSION	5.0	0.6200	3.1	0.0	0.0	1.9	0.0	0.0	5.0
RATES AND ACCOUNT SERVICES	1.3	0.0000	0.0	1.3	0.0	0.0	0.0	0.0	1.3
NUCLEAR POWER GENERATION	7.0	0.0000	0.0	0.0	7.0	0.0	0.0	0.0	7.0
CORPORATE SERVICES									
ISTS	4.6	0.2700	1.2	3.4	0.0	0.0	0.0	0.0	4.6
OTHER	3.2	0.0000	0.0	3.2	0.0	0.0	0.0	0.0	3.2
POWER GENERATION	4.0	0.1500	0.6	0.0	3.4	0.0	0.0	0.0	4.0
TOTAL	99.3	0.0000	31.3	31.5	10.4	1.9	2.3	21.9	99.3
PERCENT	0.00	0.0000	31.55	31.71	10.47	1.91	2.27	22.08	100.00

ALLOCATION OF DISTRIBUTION COMMON	
ELECTRIC (70%)	15.46
GAS (30%)	6.62
TOTAL	22.08

SOURCE: OC-395 AND OC-389. CORPORATE SERVICES SPLIT BETWEEN ISTS AND OTHER BASED ON OC-389
USED 2000 ISTS CAPITALIZATION RATE FROM OC-212 TO AVOID DISTORTION FROM CIS

NOTE: PER OC-213, CUSTOMER SERVICE, CRT AND RAS ARE ASSIGNED TO UTILITY COMMON
AND DISTRIBUTION COMMON SPLIT 70% ELECTRIC, 30% GAS

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PACIFIC GAS & ELECTRIC
PROFESSIONAL STAFFING & DIVERSITY DEPARTMENT
VACANT POSITIONS

PERCENT CAPITAL

CLIENT	JAN	FEB	MAR	APRIL	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	CAPITAL %	CAPITAL FTE
BUSINESS PROCESS IMPROVEMENT	2	0	0	0	0	0	0	0	0	0	0	0	2	0.0000	0.0
GAS & ELECTRIC SUPPLY	3	3	1	1	2	3	3	4	10	10	10	12	62	0.0000	0.0
LAW	1	0	2	1	1	0	1	4	4	2	1	1	18	0.0000	0.0
RISK MANAGEMENT	0	0	0	0	0	0	0	0	0	0	0	3	3	0.0000	0.0
SAFETY HEALTH & CLAIMS	2	1	2	2	2	3	4	3	3	2	2	2	28	0.2000	5.6
DCS BUSINESS PLANNING	1	0	0	0	0	0	0	0	0	0	0	0	1	0.0000	0.0
ISTS	26	29	24	24	15	15	16	12	11	12	21	17	222	0.2700	59.9
CONTROLLER	8	9	8	6	12	12	8	8	4	4	8	8	95	0.0500	4.8
CALIFORNIA GAS TRANSMISSION	7	7	4	4	4	3	3	0	1	1	1	2	37	0.2500	9.3
COMMUNICATIONS	0	0	1	1	0	0	0	0	0	0	0	1	3	0.0000	0.0
CUSTOMER REVENUE TRANSACTIONS	6	2	1	1	1	2	4	4	2	1	2	2	28	0.0000	0.0
CUSTOMER SERVICE	1	3	3	2	1	1	1	1	0	1	1	1	16	0.0000	0.0
DIABLO CANYON	0	0	0	0	0	0	1	1	1	1	3	1	8	0.0400	0.3
DISTRIBUTION ENGINEERING & PLAN	13	14	15	17	18	8	13	12	13	7	6	4	140	0.6200	86.8
DIST. O&MC	12	10	20	19	20	7	5	5	5	3	1	4	111	0.6200	68.8
ENVIRONMENTAL AFFAIRS	0	0	0	0	0	0	0	0	0	1	2	1	4	0.0000	0.0
GENERAL SERVICES	24	25	22	22	15	13	11	11	11	9	9	6	178	0.4400	78.3
GOVERNMENTAL RELATIONS	3	3	3	3	1	1	2	2	2	1	1	1	23	0.0000	0.0
HUMAN RESOURCES	12	9	9	9	9	13	15	10	9	7	7	7	116	0.1500	17.4
POWER GENERATION	3	2	3	7	7	8	7	6	5	3	4	4	59	0.1500	8.9
RATES AND ACCOUNT SERVICES	4	4	7	8	5	2	4	4	0	1	0	0	39	0.0000	0.0
REGULATORY RELATIONS	6	5	3	3	2	4	6	4	10	9	7	6	65	0.0000	0.0
TRANSMISSION PLAN ENG	0	0	0	0	0	0	0	0	0	1	1	1	3	1.0000	3.0
SYSTEMS DISPATCHERS	1	0	0	1	2	1	0	0	0	0	1	2	8	0.0000	0.0
TOTAL	135	126	128	131	117	96	104	91	91	76	88	86	1,269	0.2703	343.1

SOURCE: OC-320 AND OC-389

Public Version

Chapter 6
Utility Law and Safety Health & Claims

This Chapter addresses the 2003 cost forecast for the following PG&E departments:

- VP General Counsel
- Law Department
- Safety Health & Claims - Director
- Safety Health & Claims - Workers Compensation
- Safety Health & Claims - Third Party Claims
- Safety Health & Claims - Safety Engineering
- VP Environmental Affairs
- Affiliate Rules and Regulatory Compliance
- Corporate Secretary (non-labor costs only)
- Records Center

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G expense level by department.

Chapter 6 - Utility Law and Safety Health & Claims Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Law Department	0	(2,074,443)	(11,956,000)	(14,030,443)
SH&C - Director	0	(40,304)	0	(40,304)
SH&C - Workers Compensation	(503,456)	(342,812)	184,606	(661,662)
SH&C - Third Party Claims	(215,861)	(437,686)	0	(653,547)
SH&C - Safety Engineering	(390,262)	0	(1,245,417)	(1,635,679)
Affiliate Rules Compliance	0	(206,984)	0	(206,984)
Total	(1,109,579)	(3,102,229)	(13,016,811)	(17,228,619)

The issues are described below by department.

1. **Law Department**. Reduced contract by $11.96 million to eliminate costs for PG&E's gas transmission station chromium discharge litigation. Allocated 8.40% of the Department's labor costs to the below-the-line category to eliminate

incremental bankruptcy proceeding and POR costs. Revised PG&E's other labor allocations to reflect actual 2002 time reporting data.

2. **Safety, Health & Claims - Director.** Allocated labor costs based on the weighted average allocation of the sections reporting to the Director.

3. **Safety, Health & Claims - Workers Compensation Section.** Reduced labor and material costs by $729,746 (before allocations) and increased temporary agency worked contract costs by $292,700 to reflect 2003 expected staffing levels. Allocated an additional 5.93% of the section's costs to construction based on an analysis of outstanding claims by originating department.

4. **Safety, Health & Claims - Third Party Claims Section.** Reduced costs by $229,763 to reflect forecasted 2003 staffing levels. Increased capital allocation by 13.9% based on an analysis of 2002 claims by originating department.

5. **Safety, Health & Claims - Safety Engineering Section.** Reduced PG&E's forecast by $1.25 million to eliminate unsupported and speculative ergonomic program costs. Reduced costs by $390,262 to reflect 2003 expected staffing levels.

6. **Affiliate Rules and Regulatory Compliance.** Increased below-the-line allocation by 33% to eliminate affiliate transactions rules compliance costs consistent with the policy adopted in PG&E's 1999 GRC Decision.

VP General Counsel

The VP General Counsel immediate office consists of PG&E's General Counsel and an executive secretary. PG&E's cost forecast for the PCC consists solely of labor and materials costs for those two employees. PG&E allocated 100% of the office's costs to the utility common category. Overland accepted PG&E's 2003 cost forecast and allocations for the VP General Counsel.

Law Department

The Law Department provides legal advice and counsel and manages litigation and regulatory proceedings. The current headcount in the Law Department is 126 FTE. [1] Overland interviewed the Law Department's Legal Administrator.[2]

Some legal services required by PG&E are provided by the holding company Law Department. Those legal services are in the areas of income tax, finance, SEC disclosure, insurance, employee benefits and corporate governance. [3]

The current employee headcount in the Department is 123.3 FTE.[4] Including contract employees, the Law Department's current headcount is 136 FTE. That headcount includes 73.7 attorneys and 62.3 support positions. The following table shows the Law Department attorney headcount by section.

Law Department Attorney Headcount By Section with Temporary Attorneys	
Section	FTE
Deputy General Counsel	1.0
Corporate & Regulatory - Chief Counsel	1.0
Corporate & Environmental	8.1
Regulatory	12.8
Generation and Procurement	4.6
Electric & Gas Transmission & Supply	12.0
Distribution & Customer Service - Chief Counsel	2.0
Distribution Business Issues	2.0
Distribution System Service	6.4
Distribution Tariffs & Customer Service	3.9
Litigation - Chief Counsel	1.0
Commercial & Contracts	4.1
Commercial Land & Environmental	5.8
Employment & Tort	8.0
Human Resources - Chief Counsel	1.0
Total	73.7
Source: OC-333	

[1] OC-333, includes 2.75 FTE for temporary attorneys working on a contract basis.

[2] Fotis interview

[3] OC-368, page 680

[4] OC-333

The Corporate & Environmental Section provides services in the areas of corporate services contracts, intellectual property, real estate and environmental policy. Environmental litigation is managed by the Commercial Land & Environmental Section.[5] The Regulatory Section works primarily on CPUC matters. FERC transmission matters are managed by the Electric Transmission section. [6]

The Distribution Business Issues section works on franchise, municipalization and distributed generation matters. The Distribution System Service section works on construction certificate, eminent domain, undergrounding, tree trimming and various other operational matters. The Distribution Tariffs and Customer Services section works on tariff and collection matters.

The Commercial & Contract section manages contract litigation. The Commercial Land & Environmental section manages litigation pertaining to land and environmental matters. The Employment & Tort Section manages personal injury, property damage and employment litigation. The Law Department work assignments are flexible and there is significant cross-over in assignments between sections. [7]

The Law Department tracks its time by matter in a data base referred to as the Law Manager System.[8] The Department charged 21.3% of its time in 2001 and 27.9% in 2002 to bankruptcy and POR matters.[9]

Cost Forecast

PG&E set its 2003 forecast of Law Department labor and materials costs equal to its 2002 budget. PG&E set its 2003 forecast of non-order contract costs equal to 2000 actual costs. Non-order contract costs are administrative contract costs that are not charged to orders and include costs for temporary agency employees.

PG&E provided conflicting indications of the headcount included in PG&E's 2002 budget and 2003 forecast. PG&E's A&G Study Workpapers indicate a headcount of 127.9 FTE.

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[5] Fotis interview

[6] Fotis interview

[7] Fotis interview

[8] OC-72

[9] OC-80 and OC-522

However, the response to OC-368 indicates the 2002 budget includes a headcount of 134 FTE.

PG&E's forecasted 2003 labor costs significantly exceed actual 2002 labor costs. However, that difference is offset by an under-forecast of temporary agency contract costs. PG&E's combined forecast of labor, materials and non-order contract costs is reasonable compared to recorded 2002 costs.[10] Recorded 2002 costs provide a sound basis for forecasting 2003 costs. Overland accepted PG&E's combined 2003 forecast for labor, materials and non-order contract costs for the Law Department.

PG&E forecasts $32.25 million in 2003 orders contracts costs. The orders contracts costs are the contract costs directly attributable to specific legal matters. The following table shows PG&E's 2003 orders contracts cost forecast by type.

Law Department PG&E 2003 Forecast - Orders Contracts	
Type	Amount
California Gas Transmission	13,000,000
Corporate Services	5,000,000
Distribution and Customer Service	5,800,000
Diablo Canyon	1,000,000
Electric Transmission	1,500,000
Gas & Electric Supply	750,000
Generation	1,900,000
Hazardous Substance Mechanism	2,700,000
Qualified Facilities/ Transition Cost Balancing Acct	600,000
Total	32,250,000
Source: OC-404 and PG&E A&G Study WP 2-760	

PG&E's orders contract forecast reflects the Department's 2002 approved budget with a 2003 forecast adjustment to eliminate energy crises, bankruptcy and POR costs and to reflect normal conditions.[11] The 2003 adjustment is based on judgment and 2000 and 2001 actual costs. PG&E does not have any workpapers supporting the 2003 adjustment.[12] The following table details that 2003 forecast adjustment by category.

[10] OC-373

[11] OC-87

[12] OC-87

Law Department 2003 Orders Contracts Adjustment Per PG&E			
Description	2002 Budget	Adjustment	2003 Forecast
Distribution Customer Services	4,705,200	1,094,800	5,800,000
Gas & Electric Supply	721,200	28,800	750,000
Electric Transmission	2,319,600	(819,600)	1,500,000
Gas Transmission	13,023,500	(23,500)	13,000,000
Generation	1,766,205	1,133,795	2,900,000
Divested Generation	1,070,000	(1,070,000)	0
Corporate Services	15,100,000	(10,100,000)	5,000,000
POR	15,400,000	(15,400,000)	0
Bankruptcy	18,600,000	(18,600,000)	0
Creditors Committee	20,000,000	(20,000,000)	0
Hazardous Waste Mechanism	2,740,000	(40,000)	2,700,000
Electric Supply - TCBA	602,200	(2,200)	600,000
Total	96,047,905	(63,797,905)	32,250,000
Source: OC-87 and PG&E A&G Study WP 2-775 to 2-779			

The Gas Transmission contract costs are primarily for the defense of lawsuits filed by approximately 1,200 plaintiffs, including former PG&E employees, claiming personal injury as a result of discharges of chromium into groundwater from gas transmission compressor stations in southern California.[13] The plaintiffs have filed claims in bankruptcy court related to the lawsuits totaling approximately $580 million. The bankruptcy court has authorized the lawsuits to proceed in state court during the bankruptcy proceeding.[14] PG&E has accrued substantial reserves for the cases. PG&E's POR plan proposes to divide the aggregate liability for the chromium litigation as follows:

Law Department PG&E POR Allocation of Chromium Liability	
Description	Percent
Gas Transmission Company	12.5
Electric Transmission Company	12.5
Generation Company	25.0
Distribution Company	50.0
Total	100.0
Source: PG&E 2002 10-K Report page 67	

[13] OC-86 and PG&E 2002 10-K report page 67

[14] PG&E 2002 10-K report page 67

Among other things, the complaints in the chromium litigation cases allege negligence, fraudulent concealment and destruction of evidence by PG&E.[15] Lawsuit costs attributable to utility negligence, fraud and destruction of evidence should not be charged to ratepayers. The merits of the lawsuits will be determined in state courts. Overland recommends prohibiting recovery of the chromium litigation costs until the merits of the allegations against PG&E have been determined by the courts. PG&E should be allowed an opportunity to request recovery of the 2003 litigation costs after the lawsuits have been decided.

PG&E allocated the chromium litigation costs to the gas transmission UCC. PG&E's current Gas Accord application proposes importing the A&G forecasts adopted in this GRC into the Gas Accord case to avoid litigating A&G issues in both cases.[16] Therefore, it is important for the Commission to address the chromium litigation costs in the GRC.

Actual 2002 costs for the chromium litigation have been significantly lower than the 2002 budgeted amount.[17] That difference implies a high risk of forecasting error in PG&E's 2003 forecast of litigation costs for the chromium litigation. PG&E has designated the data response providing the actual 2002 expenditures as confidential. Accordingly, this Report will not provide the specific amount of 2002 expenditures. However, if PG&E persists in requesting recovery of the chromium litigation costs, PG&E should be required to submit the actual 2002 litigation costs as well as year-to-date 2003 litigation costs and to explain the significant difference between actual costs and its GRC forecasts.

The 2003 forecast for gas transmission also includes relatively modest amounts for Gas Accord issues and participation in a FERC complaint case against El Paso Natural Gas initiated by the CPUC.[18]

Excluding the chromium litigation, PG&E's actual 2002 gas transmission order contract costs were **Confidential (REDACTED)**. Actual 2002 costs provide a sound basis for forecasting 2003 gas transmission contract costs. Overland recommends the following

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[15] OC-86

[16] PG&E Gas Accord II Testimony, Chapter 12, Page 12-5

[17] OC-86

[18] OC-86

adjustment to eliminate the chromium litigation costs and to set the remaining 2003 gas transmission order contract costs equal to 2002 actual amounts.

(REDACTED)

Overland accepted PG&E's 2003 contract forecasts for the other UCCs.

Cost Allocations

PG&E allocated the Law Department's labor costs to UCCs based on charges to orders in the year 2000.[19] PG&E used 2000 hours because that was the most recent "normal year" available when the allocations were prepared in early 2002.[20]

The following table shows PG&E's 2003 allocation of the labor and materials costs of the Law Department.

Law Department 2003 Labor Cost Allocation Per PG&E	
Category	Percent
Capital	1.19
Holding Company	0.19
Generation	8.05
Electric Transmission	13.84
Gas Transmission	5.30
Public Purpose Programs	0.44
Electric Distribution	26.34
Gas Distribution	9.35
Utility Common	35.30
Total	100.00
Source: PG&E A&G Study WP 2-761	

[19] OC-84

[20] Fotis interview

Bankruptcy and POR matters accounted for 21% of the Law Department's hours in 2001 and 28% in 2002. Time requirements of that magnitude result in substantial incremental costs. The current total staffing in the Department is 136 FTE including temporary attorneys and agency workers. The employee headcount in the Department averaged 122 FTE in 2000 with minimal temporary agency contract costs. [21] That increase in staffing of 14 FTE confirms that PG&E's Law Department incurred significant bankruptcy and POR incremental costs in 2002 and continues to incur significant incremental costs in 2003.

PG&E's set its 2003 forecast of non-order contract costs equal to 2000 actual. PG&E's forecast of 2003 labor costs exceeds 2000 recorded labor costs by 16%.[22] PG&E's 2003 labor forecast is stated in 2002 dollars. Wage inflation only accounts for approximately 6.1% of the 16% increase in labor costs. The primary factor causing the increase in labor costs is bankruptcy and POR matters. Overland recommends allocating 8.40% of the Department's labor costs to the below-the-line category to eliminate incremental costs attributable to bankruptcy and POR matters. Overland's recommended allocation is calculated below.

Law Department 2003 Labor Allocation to POR Per Overland	
Description	Amount
Actual 2000 Labor Costs	15,827,446
Inflate to 2002 Dollars (3% per year)	1.0609
2000 Labor Costs In 2002 Dollars	16,791,337
2003 Forecast Per PG&E in 2002 Dollars	18,330,263
Incremental Amount	1,538,926
Percent Incremental	8.40
Source: PG&E A&G Study WP 2-760	

Bankruptcy and POR activities accounted for 21% of the Department's labor hours in 2001 and 28% in 2002. Overland's recommended allocation of 8.4% to the below-the-line category is conservative compared to the actual time-charging in the Department.

The bankruptcy resulted in the stay of certain lawsuits in 2001.[23] The stay has been lifted for several matters and does not apply to events occurring after the date of the

[21] OC-334 and PG&E A&G Study WP 2-760

[22] PG&E A&G Study 2-760. 18.33 million divided by 15.83 million equals 16%

[23] OC-385

bankruptcy filing (April 6, 2001). By 2002, PG&E's litigation costs had returned to normal levels.[24] Overland's allocation assumes a substantial portion of the time spent on bankruptcy and POR matters in 2001 and 2002 would be reallocated to litigation and other matters under normal conditions.

PG&E's allocations reflect charges to orders in 2000. The Law Department charges time to 54 orders in 2002.[25] The Law Manager system tracks hours by matter. In 2002, the system reported hours for approximately 600 matters.[26] The matter level time tracking is much more detailed than the order level tracking.

By 2002, litigation activity had returned to normal levels. Overland allocated Law Department hours to UCCs using actual 2002 hours, excluding non-incremental bankruptcy and POR hours. Overland's allocation is based on a matter-by-matter review and classification of the actual 2002 hours reported in the Law Manager system. Overland's recommended allocation is summarized on Schedule 6-1. Overland's classifications by matter are not shown because PG&E has designated the hours reported in the Law Manager system as confidential.

The following table compares Overland's recommended allocation to PG&E's allocation.

Law Department 2003 Labor Allocation Per Overland			
Description	PG&E	Overland	Difference
Capital	1.19	4.69	3.50
Below-The-Line and Holding Company	0.19	9.55	9.36
Generation	8.05	8.41	0.36
Electric Transmission	13.84	10.43	(3.41)
Gas Transmission	5.30	5.04	(0.26)
Public Purpose	0.44	1.94	1.50
Electric Distribution	26.34	30.58	4.24
Gas Distribution	9.35	14.88	5.53
Utility Common	35.30	14.48	(20.82)
Total	100.00	100.00	0.00
Source: Schedule 6-1 and PG&E A&G Study WP 2-761			

[24] OC-385

[25] OC-522

[26] OC-522

Overland's capital allocation includes hours charged directly to transmission line and other construction projects and an allocation of time spent on employment litigation and other human resources matters. Overland's capital allocation is conservative because it does not include any of the hours reported for the Law Manager business unit pre-litigation and general legal advice matters.

Overland's recommended allocation is superior to PG&E's allocation because Overland's allocation: (1) assigns incremental bankruptcy and POR activities to the below-the-line category; (2) reflects more recent data; and (3) was prepared at a significantly more detailed level than PG&E's allocation.

Overland accepted PG&E's allocations of orders contract costs. The recommended adjustment to exclude chromium litigation costs is assigned directly to the gas transmission UCC.

Safety Health & Claims - Director

The Safety Health & Claims (SH&C) Department is responsible for managing workers compensation and third party damage claims. The Department also develops workplace safety policies and programs. The following sections report to the Director of the Safety Health and Claims Department.

- Workers Compensation
- Third Party Claims
- Safety Engineering

The current headcount in the Director's immediate office is 5 FTEs.[27] The Director's immediate office consists of the Director, an assistant, two analysts and a project engineer. Overland interviewed the Director of the Safety Health and Claims Department.[28] The project engineer works on emergency preparedness planning and serves as the Department's liaison with other PG&E Departments on safety matters. [29]

[27] OC-337

[28] Hughes interview

[29] Hughes interview

Cost Forecast

PG&E's 2003 cost forecast for the SH&C Director's immediate office consists of labor and materials for 5 FTEs and a small amount of contract costs. Overland accepted PG&E's 2003 cost forecast for the Director's immediate office.

Cost Allocation

The following table shows PG&E's allocation of the 2003 labor and materials costs for the SH&C's Director's immediate office.

SH&C Director Immediate Office 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	21.65
Holding Company	0.01
Generation	4.72
Electric Transmission	2.83
Gas Transmission	0.93
Electric Distribution	35.02
Gas Distribution	20.69
Utility Common	14.15
Total	100.00
Source: PG&E A&G Study WP 2-786	

PG&E's labor allocation is based on the composite labor allocation for the three sections that report to the Director.[30] Overland accepted PG&E's approach of allocating the Director's costs based on the reporting sections. Overland made forecast adjustments to the staffing of the reporting sections. Those adjustments change the weighting given to each section. In addition, Overland changed the labor allocations for the reporting sections. PG&E's allocations for the Director's immediate office should be revised to reflect those changes.

The following table shows Overland's recommended labor allocations for the Director's Immediate Office.

[30] OC-252

Safety Health & Claims Director Immediate Office 2003 Labor Allocation Per Overland	
Category	Percent
Capital	27.41
Holding Company	0.01
Generation	4.28
Electric Transmission	3.25
Gas Transmission	1.11
Electric Distribution	27.90
Gas Distribution	15.09
Utility Common	20.95
Total	100.00
Source: Overland workpapers	

Overland's recommended allocations reflect the weighted average allocations for the sections that report to the Director.

Safety Health & Claims - Workers Compensation

The SH&C Workers Compensation Section manages workers compensation claims made by PG&E employees. The Section oversees the payment of medical expenses and monitors the injured employee's status to ensure the employees return to work as soon as they are medically released.[31]

The combined PG&E employee and contract employee current headcount in the Workers Compensation Section is 84.3 FTE.[32] The Workers Compensation Section is organized into two primary groups, Legal and Claims Representatives. The Claims Representatives work with the employee, medical services providers and the employee's supervisor. Each Claims representative has a case load of approximately 150 cases.[33] The Legal Group provides legal support to the Claims Representatives when the employee is represented by an attorney. Approximately 25% of the

[31] Hughes interview

[32] OC-337

[33] Hughes interview

employees are represented by an attorney.[34] The current headcount in the Legal Group is 11 FTE. [35]

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials costs for 90 FTE. PG&E's 2003 cost forecast does not include any costs for contract employees. The current combined PG&E employee and contract employee headcount in the Workers Compensation Section is 84.3 FTE. The average combined employee and contract headcount in 2001 was 84.3 FTE.[36]

PG&E implemented a new Workers Compensation Claims Management System in June 2002. That new system directly eliminated two clerical positions and will improve the productivity of the claims representatives in the section.[37] PG&E expects further reductions in the Sections headcount as a result of efficiencies achieved through the new Claims Management System.[38]

PG&E's 2003 forecasted combined headcount of 90 FTE is excessive compared to historical and current levels and does not reflect the efficiencies resulting from the June 2002 implementation of the new Workers Compensation Claims Management System. The current headcount provides a sound, if not conservative, basis for forecasting 2003 costs.

The current combined headcount consists of 79.3 FTE of PG&E employees and 5 FTE of contract employees. PG&E's forecast reflects 90 PG&E FTE and zero contract FTE. Therefore, it is necessary to adjust labor, materials and contract costs to reflect the current headcount. The following table shows the required adjustment to labor and materials costs.

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[34] Hughes interview

[35] OC-337

[36] OC-338

[37] OC-255

[38] OC-257, Attachment 2

SH&C Workers Compensation Section 2003 Headcount Adjustment - PG&E Employees and Agency Contract Employees				
Description	Labor	Materials	Contract	Total
Cost Per PG&E (labor excludes benefits)	5,656,846	901,741		
FTE per PG&E	90	90		
Average Cost Per FTE	62,854	10,019	58,540	
FTE Adjustment	(10.7)	(5.7)	5.0	
Forecast Adjustment	(672,536)	(57,110)	292,700	(436,946)
Source: PG&E A&G Study WP 2-786, Average Contract Cost is 2001 actual from OC-3 and OC-338				

PG&E's 2003 cost forecast includes $2.2 million in contract costs. The 2003 contract forecast includes $1.475 million for medical bill review services and claims investigation, $405,000 for the Section's medical records file room contractor, $125,000 of computer systems support and 206,200 of other contract costs.[39] The medical bill review contractor provides on-site staff who review medical bills for duplicate billing and compliance with price limits. PG&E's 2003 contract cost forecast is reasonably close to

2001 actual costs, excluding contract employee costs. Overland accepted PG&E's 2003 forecast for those contracts.

Cost Allocations

PG&E's 2003 allocation of the labor and material costs of the Workers Compensation Section is shown below.

SH&C Workers Compensation Section 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	31.00
Generation	6.68
Electric Transmission	2.99
Gas Transmission	0.96
Electric Distribution	28.67
Gas Distribution	23.45
Utility Common	6.25
Total	100.00
Source: PG&E A&G Study WP 2-805	

[39] Hughes interview and PG&E A&G Study WP 2-819

PG&E's capital allocation of 31% reflects the overall percentage of PG&E's total labor costs that are charged to construction.[40] The other allocations are based on charges from the Workers Compensation Section to client organizations in the first eleven months of 2000.[41] PG&E assigned charges to PG&E's Distribution and Customer Service organization 55% to electric distribution and 45% to gas distribution. The utility common allocation reflects charges to PG&E's corporate services organization.

The response of OC-466 provides the number of workers compensation cases outstanding as of December 31, 2002. The response to OC-257 provides lost work days by Department. The lost work day data supports a capital allocation of 37.9% while the current claims data supports a capital allocation of 36.9%. The lost work day and claims data provide a more direct method of determining the capital allocation than PG&E's reliance on the total company capital labor factor. PG&E's capital allocation does not accurately reflect the underlying claims and lost work day data.

Overland's recommended cost allocation for the Workers Compensation Section is shown below.

Workers Compensation Department 2003 Labor Allocation Per Overland	
Description	Percent
Capital	36.93
Generation	6.70
Electric Transmission	4.06
Gas Transmission	1.40
Electric Distribution	20.28
Gas Distribution	16.60
Utility Common	14.03
Total	100.00
Source: Schedule 6-2	

Overland's allocation reflects the claims data shown on Schedule 6-2.

[40] Hughes interview

[41] OC-252 and OC-401

Safety Health & Claims - Third Party Claims

The Third Party Claims Section handles all claims for damages made against PG&E excluding claims made by employees. When a claim escalates into a lawsuit, the claim is transferred to the Law Department. The majority of the claims are power outage related. The Third Party Claims Section also handles property damage and personal injury claims. [42]

The current PG&E employee headcount in the Third Party Claims Section is 38.5 FTE. In addition, the current contract employee headcount in the section is 1.2 FTE.[43] The current employee headcount is shown below by group.

SH&C Third Party Claims Section Current Headcount By Group	
Description	Amount
Manager's Office	2.0
Claim Prevention	3.0
Claims Investigators	25.0
Operating Clerks	8.5
Total	38.5
Source: OC-395 and OC-377	

The Claims Investigators are assigned to geographical areas. The Operating Clerks support the Claims Investigators.[44] The damages payments made by the Third Party Claims Section are recorded in Account 925 and are excluded from the A&G study. PG&E forecasts 2003 third party damages payments of $11.8 million. [45]

[42] Hughes interview

[43] OC-337

[44] OC-395 and Hughes interview

[45] PG&E Exhibit 6 Workpapers, page 6-167

Cost Forecast

PG&E's 2003 cost forecast for the Third Party Claims section includes labor and material costs for 41 employees and $1.15 million in contract costs.[46] The following table shows the forecasted contract costs by type.

SH&C Third Party Claims Section 2003 Contract Costs Per PG&E	
Description	Amount
Investigative Services	157,424
Office Support	36,647
Public Safety Information Program	872,000
Staff Augmentation and Misc.	80,033
Total	1,146,104
Source: PG&E A&G Study WP 2-838	

PG&E's forecasted headcount exceeds the current headcount by 2.75 FTE. The following table shows the actual headcount in the Third Party Claims Section as of year-end for the past three years.

SH&C Third Party Claims Section Historical Year-End Employee Headcount	
Date	FTE
December 2000	36.0
December 2001	38.0
December 2002	38.5
Source: PG&E A&G Study WP 2-827 and OC-372	

As of February 1998, the Third Party Claims Section headcount was 36 FTE, including 5 FTE devoted to processing "harbor claims" for damage to boats caused by power plant emissions.[47] PG&E no longer experiences significant numbers of harbor claims because it sold most of its fossil power plants. PG&E's forecasted headcount of 41 is excessive compared to historical levels. The current headcount of 38.5 FTE provides a sound basis for forecasting 2003 costs. Overland recommends the following forecast adjustment to reflect current staffing levels in the Third Party Claims Section.

[46] PG&E A&G Study WP 2-824 and 2-825

[47] 1999 GRC Hughes interview notes

SH&C Third Party Claims Section 2003 Headcount Adjustment Per Overland			
Date	Labor	Materials	Total
Cost Per PG&E (exc. emp. benefits)	2,605,980	819,571	3,425,551
FTE Per PG&E	41.0	41.0	41.0
Average Forecast Cost	63,560	19,990	83,550
FTE Adjustment	(2.75)	(2.75)	(2.75)
Forecast Adjustment	(174,791)	(54,971)	(229,763)
Source: PG&E A&G Study WP 2-824 and 2-826			

PG&E's contract cost forecast includes ample costs for the current contract employee headcount of 1.2 FTE. The public safety information program contract costs are for materials used in safety presentation to schools, construction contractors and police, fire and ambulance departments. PG&E's 2003 contract cost forecast reflects actual 2001 costs and is reasonably consistent with actual 2002 costs.[48] Overland accepted PG&E's 2003 contract cost forecast for the Third Party Claims Section.

Cost Allocations

The following table shows PG&E's 2003 labor and material cost allocations for the Third Party Claims Section.

SH&C Third Party Claims Section 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	6.00
Holding Company	0.05
Generation	1.40
Electric Transmission	3.56
Gas Transmission	1.20
Electric Distribution	65.59
Gas Distribution	21.87
Utility Common	0.33
Total	100.00
Source: PG&E A&G Study WP 2-825	

[48] OC-472 and PG&E A&G Study WP 2-824

PG&E's allocation to capital reflects judgment. PG&E's allocation to the other categories reflects time charged to client orders during the first 11 months of 2000.[49] The charges are made at a high level and are not detailed by client department. For example, all time spent processing claims for PG&E's corporate services departments is charged to a single order.

PG&E does not track whether a Third Party Claim is related to a construction project. As a result, it is necessary to estimate the percentage of the Third Party Claims Section's labor costs that should be capitalized.[50]

PG&E's **Confidential** response to OC-518 provides the claims originating in 2002 by department. Approximately **(REDACTED)** of the claims originated in service Areas 1 through 7 of PG&E's Operations, Maintenance and Construction (OM&C) organization. In 2002, those organizations charged 68.5% of their labor costs to construction.[51] Data request OC-471 requested claims reports for a sample of claims for the OM&C Area organizations to determine if they were attributable to construction activities. PG&E objected to that request on the grounds that the claims reports constitute attorney work product and privileged attorney client communications. However, PG&E did provide an analysis showing claims by department and type in a supplemental response to OC-471.

The following **Confidential** table shows the OM&C Area claims by type.

(REDACTED)

[49] OC-401

[50] OC-470

[51] OC-468

PG&E represents that the outage claims are not construction related.[52] Overland cannot verify that representation because PG&E has not provided the requested claims reports. Overland accepted PG&E's representation that none of the outage claims are construction related without verification.

PG&E admits that some of the O&MC claims in the following categories are probably attributable to construction activities. [53]

- Damage to Overhead
- PG&E Construction
- Damage to PG&E
- Dig-ins
- Auto Accidents

The "other" and fires categories probably also include construction related claims. Overland estimates that 21.8% of the OM&C Area third party claims are attributable to construction. That estimate is calculated below.

(REDACTED)

Overland's OM&C Area third party claims capital factor is based on the 2002 labor capitalization rate for the areas and PG&E's representation that none of the outage claims are construction related.

Overland recommends an overall capital factor of 19.9% for the third party claims area. That factor is calculated on Schedule 6-3 and reflects 2002 claims and capital labor factors by department.

[52] OC-471

[53] OC-471

PG&E's allocation percentages for generation, transmission and distribution reflect charges to client orders in the first 11 months of 2000. That approach provides a reasonable basis for distributing the non-capital costs to UCCs. Overland recommends the following allocation factors for third party claims.

SH&C Third Party Claims 2003 Labor Allocation Per Overland	
Category	Percent
Capital	19.90
Holding Company	0.04
Generation	1.19
Electric Transmission	3.03
Gas Transmission	1.02
Electric Distribution	55.89
Gas Distribution	18.64
Utility Common	0.29
Total	100.00
Source: Schedule 6-3 and PG&E WP 2-825	

Safety Health & Claims - Safety Engineering

The Safety Engineering Section develops safety policy and programs and provides safety program implementation assistance to other PG&E organizations. The section also audits compliance with safety requirements.[54] The current headcount in the section is 17 FTE.[55] The section is organized into two groups: (1) policy and program development and (2) program support.[56]

Cost Forecast

PG&E's 2003 cost forecast for the Safety Engineering Section includes labor and materials for 21 FTE and $2.25 million in contract costs. The section was reorganized in 2002. PG&E's forecasted headcount does not reflect that reorganization. The section's 2003 budget reflects a headcount of 18 FTE.[57] The current headcount of 17 FTE

[54] PG&E A&G Study WP 2-843 and Hughes interview

[55] OC-337

[56] OC-395

[57] OC-339

provides a sound basis for forecasting 2003 costs. Overland recommends the following adjustment to labor and materials cost to reflect the current headcount.

SH&C Safety Engineering Section 2003 Forecast Headcount Adjustment			
Description	Labor	Materials	Total
Cost Per PG&E (exc. emp. benefits)	1,796,878		
FTE Per PG&E	21		
Average Cost Per FTE	85,566	12,000	97,566
FTE Adjustment	(4)	(4)	(4)
Forecast Adjustment	(342,262)	(48,000)	(390,262)
Source: PG&E A&G Study WP 2-844 and 2-847-- material cost per page 2-851			

The following table shows PG&E's 2003 contract cost forecast by contract.

SH&C Safety Engineering Section 2003 Contract Forecast Per PG&E	
Description	Total
Health & Safety Consulting	798,000
Audit Program	200,000
Ergonomics Program	1,250,000
Total	2,248,000
Source: PG&E A&G Study WP 2-857	

The following table shows actual total contract costs for the Safety Engineering section for the past three years.

SH&C Safety Engineering Section Historical Contract Costs	
Year	Amount
2000	854,621
2001	549,475
2002	852,583
Source: PG&E WP 2-844 & OC-404	

The Safety Engineering Section's 2003 budget includes $1.16 million in contract costs.[58] PG&E's 2003 contract cost forecast of $2.25 million is not reasonable compared to historical and 2003 budgeted costs for the section.

PG&E's forecast includes an adjustment to increase costs by $1.250 million to reflect an expanded ergonomics program. PG&E does not have a written business plan for the expanded ergonomics program.[59] As of February 19, 2003, PG&E had only entered into contracts covering a small fraction of the 2003 forecasted contract costs.[60] Some of the ergonomics contracts were in place in 2001 and are reflected in the section's recorded 2001 and 2002 contract costs.

Two categories of contract cost account for over 80% of the ergonomics costs claimed by PG&E. The first category is "work well" computer software. PG&E forecasts $500,000 in 2003 for that software. The software allows employees to visit a web-site and perform their own ergonomic assessment. The contract for that software calls for PG&E to pay $22 per year for each employee enrolled during an open enrollment period.[61] PG&E's forecast of $500,000 equates to 22,727 employees. PG&E does not have 22,727 employees. As of March 17, 2002, there were no employees enrolled in the work well program.[62] The work well software addresses computer usage by office workers. Many of PG&E's employees are not office workers. PG&E's forecast for the work well program is inconsistent with the contract pricing terms and is not reasonable.

The second category of costs covers the purchase and modification of office equipment for all PG&E departments, including adjustable chairs that range in cost from $400 to $3,200 each.[63] PG&E estimates $360,000 to $552,000 for that category. PG&E included the office equipment costs in the Safety Engineering budget because the ergonomics program was in its formative stage when the A&G Study was prepared in 2000 and early 2001.[64] The cost of office equipment will actually be charged to the department's

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[58] OC-339

[59] OC-254

[60] OC-473

[61] OC-473

[62] OC-521

[63] OC-520

[64] OC-520

that use the equipment. The office equipment costs are not included in the Safety Engineering section 2003 budget.

Overland recommends removing the office equipment costs from PG&E's 2003 forecast for the Safety Engineering section for two reasons. First, some office equipment costs are capitalized as plant and PG&E has not demonstrated why the entire cost of the office equipment should be charged to expense. Second, the cost of the office equipment will actually be charged to the department's that use the equipment in 2003. A significant portion of the costs will be charged to non-A&G accounts. For example, office equipment purchased for customer service representatives will be charged to customer service accounts. PG&E uses a variety of methods to forecast its various expense accounts. Its forecasts for those accounts presumably reflect actual expected 2003 cost levels. Including costs in an Account 923 forecast for the Safety Engineering Section that will never actually be charged to Account 923 or the Safety Engineering section creates an unacceptable risk of double counting of costs in PG&E's forecasts.

Actual 2002 contract costs for the Safety Engineering Section provide a sound basis for forecasting 2003 costs. The work well contract is not reflected in actual 2002 costs. A high-end estimate of the number of employees who might use the work well software in 2003 is 5,000. The fee for 5,000 employees would be $110,000. Overland recommends a 2003 contract forecast for the Safety Engineering Section of $1,002,583. That forecast equals the 2002 actual costs plus $110,000 for the work well contract and $40,000 for additional ergonomics consulting. As previously noted, the Safety Engineering Section's 2003 budget includes $1.16 million in contract costs. Overland's 2003 contract forecast is reasonably close to the Section's 2003 budget and represents an 18% increase over actual 2002 costs.

The following table shows Overland's recommended forecast adjustment for contract costs.

SH&C Safety Engineering Section Contract Cost Forecast Adjustment	
Description	Amount
2002 Actual Costs	852,583
Additional Ergonomics Costs	150,000
2003 Contracts Forecast	1,002,583
Forecast Per PG&E	2,248,000
Forecast Adjustment	(1,245,417)
Source: PG&E WP 2-844 & OC-404	

Cost Allocation

PG&E allocated 100% of the Section's costs to the Utility Common Category. The program support group includes six safety engineering representatives that support other PG&E organizations. PG&E's total headcount would be reduced by approximately 30% in the absence of its ongoing construction program. Force reductions of that magnitude arguably would avoid the need for at least one FTE in the program support group. Overland did not allocate any of the Section's costs to construction because the total cost allocation to construction would be fairly small (approximately $110,000). Overland accepted PG&E's allocations for the Safety Engineering Section.

VP Environmental Affairs

PG&E's Environmental Affairs Department is responsible for compliance with environmental requirements for all of PG&E's operations. The Environmental Affairs Department has a staff of approximately 70. Most of the Department's costs are charged to M&O accounts and are excluded from the A&G Study. The VP Environmental Affairs A&G Study Department reflects the portion of the Environmental Affairs Department that is charged to A&G expense.

The VP Environmental Affairs A&G Study Department consists of the Vice President and executive secretary and the Environmental Policy and Quality Assurance Sections. The current headcount in the Department is shown below by section.

VP Environmental Affairs Current Headcount	
Description	FTE
VP Immediate Office	2.0
Environmental Policy	5.0
Quality Assurance	3.0
Total	10.0
Source: OC-504	

The Environmental Policy section monitors changes in environmental requirements, develops and implements environmental initiatives and acts as PG&E's environmental liaison with PG&E Corporation and NEG, regulatory agencies and external

environmental groups.[65] The Quality Assurance section conducts environmental compliance audits and maintains the environmental quality assurance database.

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials for 11 FTE and $200,650 in contract costs. PG&E's forecasted headcount is reasonably close to the current headcount of 10 FTE. Overland accepted PG&E's 2003 cost forecast for the VP Environmental Affairs PCC.

Cost Allocations

The following table shows PG&E's 2003 labor, material and contract cost allocation for the VP Environmental Affairs PCC.

VP Environmental Affairs PCC 2003 Labor Cost Allocation Per PG&E	
Category	Percent
Capital	1.30
M&O	0.60
Holding Company	5.00
Generation	10.60
Electric Transmission	9.40
Gas Transmission	5.70
Public Purpose Program	2.60
Electric Distribution	37.90
Gas Distribution	0.00
Utility Common	26.90
Total	100.00
Source: PG&E A&G Study WP 2-864	

PG&E's recommended allocations are estimates based on judgment.[66] The holding company allocation reflects guidance on environmental matters provided to PG&E Corporation by the Environmental Policy section.[67] Overland accepted PG&E's cost allocations for the VP Environmental Affairs Department.

[65] PG&E A&G Study WP 2-862

[66] OC-340

[67] OC-340 and OC-340

Affiliate Rules and Regulatory Compliance

The Affiliate Rules and Regulatory Compliance (ARRC) is responsible for promoting compliance with affiliate transactions rules, other regulatory requirements and PG&E's corporate ethics policy.[68] Activities in the affiliate rules compliance area include:

- Preparing affiliate transactions reports submitted to the CPUC;
- Overseeing the annual CPUC affiliate transaction audit and implementing audit recommendations;
- Reviewing PG&E corporate policies for consistency with CPUC requirements;
- Monitoring of affiliate rules compliance;
- Providing affiliate transaction rules advice and training to PG&E employees.

Activities in the corporate compliance and ethics area include:

- Participating in the preparation of Compliance Management Plans for PG&E organizations;
- Monitor compliance with the Compliance Management Plans and the implementation of plan recommendations;
- Provide compliance and ethics training to PG&E employees.

The compliance management plans cover compliance with a wide range of regulatory requirements. For example, the electric T&D maintenance compliance management plan addresses procedures to ensure compliance with CPUC General Orders 95 (design, construction, operation and maintenance of High Voltage Facilities), 128 (design, construction, operation and maintenance of underground facilities) and 165 (inspection and maintenance of high voltage facilities) and California Independent System Operator tariff requirements.[69]

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[68] PG&E A&G Study WP 2-884

[69] OC-341

The current headcount in the ARRC Department is 7 FTE.[70] PG&E estimates the ARRC Department works 51% of its time on general compliance and ethics activities and 49% of its time on affiliate transactions rules activities. [71] PG&E determined the 51 / 49 percent split using an employee specific analysis of the activities within the Department.[72] The following table shows PG&E's allocation by activity.

Affiliate Rules & Regulatory Compliance Activity Allocation Per PG&E		
	Activity	Percent
Affiliate Transactions		
	Affiliate Rules Excluding Rule 7	32
	Affiliate Rules Compliance - Rule 7	9
	Regulatory Filings	6
	Safety Allocation	2
	Total Affiliate Rules	49
General Compliance & Ethics		
	Business Ethics Training	31
	Compliance Risk Management	9
	Business Ethics Training Materials	9
	Safety Allocation	2
	Total General Compliance & Ethics	51
Source: OC-341		

Affiliate Rule 7 addresses non-tariffed new products and services offered directly by the utility.

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials for 7 FTE and $400,000 in contract costs.[73] The contract cost forecast consists of the cost of the CPUC mandated affiliate transactions audit. PG&E allocated 100% of the affiliate transactions contract audit to the below-the-line category. [74] Overland accepted PG&E's 2003 cost forecast for the ARRC Department.

[70] OC-372

[71] PG&E A&G Study WP 2-898

[72] OC-341

[73] PG&E A&G Study WP 2-885 and 2-888

[74] PG&E A&G Study WP 2-899

Cost Allocations

PG&E allocated 7% of the ARRC Department's labor and material costs to the below-the-line category and 93% to the Utility Common category. Upon reflection, PG&E now

believes that 100% of the Department's labor and material costs should be allocated to Utility Common.[75]

In the 1999 GRC Decision, the CPUC determined that the affiliate rules compliance activities of the ARRC Department should be allocated to the below-the-line category. Specifically, page 273 of D.00-02-046 states:

> PG&E has not demonstrated that utility ratepayers benefit from the profits earned by affiliates, or that ratepayers are in any other way the primary beneficiaries of its decisions to diversify into non-regulated activities. PG&E's establishment of a holding company which oversees affiliates that engage in non-regulated activities was largely, if not entirely, the consequence of management decisions that benefit shareholders. As TURN states, if PG&E had no affiliates, it would have no need of an affiliate compliance department. Moreover, ratepayers would have no exposure to the risks of non-regulated activities to be protected against in the first instance. Accordingly, the costs of affiliate rules compliance properly belong with the utility's affiliates. We therefore adopt ORA's recommendation to allocate compliance costs to the affiliates.

PG&E's affiliates were created to allow PG&E's shareholders to invest in non-regulated business ventures. PG&E's ratepayers do not benefit from PG&E Corporation's participation in non-regulated business ventures. The affiliate transactions rules compliance costs incurred in the ARRC Department are a direct consequence of activities that do not benefit ratepayers. Therefore, those costs should be allocated to the below-the-line category.

The non-tariffed product and services portion of the affiliate rules compliance activities arguably benefits ratepayers. The other affiliate transactions activities of the ARRC Department total 40% of the Department's hours. Therefore, 40% of the Department's costs should be charged to the below-the-line category.

[75] OC-341

Corporate Secretary

The PG&E Corporate Secretary PCC was created to capture costs incurred by the Holding Company Corporate Secretary Department that solely benefit PG&E. The costs charged to the PG&E Corporate Secretary PCC are primarily registration fees and transfer agent fees for PG&E bonds and preferred stock. [76]

Cost Forecast

PG&E's 2003 forecast for the PG&E Corporate Secretary PCC consists of $91,705 in materials costs and $343,400 in contract costs. PG&E's forecast does not include any

labor costs. The forecasted costs are consistent with actual 2001 costs. Overland accepted PG&E's 2003 forecast.

Cost Allocations

PG&E allocated 100% of the costs of the PG&E Corporate Secretary PCC to the utility common category. The costs incurred by the PCC are primarily costs associated with PG&E bonds and preferred stock. Those securities directly finance PG&E's rate base. Overland accepted PG&E's recommended allocation.

Records Center

PG&E's Record Center provides document storage services to PG&E and PG&E Corporation. The current headcount in the records center is 4 FTE.[77] The records are tracked by box. As of December 2000, 127,508 boxes were stored in the Records Center.[78]

[76] PG&E A&G Study WP 2-915

[77] OC-372

[78] OC-3-3, page 377

Cost Forecast

PG&E's 2003 cost forecast for the Records Center includes labor and materials for 4 FTE and a small amount of contract costs.[79] Approximately 30% of the costs incurred by the Records Center are facilities charges. Overland accepted PG&E's 2003 cost forecast.

Cost Allocation

PG&E allocated the Records Center's costs based on the December 2000 box count. Overland accepted PG&E's allocation.

[79] PG&E A&G Study WP 2-922 and 2-924

PACIFIC GAS & ELECTRIC
LAW DEPARTMENT ALLOCATION
2002 ACTUAL HOURS

CATEGORY	HOURS	BELOW THE LINE	CAPITAL	GENERATION	ELECTRIC TRANSMISSION	GAS TRANSMISSION	PUBLIC PURPOSE	ELECTRIC DISTRIBUTION	GAS DISTRIBUTION	UTILITY COMMON	TOTAL
BELOW THE LINE	1,117	1,117	0	0	0	0	0	0	0	0	1,117
CONSTRUCTION	3,562	0	3,562	0	0	0	0	0	0	0	3,562
CORPORATE GENERAL	11,909	0	0	0	0	0	0	0	0	11,909	11,909
DIABLO CANYON	3,826	0	0	3,826	0	0	0	0	0	0	3,826
DISTRIBUTION COMMON (55/45 SPLIT)	22,413	0	0	0	0	0	0	12,327	10,086	0	22,413
ELECTRIC DISTRIBUTION	4,461	0	0	0	0	0	0	4,461	0	0	4,461
ELECTRIC TRANSMISSION	10,418	0	0	0	10,418	0	0	0	0	0	10,418
GAS SUPPLY	2,190	0	0	0	0	0	0	0	2,190	0	2,190
GENERATION	230	0	0	230	0	0	0	0	0	0	230
GENERAL RATE CASE (M&O LABOR)	8,472	0	0	2,141	0	0	0	4,027	2,304	0	8,472
GAS TRANSMISSION	5,029	0	0	0	0	5,029	0	0	0	0	5,029
HOLDING COMPANY	33	33	0	0	0	0	0	0	0	0	33
HUMAN RESOURCES - CORP	2,546	0	820	0	0	0	0	0	0	1,726	2,546
HUMAN RESOURCES - DIST.	921	0	297	0	0	0	0	343	281	0	921
HAZARDOUS WASTE MECHANISM	819	0	0	0	0	0	0	0	0	819	819
HYRDO	2,200	0	0	2,200	0	0	0	0	0	0	2,200
PUBLIC PURPOSE PROGRAMS	1,939	0	0	0	0	0	1,939	0	0	0	1,939
QUALIFIED FACILITIES	2,993	0	0	0	0	0	0	2,993	0	0	2,993
ELECTRIC SUPPLY	6,376	0	0	0	0	0	0	6,376	0	0	6,376
POR INCREMENTAL	8,387	8,387	0	0	0	0	0	0	0	0	8,387
TOTAL	99,841	9,537	4,679	8,397	10,418	5,029	1,939	30,527	14,861	14,454	99,841
PERCENT		9.55	4.69	8.41	10.43	5.04	1.94	30.58	14.88	14.48	100.00

TIE-OUT TO OC-522	
TOTAL ABOVE	99,841
POR INCREMENTAL	(8,387)
POR	35,681
ADMIN	7,844
DIVESTED PLANTS	805
TOTAL PER OC-522	135,784

CALCULATION OF POR INCREMENTAL	
TOTAL BEFORE POR INCREMENTAL	91,454
FACTOR (1-.084)	0.9160
TOTAL WITH POR INCREMENTAL	99,841
POR INCREMENTAL	8,387

Public Version

PACIFIC GAS & ELECTRIC
WORKERS COMPENSATION SECTION
OPEN CLAIMS AS OF DECEMBER 31, 2002

COST CENTER	TOTAL CLAIMS	CAPITAL	CAPITAL	COMMON	DISTRIBUTION	GENERATION	ETRANS	GTRANS	TOTAL
BUILDING & LAND SERVICES	59	0.44	26	33	0	0	0	0	59
CALIFORNIA GAS TRANSMISSION	114	0.25	29	0	0	0	0	86	114
CHIEF FINANICAL OFFICER	4	0.00	0	4	0	0	0	0	4
COMPUTER AND TELECOM SVCS	115	0.27	31	84	0	0	0	0	115
CONTROLLER	30	0.10	3	27	0	0	0	0	30
CORPORATE SERVICES	47	0.00	0	47	0	0	0	0	47
DIABLO CANYON	210	0.04	8	0	0	202	0	0	210
DISTRIBUTION / COMBINED T&D	2,846	0.62	1,765	0	919	0	162	0	2,846
DIVESTED STEAM PLANTS	200	0.00	0	200	0	0	0	0	200
ELECTRIC TRANSMISSION	225	0.62	140	0	0	0	86	0	225
FLEET	240	0.44	106	134	0	0	0	0	240
GAS & ELECTRIC SUPPLY	5	0.00	0	0	5	0	0	0	5
GENERAL COUNSEL	45	0.00	0	45	0	0	0	0	45
GENERAL SERVICES	6	0.44	3	3	0	0	0	0	6
GOVERNMENTAL & PUBLIC RELATIONS	8	0.00	0	8	0	0	0	0	8
HUMAN RESOURCES	41	0.20	8	33	0	0	0	0	41
HUMBOLT BAY	14	0.15	2	0	0	12	0	0	14
HUNTERS PT PP	16	0.15	2	0	0	14	0	0	16
HYDRO GEN	133	0.15	20	0	0	113	0	0	133
MATERIALS OPERATIONS	165	0.44	73	92	0	0	0	0	165
OTHER	45	0.00	0	45	0	0	0	0	45
POWER GENERATION	80	0.15	12	0	0	68	0	0	80
PUBLIC AFFAIRS	3	0.00	0	3	0	0	0	0	3
PURCHASING	26	0.44	11	15	0	0	0	0	26
RESEARCH & DEVELOPMENT	3	0.00	0	3	0	0	0	0	3
TECHNICAL & ECOLOGICAL SVC	31	0.44	14	17	0	0	0	0	31
UO CUSTOMER SERVICE	1,324	0.00	0	0	1,324	0	0	0	1,324
UO SUPPORT	61	0.00	0	61	0	0	0	0	61
TOTAL	6,096	36.93	2,252	855	2,248	408	248	86	6,096
PERCENT			36.93	14.02	36.88	6.70	4.06	1.40	100.00

ALLOCATION OF DISTRIBUTION COMMON	
ELECTRIC (55%)	20.28
GAS (45%)	16.60
TOTAL	36.88

NOTE: DISTRIBUTION / COMBINED T&D SPLIT 85% DISTRIBUTION AND 15% ELECTRIC TRANSMISSION

SOURCE FOR CAPITAL FACTORS IS OC-389

Public Version

PACIFIC GAS & ELECTRIC
THIRD PARTY CLAIMS BY DEPARTMENT
YEAR 2002

(CONFIDENTIAL)

REDACTED

Chapter 7
Holding Company CEO and General Counsel

This Chapter addresses the following holding company departments:

- Board of Directors
- Chairman, CEO & President
- VP and Assistant to the Chairman
- Corporate Secretary
- General Counsel
- Law Department
- Internal Audit
- Legal Compliance and Business Ethics
- Risk Initiatives
- Risk Management

Summary of Issues

The following table summarizes the issued developed in this Chapter at a total utility A&G expense level by department.

Chapter 7 - Holding Company CEO and General Counsel Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Chairman, CEO & President	0	(1,964,904)	(993,070)	(2,957,974)
VP & Assistant to the Chairman	0	(269,333)	(302)	(269,635)
Corporate Secretary	0	(937,128)	(1,129,534)	(2,066,662)
General Counsel	0	(726,952)	0	(726,952)
Law Department	0	(1,911,331)	(2,122,618)	(4,033,949)
Internal Audit	(730,997)	(929,171)	(123,799)	(1,783,967)
Legal Compliance & Bus. Ethics	0	(355,740)	(102,497)	(458,237)
Risk Initiatives	0	(104,785)	0	(104,785)
Risk Management	0	(237,366)	0	(237,366)
Total	(730,997)	(7,436,710)	(4,471,820)	(12,639,527)

The issues are described below by department.

1. **Board of Directors.** Allocated 55% of the costs of the PG&E Corporation/PG&E Board of Directors to affiliates.

2. **Chairman, CEO & President.** Reduced contract costs by $875,000 to eliminate unsupported costs included in PG&E's forecast. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs caused by holding company formation.

3. **VP and Assistant to the Chairman.** Reduced utility allocation by 42.64% to reflect an activity-based analysis of the Department.

4. **Corporate Secretary.** Reduced utility allocation by 35.6% to reflect the holding company policies adopted in PG&E's 1999 GRC Decision. Reduced utility contract cost allocation by $1.1 million.

5. **General Counsel.** Allocated 100% of the Department's costs to affiliates to eliminate incremental costs caused by holding company formation.

6. **Law Department.** Reduced costs by $2.6 million (before allocations) to eliminate unsupported contract costs and incremental bankruptcy costs. Reduced utility labor allocation by 55.98% to reflect the holding company policies adopted in the 1999 GRC Decision.

7. **Internal Audit.** Reduced costs by $1.0 million (before allocations) to reflect 2003 expected staffing levels. Reduced utility labor cost allocation by 13.09% based on the Department's 2001 and 2002 Annual Reports on Internal Auditing.

8. **Legal Compliance and Business Ethics.** Reduced utility allocation by 41.7% to reflect the CPUC's holding company cost policies.

9. **Risk Initiatives.** Reduced utility allocation by 25% to eliminate bankruptcy costs and to reflect the Department's activities.

10. **Risk Management.** Reduced utility allocation by 17.1% to eliminate incremental costs attributable to holding company formation and participation in non-regulated business activities.

PG&E Corporation Board of Directors

PG&E's A&G Study does not include PG&E Corporation's Board of Directors. However, the following A&G Study Departments spend significant time on Board matters.

- Chairman, CEO & President
- VP and Assistant to the Chairman
- Corporate Secretary

Overland analyzed the activities of the PG&E Corporation Board to provide input into the allocation of those Departments. Overland reviewed the minutes and presentation materials for the PG&E Corporation Board and the Board's Audit and Finance Committees for the period January 2001 through September 2002.[1] Overland also reviewed the PG&E Corporation Board minutes for 2000.

The minutes and presentation materials demonstrate that the Board and Committees focus on large transactions and corporate governance matters, including executive compensation and financial reporting. The transactions reviewed by the Board and Finance Committee are largely PG&E National Energy Group (NEG) transactions dealing with acquisitions, power plant development, lease transactions, power trading guarantees, financial restructuring and asset sales. The Board spent a significant amount of time in 2002 reviewing options for addressing NEG's financial crises. Approximately 80% of the transactions reviewed by the Board during the period 2000 through September 2002 were NEG transactions.

The relatively small number of utility transactions reviewed by the Board involved the bankruptcy filing and POR, electric transmission construction projects and information system installation projects.

Overland identified 95 matters discussed in the PG&E Corporation Board of Directors minutes for 2000, 2001 and the first nine months of 2002 that could be identified with a specific subsidiary. Of that total, only 37 were utility matters. Thus, of the matters that could be specifically assigned, only approximately 40% were utility matters. Many of those utility matters were updates on the utility's financial crises. In addition, Overland identified 5 entries where the board addressed political and corporate contribution matters and political opposition to municipalization efforts.

[1] OC-117 and OC-229

The Board also reviews financial results and forecasts. The documents provided to the Board concerning financial results and forecasts provide the same level of detail for PG&E and NEG, implying equal weight is given to both companies. In addition, the requirement to allocate resources between PG&E and NEG and to coordinate PG&E and NEG strategic and financial plans is caused by participation in unregulated business ventures. The cost of those activities should not be charged to PG&E.

The Board also addresses executive compensation matters, including stock options, incentive pay and supplemental retirement programs. As noted in the discussion of the holding company Human Resources Department, only 30% of the officers within PG&E Corporation, NEG and PG&E are utility officers. The holding company Human Resources Department oversees compensation for 462 officers and "highly compensated non-officers" who may be eligible for plans such as the stock option plan and supplemental retirement plan. Of that total group, 40% are utility officers or employees and 47% are NEG officers or employees.[2]

The evidence reviewed by Overland indicates NEG should be allocated a larger share of the costs of PG&E Corporation's Board than PG&E. Based on the evidence, the maximum allocation to PG&E ranges from 40% to 50%. Overland recommends an allocation equal to the mid-point of that range or 45%.

Chairman, CEO and President

PG&E Corporation's CEO oversees the activities of PG&E Corporation and its two primary subsidiaries, PG&E and NEG. The holding company CEO also serves as Chairman of the PG&E Corporation and PG&E Boards of Directors.[3] The holding company CEO A&G Study Department consists of the CEO, an executive secretary and an executive assistant. The current headcount in the Department is 3 FTE.

Cost Forecast

PG&E's 2003 cost forecast for the Study Department is shown below.

[2] OC-233

[3] PG&E A&G Study WP 7-1

Holding Company CEO 2003 Cost Forecast Per PG&E	
Description	Amount
Labor, benefits and payroll tax	1,540,572
Materials	1,031,628
Contracts	1,300,000
Total	3,872,200
Source: PG&E A&G Study WP 7-2	

PG&E's labor cost forecast is consistent with actual 2001 and 2002 costs.[4] Overland accepted PG&E's labor cost forecast. PG&E's materials cost forecast reflects 2001 recorded costs less $146,613 to reflect lower expected employee expenses. [5]

The Department's recorded 2001 materials costs are shown below.

Holding Company CEO 2001 Materials Costs	
Description	Amount
Purchasing Card	20,723
Association Dues	83,000
Travel and Meals	96,813
Advertising	10,000
Charter Aircraft	218,489
Vehicle Expense	272,894
Facilities Charges	348,128
Computer Support	72,000
Other	54,797
Total	1,176,844
Source: OC-3-3, pages 590 and 592 and OC-278	

The vehicle expense reflects charges from PG&E for the car and driver assigned to the CEO. The travel, meals, and charter aircraft costs total $315,222. That level of costs implies the CEO makes frequent trips to NEG's headquarters in Bethesda, Maryland. The facilities charges are based on the approximately 977 square feet occupied by the CEO, executive secretary and executive assistant, plus an allocation of common areas.[6] The facilities charges average $356 a year for each of the 977 square feet occupied by

[4] OC-371 and PG&E A&G Study WP 7-2

[5] PG&E A&G Study WP 7-9

[6] OC-278

the Department. PG&E Corporation's facilities charges are addressed separately in Chapter 9. Overland accepted PG&E's 2003 forecast for materials costs.

PG&E's forecast of 2003 contract costs consists of $102,171 in "miscellaneous business contracts" and $1,197,629 in "general consulting." The miscellaneous business contracts forecast of $102,171 reflects the total recorded contract costs for the Department in 2001.[7] The Department's recorded contract costs were $125,699 in 2002.[8]

PG&E provided the following explanation for the $1.2 million increase in contract costs included in its 2003 forecast for general consulting:

> ...it is assumed the Chief Executive Officer will resume consulting engagements similar to those incurred in years prior to the California Energy Crises. These contracts will include strategic planning, management consulting and general consulting....

PG&E's 2003 contract forecast significantly exceeds the actual costs incurred in 2001 and 2002. PG&E 2003 contract forecast is unsupported. Overland recommends a 2003 contract forecast of $425,000 for the CEO PCC. That forecast reflects actual 2002 contract costs plus an additional provision of $300,000 for general consulting. The $300,000 provision is generous since PG&E has not demonstrated any need for additional "general consulting." Overland's proposed forecast adjustment for contract costs is shown below.

Holding Company CEO 2003 Forecast Adjustment For Contract Costs	
Description	Amount
Overland Forecast	425,000
PG&E Forecast	1,300,000
Forecast Cost Decrease	(875,000)
Source: PG&E A&G Study WP 7-2	

[7] PG&E A&G Study WP 7-2 and OC-3-3, page 591

[8] OC-371 and OC-277

Cost Allocations

PG&E assigned 100% of the costs of the holding company CEO Study Department to the holding company common category. PG&E allocated 76.39 % of the costs to PG&E using the "multi-factor" allocation factor.

The CEO does not track his time by activity.[9] PG&E proposes to allocate the CEO's costs using a broad "multi-factor" allocation factor. PG&E has not presented any analysis of the actual activities of the CEO or any evidence demonstrating that the multi-factor allocator provides an appropriate basis for allocating the CEO's costs. Ratepayers should not be placed at risk of overcharging because the holding company is not willing to track specific activities benefitting the utility. Therefore, PG&E's use of the multi-factor allocation factor for the holding company CEO should be rejected.

The holding company CEO is responsible for supervising and coordinating the activities of the holding company's subsidiaries and providing executive management of the holding company. The CEO is responsible for allocating resources between PG&E and NEG and for coordinating the strategic and financial plans of PG&E and NEG. Those requirements are incremental requirements caused by management's decision to participate in non-regulated business activities and should not be charge to PG&E.

PG&E has its own President. PG&E's president is capable of providing the executive management and direction needed for utility operations. PG&E does not need to purchase any executive management services from the holding company CEO. Holding company charges should be limited to services that the utility actually needs. The holding company CEO's costs do not benefit the utility. Instead, the holding company CEO's costs reflect the redundant layer of management required by the holding company organizational form. Overland recommends that none of the holding company CEO's costs be allocated to the utility.

PG&E allocated 45.7% of the costs of the holding company CEO to PG&E in the 1999 GRC and the CPUC adopted that allocation. The 1999 GRC Decision states:[10]

> As the senior executive official of the corporate enterprise, the holding company CEO uniquely provides overall vision and leadership through active involvement in the operation of subsidiaries. Our general concern regarding duplication of

[9] OC-280

[10] D.00-02-046, page 278

> senior management functions in the parent company and in the subsidiary is not manifested here. We are persuaded that this PCC represents a tangible benefit to subsidiaries including PG&E. PG&E's allocation of 45.68% of the costs of this PCC is therefore reasonable and will be adopted.

The basic premise that the holding company provides a tangible benefit to PG&E needs to be re-evaluated in light of events that have occurred since the 1999 GRC decision.

Overland's primary recommendation is that none of the CEO's costs should be allocated to PG&E. The CEO is the chairman of PG&E Corporation's Board of Directors. Overland allocated 45% of the Board's costs to PG&E. If Overland's primary recommendation is not adopted, no more than 45% of the CEO's costs should be allocated to PG&E. That 45% maximum allocation reflects the activities of the PG&E Corporation Board and is consistent with the allocation proposed by PG&E and adopted by the CPUC in the 1999 GRC.

VP and Assistant to the Chairman

The Vice President and Assistant to the Chairman provides assistance to the holding company CEO on special projects with an emphasis on matters involving the Board of Directors. [11] The Vice President also supervises the holding company Corporate Secretary Department. The PCC consists of the Vice President and an administrative assistant.

During 2002, the VP and Assistant to the Chairman worked on the following matters:[12]

- Monitoring and tracking the requirements of the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act required executives to certify the accuracy of financial statements filed with the SEC.

- Following corporate governance trends applying to publically traded corporations.

- Reviewing and approving all materials related to the PG&E Corporation annual shareholders meeting.

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[11] PG&E A&G Study WP, page 7-230

[12] OC-288

Providing support to the CEO on bankruptcy matters.

Preparing and/or reviewing internal and external communications made by the CEO.

Overseeing all matters required for the effective functioning of the Board of Directors and corporate governance.

Cost Forecast

PG&E's 2003 cost forecast consists of labor and material costs for 2 FTE and $41,554 of contract costs. The contract costs are almost entirely contributions. Overland accepted PG&E's 2003 cost forecast for the VP and Assistant to the Chairman PCC.

Cost Allocations

PG&E allocated 100% of the Study Department's labor and materials cost to the holding company common category. PG&E allocated 76.39% of those costs to PG&E using the multi-factor allocation factor.[13] PG&E allocated 99% of the contract costs to the below the line category.[14] Overland accepted PG&E's allocation of contract costs.

PG&E's proposed 76.39% utility allocation is excessive. PG&E's A&G study divides the PCC labor costs into the following three activities. The following table shows Overland's recommended allocation by activity.

VP and Assistant to the Chairman 2003 Labor Allocation Per Overland			
Activity	Total	Utility Factor	Utility
Corporate Governance / Board	50.00	0.45	22.50
Misc. Organizational Matters	25.00	0.45	11.25
Special Projects for CEO	25.00	0.00	0.00
Total	100.00		33.75
Source: PG&E A&G Study WP 7-243			

The utility factor for the corporate governance and miscellaneous organizational matters activities reflects Overland's analysis of the PG&E Corporation Board. A portion of the corporate governance and organization matters are attributable to the duplicate

[13] PG&E Exhibit 6, WP pages 6-347 and 6-348

[14] PG&E A&G Study WP, page 7-244

management and corporate structure resulting from the formation of a holding company. Therefore, 45% is a generous estimate of the portion of those activities that are properly charged to PG&E under the CPUC's holding company policies. Overland did not allocate any of the CEO special projects activity to the utility because Overland did not allocate any of the CEO's costs to PG&E.

Corporate Secretary

The Corporate Secretary Department is responsible for corporate governance and Board of Directors matters. Overland interviewed PG&E Corporation's VP and Corporate Secretary. The key activities of the Corporate Secretary Department include:[15]

- Corporate legal compliance
- Board of Director support
- Shareholder services and transfer agent functions
- Annual proxy statements and shareholders meeting
- Corporate governance advice and counsel
- Corporate document files
- Subsidiary information database
- Office management for PG&E Corporation headquarters
- Support services for retired utility executives

The headcount of the Corporate Secretary Department was 16.4 FTE as of December 31, 2002.[16] The following table shows the headcount by group.

Corporate Secretary Department Current Headcount by Group	
Description	FTE
Corporate Secretary	5.0
Operations Director	1.0
Shareholder Services	3.0
Administrative Support	5.0
One Market Office Manager and Receptionists	2.4
Total	16.4
Source: Cheng interview	

[15] Cheng interview

[16] OC-372

The Corporate Secretary group includes the Corporate Secretary, an executive secretary, two assistant corporate secretaries and an analyst. The assistant corporate secretaries directly support the operations of the Board of Directors and work on compliance and corporate governance matters.[17] The Corporate Secretary and assistant corporate secretaries worked extensively on POR and bankruptcy matters in 2002, including setting up the new corporate entities required by the POR and participation in the creditor solicitation process for POR approval. [18]

The analyst provides Board support and maintains a data base containing corporate governance information on PG&E Corporation's direct and indirect subsidiaries. PG&E Corporation has approximately 300 direct and indirect subsidiaries, mostly in NEG.[19] The One Market Office Manager and receptionists support PG&E Corporation's entire headquarters operation.

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 17.4 FTE and $2.7 million in contract costs. The current headcount in the Department is 16.4 FTE. PG&E's forecasted headcount is reasonably close to the current headcount. Overland accepted PG&E's 2003 forecast for labor costs. Most of the materials costs are facilities and computer charges. PG&E Corporation facilities and computer charges are addressed separately in Chapter 9. Overland accepted PG&E's 2003 forecast of materials costs.

The following table shows PG&E's forecast of contract costs by type.

Corporate Secretary Department 2003 Contract Costs Per PG&E	
Description	Amount
Annual Shareholders Meeting	193,532
Stock Exchange Listing Fees	321,969
Other Miscellaneous	14,332
Proxy Statement	100,210
Shareholder Services	2,055,948
Subsidiary services and data base	45,607
Total	2,731,598
Source: PG&E A&G Study WP pages 7-270 and 7-259 and OC-3-3, page 595	

[17] Cheng interview

[18] Cheng interview

[19] OC- 229

The shareholder services contract costs consist of registrar and transfer agent fees for PG&E Corporation debt and common stock.[20] The registrar and transfer agent fees for utility debt and utility preferred stock are charged to the utility Corporate Secretary PCC. PG&E's 2003 forecast of contract costs is reasonably consistent with 2001 recorded costs. Overland accepted PG&E's contract cost forecast.

Cost Allocations

The following table shows PG&E's allocation of 2003 labor and materials costs.

Corporate Secretary Department 2003 Labor Allocation Per PG&E	
Description	Percent
Holding Company Common	89.53
Non-Utility Subsidiaries	4.54
Utility Common	5.93
Total	100.00
Source: PG&E A&G Study WP page 7-250	

PG&E assigned 100% of the Department's contract costs to the holding company common category. PG&E allocated 76.39% percent of the holding company common labor, materials and contract costs to PG&E using the multi-factor allocation factor. In total, PG&E allocated 74.32% of the Department's costs to the utility.

The labor allocation to the non-utility subsidiary category reflects time spent on compliance activities and the subsidiary database. The labor allocation to the utility common category reflects time spent on maintaining document files and ensuring compliance with debt agreements, regulatory requirements and corporate governance requirements.[21]

The multi-factor allocation factor reflects employees, assets and non-fuel operating expenses. The multi-factor allocator is not appropriate for the Corporate Secretary Department. The main functions of the Corporate Secretary Department are Board support and shareholder services. Only approximately 45% of the activities of PG&E Corporation's Board are attributable to PG&E. Shareholder services activities are not a function of employee levels or operating expenses.

[20] Cheng interview

[21] PG&E A&G Study WP pages 7-266 and 7-267

The current holding company Corporate Secretary Department was organized as two departments in 1999, the holding company Corporate Secretary Department and the utility Shareholder Services Department. The CPUC addressed cost allocations for both of those departments in the 1999 GRC decision. The 1999 GRC decision contains the following discussion of shareholder services.[22]

> PG&E proposes to allocate shareholder services costs between the non-utility affiliates and PG&E on the basis of their relative equity amounts. As shown in its opening brief, PG&E allocates 28% of the shareholders services expenses to affiliates.
>
> ORA proposes to allocate 84% of shareholder services to affiliates. ORA's position is explained as follows. PG&E has created a holding company structure in which the holding company is the utility's only shareholder. The primary function of PG&E's shareholders services department is serving as transfer agent for PG&E Corporation's common stock. It also serves as transfer agent for PG&E's bonds and preferred stock. Approximately 84% of the accounts handled by the department are PG&E Corporation common stock accounts. The 84% allocation is thus based on the services the department provides to PG&E Corporation. ORA goes on to note that the formation of a holding company has two consequences for the utility. First, the utility's ability to directly access the common equity market is eliminated. This reduces the utility's financial flexibility, and could potentially harm its ability to issue new securities on reasonable terms. Second, the need for the utility to maintain shareholder services and investor relations functions is reduced to those required for the utility's preferred stock and debt. ORA finds it fundamentally unfair to require the utility and its ratepayers to bear the adverse consequences created by having only one common shareholder while simultaneously depriving the utility and its shareholder of the relatively small and offsetting benefit produced by having only one common shareholder.
>
> ORA's argument that PG&E has only one shareholder ignores the financial benefits of equity financing which are secured for the utility by the holding company. However, as ORA properly notes, the benefits are diminished by the utility's lack of direct access to equity markets. PG&E's analysis ignores the fact that this could potentially impair the utility's access to new securities on reasonable terms, as ORA's testimony indicates. Faced with flawed recommendations by PG&E and ORA, we find it is reasonable to adopt a middle ground as more reflective of the value of services provided by this department. As a matter of judgment, we will therefore adopt the midpoint between PG&E's recommendation of 28% [allocation to affiliates] and ORA's recommendation of an 84% allocation. Accordingly, we adopt an allocation factor of 56%, and find it is reasonable to use this for allocating shareholder expenses to the holding company.

[22] D.00-02-046, page 269

PG&E and PG&E Corporation were financially healthy in 1999. PG&E's financial crises and the unwillingness of PG&E Corporation to infuse equity capital into PG&E have demonstrated the loss of financial flexibility resulting from the holding company structure. Therefore, the argument for limiting shareholder services costs charged to the utility is more compelling today than it was in 1999.

The CPUC allocated 56% of the Shareholder Services Department's costs to affiliates in the 1999 GRC Decision. Thus, the utility allocation was 44%. The utility allocation included 16% for utility debt and preferred stock transfer agent services. The remaining 28% reflected common stock shareholder services. In 1999, common stock services represented 84% of the Shareholder Services Department's costs.[23] Thus, the 1999 GRC decision effectively allocated 33.33% of the common stock shareholder services function to the utility.[24]

The CPUC allocated 14.25% of the old holding company Corporate Secretary Department to PG&E in the 1999 GRC.[25] The CPUC cited three reasons for that allocation: (1) the loss of financial flexibility for the utility resulting from holding company formation; (2) generation divestiture costs incurred by the Department in 1999; and (3) the CPUC's general concern regarding the potential duplication of the efforts of senior officers of the utility and the parent holding company. [26] The concern about divestiture costs is not a factor in 2003. However, the Department will undertake significant POR related activities in 2003 and that factor was not present in 1999.

The Corporate Secretary Department is responsible for PG&E Corporation's annual shareholders meeting. In the 1999 GRC, the CPUC allocated 32.5% of the costs of the annual shareholders meeting to PG&E.[27]

PG&E's A&G Study workpapers contain a detailed breakdown of the Corporate Secretary Department's time by activity. The following table shows PG&E's activity breakdown and Overland's recommended allocation to PG&E for each activity.

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[23] 100 percent less 16% on utility bonds and preferred stock.

[24] 28 percent divided by 84 percent equals 33.33 percent.

[25] D.00-02-046, page 282

[26] D.00-02-046, page 282

[27] D.00-02-046, page 327

Corporate Secretary Department 2003 Labor Allocation Per Overland			
	Activity	Percent	Weighted
Description	Per PG&E	Utility	Percent
Administrative and Budget	33.25	0.392	13.03
Board of Directors Support	17.38	0.450	7.82
Compliance - Non-utility Subsidiaries	1.44	0.000	0.00
Support - Non-utility Subsidiaries	3.11	0.000	0.00
Compliance - Holding Company	6.10	0.325	1.98
Compliance - Utility	3.34	1.000	3.34
Document Files - Utility	2.59	1.000	2.59
Document Files - Holding Company	0.57	0.450	0.26
Annual Shareholders Meeting	2.71	0.325	0.88
Annual Proxy Statement	2.53	0.325	0.82
Manage Records Center	0.58	0.968	0.56
Common Stock Shareholder Services	18.11	0.333	6.03
One Market Facility Management	5.18	0.000	0.00
Senior Management Support	3.11	0.450	1.40
Total	100.00		38.72
Source: PG&E A&G Study WP page 7-265			

The Board of Directors allocation reflects Overland's analysis of the Board's activities. The Holding Company Compliance, Annual Shareholders Meeting and Annual Proxy Statement allocations reflect the allocation of annual shareholders meeting costs adopted in the 1999 GRC Decision.

The common stock shareholder services allocation reflects the allocation adopted in the 1999 GRC Decision. The allocation also reflects an equal allocation of common stock shareholder services costs between PG&E, NEG and PG&E Corporation.

PG&E Corporation's One Market facility is a duplicate headquarters required by the creation of the holding company. Some departments, such as the Tax Department, located at One Market provide services to the utility. If those departments were located in PG&E's 77 Beale general office complex, they would be served by PG&E's existing office management organization. The One Market facility management function in the Corporate Secretary's Department is a redundant function that is a direct consequence of management's decision to participate in non-regulated business activities. Therefore, none of the costs of that function should be charged to ratepayers.

The Corporate Secretary Department will work extensively on POR matters in 2003. Overland recommendation to allocate 39% of the Department's costs to above-the-line

utility categories is generous given the Department's significant involvement in POR matters.

The following table shows Overland's recommended contract cost allocation.

Corporate Secretary Department 2003 Contract Cost Allocation Per Overland			
	Total	Percent	Utility
Description	Cost	Utility	Cost
Annual Shareholders Meeting	193,532	0.325	62,898
Stock Exchange Listing Fees	321,969	0.333	107,216
Other Miscellaneous	14,332	0.392	5,618
Proxy Statement	100,210	0.325	32,568
Shareholder Services	2,055,948	0.333	684,631
Subsidiary Services and Data Base	45,607	0.000	0
Total	2,731,598		892,931
Source: PG&E A&G Study WP page 7-271			

PG&E allocated contract costs of $2.087 million to PG&E.[28] Overland's contract allocation represents a reduction in charges to the utility of $1.2 million.

SVP and General Counsel

The holding company SVP General Counsel is the chief legal officer of PG&E Corporation. The holding company's Law Department, Internal Audit Department and Legal Compliance and Business Ethics Departments report to the SVP General Counsel.[29]

The SVP General Counsel provides legal advice and services to PG&E Corporation executives and the Board of Directors. The SVP General Counsel also provides leadership and guidance to the NEG and PG&E General Counsels.[30]

[28] Total of $2.732 million times 76.39% multi-factor allocation factor

[29] PG&E A&G Study WP 7-19

[30] PG&E A&G Study WP 7-19

The holding company SVP General Counsel Study Department consists of the General Counsel and an executive assistant. [31]

Cost Forecast

PG&E's 2003 cost forecast consists of labor and material costs for 2 FTE. Overland accepted PG&E's 2003 forecast for the holding company SVP General Counsel.

Cost Allocations

PG&E allocated 76.39% of the Study Department's costs to PG&E using the multi-factor allocation factor.[32] Overland recommends allocating zero percent of the Department's costs to PG&E.

PG&E has its own SVP General Counsel and a Deputy General Counsel.[33] PG&E does not need three General Counsels. The holding company SVP General Counsel is responsible for coordinating the legal positions of NEG, PG&E and PG&E Corporation. That coordination function would not be required if PG&E did not have any affiliates. The coordination function is a direct result of the decision to form a holding company and participate in non-regulated business activities. Therefore, those costs should not be charged to ratepayers.

The CPUC rejected PG&E's request to allocate part of the holding company SVP General Counsel's cost to PG&E in the 1999 GRC Decision. The 1999 GRC Decision states: [34]

> ....PG&E allocates 72.72% of the labor cost of the holding company's senior vice president and general counsel to the utility. ORA allocates 0%....
>
> ...PG&E has not demonstrated that its own law department needs to purchase legal oversight services from PG&E Corporation, nor has it demonstrated how the oversight services benefit PG&E. The coordination function performed by the holding company's general counsel is clearly an incremental requirement creased by the shareholder's desire to participate in non-regulated businesses. It

[31] OC-3, PG&E interview notes, page 56

[32] PG&E A&G Study WP 7-21 and PG&E Exhibit 6, WP 6-347

[33] PG&E A&G Study WP for PG&E SVP and General Counsel, page 2-777

[34] D.00-02-046, page 279

should not be charged to ratepayers. Accordingly, we accept and adopt ORA's recommendation as reasonable.

The holding company SVP General Counsel does not track time by activity.[35] PG&E did not provide any breakout of the activities of the General Counsel in its A&G Study.[36] Bankruptcy and POR activities account for a significant portion of the hours of PG&E's Law Department in 2001 and 2002. Therefore, any services provided to PG&E by the holding company General Counsel in 2001 and 2002 may represent incremental outside services costs incurred because internal PG&E legal resources were devoted to the bankruptcy and POR. PG&E has failed to demonstrate that the activities of the holding company SVP General Counsel benefit PG&E.

Law Department

The holding company Law Department provides legal services to PG&E Corporation. The primary areas addressed by the holding company Law Department are: [37]

- Federal tax
- SEC disclosure and compliance
- Securities litigation (shareholder suits)
- Intellectual property
- Corporate finance
- Price risk management
- Employee benefits and executive compensation
- Political advocacy and regulatory
- Asset acquisition and disposition

The holding company provides services to PG&E in the areas of tax, SEC reporting, finance, insurance, employee benefits and corporate governance.[38] The Department worked extensively on bankruptcy and POR related matters in 2002.[39] In addition, the

[35] OC-279

[36] PG&E A&G Study WP 7-31

[37] PG&E A&G Study WP 7-36 and OC-368, page 681

[38] OC-368, page 680

[39] OC-281, OC-282, and OC-285

Department worked on matters pertaining to the CPUC's holding company OII and affiliate transactions audit.

The headcount in the holding company Law Department was 15.4 FTE as of December 2002.[40] The Department staffing includes 10 attorneys, 5 legal assistants and an office manager.[41]

Cost Forecast

PG&E's 2003 cost forecast for the holding company Law Department includes labor and materials for 16 FTE and $2.9 million in contract costs.[42] PG&E's forecast FTE is reasonably close to the current headcount of 15.4 FTE. Overland accepted PG&E's forecast of labor and material costs.

PG&E's 2003 contract forecast consists of 2001 recorded costs plus $56,819 for additional employee expenses and travel costs due to the POR and California energy crises.[43] The following table shows PG&E's 2003 contract forecast by contract.

Holding Company Law Department 2003 Contract Forecast Per PG&E	
Description	Amount
Hanson, Bridgett, Marcus	154,653
Jury Research Institute	152,940
Orrick, Herrington & Sutcliffe	2,162,328
Weil, Gotshal & Manges	219,811
Other 2001 recorded items under $70,000	175,319
Forecast Adjustment for POR and CEC	56,819
Total	2,921,870
Source: OC-3-3, page 647 and OC-284	

[40] OC-372

[41] PG&E A&G Study WP 7-60

[42] PG&E A&G Study WP 7-37

[43] PG&E A&G Study WP 7-47

Hanson, Bridgett, Marcus provided general intellectual property and internet compliance advice in 2001. Their services also included drafting PGT Northwest's retiree benefits plans. PGT Northwest is an NEG subsidiary. [44]

Jury Research Institute provided research regarding a jury matter. OC-284 asked PG&E to identify the specific legal matter that contract related to, but PG&E did not identify the legal matter in its response.[45] PG&E has not provided any support for the Jury Research Institute charges. Accordingly, the Jury Research Institute costs should be excluded from the contract forecast.

OC-284 asked PG&E to: (1) describe the services provided by Orrick & Harrington; (2) provide a breakdown of the Orrick & Harrington charges by matter; and (3) explain how the services benefit ratepayers. PG&E's entire response is shown below.

> The SAP 2001 contract detail provided in the response shows $2.2 million in charges from Orrick, Herrington & Sutcliffe LLP. This was reversed out in 2002.

Orrick, Herrington & Sutcliffe has provided significant services related to PG&E's bankruptcy proceeding.[46] The "reverse out" of the charges in 2002 may have been to transfer the costs to a below-the-line bankruptcy order. PG&E has declined to support the charges. Indeed, PG&E's response to OC-284 strongly implies that PG&E does not believe the charges should be included in its 2003 contract forecast. Therefore, the Orrick, Herrington & Sutcliffe charges should be excluded from the contract forecast.

Weil, Gotshal & Manages is PG&E Corporation's bankruptcy attorney. PG&E's response to OC-284 describes the 2001 charges as "advice and counsel regarding PG&E Corporation's interests in the bankruptcy and reorganization of PG&E." The Weil, Gotschal & Manages charges are incremental costs attributable to the bankruptcy proceeding and should be excluded from the contract forecast.

The holding company Law Department incurred $88,062 of non-bankruptcy related contract costs during the first eleven months of 2002. All of those contract costs were for non-utility matters.[47]

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[44] OC-284

[45] OC-284

[46] OC-284

[47] OC-284

PG&E's 2003 contract cost forecast is unsupported and excessive. Overland recommends the following forecast adjustment to reduce 2003 contract costs.

Holding Company Law Department 2003 Contract Forecast Per Overland	
Description	Amount
Hanson, Bridget, Marcus 2001 recorded	154,653
Other 2001 Recorded Items Under $70,0000	175,319
Overland Forecast	329,972
PG&E Forecast	2,921,870
Forecast Adjustment	(2,591,898)
Source: OC-3-3, page 647 and OC-284	

Cost Allocations

PG&E 2003 labor and material cost allocations for the holding company Law Department are shown below.

Holding Company Law Department 2003 Labor Allocation Per PG&E	
Category	Percent
Capital	0.12
Holding Company Common	87.90
Non-utility Subsidiaries	3.14
Utility Generation	1.18
Utility Common Costs	7.66
Total	100.00
Source: PG&E A&G Study WP 7-38	

PG&E allocated 76.39% of the holding company common category to PG&E using the multi-factor allocation factor.[48] In total, PG&E allocated 75.98% of the Department's labor and material costs to PG&E.

PG&E allocated the $56,819 contract forecast adjustment for additional POR and California energy crises employee expenses and travel costs to the below-the-line category. PG&E allocated the remaining contract forecast to the holding company common category. In total, PG&E allocated $2.19 million in contract costs to PG&E.

[48] PG&E Exhibit-6, WP pages 6-346 and 6-347

PG&E provided four types of information concerning the activities of the holding company Law Department. PG&E's A&G Study workpapers provide a breakdown of Law Department time by activity. The response to OC-281 provides the hours charged to orders by the Department in the first 11 months of 2002. The response to OC-285 lists the five largest projects each of the 10 attorneys in the department worked on in 2002. The response to OC-282 describes the services the Department provides to PG&E. Not one of those four sets of data comes remotely close to justifying PG&E's decision to allocate 76% of the department's time to PG&E.

The 2002 time charging information supports an allocation of less than 5% to PG&E above-the-line activities. The time charging accounts for 20% of the total attorney hours in the department. Of the total 3,525 hours charged to orders, 1,502 hours are charged to bankruptcy and POR orders and 1,185 hours are charged to NEG financial restructuring orders.[49]

The activity breakdown included in PG&E's A&G study is shown below.

Holding Company Law Department 2003 Labor by Activity Per PG&E	
Category	Percent
Utility California Energy Crises	5.00
Utility Nuclear Insurance	0.18
Utility Employee Benefits	1.72
Utility Finance	0.58
Unknown Future Projects	15.00
General Legal Services	71.90
Utility Affiliate Transactions Audit	1.00
Sale of PG&E Energy Services	0.20
NEG Legal Services	2.94
Utility Mortgage Compliance	0.12
Utility Sale of Richmond Pipeline	1.00
Utility Tax	0.36
Total	100.00
Source: PG&E A&G Study WP 7-51	

The California Energy Crises activity includes bankruptcy activities and CPUC regulatory proceedings, including the holding company OII, that require data responses

[49] OC-394

from the holding company.[50] Bankruptcy related activities should be charged below-the-line. The utility affiliate transactions audit activity should be charged below-the-line. The other utility activities identified by PG&E total 3.96%.

The response to OC-285 lists the five legal matters that required the most time in 2002 for each of the 10 attorneys in the department. Of the 50 total listed items, 10 are bankruptcy or POR related and 4 are below-the-line items (affiliate audit, political advocacy, holding company OII and filed rate doctrine/federal preemption lawsuit). Only 3 of the 50 listed projects are predominately utility above-the-line projects. Overland estimates that the listed projects justify an allocation of 16% of the Department's time to PG&E.

The response to OC-282 describes the services provided to PG&E by the holding company Law Department in 2002. Many of the matters identified in the response to OC-282 are bankruptcy and POR matters. Based on the four sources of information described above, Overland estimates that 20% of the department's costs should be charged to PG&E. Overland's estimate was prepared by service and is shown below.

Holding Company Law Department 2003 Labor Allocation Per Overland	
Service	Hours
Tax	400
SEC reporting and compliance	1,500
Financing, contracts & transactions	400
Employee Benefits	400
Risk Management	150
Insurance	150
Intellectual Property	120
Investments & Benefit Finance	100
Corporate Governance and Other	300
Total	3,520
FTE at 1,760 Productive hours per FTE	2.00
Total Attorney FTE	10.00
Percent Utility Above-The-Line	20.00
Source: OC-281, OC-282, OC-285 and PG&E WP 7-51	

The estimated tax hours reflects the actual hours charged to the utility tax order in 2002. The tax hours are substantially higher than those claimed by PG&E in the A&G study for

[50] PG&E A&G Study WP page 7-51

the utility tax activity. The SEC reporting and compliance hours reflect an allocation of the three attorneys in the Department that work primarily on SEC matters.

In the 1999 GRC the CPUC allocated 14.92% of the holding company Law Department to PG&E.[51] That allocation reflected the 3,744 productive hours that PG&E reported in its 1999 GRC study for activities solely benefitting PG&E.[52] Overland's allocation of 3,520 productive hours to PG&E is close to the allocation of 3,744 hours adopted in the 1999 GRC.

The utility above-the-line hours estimated by Overland apply predominately to all of PG&E's operations. Therefore, Overland included its entire 20% allocation to PG&E in the utility common category.

The labor allocation recommended by Overland provides a sound basis for allocating Overland's contract forecast to PG&E. Accordingly, Overland recommends that 20% of its 2003 contract forecast of $329,972 should be allocated to the utility common category.

Internal Audit

The holding company Internal Audit Department is responsible for all internal audit activities at PG&E, NEG and the holding company. The Internal Audit Department is located in PG&E's general office complex.[53] Five members of the department are located in NEG's offices in Bethesda, Maryland.[54] The current headcount in the Internal Audit Department is 46 FTE.[55] Overland interviewed the Department Director.[56]

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[51] D.00-02-046, page 279

[52] D.00-02-046, page 279

[53] Lipson interview - IA is located at 245 Market

[54] Lipson interview and OC-474

[55] OC-474, excludes Mortensen who is on temporary assignment to the department. per Lipson interview

[56] Lipson interview

Cost Forecast

PG&E's 2003 cost forecast includes labor and materials costs for 53 FTE and $1.7 million in contract costs.[57] The contract costs are primarily related to energy trading audits and information systems security consulting.

The Internal Audit Department's average headcount was 44 in 2000 and 43 in 2001. [58] The Department's headcount was 46 as of October 1, 2002 and is currently 46. [59] PG&E's forecasted headcount of 53 significantly exceeds the current and historical headcounts in the department. The current headcount provides a sound basis for forecasting 2003 costs. Overland recommends the following forecast adjustment to reflect the current headcount.

Holding Company Internal Audit Department 2003 Labor Allocation Per Overland			
Service	Labor	Materials	Total
Forecast Per PG&E	5,668,652		
Headcount per PG&E	53		
Average Cost per PG&E	106,956	35,700	142,656
FTE Adjustment	(7.0)	(7.0)	(7.0)
Forecast Adjustment	(748,690)	(249,900)	(998,590)
Source: PG&E A&G Study WP 7-64. Average materials costs per WP 7-73 ($214,211 / 6 FTE)			

The Internal Audit Department's **Confidential** 2002 PG&E Audit Plan indicates.[60]

(REDACTED)

Thus, any increases in staffing in 2003 above historical levels are probably POR related and should be excluded from the GRC.

[57] PG&E A&G Study WP pages 7-64 and 7-69

[58] PG&E A&G Study WP page 7-69

[59] OC-474 and PG&E A&G Study WP page 7-94, excluding Adamson who was on military leave.

[60] OC-116

The following table shows PG&E's 2003 contract forecast for the holding company Internal Audit Department.

Holding Company Internal Audit Department 2003 Contract Forecast Per PG&E	
Service	Total
Engineering/construction - NEG	77,641
Engineering/construction - Utility	48,527
Gas Measurement and Storage - Utility	58,228
Information Technology - NEG	85,397
Information Technology - Utility	119,368
Recruiter Fees	50,000
Risk Analysis	145,571
Energy Trading - NEG	727,850
Energy Trading - Utility	194,094
Administrative Support and Misc.	132,174
Software Licenses	54,350
Total	1,693,200
Source: PG&E A&G Study WP 7-87	

PG&E's 2003 forecast is $496,627 higher than 2001 actual contract costs. That represents an increase of 40%. The increase is primarily for energy trading consulting. PG&E forecasts an increase of $169,012 in NEG energy trading consulting and 192,094 in utility energy trading consulting.[61] The utility is responsible for energy procurement beginning January 1, 2003. That change justifies the increase in utility internal audit risk management consulting costs forecast by PG&E. Overland accepted PG&E's contract forecast.

Cost Allocations

The following table shows PG&E's 2003 allocations of labor and material costs for the Internal Audit Department.

[61] PG&E A&G Study WP pages 7-90 and 7-91

Holding Company Internal Audit Department 2003 Labor Allocation Per PG&E	
Category	Percent
Utility Capital	3.40
Holding Company Common	11.00
Non-Utility Subsidiaries	20.40
Utility Generation	3.30
Utility Electric Transmission	0.70
Utility Gas Transmission	0.60
Public Purpose	1.80
Electric Distribution	8.40
Gas Distribution	3.20
Utility Common	47.20
Total	100.00
Source: PG&E A&G Study WP 7-87	

PG&E allocated 76.39% of the holding company common category to PG&E using the multi-factor allocation factor. PG&E's direct assignments to the utility total 68.6%. In total, PG&E allocated 77% of the Internal Audit Department's labor and material costs to utility above-the-line categories.

PG&E's allocations are based on an audit-by-audit analysis of the 2002 Internal Audit Plan. [62] PG&E's **Confidential** analysis shows that approximately **(REDACTED)** of the hours it assigned directly to the utility were for POR separation matters. The POR separation matters improperly inflate PG&E's allocation of internal audit costs to PG&E.

The Internal Audit Department submits an Annual Report on Internal Auditing to the holding company Board of Directors Audit Committee.[63] The **Confidential** April 2001 Report on Internal Auditing includes the following description of PG&E's 2001 Audit Plan.

(REDACTED)

[62] OC-156

[63] OC-117

The **Confidential** February 2002 Report on Internal Auditing includes the following description of the 2002 Audit Plan.

(REDACTED)

Based on the 2001 and 2002 Annual Report on Internal Auditing and PG&E's analysis of the 2002 Audit Plan, Overland concluded that 65% of the Internal Audit Department's costs should be directly assigned to PG&E and that 13% should be assigned to the holding company.

PG&E's audit-by-audit analysis of the 2002 Audit Plan provides a basis for allocating the utility costs between capital and expense. Schedule 7-1 shows the planned utility audit days by project and Overland's allocation of those projects to regulatory categories. After excluding POR and non-recurring Customer Information System installation audits, utility construction accounts for 10.9% of the total utility audit days. The following table shows Overland's allocation of the total utility direct assignment between the capital and utility common categories.

Holding Company Internal Audit Department Allocation of Utility Direct Assignment Per Overland	
Category	Amount
Total Utility Percent	65.00
Capital Ratio	10.90
Capital Percent	7.09
Utility Common Percent (65% - capital %)	57.91
Source: Schedule 7-1	

Overland allocated the expense portion of the utility direct assignment to the utility common category because the 2002 audit data does not support any significant direct assignments to other utility categories and the audits conducted in 2003 will be different than the 2002 audits.

PG&E only attributed 3.4% of the Internal Audit Department's labor costs to utility capital. PG&E failed to attribute several construction related audits to construction. [64]

[64] OC-156

For example, PG&E did not attribute the engineering contract audits or pole manufacturing contract audits to construction.[65]

Overland allocated 13% of the Internal Audit Department's cost to the holding company common category. PG&E's analysis of the 2002 Audit Plan provides a basis for allocating the holding company common costs to PG&E. The following table shows Overland's allocation of the PG&E Corporation audits included in the **Confidential** 2002 Audit Plan.

(REDACTED)

PG&E has its own risk management, accounts payable and payroll accounting functions. The time spent auditing the comparable holding company functions represents duplicate effort that would not be required without the holding company. The holding company was formed to allow shareholders to participate in non-regulated businesses. Therefore, the incremental costs caused by holding company formation should not be charged to ratepayers. The need to audit inter-company accounting is also a direct consequence of non-regulated business activities. Based on the analysis shown above only approximately 20% of the time allocated to the holding company common category should be charged to PG&E.

The components of Overland's allocation of the holding company Internal Audit Department's labor and material costs are summarized below.

[65] OC-156

Holding Company Internal Audit Department 2003 Labor Allocation Per Overland	
Category	Percent
Direct Utility Common -expense	57.91
Direct Utility Capital	7.09
Utility Allocation of Holding Company Common	2.60
Total Utility Including Capital	67.60
Source: Schedule 7-1	

PG&E allocated $753,783 of the Department's contract costs to utility expense categories.[66] The following table shows Overland's recommended allocation of Internal Audit Department contract costs.

Holding Company Internal Audit Department 2003 Contract Cost Allocation Per Overland				
		Percent	Utility	
Category	Total	Utility	Amount	Category
Engineering/construction - NEG	77,641	0.00	0	Affiliate
Engineering/construction - Utility	48,527	100.00	48,527	Utility Capital
Gas Measurement & Storage-Utility	58,228	100.00	58,228	Gas Transmission
Information Technology - NEG	85,397	0.00	0	Affiliate
Information Technology - Utility	119,368	100.00	119,368	Utility Common
Recruiter Fees	50,000	67.60	33,800	Utility Common
Risk Analysis	145,571	67.60	98,406	Utility Common
Energy Trading - NEG	727,850	0.00	0	Affiliate
Energy Trading - Utility	194,094	100.00	194,094	Distribution Comm.
Administrative Support and Misc.	132,174	67.60	89,350	Utility Common
Software License	54,350	67.60	36,741	Utility Common
Total	1,693,200		678,513	
Source: PG&E A&G Study WP page 7-87				

Overland's contract allocation reduces utility expense by $75,270.

Legal Compliance and Business Ethics

The holding company Legal Compliance and Business Ethics (LC&BE) Department is responsible for the design and implementation of PG&E Corporation's compliance and ethics program based on the requirements specified in the Federal Sentencing

[66] PG&E A&G Study WP 7-67

Guidelines. The compliance and ethics program applies to all PG&E Corporation entities, including PG&E and NEG. The LC&BE Department prepares business ethics policies and training materials and manages a compliance and ethics hotline. The LC&BE has additional responsibilities specifically associated with the CPUC's affiliate transactions rules.[67] The headcount in the LC&BE Department was 4 FTE as of December 31, 2002.[68]

Cost Forecast

PG&E's cost forecast for the LC&BE Department includes labor and material costs for 5 FTE and $245,796 in contract costs.[69] The contract costs are primarily for training materials.[70]

One of the Department's employees was on temporary assignment to the holding company Internal Audit Department as of December 31, 2002.[71] Overland excluded that employee from the Internal Audit Department's headcount because the employee is expected to return to the LC&BE Department in 2003. Therefore, that employee is appropriately included in the LC&BE headcount. Including that employee increases the LC&BE current headcount to 5 FTE. Overland accepted PG&E's 2003 cost forecast for the LC&BE Department.

Cost Allocations

PG&E assigned 100% of the Department's costs to the holding company common category.[72] PG&E allocated 89.5% of the Department's costs to PG&E using the headcount allocation factor.[73]

Time spent on affiliate transactions rules compliance activities should not be charged to ratepayers. The PG&E document entitled "Roles and Responsibilities" describes the

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[67] OC-3-3, page 659 and OC-368, page 689

[68] OC-372

[69] PG&E A&G Study WP, pages 7-96 and 7-101

[70] PG&E A&G Study WP, page 7-111

[71] OC-474

[72] PG&E A&G Study WP, pages 7-97 and 7-100

[73] PG&E Exhibit 6 WP pages 6-347 and 6-348

division of duties between PG&E's Affiliate Rules and Regulatory Compliance (ARRC) Department and the holding company LC&BE Department. That document lists the following LC&BE responsibilities under the heading "Affiliate Rules Compliance." [74]

- Interpret the rules in response to General Counsel inquiries and helpline calls pertaining to the Corporation. Review difficult interpretations with ARRC and Corp. Law Department.
- Develop tools and procedures to support full compliance, including checklists, advertisement verification list, trade show summary, web-site guidelines, press release guidelines, etc.
- Develop and update the affiliate rules booklet and Compliance Education Center course, with input and participation by ARRC.
- Work with ARRC, NEG and Corporate Law on the investigation of potential violations. Maintain log of violations.
- Provide input on filings and possible change to the affiliate rules/compliance plan. Gather input from NEG for these filings. Assist ARRC in CPUC interactions on request.
- Develop and manage the holding company affiliate rules risk management plan following the corporate model based on Federal Sentencing Guidelines. Manage training, auditing, and other plan items.
- Interact with auditors and ARRC during the annual affiliate rules audit.
- Monitor affiliate training effectiveness through an analysis of Compliance Education Center course completions, and work with ARRC and NEG to improve the Compliance Education Center affiliate rules courses.

The Compliance Education Center is a web-site maintained by the LC&BE Department containing training courses and other materials. The Roles and Responsibilities document lists other tasks for the LC&BE that involve coordination of NEG, holding company and utility programs. That coordination function is an incremental requirement caused by the formation of PG&E Corporation and its participation in non-regulated business activities. Overland estimates that 20% of the LC&BE Department's costs should be allocated to affiliate transactions and holding company coordination functions. Those costs should be retained by the holding company and NEG. Therefore, 20% of the Department's costs should be charged to the affiliate category.

[74] OC-3-3, page 660

The LC&BE considers the business activities of NEG and PG&E when designing legal compliance and business ethics policies and materials. NEG's merchant generation and energy trading business and PG&E's regulated utility business have different risk profiles and corporate cultures. The energy trading business in particular creates significant legal compliance and business ethics risks. The annual Business Conduct Questionnaire issued by the LC&BE includes a separate supplement for energy trading.[75] Some of the LC&BE's activities are targeted directly to corporate officers. Only 30% of the total number of corporate officers within the PG&E Corporation family of companies are PG&E officers. NEG officers represent 48% of the total number of officers. [76]

PG&E allocated 89.5% of the LC&BE Department's costs to PG&E using the headcount allocator. That allocator does not properly recognize the impact of PG&E and NEG's separate corporate structures and different lines of business. The headcount allocator also does not properly reflect the relative numbers of corporate officers in PG&E and NEG.

Overland's labor allocation for the LC&BE Department is shown below.

Holding Company Legal Compliance and Business Ethics 2003 Labor Allocation Per Overland			
Activity	Total	Utility Factor	Utility
Coordination and Affiliate Transactions	20.00	0.0000	0.00
Other Activities	80.00	0.5975	47.80
Total	100.00		47.80
Source: PG&E Exhibit 6 WP 3-348 and OC-233			

The 59.75% factor reflects the average of two factors: (1) PG&E's employee headcount factor, and (2) the corporate officer factor described above (30% PG&E). Overland's recommended allocation more accurately reflects the activities of the Department while giving significant weight to employee headcount.

As previously noted, PG&E allocated 89.5% of the Department to PG&E.

The utility ARRC Department is responsible for implementing the legal compliance and ethics program at the utility. The ARCC department includes 3.6 FTE allocable to legal

[75] OC-368, page 689 **Confidential**

[76] OC-233

compliance and ethics. Overland allocated 2.4 FTE in the holding company LC&BE Department to PG&E. Thus, Overland's 2003 cost forecasts includes 6.0 FTE for utility legal compliance and ethics activities. That allocation is sufficient to address the utility's requirements.

Risk Initiatives

The holding company Risk Initiatives Department consists of a single employee. The employee performs analysis of commodity price risks and financial hedging issues. [77]

The **Confidential** response to OC-286 provides the following list of projects the employee worked on in 2002.

(REDACTED)

The employee will continue to work on the projects listed above in 2003 to the extent that the projects extend into 2003.

Cost Forecast

PG&E's 2003 cost forecast for the holding company Risk Initiatives Department consists of labor and material costs for 1 FTE. Overland accepted PG&E's 2003 cost forecast.

Cost Allocations

PG&E allocated 100% of the Risk Initiative Department's costs to Utility Common. The Risk Initiatives Department is a holding company Department. Allocating 100% of the Department's costs to the utility is inconsistent with the organizational location of the Department.

[77] PG&E A&G Study WP 7-117

Data Request OC-286 requested the written work products provided to the utility by the Department in 2002. The response consists of some presentation slides and some e-mails concerning the date and location of meetings. The documentation is insufficient to justify allocating 100% of the Department's time to the utility.

The **Confidential** response to OC-286 provides the following additional description of the bankruptcy activities of the Department's employee in 2002.

(REDACTED)

Based on the available information, Overland allocated 25% of the holding company Risk Initiatives Department to affiliate and below-the-line bankruptcy activities. Overland allocated the remaining 75% to the Utility Common category.

Risk Management

The holding company Risk Management Department oversees the risk management activities of PG&E Corporation's subsidiary and manages PG&E Corporation's consolidated risk profile. The Department's mission statement is shown below. [78]

> The responsibility of PG&E Corporation's Risk Management department is to monitor and coordinate all activities associated with oversight of risk management activities of Controlled Entities.

The Department prepares PG&E Corporation risk management policies and reviews the risk management internal controls of PG&E and NEG. The Department is also responsible for monitoring and reporting consolidated PG&E Corporation risk management statistics and the consolidated risk management disclosures contained in PG&E Corporation's SEC 10-Q and 10-K filings. The holding company Risk

[78] PG&E A&G Study WP 7-493, Controlled entities are defined as "companies over which PG&E Corporation and its affiliates have, directly or indirectly, the unilateral ability to direct management and policies."

Management Department also organizes the monthly meetings of the PG&E Corporation Risk Management Committee.[79] As of December 31, 2002, the headcount in the Department was 4 FTE.

Cost Forecast

PG&E's cost forecast includes labor and material costs for 7 FTE and $610,021 in contract costs. The contract costs consist of 20% of the total annual license fee paid for the Algorithmics software and associated consulting fees.[80]

PG&E's forecasted headcount of 7 FTE exceeds the December 2002 headcount by 3 FTE. A forecast adjustment should arguably be made to reduce costs to reflect realistic expectations concerning the average 2003 headcount in the Department. However, as discussed below, that concern is effectively addressed by Overland's recommended allocations for the Department. Therefore, Overland did not propose a headcount adjustment. Overland accepted PG&E's 2003 cost forecast for the holding company Risk Management Department.

Cost Allocations

PG&E assigned 100% of the Department's costs to the holding company common category and allocated 42.43% of those costs to PG&E using the revenue factor. [81]

NEG's energy trading business creates substantial risk management issues. The risk management section of PG&E's 2002 10-K report contains the following daily "value-at-risk" statistics for PG&E and NEG.

Holding Company Risk Management Department Price Risk Daily Value-at-Risk Measure in Millions	
Description	2002 Average
PG&E Utility	2.10
NEG	20.60
Total	22.70
Percent Utility	9.25
Source: PG&E 2002 10-K	

[79] OC-300

[80] PG&E A&G study WP 7-519 and 7-520

[81] PG&E A&G Study WP 7-499 and PG&E Exhibit 6 WP 6-348

The 2002 10-K contains the following description of the daily value-at-risk measure.

> The value-at-risk model includes all of PG&E Corporation's and the Utility's commodity derivatives and other financial instruments over the entire length of the terms of the transactions in the trading and non-trading portfolios...The value-at-risk calculation is a dollar amount reflecting the maximum potential one-day loss in the fair value of their portfolios due to adverse market movements over a defined time horizon within a specified confidence level.

PG&E allocated 42.43% of the Department's costs to the utility. That allocation is inconsistent with the value-at-risk statistics reported in PG&E Corporation's 10-K reports. Many of the functions of the holding company Risk Management Department are consolidation and corporate oversight functions. The costs of those functions are incremental costs attributable to the formation of the holding company and participation in non-regulated energy trading activities. Those costs should be allocated entirely to the affiliate category.

PG&E's 42.43% allocation of the holding company Risk Management Department to the utility is inconsistent with its own risk management measures and the CPUC's holding company cost allocation policies. Therefore, PG&E's allocation should be rejected.

PG&E's A&G Study divides the Department's 2003 labor costs into ten activities. Overland's recommended allocation to the utility is shown below by activity.

Holding Company Risk Management Department 2003 Labor Allocation Per Overland			
Activity	Total	Utility Factor	Utilty
Consolidated Credit Analysis and Reporting	1.20	0.0000	0.00
Programs and Policy; Training and Implementation	10.80	0.2122	2.29
Review Subsidiary Structured Transactions	20.00	0.2122	4.24
Risk Adjusted Capital Allocation and Performance Metrics	20.00	0.2122	4.24
Consolidated Interest Rate Risk Sensitivity Analysis	1.20	0.0000	0.00
Special Quantitative Risk Studies	19.40	0.4243	8.23
Review Board Presentations on Risk Management	5.00	0.2122	1.06
Risk Management Sections of 10-K and 10-Q	12.00	0.2122	2.55
Risk Management Committees	8.00	0.2122	1.70
Control Assessment	2.40	0.4243	1.02
Total	100.00		25.33
Source: PG&E A&G Study WP 7-509			

The credit and interest rate risk consolidation activities are clearly incremental consolidated activities caused by the formation of the holding company. Those costs should not be charged to the utility.

The 21.22% factor used for the policy, transaction review and committee activities is developed below.

Holding Company Risk Management Department Policy, Transaction Review and Committee Factor Per Overland			
Activity	Total	Utility Factor	Utility
Incremental Consolidation and Resource Allocation Activities	50.00	0.0000	0.00
Direct Services to Subsidiaries	50.00	0.4243	21.22
Total	100.00		21.22
Source: PG&E Exhibit 6 WP 6-348			

PG&E's A&G Study workpapers contain the following description of the risk adjusted capital allocation and performance metrics activity.

> Develop risk adjusted performance measures such as RAROC, to support capital allocation and performance evaluation across business units.

The allocation of capital and preparation of performance evaluations across business units is an incremental requirement caused by the holding company formation and participation in non-regulated business activities. The entire risk adjusted capital allocation and performance measure metrics activity arguably should be assigned to the affiliate category. Overland attributed 50% of the activity to direct subsidiary services to recognize that the metrics may also provide some benefits to PG&E and NEG.

The factor used for the special quantitative risk studies and control assessment reflects PG&E's revenue factor. The higher allocation for those categories reflects the additional work being performed in 2003 to reflect the utility's assumption of electric procurement responsibility effective January 1, 2003 and the utility's risk management internal controls project.

PG&E's forecast reflects staffing of 7 FTE. Overland accepted that forecast. Overland allocated 1.77 of the forecasted FTE to PG&E.[82] The actual headcount in the

[82] 7 FTE times 25.33% equals 1.77 FTE

Department as of December 31, 2002 was 4 FTE. Thus, Overland's recommended allocation is equal to 44.25% of the current staffing in the Department.

PG&E has its own Risk Management Department. Overland's forecast for the utility Risk Management Department includes staffing of 18.8 FTE. Overland's combined forecasted staffing for the holding company and utility risk management Department is 20.6 FTE. That staffing is sufficient for utility risk management requirements.

PACIFIC GAS & ELECTRIC
INTERAL AUDIT DEPARTMENT
2002 AUDIT PLAN
LABOR BY AUDIT
SOURCE: OC-156
(CONFIDENTIAL)

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SCHEDULE 7-1

Chapter 8
Holding Company CFO, Controller and Treasurer

This Chapter addresses the 2003 cost forecast for the following holding company departments.

- SVP Chief Financial Officer
- SVP Controller
- Corporate Accounting
- Tax
- Financial Planning
- Financial Analysis
- Technical and Risk Management Accounting
- Investor Relations
- VP Treasurer
- Banking and Money Management
- Insurance
- Investment and Benefit Finance

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G expense level by department.

Chapter 8 - Holding Company CFO, Controller and Treasurer Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Chief Financial Officer	0	(637,220)	(2,153,113)	(2,790,333)
SVP Controller	0	(360,348)	(354,430)	(714,778)
Corporate Accounting	(196,787)	(2,639,207)	13,331	(2,822,663)
Tax	(653,367)	0	0	(653,367)
Financial Planning	(131,876)	(395,628)	0	(527,504)
Financial Analysis	0	(525,747)	0	(525,747)
Tech. & Risk Management Accting	0	(225,637)	(26,545)	(252,182)
Investor Relations	0	(272,441)	(62,853)	(335,294)
VP Treasurer	(320,500)	0	0	(320,500)
Banking and Money Management	0	(131,921)	0	(131,921)
Total	(1,302,530)	(5,188,149)	(2,583,610)	(9,074,289)

The issues are discussed below by department.

1. **SVP Chief Financial Officer.** Reduced contract costs $1.3 to eliminate unsupported and excessive costs included in PG&E's forecast. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs attributable to holding company formation.

2. **SVP Controller.** Reduced costs by $287,119 to eliminate unsupported and excessive contract costs included in PG&E's forecast. Reduced utility allocation by 54.95% to reflect the CPUC's holding company policies.

3. **Corporate Accounting.** Reduced orders material costs by $242,528 (before allocations) to eliminate costs also included in PG&E's forecast for the utility Corporate Accounting Department. Reduced contract costs by $287,119 to eliminate unsupported and excessive costs included in PG&E's forecast. Reduced utility allocation by 68.85% to reflect the CPUC's holding company policies.

4. **Tax Department**. Reduced costs by $1.2 million (before allocations) to reflect 2003 expected staffing levels.

5. **Financial Planning.** Reduced costs by $172,635 to reflect the savings resulting from the merger of the Department into the new Financial Planning and Analysis Department. Allocated 100% of the Department's costs to affiliates to eliminate incremental costs attributable to holding company formation.

6. **Financial Analysis.** Reduced utility allocation by 37.3% to reflect the CPUC's holding company policies.

7. **Technical and Risk Management.** Reduced utility allocation by 33.93% to reflect the Department specific analysis prepared by the Department's Director.

8. **Investor Relations.** Reduced utility allocation by by 23.87% to reflect policy adopted in the 1999 GRC Decision.

9. **VP Treasurer**. Reduced costs by $419,558 (before allocations) to eliminate the cost of two employees who were included in the wrong department in PG&E's A&G Study.

10. **Banking and Money Management.** Reduce utility allocation by 5.17% to correct the treatment of POR activities.

SVP Chief Financial Officer

The holding company CFO is responsible for the financial management of the holding company. The CFO oversees the financial organization and operations of the holding company and its subsidiaries.[1] The following holding company departments report to the CFO:[2]

- SVP Controller
- VP Treasurer
- Corporate Development
- Strategic Planning
- Risk Management
- Information Technology

[1] PG&E Exhibit 4, page 7-16

[2] PageOne, PG&E Corporation Finance Organization chart

The holding company CFO A&G Study Department consists of the CFO, an executive assistant and two additional employees working on POR matters. [3] As of December 31, 2002 the headcount in the Department had expanded to 6 FTE.[4]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 4 FTE and $2.98 million in contract costs.[5] Overland accepted PG&E's 2003 labor and materials forecasts.

PG&E's contract cost forecast consists of $2,738,384 for "Misc. Contracts" and $239,040 for an MBA recruiting program.[6] PG&E does not have a breakdown of the 2003 "misc. Contracts" forecast by component.[7]

The following table shows the Department's actual 2002 contract costs by contract. [8]

Holding Company CFO 2002 Actual Contract Costs	
Description	Amount
Algorithmics	856,249
POR - Management Services	294,646
Holding Company E-Procurement	35,352
Recruiting	67,314
Other	11,201
Total	1,264,762
Source: OC-169	

The POR management services costs are incremental POR costs that should be charged below-the-line. The Algorithmics contract costs are consulting costs related to

[3] PG&E A&G Study WP pages 7-305 and 7-316

[4] OC-372

[5] PG&E A&G Study WP pages 7-300 and 7-305

[6] PG&E A&G Study WP page 7-313 and OC-169

[7] OC-169

[8] OC-169, costs are through December 18, 2002

the implementation of risk management software purchased from Algorithmics, Inc. PG&E's current forecast of 2003 contract costs for the Algorithmics project is $242,684.[9]

PG&E's contract forecast is unsupported and excessive compared to 2002 actual contract costs. Overland's forecast of 2003 contract costs is shown below by contract.

Holding Company CFO 2003 Contract Forecast Per Overland	
Description	Amount
Algorithmics	242,684
POR - Management Services	0
Holding Company E-Procurement	35,352
Recruiting	67,314
Other	11,201
Total	356,551
Source: OC-169	

Overland's forecast reflects actual 2002 costs adjusted to reflect PG&E's current forecast for the Algorithmics project and to exclude POR costs. Overland's 2003 contract forecast is $2,620,874 lower than PG&E's forecast.

Cost Allocations

PG&E allocated 50% of the Department's labor and material costs to the holding company common category and 50% to the below-the-line category.[10] The below-the-line allocation apparently reflects the two employees currently working on POR matters. PG&E assigned 100% of the CFO's contract costs to the holding company common category. PG&E allocated 76.49% of the holding company common category to PG&E using the multi-factor allocation factor.

[9] OC-475

[10] PG&E A&G Study WP 7-301

PG&E allocated 73% of the holding company CFO's costs to PG&E in the 1999 GRC.[11] The CPUC rejected that proposal. The 1999 GRC decision states: [12]

> ORA observes that PG&E has its own CFO, and contends that PG&E has failed to demonstrate that it needs to purchase any service from the holding company's CFO. PG&E witness Tucker lists access to and representation before the financial community; strategic advice on acquisitions, mergers and divestitures; and expertise on debt finance and capital structure issues as the benefits provided by the holding company's CFO to PG&E. He does not demonstrate why PG&E's own CFO is incapable of performing those functions directly. In addition, PG&E has not demonstrated any link between the asserted benefits and the actual amount of the proposed allocation...Accordingly, we reject PG&E's proposal to allocate any of this PCC's costs to PG&E.

PG&E's testimony and A&G Study workpapers in this GRC do not demonstrate that PG&E needs to purchase any services from the holding company CFO. PG&E continues to have its own Chief Financial Officer. PG&E has not demonstrated why the PG&E CFO is not capable of providing the financial management services needed by PG&E. The holding company CFO does not track time by activity.[13] As a result, PG&E cannot demonstrate the level of services provided to the utility through an analysis of the CFO's time charging.

The holding company CFO's costs are incremental costs directly attributable to management's decision to form a holding company. The holding company was formed to allow shareholders to participate in non-regulated business activities. Therefore, the holding company CFO's costs should not be charged to the regulated utility. Consistent with the 1999 GRC Decision and CPUC policy, Overland recommends that none of the holding company CFO's should be charged to PG&E, with one exception. The exception is the Algorithmics contract cost. The response to OC-475 demonstrates that PG&E benefits from the use of the Algorithmics risk management software. NEG's energy trading activities create significant risk management issues. Therefore, Overland recommends a 50/50 allocation of the Algorithmics costs between PG&E and NEG. The contract costs allocated to PG&E total $121,342.

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[11] D.00-02-046, page 280

[12] D.00-02-046, page 280

[13] OC-280

Overland recommends the following adjustment to reflect its 2003 contract forecast.

Holding Company Controller 2003 Contract Forecast Per Overland	
Description	Amount
Actual 2002 Contract Costs	27,151
Additional Provision for Accounting Consulting	222,849
Overland Forecast	250,000
PG&E Forecast	537,119
Forecast Adjustment	(287,119)
Source: OC-291 and PG&E A&G Study WP 7-318	

SVP Controller

The SVP Controller is the holding company's chief accounting officer. The following holding company departments report to the SVP Controller. [14]

- Corporate Accounting
- Tax
- Technical and Risk Management Accounting
- Financial Planning and Analysis

The SVP Controller A&G Study Department consists of the Controller and an executive secretary.

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 2 FTE and $537,119 in contract costs. Overland accepted PG&E's 2003 forecast of labor and material costs.

PG&E's contract forecast consists of $287,094 for Deloitte and Touche and $250,025 for Arthur Andersen.[15] PG&E's 2003 forecast reflects actual charges from Deloitte &

[14] PG&E A&G Study WP, page 7-335 and Dore interview

[15] OC-292

Touche and Arthur Andersen in 2001.[16] The Department's actual contract costs were $27,151 in 2002.[17]

Data Request OC-292 asked PG&E to describe the services provided by Deloitte & Touche and Arthur Andersen and to explain how the services benefit ratepayers. PG&E's reply indicates that "these firms provide accounting consultation services to PG&E Corporation as requested by the SVP Controller on a variety of matters" and "the Utility's ratepayers benefit from the services provided in that these consultants are experts in the fields in which they are consulting." PG&E's complete explanation of the nature of the services provided by Deloitte & Touche and Arthur Andersen is that they are "accounting consultation services" on a "variety of matters." PG&E's 2003 contract forecast is excessive compared to actual 2002 costs and its explanation of the nature of the forecasted costs is thoroughly inadequate. Overland forecasts $250,000 in contract costs for the Department. Overland's forecast reflects 2002 costs with an additional provision for general accounting consulting.

Cost Allocations

PG&E allocated the Department's labor and material costs by activity. The following table shows PG&E's allocation by activity.

Holding Company Controller 2003 Labor Activities Per PG&E				
	Holding Co.			
Activity	Common	NEG	PG&E	Total
Accounting and Finance Policy	5.96	0.00	0.00	5.96
Accounting Advice	4.67	0.00	0.00	4.67
Budgeting	11.68	0.00	0.00	11.68
Cash Forecasts	5.84	0.00	0.00	5.84
Financial Planning	14.60	0.00	0.00	14.60
Financial Reporting	11.68	0.00	0.00	11.68
Income Tax	11.68	0.00	11.68	23.36
Major Transactions	0.00	1.00	10.67	11.67
NEG Support	0.00	4.70	0.00	4.70
Payroll and Accounts Payable	5.84	0.00	0.00	5.84
Total	71.95	5.70	22.35	100.00
Source: PG&E A&G Study WP page 7-329				

[16] OC-3-3, page 684

[17] OC-292 and OC-371

PG&E allocated 76.39% of the holding company common category to PG&E using the multi-factor allocation factor.[18] In total, PG&E allocated 77.3% of the Department's labor and materials costs to PG&E. PG&E assigned 100% of the Department's contract costs to the holding company common category. [19]

The holding company was initially staffed during the 1999 GRC proceedings. In the 1999 GRC, the current holding company Controller was a dual officer who served as Controller of both PG&E and the holding company. PG&E now has its own controller. PG&E has its own Corporate Accounting, Accounts Payable and Payroll Departments. PG&E does not need to purchase accounting policy, accounting advice, accounts payable and payroll accounting services from the holding company.

The budgeting activity focus on combining the budgets of PG&E, NEG and the holding company. That activity is an incremental consolidation function caused by the formation of the holding company and PG&E Corporation's participation in non-regulated business activities. The cash forecasting, financial planning and financial reporting activities shown above are also largely consolidation and coordination functions attributable to the creation of the holding company. The costs of those activities should not be charged to PG&E.

The Controller supervises the holding company Tax Department. The Tax Department prepares the PG&E Corporation consolidated income tax return and the consolidated California income tax return. NEG prepares its own state tax returns.[20] PG&E split the Controller's tax activities evenly between PG&E and the holding company common category and then allocated 76.4% of the holding company common amount to PG&E. In total, PG&E allocated 88.2% of the Controller's income tax activities to PG&E. That allocation is excessive. PG&E Corporation's Board minutes demonstrate that NEG enters into a larger number of complex business transactions than PG&E.[21]

PG&E has not demonstrated why the utility Controller cannot provide the controller services needed by PG&E. Overland recommends an allocation of 22.35% of the

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[18] PG&E Exhibit 6, WP 6-347 and 6-348

[19] PG&E A&G Study WP 7-321

[20] Arnold interview

[21] OC-229

holding company Controller's costs to PG&E. That allocation reflects the activities that PG&E directly assigned to the utility in its A&G Study.

Corporate Accounting

The holding company Corporate Accounting Department maintains the holding company's stand-alone general ledger and consolidates the stand-alone financial statements of PG&E Corporation, NEG and PG&E into PG&E Corporation consolidated financial statements. The Department also performs the payroll and accounts payable functions for the holding company and prepares the invoices for holding company charges to PG&E and NEG. Overland interviewed the Director of the holding company Corporate Accounting Department.[22]

The current headcount in the Department is 25 FTE. The following table shows the headcount by section.

Holding Company Corporate Accounting Department Headcount by Section	
Section	FTE
Director's Office	3.0
Payroll/Accounts Payable	6.0
General Accounting / Consolidation	6.0
Financial & Management Reporting	8.0
POR - Accounting Systems	2.0
Total	25.0
Source: OC-478	

The payroll and accounts payable section performs the payroll accounting and accounts payable functions for holding company departments. They pay invoices, process employee time sheets, keep track of vacation hours and provide employment verification for employee credit checks.[23]

The general accounting and consolidation section performs the stand-alone holding company general ledger accounting function and prepares consolidating entries for PG&E Corporation's consolidated financial statements. They prepare journal entries

[22] Dales interview

[23] Dales interview

and reconcile accounts, including inter-company accounts payable and receivable accounts for affiliate transactions. Over 90% of the hours in the section are spent on stand-alone holding company accounting.[24]

The financial and management reporting section works on consolidated SEC reporting and budget reports for the holding company departments. The section prepares the monthly management report that is provided to the PG&E Corporation Board of Directors. The section also works on the management discussion of operations included in PG&E Corporation's quarterly SEC 10-Q filings. PG&E and NEG prepare their own portions of the management discussion.[25] The financial and management reporting section also oversees employee benefit plan audits and prepares consolidated employment reports filed with the federal Department of Commerce.[26] The financial and management reporting section prepares the monthly holding company invoices sent to PG&E and NEG.

The POR accounting systems section is working on the accounting systems that will be required for the new companies created as a result of the POR.[27]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 23 FTE, $844,825 in orders material costs and $649,000 in contract costs. The current headcount in the Department exceeds PG&E's forecast by 2 FTE. That difference is explained by 2 FTE currently working in the POR accounting systems section. Overland accepted PG&E's 2003 labor and non-order material forecast and excluded the current staffing for POR accounting systems from its cost allocation analysis.

PG&E's 2003 orders material forecast reflects 2001 actual costs with a reducing adjustment of $69,775 to reflect lower charges from the utility. PG&E's 2001 actual costs included $349,644 in charges from the utility corporate accounting department for

[24] Dales interview

[25] Dales interview

[26] Dales interview

[27] Dales interview

SEC financial reporting and treasury services.[28] In 2001 and prior years, the utility Corporate Accounting Department billed the holding company for time spent on SEC reporting matters and the holding company Corporate Accounting Department re-billed those costs back to the utility in a circular billing arrangement.[29] That circular billing arrangement was terminated in 2002. As a result, the utility corporate accounting costs billed to the holding company in 2002 are much lower than the amount billed in 2001.[30]

PG&E's 2003 allocations for the utility Corporate Accounting Department only attribute $37,321 of that Department's costs to the holding company common category.[31] That reduced level of billing reflects the new accounting procedures adopted in 2002. The costs removed from the utility Corporate Accounting Department's forecast for services provided to the holding company should equal the costs included in the holding company forecast for charges from the utility. PG&E included far higher costs in its holding company forecast for those billings than it removed from the utility forecast. That mismatch overstates PG&E's combined utility and holding company A&G forecasts.

Recorded/adjusted 2001 costs provide a sound basis for forecasting holding company Corporate Accounting Department orders materials costs. Overland recommends the following adjustment to reflect recorded/adjusted 2001 costs.

Holding Company Corporate Accounting Department 2002 Orders Materials Forecast Adjustment	
Description	Amount
Recorded 2001 Orders Materials Costs	914,600
Less: Recorded Charges from Utility Corporate Accounting	(349,644)
Add: 2003 Forecast Charges from Utility Corporate Accounting	37,341
Total 2003 Forecast	602,297
Forecast Per PG&E	844,825
Adjustment	(242,528)
Source: OC-402	

[28] OC-402

[29] Wikle interview

[30] OC-402

[31] PG&E A&G Study WP 2-209 and 2-210. Labor including benefits of $5.114 million plus materials of $1.007 million times holding company factor of .61%.

PG&E's 2003 contract cost forecast is shown below by contract.

Holding Company Corporate Accounting Department 2003 Contract Forecast Per PG&E	
Section	Amount
Temporary Staffing	153,029
ADP Payroll Processing	22,157
Payroll Project consulting	51,037
Deloitte & Touche - Audits	372,529
Miscellaneous	50,248
Total	649,000
Source: OC-478	

The Deloitte & Touche contract includes approximately $200,000 for the PG&E Corporation stand-alone portion of the annual financial statement audit and part of the cost of the employee benefit plan audits.[32] Overland accepted PG&E's contract forecast.

Cost Allocations

PG&E allocated 77.65% of the Department's labor and material costs to the utility common category and 4.56% to the holding company common category. PG&E allocated the remaining 17.79% to non-utility affiliates. [33]

PG&E assigned 100% of the Department's contract costs to the holding company common category. PG&E allocated 76.39% of the holding company common category to PG&E using the multi-factor allocation factor.[34]

The Department's costs should only be allocated to PG&E to the extent that the Department actually provides services to PG&E and PG&E actually needs the services. The Department provides very few services to PG&E. In the 1999 GRC, the CPUC allocated 19.9% of the holding company Corporate Accounting Department to PG&E. [35]

[32] Dales interview

[33] PG&E A&G Study WP, page 7-339

[34] PG&E Exhibit 6 WP, pages 3-347 and 3-348

[35] D.00-02-046, page 277 and Overland 1999 GRC Sur-rebuttal Workpaper 1008 (Exhibit 426).

PG&E excluded the 2 FTE working on POR accounting systems from its 2003 cost forecast and Overland accepted PG&E's forecast. The other sections in the Department are (1) Payroll & Accounts Payable; (2) General Accounting & Consolidation; and (3) Financial and Management Reporting. PG&E has its own Payroll and Accounts Payable Departments. To the extent they are necessary for utility operations, the transactions processed by the holding company Payroll & Accounts Payable section could be processed by the utility's Payroll and Accounts Payable Departments without any increase in staffing. The costs of the holding company section are incremental costs incurred only because management chose to form a holding company. Therefore, none of the costs of the Payroll and Accounts Payable section should be charged to PG&E.

PG&E has its own general ledger. The holding company's general ledger is not needed to provide utility service. The need to maintain a holding company general ledger and to prepare consolidated financial statements is an incremental requirement directly attributable to management's decision to form a holding company. Therefore, none of the costs of the General Accounting & Consolidation section should be charged to PG&E.

The Financial & Management Reporting section works on SEC reporting and prepares budget reports for holding company Departments. PG&E has its own Corporate Accounting and Budget Departments. The need to prepare separate holding company budget reports is an incremental requirement directly attributable to the formation of the holding company. PG&E's Corporate Accounting Department includes a Technical Accounting and Reporting section with a headcount of 12.2 FTE.[36] The Technical Accounting and Reporting section in PG&E's Corporate Accounting Department prepares the PG&E sections of the disclosures included in PG&E Corporation's SEC filings. [37] The SEC reporting activities of the Financial and Management Reporting section are predominately incremental consolidation and coordination services that would not be needed by PG&E if it was not owned by a holding company.

The Financial & Management Reporting Section also supervises employee benefit audits. That activity represents a direct service to PG&E. However, PG&E estimates

[36] OC-312

[37] Dales interview

that activity requires less than 60 hours a year. [38] Overland allocated 25% of the Financial and Management Reporting section to PG&E. That allocation charges 2 of the 8 FTE in the section to PG&E. Overland's allocation represents the maximum plausible estimate of the services provided to PG&E by the section.

Overland did not allocate any of the Director's immediate office to PG&E. PG&E has its own Director of Corporate Accounting and support staff. The need for two directors of corporate accounting is an incremental requirement caused by the formation of the holding company.

Overland's recommended allocation of the costs of the Corporate Accounting Department is shown below.

Holding Company Corporate Accounting 2003 Cost Allocation Per Overland			
Section	FTE	Percent	Utility FTE
Director's Office	3.0	0.00	0.0
Payroll & Accounts Payable	6.0	0.00	0.0
General Accounting & Consolidation	6.0	0.00	0.0
Financial & Management Reporting	8.0	25.00	2.0
Total	23.0	8.70	2.0
Source: OC-478, excludes POR staffing			

The need for a separate holding company financial statement audit is an incremental requirement caused by the formation of the holding company. Overland's recommended contract cost allocation of 8.7% to PG&E effectively excludes the stand-alone holding company audit fees from the GRC.

Tax Department

The Tax Department is responsible for preparing PG&E Corporation's consolidated federal and California income tax returns. The Tax Department provides tax planning advice for proposed business transactions and is responsible for PG&E and PG&E Corporation income tax accounting. The Tax Department also provides support for

[38] PG&E A&G Study WP, page 7-352 activities 8 and 9

regulatory proceedings. Overland interviewed the Director of the holding company Tax Department. [39]

The Tax Department's 2002 Business Plan provides the following breakdown of the Department's activities.

Holding Company Tax Department Activities Per 2002 Business Plan	
Section	FTE
Research & Planning	64.0
Compliance (prepare tax returns)	27.0
Income Tax Accounting	5.0
Audits	4.0
Total	100.0
Source: OC-197	

The 2002 Business Plan describes the research and planning function as "evaluate business opportunities and provide tax planning advice for proposed business transactions and develop projects specifically to enhance company earnings or improve cash flow."[40] One of the Tax Department successes claimed in the 2002 Business Plan was structuring the sale of NEG's Texas gas transmission and energy services businesses to maximize tax benefits.

NEG and PG&E are included in PG&E Corporation's consolidated federal income tax return. NEG has a Tax Department located in Bethesda, Maryland.[41] The NEG Tax Department prepares an NEG stand-alone federal income tax return and sends it to the holding company Tax Department.[42] The holding company Tax Department provides some federal income tax return services to PG&E that it does not provide to NEG because NEG's Tax Department does the comparable work for NEG. The holding company Tax Department manages the IRS tax audits of PG&E Corporation's federal income tax return because the consolidated return is audited by the IRS San Francisco

[39] Arnold interview

[40] OC-197

[41] Arnold interview and OC-21

[42] Arnold interview

office. NEG prepares its own state income tax returns.[43] One member of the holding company Tax Department is located in NEG's offices in Bethesda, Maryland.

PG&E's Capital Accounting Department prepares the fixed asset detail required for PG&E's portion of PG&E Corporation's consolidated income tax return. NEG also prepares its own fixed asset detail.[44]

The Tax Department worked on some POR matters in 2001 and 2002. The Tax Department researched the tax status of the proposed distribution of the new distribution company's common stock to shareholders under the POR.[45] The Tax Department also submitted a POR private letter ruling request to the IRS concerning the transfer of nuclear decommissioning funds.[46]

The Tax Department's 2002 Business Plan lists the following "major issues to be faced" in 2002.[47]

- Addressing business needs due to Bankruptcy and Separation such as:
  - Ensuring that all technical tax requirements for accomplishing the tax-free spin-off are met as of the effective date of the POR
  - Ensuring that appropriate tax planning is performed as the POR changes
  - Identifying new accounting methods/elections and other tax planning opportunities for post-POR periods
  - Preparing returns and managing audits for pre-POR periods
  - Department organization structure and staffing post-POR
- Expansion and financing of PG&E National Energy Group

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[43] Arnold interview

[44] Arnold and Wedlake interviews

[45] OC-197

[46] OC-199

[47] OC-197

- Managing the IRS and state audits and appeals
  - Early closure of audits to protect filing positions
  - Successful defense of appealed issues preserves cash and earnings
  - Limits on IRS and state ability to raise issues.

The current headcount in the Tax Department is 35 FTE.[48] The Department is organized on a matrix basis with significant flexibility in work assignments.[49]

Cost Forecast

PG&E's 2003 cost forecast for the Tax Department includes labor costs for 42 FTE, $2.2 million in material costs and $1.1 million in contract costs.[50] The material costs consist primarily of facilities, personal computer and telecommunications charges.[51] The current headcount in the Department is 35 FTE. The average headcount was 36 in 2000 and 33 in 2001.[52] PG&E's forecast headcount significantly exceeds the current and historical headcounts for the Department.

The current headcount provides a sound basis for forecasting 2003 costs for the Tax Department. Overland recommends the following forecast adjustment to reflect the current headcount in the Tax Department.

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[48] OC-477

[49] Arnold interview

[50] PG&E A&G Study WP pages 7-360 and 7-365

[51] OC-3-3, page 726

[52] PG&E A&G Study WP page 7-365

Holding Company Tax Department 2003 Forecast Headcount Adjustment			
Description	Labor	Material	Total
Cost Per PG&E	5,086,784	2,151,401	7,238,185
FTE Per PG&E	42.0	42.0	42.0
Average Cost	121,114	51,224	172,338
Headcount Adjustment	7.0	7.0	7.0
Forecast Adjustment	(847,797)	(358,567)	(1,206,364)
Source: PG&E A&G Study WP 7-360 and 7-365			

The following table shows PG&E's 2003 contract forecast by contract.

Holding Company Tax Department 2003 Contract Costs Per PG&E	
Description	Amount
Tax Software	33,400
Various Small Contracts	54,852
Deloitte & Touche	242,258
Bankruptcy	200,000
Tax Controversy and Energy Crises	496,000
Other Research and Misc.	73,490
Total	1,100,000
Source: PG&E A&G Study WP 7-360 & 7-375	

PG&E allocated the bankruptcy contract costs to the below-the-line category. The Deloitte & Touche and "Tax Controversy and California Energy Crises" contract forecasts represent tax audit defense costs.[53] During his interview with Overland, the Tax Department Director indicated that the tax audit defense contract costs were very difficult to forecast. Overland reviewed the IRS audit reports for tax years 1997 and 1998 and PG&E's response to those reports. Most of the utility audit issues raised in those audits were resolved in 2001.[54] The IRS is currently auditing the 1999 and 2000 tax years. The Tax Department anticipates an audit report for those issues in mid-2003. The issues in those audit years relate primarily to NEG.[55]

[53] Arnold interview

[54] OC-263

[55] Arnold interview

Actual contract costs in the Tax Department were $520,006 in 2000 and $403,576 in 2001. The following table shows the Tax Department's 2002 contract costs by contract.

Holding Company Tax Department 2002 Actual Contract Costs		
Description	Amount	Utility
D&T - Bankruptcy Matters	708,798	Yes
D&T - Public Purpose Balancing Account	319,791	Yes
D&T - Section 29 Credits	306,664	No
D&T - IRS Audits	286,124	Partial
D&T - Casualty Losses	126,566	Yes
D&T - Overhead Cost Analysis	25,000	Yes
D&T - Other	7,258	Partial
PWC - Interest Refund	632,650	Yes
Temporary Staffing & Administrative	44,853	Partial
Total	2,457,704	
Source: OC-476, Utility classification per PG&E		

D&T refers to Deloitte and Touche. The 2002 Deloitte & Touche charges total $1,780,281. The **Confidential** Report to PG&E Corporation's Audit Committee, titled Selection of Independent Public Accountants and Pre-Approval of Auditing and Non-Audit Services and Fees for 2003, February 18, 2003, provides a listing of all charges from Deloitte & Touche to PG&E Corporation and subsidiaries in 2002. That report indicates **(REDACTED)**.

The Report shows the following tax services charges to PG&E Corporation in 2002.

(REDACTED)

The Bankruptcy matters / POR Private Letter Ruling contract cost is an incremental cost directly attributable to PG&E's POR. Section 29 credits are non-conventional fuel credits. The section 29 credits do not relate to the utility.[56]

PWC refers to PriceWaterhouseCoopers. The interest refund contract cost addresses the underpayment and overpayment of interest for PG&E's tax years 1988, 1989, 1991, 1992 and 1993. PG&E received refunds of overpaid deficiency interest as a result of PWC's work.[57]

The Tax Department's 2002 recorded contract costs include costs that are subsequently charged to the Utility CFO PCC. The holding company charged the utility CFO PCC for $2.45 million of D&T contract costs in 2002, including $492,895 for public purpose program analysis and $667,070 for casualty loss work. [58] The holding company charged $783,766 of tax contract costs to the utility CFO PCC in 2001. The bankruptcy caused a substantial lag in billings for tax contract costs from the holding company to the utility CFO PCC.[59] As a result, the charges to the utility CFO PCC do not directly match the contract costs reported for the holding company Tax Department.

Based on the analysis presented in the February 18, 2003 audit committee presentation and the billings to the Utility CFO PCC provided in OC-390, it is clear that the contract costs reported by the Tax Department and tax contract costs charged to the Utility CFO by the holding company reflect the same underlying costs. PG&E included those costs in its A&G study twice, once in its forecast for the holding company Tax Department and again in its forecast of the utility CFO's contract costs. That error significantly overstates PG&E's Account 923 forecast.

The Tax Department manages the contracts for tax consulting services. Therefore, Overland recommends including the tax contracts in the forecast for the holding company Tax Department. Overland's recommended adjustment to exclude the tax contracts from the utility CFO forecast is described in Chapter 3.

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[56] OC-476

[57] OC-476

[58] OC-124 and OC-390

[59] OC-390

Excluding bankruptcy costs, PG&E's 2003 forecast of Tax Department contract costs is $900,000. That forecast significantly exceeds the Department's actual 2000 and 2001 contract costs but is less than the actual 2002 contract costs.

As noted below, PG&E only directly assigned $50,000 of its 2003 contract forecast to affiliates. Therefore, PG&E's forecast apparently does not reflect a continuation of the Section 29 credit work done in 2002. Excluding the bankruptcy and Section 29 credit work, the Tax Department's actual contract costs in 2002 were $1.44 million. PG&E's forecast of $900,000, excluding bankruptcy costs, is reasonably close to 2002 actual costs. Therefore, Overland accepted PG&E's 2003 forecast of Tax Department contract costs.

Cost Allocations

PG&E assigned 100% of the Department's labor and material costs to the holding company common category. PG&E allocated 54.16% of the holding company common category to the utility the tax allocation factor. [60]

The Tax Department tracks its time by client and activity. In 2001, 59.5% of the Tax Department's non-administrative time was spent on PG&E matters, including bankruptcy, POR and other below-the-line matters.[61] PG&E allocated 54.16% of the Tax Department's labor costs to above-the-line utility activities. PG&E's allocation is consistent with the actual time charging in the department in 2001, after excluding below-the-line activities. Overland accepted PG&E's recommended allocation of Tax Department labor and material costs.

PG&E's allocation of 2003 contract costs is shown below.

[60] PG&E Exhibit 6 WP pages 6-347 and 6-348

[61] OC-198 and OC-196

Holding Company Tax Department 2003 Contract Cost Allocation Per PG&E	
Description	Amount
Holding Company Common	319,827
Non-Utility Subsidiaries (affiliates)	50,000
Below-the-line (POR)	200,000
Utility Common Costs	530,173
Total	1,100,000
Source: PG&E A&G Study WP 7-363	

The $50,000 direct assignment to affiliates reflects a portion of the audit defense contract costs.

PG&E allocated 54.16% of the holding company common costs to PG&E using the Tax allocation factor. In total, PG&E allocated $703,390 of tax contract costs to utility above-the-line accounts. PG&E's allocation produces a total utility cost that is reasonably consistent with actual 2000, 2001 and 2002 costs. Overland accepted PG&E's allocation of Tax Department contract costs.

Financial Planning

The holding company Financial Planning Department was merged into the holding company Financial Analysis Department on May 1, 2002 to form the holding company Financial Planning and Analysis Department.[62]

PG&E reflected the old organization structure in its A&G Study. Therefore, Overland will address the Financial Planning section of the Financial Planning and Analysis Department as a separate Study Department. For ease of reference, this section of Chapter 8 will refer to the Financial Planning section as the "Study Department." Overland interviewed the Director of the Financial Planning and Analysis Department and the Acting Manager of the Study Department.[63]

[62] OC-231

[63] Dore and Norman interview

The current headcount in the Study Department is 3 FTE.[64] The Study Department: (1) consolidates NEG and PG&E business plans to produce PG&E Corporation's multi-year business plan; (2) consolidates the NEG and PG&E budgets into the PG&E Corporation consolidated budget; (3) prepares the stand-alone holding company cash forecast; (4) consolidates the PG&E, NEG and holding company cash forecasts into a consolidated PG&E Corporation cash forecast; (5) prepares the "metrics dashboard" report showing key consolidated financial and operating metrics; and (6) performs ad hoc projects for the holding company financial organization. The Study Department is currently responsible for monitoring bankruptcy and POR consultant and outside attorney costs.[65]

Cost Forecast

PG&E's 2003 cost forecast for the Study Department inludes labor and material costs for 4 FTE. The current headcount is 3 FTE. The merger of the old Financial Planning Department into the Financial Planning and Analysis Department eliminated one position. The former manager of the Financial Planning Department was transferred to POR duties and one of the financial analysts was promoted to acting manager.[66]

PG&E's cost forecast for the Study Department does not reflect the current organization. The current headcount provides a sound basis for forecasting 2003 costs. Overland recommends the following forecast adjustment to reflect the current headcount in the Study Department.

Holding Company Financial Planning Department 2003 Headcount Forecast Adjustment			
Description	Labor	Material	Total
Cost per PG&E	500,861	189,680	690,541
FTE per PG&E	4	4	4
Average Cost	125,215	47,420	172,635
Headcount Adjustment	(1.0)	(1.0)	(1.0)
Forecast Adjustment	(125,215)	(47,420)	(172,635)
Source: PG&E A&G Study WP 7-384			

[64] OC-372, as of December 31, 2002

[65] Norman interview

[66] Norman Interview, PG&E A&G Study WP page 7-400 and OC-231

Cost Allocations

PG&E assigned 100% of the Study Department's costs to the holding company common category and allocated 76.39% of those costs to PG&E using the multi-factor allocation factor.

Overland reviewed the Study Department's activities with the acting Manager. The Study Department's activities are consolidation and coordination activities that do not benefit PG&E. The consolidation and coordination activities are directly attributable to the formation of a holding company and the non-regulated business activities of NEG. Therefore, none of the costs of the Study Department's costs should be charged to PG&E.

PG&E has its own Business and Financial Planning Department. The utility Department is capable of performing all of the activities required for utility operations without an increase in staffing. The holding company Financial Planning Study Department does not provide any identifiable services directly to PG&E and PG&E does not require any services from the Department. Therefore, all of the costs of the Department should be allocated to the non-utility affiliate category.

Financial Analysis

The Financial Analysis section of the reorganized Financial Planning and Analysis Department (the Financial Analysis Study Department) is responsible for preparing consolidated PG&E Corporation financial forecasts and for financial analysis of potential business transactions. In addition, the Study Department provides financial planning services directly to PG&E in the areas of generation and gas transmission forecasting. Overland interviewed the Director of the Financial Planning and Analysis Department.[67]

The Study Department worked a significant amount of time in 2002 on matters related to NEG's financial crises and restructuring plans. Almost every member in the Study Department did some work related to NEG financial restructuring matters during the last six months of 2002.[68]

[67] Dore interview

[68] Dore interview

The Study Department worked a significant amount of time on banrkuptcy and POR matters in 2002.[69] The Study Department section worked on: (1) financial forecasts for the POR; (2) responses to data requests in the bankruptcy proceeding; and (3) the SEC registration statements and FERC filings required for the POR related debt issues.[70] Two members of the Study Department also worked on POR creditor solicitation in 2002.

The headcount in the Study Department was 7 FTE as of December 31, 2002.[71]

Cost Forecast

PG&E's 2003 cost forecast for the Financial Analysis section includes labor and material costs for 8 FTE and a small amount of contract costs. PG&E's forecasted headcount of 8 FTE is reasonably close to the current headcount of 7 FTE. Overland accepted PG&E's cost forecast for the holding company Financial Analysis Study Department.

Cost Allocations

PG&E allocated 41.5% of the Study Department's cost to the utility common category and 46.5% to the holding company category. PG&E assigned the remaining 12% to affiliates.[72] PG&E allocated 67.7% of the holding company common category to PG&E using the capitalization factor. In total, PG&E allocated 73% of the Department's costs to the utility.

Prior to January 1, 2001, the current members of PG&E's Business and Financial Planning Department were part of the Holding Company Financial Analysis Department.[73] Effective January 1, 2001 most utility financial forecasting and analysis functions were transferred to the new utility Business and Financial Planning

[69] Dore interview

[70] Dore interview

[71] OC-231 and OC-372

[72] PG&E A&G Study WP page 7-404

[73] Campbell interview and PG&E A&G Study WP page 7-408. It should be noted that the activity descriptions on PG&E WP 7-401 reflect the activities of the holding company Financial Analysis Department prior to the January 1, 2001 reorganization.

Department. However, some utility gas transmission and generation financial forecasting functions remained in the holding company Department for practical staffing reasons. PG&E estimates that the members of the holding company Study Department worked the equivalent of 1.7 FTE on utility generation matters and .3 FTE on utility gas transmission matters in 2002.[74] Those activities represent direct services to PG&E and should be charged to PG&E.

PG&E has its own Business and Financial Planning Department. That utility department does PG&E's financial forecasting and modeling.[75] The financial forecasting and business planning activities of the holding company Study Department are incremental consolidation and coordination activities required by the formation of the holding company. Therefore, the cost of those activities should not be charged to PG&E.

The Study Department is also responsible for financial reviews of major potential business transactions. In 2001 and 2002, the Study Department reviewed 20 potential transactions.[76] Only four of those transactions were utility transactions. Three of the four utility transactions reviewed by the Study Department were POR transactions. The non-POR utility transaction was a proposal for automated meter reading capital project financing.

Overland recommends a 35.71% allocation of the Study Department's costs to PG&E. Overland's recommended allocation is calculated below.

Holding Company Financial Analysis Department 2003 Cost Allocation Per Overland	
Description	FTE
Generation Planning Services - FTE	1.70
Gas Transmission Planning Services	0.30
Transaction Analysis and Finance	0.50
Total Utility FTE	2.50
Total Section FTE	7.00
Percent Utility	35.71
Source: OC-295 and OC-231	

[74] OC-295

[75] Campbell interview

[76] OC-228

Overland's recommended allocation reflects the services actually provided to PG&E by the Financial Analysis Study Department.

Technical and Risk Management Accounting

The holding company Technical and Risk Management Accounting Department is responsible for evaluating and implementing new financial accounting standards, reviewing financial accounting for major transactions and risk management financial statement disclosures.[77]

The top five projects the Department worked on in 2002 are listed below:[78]

- Financial reporting - primarily risk management and new financial accounting standards issued by the Financial Accounting Standards Board (FASB).
- General accounting research pertaining to new and proposed FASB pronouncements and SEC requirements.
- Evaluate major transactions for accounting and financial reporting implications, primarily four new holding company debt issues and NEG projects.
- POR activities including accounting for new contracts, POR registration statements, and general POR accounting.
- Risk management accounting research and advice to subsidiaries on risk management accounting and reporting.

The Department had extensive involvement in preparing the general accounting and risk management accounting sections of the POR securities registration statements in

[77] Dales interview, OC-296 and PG&E A&G Study WP page 7-429

[78] OC-296

2002.[79] The Department also determined the accounting for the new POR bilateral power sales agreement and interest rate hedges of the proposed POR debt.

The Department reviewed 30 draft power purchase contracts in 2002 for appropriate accounting treatment under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. [80]

PG&E has its own Technical Accounting and Reporting section located within the utility Corporate Accounting Department.[81] The PG&E Technical and Accounting Reporting section also reviews new FASB accounting requirements.[82] However, the utility Technical Accounting and Reporting section focuses more on regulatory accounting issues.[83]

The holding company Department provides services to the utility in the following areas:[84]

- General accounting research
- Disclosure requirements and template for risk management accounting and new accounting standards
- Risk management accounting research

The current headcount in the holding company Department is 5.5 FTE.[85]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 6 FTE and $102,293 in contract costs. PG&E's forecasted headcount is reasonably close to the current

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[79] OC-296

[80] OC-296

[81] Wilke interview and OC-152

[82] OC-152 and OC-151

[83] OC-296

[84] OC-296

[85] OC-479

headcount of 5.5 FTE. Overland accepted PG&E's cost forecast for the holding company Technical and Risk Management Accounting Department.

Cost Allocations

PG&E allocated 76.39% of the Department's costs to PG&E using the multi-factor allocation factor. [86] The multi-factor allocator does not provide an appropriate basis for allocating the department's costs. NEG's energy trading operations have extensive risk management accounting requirements. In addition, NEG enters into many more major asset acquisition and divestiture transactions than PG&E and uses more complex financing arrangements than PG&E, including synthetic leases and tolling agreements.[87] Therefore, less than 50% of the Department's costs should be allocated to PG&E.

PG&E directly assigned 57.57% of the Department's labor costs to NEG in its NOI.[88] PG&E abandoned the direct assignment approach used in its NOI and assigned 100% of the Department's costs to the holding company common category in its Application. PG&E changed the allocation treatment of the department's costs in the Application because of an enhancement made to its A&G Model.[89]

Some of the activities of the holding company Technical and Risk Management Accounting Department are consolidation and coordination activities that are the direct result of the formation of the holding company. However, the department does provide some services to the utility. PG&E allocated 42.43% of the Department's costs to the utility in its NOI. The NOI allocation reflected the judgment of the Department's Director.[90] The multi-factor allocator used in PG&E's Application is inappropriate and does not reflect the activities of the Department. The Department specific allocation used in the NOI results in a reasonable allocation of costs to PG&E. Therefore, Overland recommends allocating 42.43% of the Department's costs to PG&E.

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[86] PG&E A&G Study WP pages 7-431 and 7-433 and PG&E Exhibit 6 WP 6-347

[87] OC-228, OC-296 and OC-229

[88] PG&E NOI A&G Study WP 7-433

[89] OC-297

[90] PG&E NOI A&G Study WP, page 7-445

Overland's recommendation allocates 2.5 FTE to the utility. That allocation reasonably reflects the services the holding company Technical and Risk Management Accounting Department actually provides to PG&E.

Investor Relations

The holding company Investor Relations Department is responsible for communications between PG&E Corporation and the institutional investment community. The department provides information to equity and debt analysts concerning the financial performance and prospects of PG&E Corporation and its subsidiaries.[91] The headcount in the department was 5 FTE as of December 31, 2002.[92]

Cost Forecast

PG&E's cost forecast includes labor and material costs for 5 FTE, $112,887 of contract costs and $200,004 of orders costs.[93] The orders costs are for analyst conferences. Overland accepted PG&E's cost forecast for the holding company Investor Relations Department.

Cost Allocations

PG&E allocated 56.87% of the Department's costs to the utility.[94] The CPUC allocated 36% of the costs of the shareholders services and investor relations function to PG&E in the 1999 GRC.[95] The CPUC allocated 32.5% of the cost of the PG&E Corporation annual shareholders meeting to PG&E in the 1999 GRC. [96]

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[91] PG&E A&G Study WP 7-445

[92] OC-372

[93] OC-446

[94] PG&E A&G Study WP 7-447, Utility allocation equals 46.75% assigned to utility common plus 67.70% (capitalization factor) of the 14.95% assigned to holding company common.

[95] D.00-02-046, page 269

[96] D.00-02-046, page 327

The formation of a holding company has two consequences pertaining to investor relations. First, the utility's ability to directly access the common equity market is eliminated. The inability to directly access the common equity market harms ratepayers by reducing the utility's financial flexibility. Second, the utility only has one common shareholder. As a result, the utility does not need to purchase any common equity investor relations services. It would be fundamentally unfair to require the utility to bear the adverse consequences created by only having one shareholder (i.e. reduced financial flexibility) while depriving it of the relatively small and offsetting benefit of reduced shareholder services and investor relations costs.

The allocations adopted in the 1999 GRC balance the positive and negative consequences of the formation of a holding company.[97] PG&E's proposed allocation ignores the policy adopted in the 1999 GRC and is excessive.

Overland recommends allocating 33% of the costs of the holding company Investor Relations Department to the utility. That allocation reflects an equal allocation of the costs between NEG, PG&E and the holding company. Overland's recommendation results in an allocation that is reasonably close to the 36% allocation adopted in the 1999 GRC.

VP Treasurer

The holding company VP Treasurer is responsible for the management of PG&E Corporation's treasury functions.[98] The following holding company departments report to the VP Treasurer.

- Banking and Money Management
- Insurance
- Investment and Benefit Finance

PG&E forecasts a headcount of 4 FTE for the Study Department. That headcount consists of the Treasurer, an executive secretary and two new employees who work for other Departments.[99] The new employees were hired in 2002. When the A&G Study

[97] D.00-02-046, page 269

[98] PG&E A&G Study WP 7-523

[99] OC-301

was prepared, the plan was for the new employees to work in the VP Treasurer immediate office. Therefore, PG&E included the costs of those new employees in the VP Treasurer Study Department forecast. According to PG&E, the total costs included in the A&G Study for the new employees is correct. The costs are simply included in the wrong Study Department. [100]

One of the new employees is an associate working in the holding company Banking and Money Management Department. That employee started in August of 2002 and worked extensively on POR related matters during the remainder of 2002.[101] The other new employee is an associate working in the holding company Strategic Planning Department on electric transmission matters.[102]

Cost Forecast

The current headcount in the Department is 2 FTE.[103] PG&E's cost forecast includes labor and material costs for 4 FTE. PG&E's cost forecast includes two employees who do not actually work in the Department. Including those employees in the Department distorts the Department's labor allocations. Accordingly, Overland recommends the following adjustment to eliminate their costs.

Holding Company Vice President & Treasurer 2003 Headcount Forecast Adjustment	
Description	Amount
Reverse Labor Adjustment (Per PG&E)	(254,800)
Reverse Materials Adjustment (Per PG&E)	(164,758)
Total Forecast Adjustment	(419,558)
Source: PG&E A&G WP pages 7-530 through 7-533	

Overland's forecast adjustment simply reverses the forecast adjustments PG&E made to recorded 2001 costs to add the two new employees. The cost forecasts for the two

[100] OC-301

[101] OC-301 and OC-303

[102] OC-301

[103] OC-372

new employees are addressed in the discussion of the holding company Banking and Money Management and Strategic Planning Departments.

Cost Allocations

PG&E assigned 100% of the Department's costs to the holding company common category and allocated 76.39% of the costs to the utility using the multi-factor allocation factor. [104]

The three departments that report to the VP Treasurer all provide substantial services directly to the utility. PG&E's allocation is reasonably consistent with the allocations of those departments. Overland accepted PG&E's allocations for the VP Treasurer Study Department.

Overland reclassified two employees to other Departments. One of those employees works on electric transmission matters and the other is an incremental hire attributable to bankruptcy and POR activities. If Overland's recommendation to reclassify those employees is not adopted, 25% of the Department's costs should be charged to electric transmission, 25% should be allocated to the below-the-line category and 50% should be allocated using the multi-factor allocation factor.

Banking and Money Management

The Banking and Money Management Department performs cash management, financing and treasury operations services. The cash management services include managing short-term debt and temporary cash investments. The financing services include executing new securities issues and arranging for bank credit facilities. The treasury operations services include assisting holding company subsidiaries with banking arrangements.[105]

The Department is directly responsible for the financing, cash management and banking relationship activities for the holding company and PG&E. The Department's role in those functions for NEG is more limited. NEG performs those functions internally. The Department performs a policy setting, coordination and supervision role regarding those

[104] PG&E A&G Study WP 7-525 and PG&E Exhibit 6 WP 6-347

[105] PG&E A&G Study WP pages 7-541, 7-556 and 7-557

NEG functions.[106] The Department participates in NEG debt placements and other financial transactions by overseeing NEG's activities and providing representations and disclosures required by NEG's creditors. NEG has entered into far more financial transactions than PG&E in recent years. NEG's financial transactions also tend to be more complex than PG&E's. [107]

The Department had extensive involvement in POR matters in 2002. The work focused on the new securities needed to finance the POR. Approximately 26% of the Department's total hours were worked on POR matters in 2002.[108] PG&E forecasts that 16% of the Department's hours will be worked on POR matters in 2003.[109] The headcount in the department was 14 FTE as of December 31, 2002.[110]

Cost Forecast

PG&E's 2003 forecast includes labor and material costs for 14 FTE and a small amount of contract costs. The material costs include $282,534 of bank service fees. The average headcount in the Department was 13 FTE in 2001.[111] PG&E's forecasted headcount of 14 FTE equals the current headcount and is reasonably close to the average 2001 headcount. Overland accepted PG&E's 2003 cost forecast for the holding company Banking and Money Management Department.

As previously noted, PG&E included one Banking and Money Management employee the VP Treasurer Study Department. Overland recommended an adjustment to remove that employee from the forecast for the VP Treasurer Department. Overland did not recommend an adjustment to increase the costs of the Banking and Money Management Department to reflect that employee because PG&E's forecast already includes 14 FTE. Approximately 26% of the total hours worked in the Banking and Money Management Department in 2002 were worked on POR matters. Any headcount

[106] Donnelly telephone interview

[107] OC-117 and OC-229

[108] OC-302 and OC-303

[109] PG&E A&G Study WP 7-557 and OC-302

[110] OC-372

[111] PG&E A&G Study WP page 7-547

additions beyond PG&E's forecasted level of 14 FTE should be viewed as incremental additions caused by POR activities.

Cost Allocations

PG&E assigned 84% of the Department's costs to the holding company common category and the remaining 16% to the utility common category.[112] PG&E allocated 67.7% of the holding company common category to the utility using the capitalization factor. [113] In total, PG&E allocated 72.87% of the Department's labor and material costs to PG&E. Overland accepts PG&E's use of the capitalization factor to allocate the holding company common category.

The costs PG&E assigned to the utility common category reflects PG&E's forecast of POR activities in 2003. [114] PG&E provided the following explanation for why it assigned the POR activities to the utility common category. [115]

> Before the bankruptcy, when the Utility was creditworthy, Banking and Money Management's financing activities related to raising and administering debt and equity...With the advent of the energy crises, and resulting financial distress and bankruptcy, most of the normal financing activities stopped and the Department shifted its work from the...financing category to the POR category. Once the bankruptcy has ended and the utility has returned to health, the time allocated to the POR should shrink and the regular financing activity will resume....

Overland accepts PG&E's argument that under normal circumstances the time currently worked on POR matters would be worked on regular financing matters. However, PG&E's argument does not support directly assigning the POR activity to the utility. The regular finance activity includes PG&E Corporation financial transactions and review and limited participation in NEG financial transactions.[116] PG&E assigned the "regular financing activities" in 2000 and 2001 to the holding company common category.[117]

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[112] PG&E A&G Study WP 7-543

[113] PG&E Exhibit 6 WP 3-347

[114] PG&E A&G Study WP 7-557 and OC-302

[115] OC-302

[116] Donnelly telephone interview

[117] PG&E A&G Study WP 7-556, Activity 2

Therefore, the POR activities should be reclassified from the utility common category to the holding company category. After that reassignment, 100% of the Department's costs are assigned to the holding company common category. That change reduces PG&E's utility allocation by 5.17%.[118]

Insurance

The holding company Insurance Department is responsible for procuring insurance for NEG, PG&E and PG&E Corporation. The Insurance Department also manages insurance claims and implements property loss control measures to reduce insurance premiums.[119]

The headcount in the Insurance Department was 9 FTE as of December 31, 2002.[120] PG&E Corporation's **Confidential** 2001 Annual Insurance Review presented to the PG&E Corporation Board Finance Committee provides the following summary of corporate insurance premiums.

(REDACTED)

Cost Forecast

PG&E's cost forecast includes labor and material costs for 9 FTE and $345,500 in contract costs. The contract costs are largely for pressure vessel inspection and other loss control services. PG&E's forecasted headcount equals the current headcount. Overland accepted PG&E's cost forecast for the Insurance Department.

[118] PG&E's 78.27% allocation less Overland's recommended allocation of 67.70% equals 5.17%.

[119] PG&E A&G Study WP page 7-565

[120] OC-372

Cost Allocations

PG&E assigned 100% of the Department's costs to the holding company common category and allocated 57.58% of those costs to the utility using the insurance factor. [121] The insurance factor reflects premiums paid for the 2000-2001 coverage year.[122] PG&E's allocation is reasonably consistent with the insurance premiums shown in the 2001 Annual Insurance Review. Overland accepted PG&E's allocation of the costs of the Insurance Department.

Investment and Benefit Finance

The holding company Investment and Benefit Finance Department manages the funds contained in PG&E, NEG and PG&E Corporation employee benefit plan and nuclear decommissioning trusts.[123] The headcount in the Department was 4 FTE as of December 31, 2002.

Cost Forecast

PG&E's cost forecast for the Investment and Benefit Finance Department includes labor and material costs for 4 FTE and a small amount of contract costs.[124] Overland accepted PG&E's cost forecast.

Cost Allocations

PG&E assigned 80% of the Department's costs to the holding company common category, 10% to Diablo Canyon and 10% to PG&E's Humbolt Unit 3. PG&E allocated 89.5% of the holding company common category to the utility using the headcount factor.[125] In total, PG&E allocated 91.6% of the holding company Investment and Benefit Finance Department's costs to PG&E.

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[121] PG&E Exhibit 6 WP 3-347

[122] OC-270

[123] PG&E A&G Study WP 7-583

[124] PG&E A&G Study WP 7-584

[125] PG&E Exhibit 6, WP 6-347

As of December 31, 2001, utility trust fund assets represented 95.1% of the total assets managed by the Investment and Benefit Finance Department.[126] PG&E's recommended allocation is reasonably consistent with the distribution of the assets managed by the Department. Overland accepted PG&E's allocation of the holding company Investment Benefit and Finance Department.

[126] OC-305

Chapter 9
Holding Company Public Affairs and Other

This Chapter addresses the following holding company departments:

- SVP Public Affairs
- Federal Governmental and Regulatory Relations
- Regional Governmental Relations
- Corporate Communications
- Human Resources
- Strategic Planning
- Corporate Information Technology
- Facilities Charges
- Corporate Items

Summary of Issues

The following table summarizes the issues developed in this Chapter at a total utility A&G level.

Chapter 9 - Holding Company Public Affairs and Other Summary of Differences -Total Utility A&G Expense (2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Public Affairs	0	(134,497)	(138,819)	(273,316)
Fed. Government & Reg. Relations	(169,730)	(753,610)	(662,399)	(1,585,739)
Regional Government Relations	0	(246,026)	(325,421)	(571,447)
Corporate Communications	(103,890)	(531,083)	(713,808)	(1,348,781)
Human Resources	0	(3,129,039)	(1,478,983)	(4,608,022)
Strategic Planning	160,250	(918,309)	(39,482)	(797,541)
Corporate Information Technology	(340,726)	(711,385)	(205,659)	(1,257,770)
Corporate Items	0	(10,430,340)	0	(10,430,340)
Total	(454,096)	(16,854,289)	(3,564,571)	(20,872,956)

The issues are discussed below by department.

1. **SVP Public Affairs.** Allocated 100% to affiliates to eliminate incremental costs attributable to holding company formation.

2. **Federal Governmental and Regulatory Relations.** Reduced cost forecast by $243,000 (before allocations) to reflect expected 2003 staffing levels. Reduced utility labor allocation by 30.56% to reflect revised labor factors provided by PG&E.

3. **Regional Governmental Relations.** Allocated all costs to affiliates and below-the-line to eliminate political advocacy costs and incremental costs attributable to holding company formation.

4. **Corporate Communications.** Reduced forecast by $340,000 to reflect expected 2003 staffing levels. Allocated all labor costs to affiliates to eliminate incremental costs attributable to holding company formation. Reduced allocation of Annual Report to Shareholders costs by 43.4% to reflect the allocation approach adopted in the 1999 GRC Decision.

5. **Human Resources.** Reduced contract forecast by $789,548 to reflect the Department's 2002 budget. Reduced labor allocation by 61.18% to reflect the CPUC's holding company cost policies. Reduced contract allocation to reflect the CPUC's holding company policies.

6. **Strategic Planning.** Allocated all costs to affiliates and below-the-line to eliminate incremental costs attributable to the POR and holding company formation.

7. **Corporate Information Technology.** Reduced costs by $446,035 (before allocations) to reflect reduced staffing levels resulting from Departmental reorganization. Allocated 100% of costs to affiliates to eliminate incremental costs attributable to holding company formation.

8. **Corporate Items.** Reduced utility allocations to reflect an item-by-item analysis of the costs. Recommended utility allocations reflect the allocations of other holding company departments and eliminate incremental costs attributable to holding company formation. Allocated 50% of the utility portion of incentive pay costs to below-the-line to reflect the CPUC's incentive pay policy. In total reduced utility costs by $10.4 million.

SVP Public Affairs

PG&E Corporation's SVP Public Affairs is a dual utility and holding company officer. The SVP Public Affairs is responsible for governmental relations, including lobbying.[1] The SVP's labor costs are charged to a utility cost center. The SVP Public Affairs has two office locations, an office in PG&E's general office complex at 77 Beale street and an office in the holding company's One Market headquarters. The holding company SVP Public Affairs cost center was created to track the expenses of the SVP's One Market office.[2]

Cost Forecast

PG&E's 2003 cost forecast consists of $182,071 in material costs and $2.35 million in contract costs. The material costs are largely facilities and computer charges for the SVP's office in the holding company's headquarters.[3]

PG&E assigned $2.2 million of the contract costs to the below-the-line category. The below-the-line contract costs are political contributions.[4] PG&E assigned the following two contracts to the holding company common category.

Holding Company SVP Public Affairs 2003 Utility Contract Costs Per PG&E	
Description	Amount
Federal political and governmental consulting (Phil Sharp)	90,000
State governmental consulting (Metropolitan West)	91,729
Total	181,729
Source: PG&E A&G Study WP 7-151	

Overland accepted PG&E's 2003 cost forecast for the holding company SVP Public Affairs Study Department, before allocations.

[1] PG&E A&G Study WP 7-135

[2] OC-287

[3] OC-3-3, page 759 and PG&E A&G Study WP 7-142

[4] PG&E A&G Study WP 7-151

Cost Allocations

PG&E assigned 100% of the material costs to the holding company common category and allocated 76.39% of those costs to the utility using the multi-factor allocation factor.[5]

As previously noted, the SVP Public Affairs maintains two offices. The costs of the SVP's office in PG&E Corporation's One Market headquarters are clearly incremental costs caused by the formation of the holding company. Therefore, those costs should not be charged to PG&E.

PG&E allocated 76.39% of the holding company common contract costs to PG&E. PG&E described the Phil Sharp contract as "political and governmental consulting services at the federal level." PG&E described the Metropolitan West contract as follows: [6]

> Provide analysis of electric energy crises on the state's financial condition, economic impact on major state and local government programs, monitor developments with investor-owned utilities, State Treasurer's office and Governor's office.

Political influence costs should be charged to below-the-line accounts. Accordingly, Overland assigned the Phil Sharp and Metropolitan West contracts to the below-the-line category.

Federal Government and Regulatory Relations

The holding company Federal Governmental and Regulatory Relations Department represents PG&E Corporation and its subsidiaries before Congress and federal agencies including the FERC, Army Corp of Engineers and Environmental Protection Agency. Overland interviewed the Manager of the Department's San Francisco office.[7]

The Department lobbies Congress on electric industry restructuring, the repeal of the Public Utilities Holding Company Act, Price Andersen (Nuclear insurance) renewal,

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[5] PG&E A&G Study WP 7-137 and PG&E Exhibit 6 WP 3-347

[6] PG&E A&G Study page 7-151

[7] Janis interview

pipeline safety and clean air legislation.[8] The FERC matters addressed by the Department in 2002 include electric transmission standard market design, PG&E's POR cases, generator interconnection rulemaking and the FERC wholesale power cost refund cases. The FERC activity was primarily related to electric issues in 2002 with only a small amount of time spent on gas transmission matters.[9]

Most of the Environmental Protection Agency issues addressed in 2002 related to NEG matters. The Department addresses hydroelectric issues with the Corp of Engineers. In 2002, most of the Corp of Engineers issues were NEG issues. PG&E's nuclear generation organization handles relations with the Nuclear Regulatory Commission. [10] NEG handles is own state environmental regulatory matters. NEG also has one federal governmental relations employee in Washington.[11]

The Department is working on several POR matters in 2003, including the FERC financing cases and permit transfers. In addition, the Department is working to keep members of Congress and FERC Commissioners informed about the status of the POR.[12]

The headcount in the Department was 9 FTE as of December 31, 2002.[13]

Cost Forecast

PG&E's cost forecast includes labor and material costs for 11 FTE and $1.6 million in contract costs. The material costs include $298,654 of rent for the Washington D.C. office and $40,000 in donations. [14] The contract costs are largely political consulting and "coalition building" costs. The contract costs are discussed in more detail in the allocations section below.

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[8] Janis interview

[9] Janis interview

[10] Janis interview

[11] Janis interview

[12] Janis interview

[13] OC-372

[14] OC-3-3, page 764

PG&E's forecast includes two new employees that were originally expected to be hired by early 2003. The Department's current headcount is 9 FTE. The Department's 2001 average headcount was 8.75 FTE. PG&E's forecasted headcount of 11 FTE exceeds the current and historical headcount. The current headcount provides a sound basis for forecasting the Department's costs. Overland recommends the following adjustment to reflect the current headcount in the Department.

Holding Company Federal Governmental & Regulatory Relations Headcount Adjustment Per Overland	
Description	Amount
Reverse PG&E Labor Adjustment	(203,000)
Reverse PG&E Materials Adjustment	(40,000)
Total	(243,000)
Source: PG&E A&G Study WP pages 7-164 and 7-165	

Overland's recommended headcount forecast adjustment simply reverses the 2003 forecast adjustments made by PG&E to reflect the anticipated new hires.

Cost Allocations

PG&E's original allocation of the Department's labor and material costs is shown below.

Holding Company Federal Governmental & Regulatory Relations Original 2003 Labor Allocation Per PG&E	
Category	Percent
Holding Company Common	43.00
Below-the-line	20.00
Utility Generation	6.00
Utility Electric Transmission	19.00
Utility Gas Transmission	4.00
Utility Public Purpose	1.00
Utility Electric Distribution	5.00
Utility Gas Distribution	2.00
Total	100.00
Source: PG&E A&G Study WP page 7-158	

PG&E allocated 76.39% of the holding company common category to PG&E using the multi-factor allocation factor.[15] In total, PG&E allocated 69.85% of the Department's labor costs to above-the-line utility expense.

During Overland's interview with the Manager of the Department's San Francisco office it became apparent that the Manager had misunderstood the A&G Study instructions when completing the A&G Study survey response.[16] The Manager volunteered to correct the survey response. PG&E submitted the corrected allocations in response to OC-222. The following table shows the corrected allocations provided by PG&E.

Holding Company Federal Governmental & Regulatory Relations Revised 2003 Labor Allocation Per PG&E	
Category	Percent
Holding Company Common	3.00
Non-utility subsidiaries (NEG)	3.00
Below-the-line	57.00
Utility Generation	6.00
Utility Electric Transmission	19.00
Utility Gas Transmission	4.00
Utility Public Purpose	1.00
Utility Electric Distribution	5.00
Utility Gas Distribution	2.00
Total	100.00
Source: OC-225	

The corrected allocations assign 39.29% of the Department's labor costs to above-the-line utility expense. Based on the current headcount in the department, PG&E's allocation represents 3.5 FTE. Overland accepted that allocation as a reasonable approximation of PG&E's above-the-line FERC and other federal agency regulatory relations requirements.

PG&E also revised its contract cost allocations. PG&E's original allocation of contract costs is shown below.

[15] PG&E Exhibit 6 WP 6-347

[16] Janis interview

Holding Company Federal Governmental & Regulatory Relations Original 2003 Contract Allocation Per PG&E	
Category	Amount
Holding Company Common	1,113,537
Non-utility subsidiaries (NEG)	0
Below-the-line	458,833
Utility Generation	40,002
Utility Electric Transmission	6,668
Total	1,619,040
Source: PG&E A&G Study WP 7-160	

In total, PG&E assigned $987,301 in contract costs to utility above-the-line expense. During the interview, it became apparent that a significant portion of the contract costs PG&E assigned to the holding company common category actually should have been assigned to NEG or the below-the-line category. The Manager agreed to revise the allocations. PG&E submitted the revised allocations in the response to OC-225. PG&E's revised allocation of contract costs is shown below.

Holding Company Federal Governmental & Regulatory Relations Revised 2003 Contract Allocation Per PG&E	
Category	Amount
Holding Company Common	141,676
Below-the-line & NEG	1,250,688
Utility Generation	53,336
Utility Electric Transmission	20,004
Public Purpose	26,668
Utility Common	126,668
Total	1,619,040
Source: OC-225	

In total, PG&E's revised contract allocation assigns $334,902 to utility above-the-line expense. PG&E's revised utility common costs include $100,000 for coalition building and legislative support. Those costs are donations for various celebratory events, such as Congressional Black Caucus and Congressional Hispanic Caucus events.[17] Those costs are political influence costs and should be assigned to the below-the-line category. With that exception, Overland accepted PG&E's revised contract cost

[17] OC-225

allocations for the holding company Federal Governmental and Regulatory Relations Department.

Regional Governmental Relations

The holding company Regional Governmental Relations Department is also known as the Political Resources Department.[18] The Department coordinates the state and local governmental relations policies of the holding company and its subsidiaries.[19] The Department also administers PG&E Corporation's political contribution program and employee political action committees (PACs). The Department provides governmental relations consulting services to PG&E on municipalization, electric industry restructuring and POR matters and also provides governmental relations consulting to NEG.[20]

The Department consists of a director, manager, accounting analyst and secretary.[21] The headcount in the department was 4 FTE as of December 31, 2002.[22]

Cost Forecast

PG&E's cost forecast consists of labor and material costs for 4 FTE and $426,000 in contract costs. The contract costs are shown below by contract.

Holding Company Regional Governmental Relations 2003 Contract Costs Per PG&E	
Description	Amount
PAC Administration & Contribution Reporting	240,000
Municipal Competition and Special Projects	96,000
Coalition Building With Interest Groups and Public Officials	90,000
Total	426,000
Source: PG&E A&G Study WP 7-205	

Overland accepted PG&E's 2003 cost forecast before allocations.

[18] PG&E A&G Study WP 7-209

[19] PG&E A&G Study WP 7-184

[20] PG&E A&G Study WP 7-184

[21] PG&E A&G Study WP 7-209

[22] OC-372

Cost Allocations

PG&E allocated 22% of the Department's labor and material costs to the utility common category and 17% to the holding company common category.[23] PG&E allocated 76.39% of the holding company common costs to PG&E using the multi-factor allocation factor.[24] In total, PG&E allocated 34.99% of the Department's costs to utility above-the-line operations.

PG&E assigned all of the Department's contract costs to the holding company common category. In total, PG&E allocated $325,421 of the Department's costs to above-the-line utility costs.

PG&E's A&G study provides the following breakdown of the Department's labor hours by activity.

Holding Company Regional Governmental Relations 2003 Labor by Activity Per PG&E	
Description	Percent
Department Administration	2.00
Administration of Employee PACs	7.00
Utility San Francisco Area Public Affairs	2.00
Electric Industry Restructuring	1.00
Political Contributions - PG&E Corporation	10.70
Political Contributions - NEG	15.00
Political Contributions - Utility	35.00
Local Government Distribution Competition	12.00
Other Political Law Compliance (lobbying and gift laws)	15.00
PG&E Properties Development Projects	0.30
Total	100.00
Source: PG&E A&G Study WP 7-199	

The Department's local government distribution competition activity focuses on opposing municipalization efforts. The primary purpose of virtually all of the Department's activities is influencing political decisions. The San Francisco area public affairs and electric industry restructuring are the only two activities identified by PG&E that are arguably utility above-the-line functions. Those activities only total 3% of the Department's time and may represent coordination activities.

[23] PG&E A&G Study WP 7-186

[24] PG&E Exhibit 6 WP 3-347

PG&E has its own State Governmental Relations and Local Governmental Relations Departments. To the extent that the Department performs above-the-line governmental relations coordination functions, the costs of those activities are incremental costs directly attributable to the formation of the holding company that should not be charged to the utility. PG&E has not demonstrated that the Department provides any services that are recoverable in rates. Overland recommends allocating 100% of the Department's labor and materials costs to below-the-line activities.

The three contracts included in PG&E's 2003 forecast clearly have a primary purpose of influencing political decisions. Accordingly, Overland allocated all of the Department's 2003 contract costs to the below-the-line category.

Corporate Communications

The holding company Corporate Communications Department is responsible for PG&E Corporation's internal and external communications, including media relations, advertising and employee communications.[25] The headcount in the Department was 5 FTE as of December 31, 2002.[26]

Cost Forecast

PG&E's cost forecast includes labor and materials for 7.5 FTE and $6.2 million in contract costs. The actual headcount in the Department as of December 2001 was 6 FTE. PG&E forecast the hiring of one new FTE in 2002 and an additional new FTE in the middle of 2003. The new position forecasted for 2002 was added to work on advertising and corporate brand identity.[27] The new position forecasted for 2003 is expected to address "demands for increased communications support for electric transmission, gas transmission and generation."[28] Those are the areas that PG&E proposes to spin-off in the POR.

The historical and current headcount in the Department is shown below.

[25] PG&E A&G Study WP 7-274

[26] OC-372

[27] OC-290

[28] OC-290

Holding Company Corporate Communications Historical and Current Headcount	
December	FTE
2000	5.0
2001	6.0
2002	5.0
Source: PG&E A&G Study WP 7-280 and OC-372	

PG&E's forecasted headcount of 7.5 FTE exceeds the current and historical headcount in the Department. One of the new hires forecasted by PG&E is for below-the-line advertising purposes and the other appears to be for below-the-line POR purposes.

The Department's headcount averaged 5.5 FTE in 2001. Actual 2001 Department costs provide a sound basis for forecasting the Department's costs. Overland recommends the following forecast adjustment to reset the Department's labor and materials costs to reflect 2001 actual staffing levels.

Holding Company Corporate Communications Overland 2003 Forecast Headcount Adjustment	
Description	Amount
Reverse PG&E Labor Adjustments	(175,000)
Reverse PG&E Material Adjustments	(165,000)
Total	(340,000)
Source: PG&E A&G Study WP pages 7-281, 7-282, 7-283 and 7-284	

Overland's proposed headcount adjustment simply reverses the forecast adjustments PG&E made for its forecasted staffing increases.

The Department's contract costs are shown below by contract.

Holding Company Corporate Communications 2003 Contract Costs Per PG&E	
Description	Amount
Public Relations Consulting	422,000
Wire and Media Services	47,806
Annual Report Production	700,000
Graphic Design	21,536
Conference Calls	73,588
Charitable Contributions	97,410
Advertising	4,630,000
Other	233,808
Total	6,226,148
Source: PG&E A&G Study WP 7-292	

The actual annual report production costs were $338,550 in 2001. The 2003 forecast reflects an increase of $311,450 to return to pre-bankruptcy printing quality. [29] Overland accepted PG&E's 2003 contract cost forecast before allocations.

Cost Allocation

PG&E allocated 40% of the Department's labor and material costs to the holding company common category and the remaining 60% to the below-the-line category.[30] PG&E allocated 76.39% of the holding company common category to the utility using the multi-factor allocation factor.[31] In total, PG&E allocated 30.56% of the Department's labor and material costs to PG&E.

PG&E has its own VP Communications, Media Relations and Internal/External Communications Departments. PG&E's Media Relations Department has a staff of 18 FTE and handles all of PG&E's media communications requirements.[32] PG&E's Internal/External Communications Department has a staff of 16 FTE and handles PG&E's employee communications needs.[33]

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[29] PG&E A&G Study WP pages 7-286 and 7-293

[30] PG&E A&G Study WP page 7-276

[31] PG&E Exhibit 6, WP 6-347

[32] OC-372

[33] OC-372

Data Request OC-290 asked PG&E to provide the written work products the holding company Corporate Communications Department provided to the utility in 2002. PG&E's response did not contain any documents. Instead, the response states:

> In its role as manager of communications across the Corporation, the Corporation's Corporate Communications department does not generally provide work products to the utility. It actually works in reverse. The utility will provide news releases and other public communications to the Corporation for its review and comment.

PG&E has not demonstrated that the holding company Corporate Communications Department actually provides any services to PG&E. The holding company Corporate Communications Department does not provide written work products to PG&E. There is no indication that PG&E's Media Relations and Internal/External Communications Departments need to purchase communications consulting services from the holding company. The coordination activities performed by the holding company Corporation Communications Department are incremental activities caused by the formation of the holding company and PG&E Corporation's participation in non-regulated business activities. Therefore, the costs of those activities should not be charged to PG&E. Overland recommends allocating all of the labor and material costs of the Department to the affiliate and below-the-line categories.

PG&E assigned the charitable contributions and advertising contracts to the below-the-line category. PG&E also allocated $75,209 of the other orders contract to the below-the-line category. PG&E assigned all of the Department's remaining contract costs to the holding company common category. In total, PG&E allocated $1,087,434 in contract costs to the utility. The two largest contracts allocated to PG&E are the public relations and annual report production contracts. The response to OC-291 provides the following description of the $422,000 public relations consulting contract.

> [The] PR consulting [forecast] provides funding for two senior level communications counseling agencies. Both of these firms provide high-level strategic communications advice on issues involving corporate governance, communications with financial media, and issues that have the potential to significantly affect the Corporation's reputation with Wall Street, investors and the public at large. They frequently provide this advice directly to members of the Corporation's senior leadership team.

The response to OC-291 notes that PG&E's bankruptcy and POR will increase the need for senior level communications counsel in 2003. Overland recommends allocating one-third of the PR consulting contract to PG&E. That $140,666 allocation to PG&E reflects an equal allocation between NEG, PG&E and the holding company. PG&E's forecast for

the utility Vice President of Communications included $75,000 in public relations consulting. Overland accepted that forecast. Overland's combined forecast for utility above-the-line public relations consulting of $215,666 is sufficient for utility requirements.

PG&E only has one common shareholder. As a result, it does not need an elaborate annual report to shareholders. The CPUC allocated 32.5% of PG&E Corporation's annual shareholder meeting costs to PG&E in the 1999 GRC Decision.[34] That allocation balanced the advantages and disadvantages accruing to ratepayers as a result of the holding company structure. The CPUC's analysis of annual shareholder meeting costs is equally applicable to the annual report to shareholders. Overland recommends allocating 33% of the annual report contract costs to PG&E. That allocation is based on the policies adopted in the 1999 GRC and reflects an equal allocation of the costs between NEG, PG&E and the holding company.

Overland recommends that the remaining holding company Communications Department contracts be assigned to the below-the-line or affiliate categories. The Department does not provide any identifiable services to PG&E. Therefore, the Department's general administrative contracts should not be allocated to the utility.

The following table shows Overland's allocation of holding company Corporate Communications contract costs to the utility.

Holding Company Corporate Communications 2003 Contract Costs Allocated to Utility Per Overland			
Description	Total	Percent	Utility Amount
Public Relations Consulting	422,000	0.333	140,526
Annual Report Production	700,000	0.333	233,100
Total			373,626
Source: PG&E A&G Study WP 7-292			

Human Resources

The holding company Human Resources Department develops high level PG&E Corporation human resources policies and performs all human resources functions for holding company employees. In addition, the Department is responsible for executive compensation and benefits for NEG, PG&E and holding company officers and highly

[34] D.00-02-046, page 327

paid employees. The Department also handles employee relocation services for NEG, PG&E and the holding company. Overland interviewed the Department's Directors of Planning and Development and Compensation and Benefits.[35]

The headcount in the Department was 24 FTE as of December 31, 2002.[36] The following table shows the headcount by section.

Holding Company Human Resources Department Headcount by Section	
Section	FTE
SVP HR and Secretary	2
HR Services (holding co. employees)	1
Director - Planning and Development	2
EEO/ Diversity	1
Staffing	3
Relocation Services	3
Leadership Development	1
Director - Compensation and Benefits	2
Benefits	6
Compensation	3
Total	24
Source: Brennan & Clark Interview org. chart 11/12/02	

The holding company SVP Human Resources is a dual officer of NEG and the holding company. The SVP travels to NEG's offices in Maryland at least once a month and sometimes twice a month.[37] The HR Services position provides HR generalist consulting services to holding company organizations.

The EEO/Diversity position consolidates the EEO reports submitted by NEG and PG&E and provides overall EEO/Diversity policy and planning services. The Director of Staffing develops policy on corporate staffing and recruiting issues. The Staffing section also fills all vacancies in holding company departments and conducts external executive job searches for officer vacancies at NEG and PG&E. The Relocation Services section is responsible for designing PG&E Corporation's relocation expense reimbursement policies, making moving arrangements and arranging temporary housing for relocated

[35] Brennan and Clark interview

[36] OC-372

[37] Brennan and Clark interview

employees. The Leadership Development section is responsible for succession planning for all NEG, PG&E and holding company officer positions.[38]

The Benefits section works primarily on executive benefits. The section also works on high level benefit design throughout PG&E Corporation and administrates the benefits programs for holding company employees. The compensation section focuses on holding company, NEG and PG&E officers and highly paid employees. [39]

The Department worked on several POR matters in 2002, including benefit and compensation plan design for the new companies created in the POR, benefit trust separation issues and staffing plans for the separated companies. One employee in the Department was assigned 100% to the POR. PG&E estimates that the Department worked an average of 1.90 FTE on POR matters in 2002.[40]

Cost Forecast

PG&E's cost forecast includes labor and material costs for 26 FTE and $2.2 million in contract costs. PG&E's headcount forecast exceeds the current headcount by 2 FTE. PG&E's headcount forecast is reasonably close to the current headcount. Overland accepted PG&E's forecast of labor costs.

PG&E's forecast of material costs reflects the Department's 2002 budget and is shown below by type.

[38] Brennan interview

[39] Clark interview

[40] Brennan and Clark interview and OC-3-3, page 744

Holding Company Human Resources 2003 Materials Costs Per PG&E	
Description	Amount
Facility Costs	615,972
Computer (PC) Support	576,000
Travel	186,900
Association Dues	69,504
Training and Development	63,504
Printed Materials	57,504
Other Misc.	265,716
Total	1,835,100
Source: OC-3-3, page 744	

The travel costs are primarily for travel between San Francisco and NEG's offices in Maryland.[41] PG&E's forecast of materials costs is reasonably close to 2001 and 2002 actual costs.[42] Overland accepted PG&E's forecast of materials costs.

The following table shows PG&E's forecast of contract costs for the holding company Human Resources Department.

Holding Company Human Resources Department 2003 Contract Costs Per PG&E	
Description	Amount
CDR International - Executive Development	525,000
Hewitt Associates - Executive Compensation	300,000
Job Postings	120,000
Smith-Jennings - Benefits Consulting	42,000
Towers Perrin - Benefits Consulting	195,000
Miscellaneous Contracts Not Identified	932,264
AYCO - Executive Personal Financial Advice	100,200
Total	2,214,464
Source: PG&E A&G Study WP 7-225	

The Department's approved 2002 contract budget was $1.86 million. PG&E's 2003 contract forecast exceeds the Department's 2002 approved contract budget by

[41] Brennan and Clark interview

[42] OC-371 and PG&E A&G Study WP 7-211

$529,844.[43] The Department's actual 2002 contract costs were $1,087,530.[44] PG&E's 2003 contract forecast exceeds the Department's 2002 actual contract costs by $1.13 million. The actual 2002 costs include some costs related to POR benefit separation issues.

The Department only incurred $19,912 in charges from CDR International in 2002.[45] CDR provides executive development workshops and individual coaching for NEG, PG&E Corporation and PG&E executives. The most recent workshop was held in November 2001. In 2001, the CDR contract costs totaled $265,295.[46] PG&E's forecast of $525,000 for CDR charges is excessive compared to 2001 and 2002 actual charges.

The Department's 2002 budget provides a sound basis for forecasting the 2003 contract costs of the Human Resources Department, with the exception of the CDR contract. Overland recommends substituting the 2001 actual CDR charges for the budgeted amount. Overland's recommended contract forecast for the Human Resources Department is shown below.

Holding Company Human Resources Department 2003 Contract Costs Per Overland	
Description	Amount
CDR International - Executive Development	265,296
SERP Administration (Vinings)	40,200
Hewitt - Executive Compensation	300,000
Towers Perrin - Benefit Plan Actuary	195,000
Other Benefit Consulting	84,000
Job Postings	120,000
AYCO - Executive Personal Finance Advice	100,200
Other Miscellaneous Contracts	320,220
Total	1,424,916
Source: OC-3-3, page 743	

Overland's forecast exceeds the Department's actual 2002 contract costs by $337,386. Overland recommends the following adjustment to reflect its contract forecast.

[43] OC-3-3, page 743

[44] OC-237

[45] OC-235

[46] OC-235

Holding Company Human Resources 2003 Contract Forecast Adjustment	
Description	Amount
Overland Forecast	1,424,916
PG&E Forecast	2,214,464
Forecast Adjustment	(789,548)
Source: PG&E A&G WP 7-225 & OC-3-3, page 743	

Cost Allocations

PG&E assigned 100% of the Department's costs to the holding company common category. PG&E allocated 89.5% of the Department's costs to PG&E using the headcount allocation factor. PG&E's allocations do not reflect the actual activities of the Department and are not reasonable.

PG&E has its own Vice President of Human Resources. The holding company -NEG dual officer SVP Human Resources position is a redundant position attributable to the creation of the holding company. Therefore, the costs of that position should not be charged to PG&E.

The Compensation section focuses on two groups (1) officers and other highly compensated employees at NEG, PG&E and the holding company; and (2) other holding company employees. The Compensation section spends approximately 80% of its time addressing matters involving the officers and other highly compensated employees. The following table shows the officers and other highly compensated employees by company.

Holding Company Human Resources Department Compensation Section Officers and Highly Compensated Employees		
Company	Total	Percent
NEG	219	47.40
PG&E	183	39.61
Holding Company	60	12.99
Total	462	100.00
Source: OC-233		

As can be seen above, utility officers and highly compensated employees only represent 40% of the total.

The Compensation section spends about 20% of its time on other holding company employees. PG&E has its own Compensation Department. To the extent that holding company departments actually provide services to PG&E, the PG&E Compensation Department could accommodate their compensation requirements without an increase in staffing. Therefore, the costs of the holding company Compensation section attributable to other holding company employees are incremental costs caused by the creation of the holding company and should not be charged to PG&E. Overland recommends allocating 32% of the costs of the Compensation section to PG&E. That allocation reflects 40% of the time spent on officers and other highly paid employees.

The Benefits section administers management and Board of Director compensation and benefit plans. The following table shows the breakdown of the participants in those plans.[47]

Holding Company Human Resources Department Benefits Section Executive and Board Plans - Eligible Participants			
Plan	NEG	PG&E	Holding Co.
Supplemental Retirement Savings Plan	181	159	43
Deferred Compensation Plan for Officers	13	14	1
Performance Unit Plan	19	24	17
Stock Option Plan	342	518	89
Executive Stock Ownership Program	4	6	5
Senior Executive Retention Program	7	6	4
Executive Health Program	1	6	8
Executive Personal Financial Advice	1	6	8
Deferred Compensation Plan -Board Members	na	na	na
Stock Incentive Plan - Board Members	na	na	na
Source: OC-234; na means not applicable			

In addition to the executive and Board plans, the Benefits Section also administers (1) the retirement savings plan for the holding company and all subsidiaries and (2) all holding company employee benefit plans, including the medical plan. [48] Two of the 6 employees in the Benefits section work primarily on holding company employee benefits. PG&E has its own Benefits Department. If additional utility employees were hired to provide the services currently provided to PG&E by the holding company, PG&E's Benefits Department could address their benefit requirements with very little incremental staffing. Overland recommends allocating 33% of the Benefits section to

[47] OC-234

[48] OC-234

the utility. That allocation reflects 50% of the time of the four employees who work on officer and other highly paid employee benefit plans.

Two of the three employees in the Staffing section work predominately on filling vacancies in holding company departments.[49] The function of the EEO/Diversity position is largely a consolidation and coordination function. PG&E has its own Professional Staffing and Diversity Department with a staffing of 20 FTE. PG&E does not need to purchase staffing or EEO/Diversity services from the holding company. Overland recommends allocating 13.33 percent of the Staffing section and zero percent of the EEO/Diversity Section to the utility. The Staffing section allocation represents 40% of the one position that works predominately on executive staffing.

The Relocation Services section handles employee relocations for NEG, PG&E and PG&E Corporation. The following table shows the total number of relocations by company for the period January 2001 through October 2002.

Holding Company Human Resources Department Relocations By Company January 2001 to October 2002	
Company	Total
NEG	142
PG&E	219
Holding Company	9
Total	370
Source: OC-232	

As shown above, 59% of the relocations handled by the Relocation Services section were for the utility. Overland recommends allocating 59% of the Relocation Services section to PG&E.

[49] Brennan interview

The following table shows Overland's overall allocation for the Department by section.

Holding Company Human Resources Department 2003 Labor Cost Allocation Per Overland			
		Percent	Utility
Section	FTE	Utility	FTE
SVP HR and Secretary	2	0.00	0.00
HR Services (holding co. employees)	1	0.00	0.00
Director - Planning & Development	2	33.33	0.67
EEO/Diversity	1	0.00	0.00
Staffing	3	13.33	0.40
Relocation Services	3	59.00	1.77
Leadership Development	1	33.33	0.33
Director - Compensation and Benefits	2	33.33	0.67
Benefits	6	33.33	2.00
Compensation	3	32.00	0.96
Total	24	28.32	6.80
Source: Brennan & Clark interview organization chart 11/12/02			

As shown above, Overland allocated 28.32% of the Department's costs to PG&E. That allocation is 61.18% less than PG&E's proposed allocation of 89.5%.

Overland's recommended allocation of contract costs is shown below by contract.

Holding Company Human Resources Department 2003 Contract Cost Allocation Per PG&E			
		Percent	Utility
Section	Amount	Utility	Amount
CDR International - Executive Development	265,296	40.00	106,118
SERP Administration	40,200	40.00	16,080
Hewitt -Executive Compensation	300,000	40.00	120,000
Towers Perrin - Benefit Plan Actuary	195,000	40.00	78,000
Other Benefit Consulting	84,000	33.33	27,997
Job Postings	120,000	20.00	24,000
AYCO - Executive Personal Finance Advice	100,200	40.00	40,080
Other Miscellaneous Contracts	320,220	28.32	90,686
Total	1,424,916	35.30	502,962
Source: OC-3-3, page 743 and OC-235			

The 40% allocation for executive development, executive compensation and other executive related consulting costs reflects the percentage of officers and other highly

compensated employees who are utility officers and employees. The job postings contracts relate primarily to job vacancies in holding company departments. The Department does not post NEG jobs because the affiliate rules prohibit joint recruiting with NEG. The Department occasionally posts utility jobs.[50] The 20% allocation for the job posting contract reflects those jobs. The allocation of other miscellaneous contracts reflects the Department's overall labor allocation.

Strategic Planning

The holding company Strategic Planning Department is responsible for corporate strategic planning, annual planning process and issues management.[51]

The Department consists of the Vice President Strategic Planning, an assistant, two directors and two associates. [52] One Director worked primarily on POR matters in 2002. The other Director works primarily on gas transmission matters. One of the associates works primarily on NEG and holding company matters while the other works primarily on electric transmission matters.[53]

The response to OC-298 lists the following services the Department provided to the utility in 2002:

- Overview of "PCG2" strategic landscape and implications for NewCo Strategy;
- Leadership, facilitation, and analytical support related to strategy for ETrans;
- Analytical support for FERC applications related to Gtrans;
- Analysis and strategic advice on how to respond to CPUC alternative POR and term sheet;
- Design and leadership of creditor campaign on behalf of the PG&E POR;
- Miscellaneous support as requested.

[50] Brennan interview

[51] PG&E A&G Study WP 7-467

[52] PG&E A&G Study WP 7-492

[53] OC-298

Data Request OC-298 requested the written work products that the Department provided to the utility in 2002. The response to that request contains approximately 400 pages of material. Every one of those pages related directly to the POR. The work products included documents with titles such as "Recent CPUC Flip-Flops," "Recent CPUC Errors" and "Catalog of CPUC Statements and Contradictions." The documents also included letters and presentations soliciting support for PG&E's plan from creditors and tabulations of creditors votes on the POR.

The headcount in the Department was 5 FTE as of December 31, 2002.[54]

Cost Forecast

PG&E's 2003 cost forecast includes labor and material costs for 3 FTE and a small amount of contract costs. PG&E included one of the members of the Department in the holding company VP Treasurer Department in its A&G Study.[55] Overland reclassified that employee from the VP Treasurer Study Department to the Strategic Planning Department. The following adjustment increases the labor and material costs of the Strategic Planning Department to reflect that transfer.

Holding Company Strategic Planning Department 2003 Forecast Adjustment For Employee Transfer	
Description	Amount
Labor Costs Per PG&E	127,400
Materials Costs Per PG&E	82,379
Total	209,779
Source: PG&E A&G Study WP 7-530 through 5-533	

With the transfer, the forecasted headcount of 4 FTE is reasonably close to the actual December 2002 headcount of 5 FTE.

Cost Allocations

PG&E allocated 100% of the Department's costs to the holding company common category. PG&E allocated 76.39% of those costs to PG&E using the multi-factor allocation factor. [56]

[54] OC-372

[55] OC-298

[56] PG&E Exhibit 6 WP 6-347

The Strategic Planning Department incorporates the plans of NEG and PG&E into the PG&E Corporation strategic plan. A significant portion of the Department's activities represent consolidation and coordination activities directly attributable to the formation of a holding company and PG&E Corporation's participation in non-regulated business activities. Those activities do not benefit ratepayers and should not be charged to the utility.

Two employees within the Department work on gas transmission and electric transmission matters. NEG and PG&E both have gas transmission operations. PG&E's gas transmission and electric transmission operations will be separated from the distribution utility in the POR. Therefore, some of the gas transmission and electric transmission matters addressed in the Department in 2002 were undoubtably POR and NEG matters.

All of the written work products that the Department provided to PG&E in 2002 related directly to the POR. In total, PG&E allocated $799,069 of the Department's costs to the utility. PG&E does not need $799,069 in strategic planning services from a consultant that does not provide written work products. PG&E has failed to demonstrate how PG&E and its ratepayers benefit from the activities of the holding Company Strategic Planning Department. Therefore, Overland recommends allocating all of the costs of the Department to affiliate and below-the-line POR activities.

Corporate Information Technology

The holding company Corporate Information Technology Department sets broad information technology policies and standards for all of the subsidiaries of PG&E Corporation and maintains and operates the holding company computer network.[57]

[57] PG&E A&G Study WP 7-602

The following table shows the current headcount in the Department by section.

Corporate Information Technology Current Headcount by Section	
Description	FTE
Director's Office	3
Business Analysis & Project Management	5
Holding Company Operations	10
Enterprise Infrastructure	3
Total	21
Source: OC-480. Budget Analyst included in Dir. Office	

The Business Analysis & Project Management section works exclusively on holding company matters. The section provides business systems analysis, intranet development and support, applications development and maintenance, and project management services to holding company Departments as requested.[58] The Holding Company Operations Section is responsible for the operation of the holding company computer network.

Most of the costs of the Department are charged to other holding company departments through a flat fee charged per employee. The fee in 2002 was $18,000 per year for an employee's telephone hook-up and personal computer.[59] Those computer charges are included in PG&E's 2003 cost forecasts for the client departments. The only Department employees excluded from the flat fee are the three employees in the Director's office. Those employees are the Director, an assistant and a financial/budget analyst.[60]

Cost Forecast

PG&E's cost forecast for the Department consists of labor and material costs for 5 FTE, $262,201 in orders material costs and $269,223 in contract costs. The current A&G headcount in the Department is 3 FTE.[61] PG&E's forecast exceeds the current

[58] OC-480

[59] OC-216

[60] OC-480

[61] OC-480

headcount by 2 FTE. The Department was reorganized in 2003.[62] PG&E's forecast does not reflect that reorganization.

The current headcount provides a sound basis for forecasting the Department's 2003 costs. Overland recommends the following forecast adjustment to reflect the current headcount in the Department.

Corporate Information Technology 2003 Headcount Adjustment Per Overland			
Description	Labor	Materials	Total
PG&E Cost Forecast	699,183	415,905	1,115,088
PG&E Headcount Forecast	5.0	5.0	5.0
Average Cost Per PG&E	139,837	83,181	223,018
Headcount Adjustment	(2.0)	(2.0)	(2.0)
Forecast Adjustment	(279,673)	(166,362)	(446,035)
Source: OC-480 and PG&E A&G Study WP 7-603 and 7-608			

Overland accepted PG&E's 2003 contract and orders-material forecasts.

Cost Allocations

PG&E allocated 100% of the Department's costs to the holding company common category and allocated 76.39% of those costs to PG&E using the multi-factor allocation factor. [63]

PG&E has its own information technology organization with over 1,200 employees.[64] PG&E does not need to purchase any information technology services from the holding company.

The holding company information technology Director, assistant and budget analyst position are redundant positions caused by the creation of the holding company. PG&E has not demonstrated that the positions provide any actual services to PG&E. To the extent the positions may provide services to the utility, PG&E has not explained why those services could not be provided by the utility's information technology organization. Overland recommends that none of the Department's costs be allocated to PG&E.

[62] OC-480 and PG&E A&G Study WP 7-623

[63] PG&E Exhibit 6, WP 6-347

[64] OC-389

PG&E's forecasts for the other holding company departments include the annual $18,000 per employee computer and telecommunications fee. That fee covers the cost of telephone service, desktop personal computer service, PDA support services, applications development and computer infrastructure. [65] Overland's utility cost allocations for the other holding company department's reflect those costs to the extent they are properly charged to the utility. The annual cost of $18,000 per employee significantly exceeds the comparable inter-departmental fees charged by the utility's information systems organization.[66] Therefore, Overland's cost forecasts for the holding company departments include an ample provision for telephone, personal computer and information systems infrastructure costs.

Facilities Charges

The costs of the holding company's headquarters offices are charged to holding company departments through a facilities charge. The annual charge in 2002 was $75.24 per square foot.[67]

The holding company facilities charge includes rent, security services, building services, depreciation expense, property taxes and copy machine contracts. [68] The facilities charge also includes small amounts for subscriptions, office supplies, purchasing card, postage and telephone. Depreciation and property taxes account for an annual cost of about $19 per square foot.[69] The One Market office space rent accounts for an annual cost of about $45 per square foot. The One Market rent includes utilities, building security and seven parking spaces.[70]

The holding company also occupies 36,285 square feet in PG&E's general office complex.[71] PG&E charges the holding company a market-based annual rate of $48.84

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[65] OC-216

[66] In 2001 computer charges for PG&E A&G Departments averaged less than $2,000 per employee.

[67] OC-215

[68] OC-213

[69] OC-213 based on estimated square footage of 75,438

[70] OC-215

[71] OC-427

per square foot. Data Request OC-427 asked for support for the market rate that PG&E charges to the holding company. The response does not provide support for the rate but does indicate "the rate was initially set in 1998 and is adjusted annually in accordance with the consumer price index." The rate PG&E charges to the holding company presumably includes building depreciation and property taxes but does not presumably include depreciation and property taxes for office equipment owned by PG&E Corporation.

The depreciation and property taxes included in the holding company facilities charges apparently reflect office equipment and leasehold improvements. Excluding depreciation and property taxes, the holding company facilities rate is approximately $56.24 per square foot. That rate exceeds the market-based rate that PG&E charges to the holding company by 15%.

The facilities costs included in PG&E's holding company forecasts are arguably excessive. Overland accepted the holding company facilities charges largely because only approximately one-third of the holding company's costs are allocable to the utility.

Corporate Items

Holding company corporate items are costs that are not charged to a specific department in the holding company's accounting system. PG&E included $16.2 million of holding company corporate items in its 2003 cost forecast.[72]

PG&E's 2003 forecast reflects the 2002 budget for holding company corporate items.[73] PG&E's 2003 forecast is shown below by category.

[72] PG&E Exhibit 4, page 7-45

[73] OC-54

Holding Company Corporate Items 2003 Forecast by Category Per PG&E	
Description	Amount
Excess Pension Costs	3,566,000
Short Term Incentive Plan	3,281,107
PIP Executive	3,115,340
Performance Unit Plan	2,700,000
Relocation Assistance	880,000
Directors Fees	857,352
Other Expenses	778,374
Oakland/ SF City Taxes	720,000
Workers Comp. Letter of Credit	120,000
Support	108,000
Liability Insurance	80,000
Total	16,206,173
Source: OC-54	

According to PG&E, the excess pension cost reflect the excess of budgeted pension costs over the amount included in the holding company benefits burden. The total 2002 budgeted pension cost for the holding company was $5.0 million. The 2002 pension budget reflected an increase of $3.6 million over the 2001 budget of $1.4 million.[74] The budgeted pension cost increase would have required a 33% increase in the holding company's benefits burden. The increase was included in corporate items to avoid the need to increase the benefits burden rate. The label "excess pension costs" refers to costs in excess of those included in the benefits burden.[75] The 2002 pension budget consisted of $2.0 million for pension and $3.0 million for the supplemental executive retirement plan.[76]

The Short-Term Incentive Plan (STIP) is an incentive pay plan similar to the utility's Performance Incentive Pay plan (PIP). Under the STIP, annual incentive payments to holding company employees are determined based on a preset formula, a participation rate and specified performance targets. The participation rate is a percentage of the employee's base salary and varies from 6% to 30% depending on the salary band.[77]

[74] OC-273

[75] OC-272

[76] OC-273

[77] OC-224

The **Confidential** response to OC-224 lists the following performance targets used for the 2002 STIP plan year.

(REDACTED)

PG&E provided the 2002 functional performance measures for each holding company department in the response to OC-224. The functional measures typically reflect the subjective judgment of the holding company CEO and client departments as well as significant milestone dates and budget targets. The 2002 functional measures include several POR related items. For example, the functional performance measures for the Controller's organization are shown below.

(REDACTED)

The incentive payments are earned during the plan year and paid in the first quarter of the following year.[78]

The PIP Executive component included in the 2002 budget should be re-labeled STIP Executive.[79] The STIP Executive plan covers officers of the holding company at the vice president level or above and the Controller, Treasurer, and Corporate Secretary. The

[78] OC-272

[79] OC-272

STIP Executive plan also includes other holding company and subsidiary employees designated by the Nominating and Compensation Committee of the PG&E Corporation Board of Directors.[80] The participation rates and performance measures for the Executive STIP are different than those for the STIP for other employees.

The Performance Unit Plan (PUP) is a long-term incentive plan for holding company officers and other holding company and subsidiary employees designated by the Board's Compensation Committee. The Committee determines the number of PUP units to be granted to each eligible employee and establishes performance targets prior to the beginning of the plan year. The number of PUP units actually earned during the plan year is based on a preset formula and actual performance measured against the performance targets. Eligible employees receive a cash payment as soon as practical following the year in which the PUP units vest. The amount of the payment is equal to the number of PUP units earned multiplied by the price of PG&E Corporation common stock.[81]

Cost Forecast

The components of PG&E's 2003 cost forecast are described above. Overland reviewed 2000, 2001 and 2002 recorded costs for holding company corporate items. PG&E excluded the cost of stock options and deferred compensation from its forecast. Those costs totaled $3.9 million in 2002.[82] PG&E also excluded tax consulting fees from its forecast. Those fees are included in the cost forecast for the Tax Department and should not be included in the forecast of holding company corporate items. The following table shows the recorded holding company corporate items for 2000, 2001 and 2002, excluding stock options, deferred compensation, tax consulting fees and POR costs.

[80] OC-272

[81] OC-272

[82] OC-392

Holding Company Corporate Items 2000, 2001 and 2002 Recorded Costs			
Description	2000	2001	2002
San Francisco Business Tax	722,996	740,735	577,247
Utility Charges	176,726	373,759	737,261
Performance Unit Plan	25,672	239,150	788,763
STIP - Executive	6,000,000	(5,598,151)	3,116,000
STIP - Other	7,080,000	6,130,000	(1,414,048)
Severance	15,000	0	0
Board of Directors Fees	699,634	642,631	589,242
Liability Insurance	58,896	(43,027)	356,765
Workers Compensation Letter of Credit	71,945	24,657	0
Relocation Assistance	1,093,895	140,707	243,748
Rabbi Trust (Supp. Executive Retirement)	2,584,014	3,795,537	3,651,574
Other A&G	(22,596)	1,033,958	2,785,949
Total	18,506,182	7,479,956	11,432,501
Source: OC-392 and OC-54. Excludes POR, Tax Consulting, Stock Options & Deferred Comp.			

PG&E's 2003 forecast significantly exceeds the actual 2001 and 2002 charges. The principle reason for that difference is the negative STIP costs recorded in 2001 and 2002. The erratic fluctuations in recorded STIP costs appear to be abnormal. The 2002 budget amounts used by PG&E provide normalized expense levels. Overland accepted PG&E's 2003 forecast for holding company corporate items.

Cost Allocations

PG&E assigned all of the holding company corporate items to the holding company common category and allocated 76.39% of those costs to PG&E using multi-factor allocation factor. [83] PG&E's allocations are inconsistent with the nature of the holding company corporate items and CPUC policy. PG&E's use of the multi-factor allocation factor allocates excessive costs to utility operations and should be rejected.

Overland prepared an item-by-item allocation of the holding company corporate items. Overland's recommended allocation is shown below.

[83] PG&E Exhibit 6 WP 6-347

Holding Company Corporate Items Allocation to Utility Above-The-Line			
		Utility Above The Line	Utility Above The Line
Description	Total	Factor	Amount
Liability Insurance Expense	80,000	0.0000	0
Workers Compensation Letter of Credit	120,000	0.0000	0
Directors' Fees	857,352	0.4200	360,088
PUP- Long-Term Executive Incentive Plan	2,700,000	0.0266	71,820
STIP - Executive	3,115,340	0.0430	133,960
STIP - Other	3,281,107	0.1593	522,680
Employee Relocation Expense	880,000	0.0000	0
San Francisco City Tax	720,000	0.3450	248,400
Other Expenses	778,374	0.3450	268,539
Support	108,000	0.3450	37,260
Excess Pension / Supplemental Executive Ret.	3,566,000	0.0860	306,676
TOTAL	16,206,173	0.1203	1,949,423
Source: OC-54 and OC-482			

PG&E has its own liability insurance and workers compensation bonds. PG&E's Account 925 forecast includes $8.6 million for liability insurance and $1.0 million for workers compensation bonds and fees. The liability insurance and workers compensation letter of credit costs included in the holding company corporate items represent redundant costs that would not be incurred by a stand-alone utility. The holding company was formed to allow shareholders to participate in non-regulated business opportunities. Therefore, incremental costs caused by the formation of the holding company should not be charged to ratepayers. Overland did not allocate any of the liability and workers compensation letter of credit costs to the utility. Overland's allocation of directors fees reflects the analysis of activities of PG&E Corporation's Board of Directors described in Chapter 7.

The PUP and STIP incentive pay costs are allocated using a two-step process. First, the costs are allocated to the utility based on the labor factors for each holding company department. Those factors are described in Chapters 7 through 9. Second, 50% of the utility costs are allocated to the below-the-line category to reflect the CPUC's long-standing policy concerning incentive pay. As described in Chapter 10, the CPUC's policy is to forecast incentive pay at the targeted amount and to allocate 50% of that amount to shareholder funded below-the-line accounts. The 2002 STIP

budgeted amounts reflect the targeted amount.[84] Schedule 9-1 shows the development of the utility above-the-line factors for the PUP and STIP costs.

PG&E's Account 926 forecast includes $3.2 million for employee relocation costs.[85] PG&E does not need to purchase additional employee relocation services from PG&E Corporation. Therefore, Overland did not allocate any of the employee relocation costs included in the holding company corporate items to PG&E. Actual 2002 relocation costs included in the holding company corporate items totaled $243,848. PG&E's forecast of $880,000 for those costs is also excessive.

The allocation of San Francisco City Taxes, Support Costs and Other Expenses reflects the overall average percentage of holding company labor and materials costs allocated to PG&E by Overland. Overland's utility allocation is slightly overstated because the denominator used to calculate the factor only includes the holding company departments included in PG&E's A&G Study. PG&E excluded certain holding company departments from the A&G study because their costs are entirely allocable to affiliate or below-the-line activities.

The actual 2000, 2001 and 2002 holding company corporate items do not include an item titled "excess pension." However, all three years include a substantial amount for the holding company's Supplemental Executive Retirement Plan (SERP). The actual 2000 through 2002 SERP costs averaged $3.3 million a year. That average is close to PG&E's forecast of $3.6 million for excess pension costs. PG&E's 2003 cost forecast does not include an item labeled SERP. The SERP accounts for 60% of the holding company's 2002 budgeted pension costs.[86] The item labeled excess pension costs in PG&E's forecast appears to actually represent SERP costs.

SERP costs reflect actuarial calculations and are not available by Department. The STIP Executive costs provide a sound basis for allocating the SERP costs. Overland's recommended allocation for SERP costs reflects the STIP Executive allocation before the 50% allocation to below-the-line.

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[84] OC-273

[85] PG&E Exhibit 4, page 5-44, table 5-1

[86] OC-273

PACIFIC GAS & ELECTRIC
HOLDING COMPANY CORPORATE ITEMS
ALLOCATION OF STIP

SOURCE: OC-482
(CONFIDENTIAL)

REDACTED

PACIFIC GAS & ELECTRIC
HOLDING COMPANY CORPORATE ITEMS
ALLOCATION OF STIP EXECUTIVE

SOURCE: OC-482
(CONFIDENTIAL)

REDACTED

PACIFIC GAS & ELECTRIC
HOLDING COMPANY CORPORATE ITEMS
ALLOCATION OF PUP COSTS

SOURCE: OC-482
(CONFIDENTIAL)

REDACTED

Chapter 10
Accounts 920 Through 923

This Chapter develops the 2003 forecast for the following Accounts.

- Account 920 - Administrative and General Salaries
- Account 921 - Office Supplies and Expenses
- Account 922 - Administrative Expenses Transferred - Credit
- Account 923 - Outside Services Employed.

Account 920 reflects A&G labor costs. Account 921 reflects A&G material costs including facilities charges, computer charges, employee expenses, subscriptions, employee cash awards and other office expenses. Account 923 reflects outside services costs of A&G departments and holding company charges.

Account 922 reduces Accounts 920 and 921 to capitalize costs that are allocable to construction. The costs recorded in Accounts 920 and 921 are reported on a gross basis including construction related costs. Account 922 contains an offsetting credit to eliminate the construction related costs included in Accounts 920 and 921. Account 923 is reported net of capitalized costs.

The Account 920 through 923 cost forecasts largely reflect the results of the A&G Study. The process of developing the 2003 forecast for each of the four accounts is very similar. In order to avoid repetitiveness, this chapter is organized functionally rather than by account. The Chapter is organized into the following sections.

- Summary of Issues
- PG&E Forecast - Account Summary
- PG&E A&G Study Results
- Overland A&G Study Results
- M&O Labor Allocation Factor
- Performance Incentive Plan
- Non-Study Department Costs
- Overland Forecast - Account Summary

This GRC includes generation and distribution costs. PG&E proposes to import the A&G costs approved in this GRC into its current Gas Accord gas transmission case. As a result, this GRC will set A&G expenses for all of PG&E's UCCs except electric transmission and public purpose programs. Those UCCs only account for about 10% of

PG&E's total utility A&G costs. This Chapter describes the Account 920 through 923 forecasts at a total utility A&G expense level to avoid needlessly complicating the presentation.

Summary of Issues

The following table shows Overland's and PG&E's forecasts for the accounts.

Accounts 920 Through 923 **2003 Forecasts - Total Utility A&G Expense** (In Thousands of 2000 Dollars)			
Description	Overland	PG&E	Difference
Account 920 - A&G Salaries	112,277	141,826	(29,549)
Account 921 - Office Supplies and Expenses	17,318	23,307	(5,989)
Account 922 - A&G Expenses Transferred - Cr.	(18,795)	(9,837)	(8,958)
Account 923 - Outside Services Employed	59,797	124,818	(65,021)
Total	170,597	280,114	(109,517)
Source: PG&E Exhibit 6 workpapers and Overland workpapers			

Most of the differences relate to A&G Study issues developed in Chapter 3 through 9. The following additional issues are developed in this Chapter.

1. **M&O Labor Allocation Factor.** Increased allocation of A&G residual costs to electric transmission UCC by 1.62% to reflect M&O labor factor proposed by PG&E in its January 2003 FERC electric transmission rate application. Based on Overland's forecasts, that change increases the Account 920 through 923 costs allocated to electric transmission by $1.9 million. Based on PG&E's forecasts, the change increases the Account 925 through 935 costs allocated to electric transmission by $6.4 million.

2. **Performance Incentive Plan (PIP).** Reduced utility A&G expense by $24.7 million to reflect the CPUC's incentive pay policy and to correct PG&E's allocation of PIP costs to construction.

3. **Non-Study Department Costs.** Reduced utility A&G expense by $1.2 million to eliminate non-recurring accounting adjustments.

4. **Non-Study Department Costs.** Reduced utility A&G expense by $3.1 million to eliminate non-recurring costs for the SAP System Integration project.

5. **Non-Study Department Costs.** Reduced utility A&G expense by $1.0 million to eliminate accounting errors.

PG&E Forecast - Account Summary

The following table summarizes PG&E's 2003 Forecasts for Accounts 920 through 923 on a total utility A&G expense basis.

Accounts 920 through 923 **2003 Forecast Per PG&E** (In Thousands of Dollars)					
Description	920	921	922	923	Total
A&G Study Total	91,060	16,570	(7,477)	126,748	226,901
Non-Study Department Costs	13,173	8,119	0	5,361	26,653
Severance Costs	1,297	0	0	0	1,297
Hazardous Waste Mechanism	1,172	88	0	0	1,260
Labor Transfer	117	(108)	0	0	9
Subtotal in 2002 Dollars	106,819	24,669	(7,477)	132,109	256,120
De-escalate to 2000 Dollars	(6,615)	(1,362)	455	(7,291)	(14,813)
PIP in 2000 Dollars	41,622	0	(2,815)	0	38,807
Total in 2000 Dollars	141,826	23,307	(9,837)	124,818	280,114
Source: PG&E Exhibit 6 WP 6-34, 6-71, 6-101 and 6-117					

PG&E's GRC R.O. model de-escalates costs to 2000 base year dollars. The A&G Study results are stated in 2002 dollars. Therefore, it is necessary to "de-escalate" the A&G study results from 2002 dollars to 2000 dollars. PG&E used a labor factor of 1.660 to de-escalate Account 920. PG&E used a materials factor of 1.0584 to de-escalate Accounts 921 and 923. PG&E used the same labor and materials factors to de-escalate the labor and material components of Account 922.

The A&G Study, PIP and Non-Study Department costs are discussed in subsequent sections of this Chapter. PG&E's severance cost forecast is reasonable compared to historical levels. The CPUC disallowed PG&E's forecast of $9.0 million for severance costs in the 1999 GRC because PG&E could not demonstrate that it had made corresponding reductions in its forecasted headcount and labor expense forecasts.[1] The relatively low amount of PG&E's current severance forecast mitigates that concern. Overland accepted PG&E's 2003 severance forecast of $1.3 million.

[1] D.00-02-046, page 259

The Hazardous Waste Mechanism adjustment transfers costs from operations and maintenance expense accounts to A&G expense to reflect a recent change in accounting policy. PG&E recovers the external costs of hazardous waste clean-up for certain sites through its Hazardous Substance Mechanism (HSM). The internal costs associated with the clean ups are recovered through the GRC.[2] In 2001 and prior years, the internal costs were charged to non-A&G operations and maintenance expense accounts. Beginning in 2002, PG&E is recording the costs in Accounts 920 and 921 to make them easier to track.[3] The internal costs are not included in the A&G study or recorded NSD costs. Therefore, a separate forecast is included in Accounts 920 and 921 to reflect the costs. PG&E excluded the internal costs from its 2003 non-A&G account forecasts.[4] Overland accepted PG&E's 2003 forecast for hazardous waste mechanism internal costs.

PG&E A&G Study Results

PG&E's Account 920 through 923 forecasts are primarily based on its A&G Study. The following schedules show the results of PG&E's A&G Study.

A&G Study Results Per PG&E List of Schedules	
Account	Schedule
Account 920 - A&G Salaries	10-1
Account 921 - Office Supplies and Expenses	10-2
Account 922 - A&G Expenses Transferred - Cr.	10-1 and 10-2
Account 923 - Outside Services Employed	10-3

PG&E's A&G Study was conducted on a department-by-department basis. PG&E's A&G Study for utility departments is described in Chapters 3 through 6. PG&E's A&G Study for holding company departments is described in Chapters 7 through 9.

PG&E allocated the utility common categories to UCCs using the M&O labor allocation factor. PG&E allocated the Account 920 and 921 capital categories using the M&O labor allocator. The capital allocations are directly offset by a credit in Account 922.

PG&E allocated 100% of the holding company common category for utility departments

[2] OC-391

[3] PG&E Exhibit-6, WP 6-43

[4] PG&E Exhibit 4, page 13-14

to the affiliate category. PG&E allocated the holding company common category for holding company departments using a variety of factors as shown on Schedule 10-3.

Overland A&G Study Results

Overland's A&G Study results are shown on the following schedules.

A&G Study Results Per Overland List of Schedules	
Account	Schedule
Account 920 - A&G Salaries	10-4
Account 921 - Office Supplies and Expenses	10-5
Account 922 - A&G Expenses Transferred - Cr.	10-4 and 10-5
Account 923 - Outside Services Employed	10-6

The following table summarizes the differences between PG&E's and Overland's A&G Study results by category on a total utility A&G expense basis.

A&G Study Results Reconciliation (In Thousands of 2002 Dollars)					
Description	920	921	922	923	Total
A&G Study Results Per PG&E	91,060	16,570	(7,477)	126,748	226,901
Utility Department Labor & Material	(7,849)	(5,278)	(5,399)	0	(18,526)
Utility Department Contracts	0	0	0	(23,369)	(23,369)
Holding Company Labor & Material	0	0	0	(31,968)	(31,968)
Holding Company Contracts	0	0	0	(10,620)	(10,620)
A&G Study Results Per Overland	83,211	11,292	(12,876)	60,791	142,418
Source: Schedules 10-1 to 10-6					

The following table shows the utility department labor, materials and contract differences by department.

A&G Study Results Utility Department Differences (In Thousands of 2002 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
SVP Treasurer & CFO	0	0	(4,153)	(4,153)
Business and Financial Planning	0	(224)	0	(224)
SAP Operations and Control	(486)	0	(324)	(810)
Controller	0	0	(730)	(730)
Budget	(478)	0	0	(478)
Payroll	(166)	0	0	(166)
Accounts Payable	0	(413)	0	(413)
Corporate Accounting	(205)	(756)	0	(961)
Capital Accounting	0	(437)	(111)	(548)
Risk Management	(2,380)	0	(134)	(2,514)
Purchasing	0	(660)	(3,300)	(3,960)
SVP Public Affairs	0	(135)	0	(135)
VP Communications	0	(340)	(91)	(431)
Internal & Ext. Communications	(204)	46	(275)	(433)
Media Relations	0	(308)	(36)	(344)
VP Governmental Relations	0	(439)	(103)	(542)
Local Governmental Relations	(68)	(1,490)	0	(1,558)
External Relations	(552)	(272)	(24)	(848)
Revenue Requirements	(585)	(1)	(1,073)	(1,659)
Industrial Relations	0	(261)	0	(261)
HR BOSS	(911)	0	0	(911)
Benefits	0	(391)	0	(391)
HR Services	0	(1,780)	0	(1,780)
Compensation	0	(124)	0	(124)
Professional Staffing & Diversity	0	(382)	0	(382)
Law Department	0	(2,074)	(11,956)	(14,030)
SH&C - Director	0	(40)	0	(40)
SH&C - Workers Compensation	(504)	(343)	185	(662)
SH&C - Third Party Claims	(216)	(438)	0	(654)
SH&C - Safety Engineering	(390)	0	(1,245)	(1,635)
Affiliate Rules Compliance	0	(207)	0	(207)
Total	(7,145)	(11,469)	(23,369)	(41,984)

The utility differences are described in Chapters 3 through 8. The labor and material differences are divided into forecast adjustments and allocations differences. The forecast adjustment amounts reflect the change in total utility A&G expense resulting from adjustments to the total department cost forecast allocated using PG&E's factors. The allocation differences reflect the application of Overland's versus PG&E's allocation

factors to Overland's adjusted total department cost forecast. Contracts are allocated individually in PG&E's A&G Study. As a result, it is not practical to divide the contract differences between forecast adjustments and allocation differences.

The following table shows the holding company labor, materials and contract differences by department.

A&G Study Differences Holding Company Departments (In Thousands of 2001 Dollars)				
	Labor and Materials			
Department	Adjustments	Allocations	Contracts	Total
Chairman, CEO & President	0	(1,965)	(993)	(2,958)
VP and Assistant to the Chairman	0	(269)	0	(269)
Corporate Secretary	0	(937)	(1,130)	(2,067)
General Counsel	0	(727)	0	(727)
Law Department	0	(1,911)	(2,123)	(4,034)
Internal Audit	(731)	(929)	(124)	(1,784)
Legal Compliance & Business Ethics	0	(356)	(102)	(458)
Risk Initiatives	0	(105)	0	(105)
Risk Management	0	(237)	0	(237)
SVP Chief Financial Officer	0	(637)	(2,153)	(2,790)
SVP Controller	0	(360)	(354)	(714)
Corporate Accounting	(197)	(2,639)	13	(2,823)
Tax	(653)	0	0	(653)
Financial Planning	(132)	(396)	0	(528)
Financial Analysis	0	(526)	0	(526)
Tech. & Risk Management Accounting	0	(226)	(27)	(253)
Investor Relations	0	(272)	(63)	(335)
VP Treasurer	(321)	0	0	(321)
Banking and Money Management	0	(132)	0	(132)
Public Affairs	0	(134)	(139)	(273)
Fed. Government & Reg. Relations	(170)	(754)	(662)	(1,586)
Regional Government Relations	0	(247)	(325)	(572)
Corporate Communications	(104)	(531)	(714)	(1,349)
Human Resources	0	(3,129)	(1,479)	(4,608)
Strategic Planning	160	(918)	(39)	(797)
Corporate Information Technology	(341)	(711)	(206)	(1,258)
Corporate Items	0	(10,430)	0	(10,430)
Total	(2,489)	(29,478)	(10,620)	(42,587)

The holding company differences are described in Chapters 7 through 9.

M&O Labor Allocation Factor

PG&E allocated the costs assigned to the utility common regulatory category to UCCs using the maintenance and operations (M&O) labor factor. That allocation factor reflects labor charged to operations and maintenance expense accounts excluding A&G accounts. Specifically, the M&O labor allocation factor reflects labor charges to FERC expense accounts 501 through 512. [5]

PG&E uses the M&O labor factor to allocate A&G common costs in its FERC electric transmission rate cases. The M&O labor factor is the method preferred by the FERC Staff for allocating A&G common costs.[6] The CPUC accepted the use of the M&O labor factor to allocate residual A&G costs in PG&E's 1999 GRC Decision.[7]

The M&O labor factor reflects the activities of PG&E's operating personnel and provides a sound basis for allocating A&G residual costs to operating functions. Overland supports the policy of using the M&O labor factor to allocate A&G common costs that cannot be allocated on a more direct basis.

PG&E filed a FERC electric transmission rate case application on January 13, 2003. [8] The M&O labor factor that PG&E proposed in that case (PG&E's FERC M&O labor factor) reflects a more recent forecast of 2003 electric transmission expenses. The electric transmission expense forecast PG&E proposed in the FERC case is higher than the forecast included in PG&E's GRC application. As a result, PG&E's FERC M&O labor factor allocates more costs to electric transmission. [9]

The following table compares the 2003 M&O labor allocation factors used in PG&E's GRC and FERC applications.

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[5] PG&E Exhibit 6 WP pages 6-306 to 6-328

[6] OC-506, PG&E Exhibit 7, page 7-4 in FERC T.O. 6 Filing.

[7] D.00-02-046, page 456 and Overland A&G Efforts Study and Cost Separations Report, June 1998, page 9-10, paragraph 7.

[8] OC-506

[9] OC-405

M&O Labor Factor Per PG&E GRC and FERC T.O. 6 Filings			
Category	GRC	FERC	Difference
Generation	21.05	20.52	(0.53)
Electric Transmission	6.66	8.28	1.62
Gas Transmission	5.18	5.00	(0.18)
Public Purpose	2.39	2.36	(0.03)
Electric Distribution	41.08	40.58	(0.50)
Gas Distribution	23.64	23.26	(0.38)
	100.00	100.00	0.00
Source: OC-405			

PG&E used the same methodology to calculate the M&O labor factors in both cases. The differences between the two factors are not the result of methodological differences. Instead, the factor differences reflect differences in the underlying expense forecasts.

The GRC does not include electric transmission. PG&E's proposed M&O labor factor in the FERC electric transmission case allocates 1.62% more A&G residual costs to electric transmission than the factor it has proposed in this GRC. The A&G residual costs reflected in PG&E's electric transmission revenue requirement exceed the electric transmission A&G residual costs removed from this GRC. That results in the double recovery of approximately 1.62% of PG&E's A&G residual costs. Charging ratepayers for the same cost twice is unfair.

Recorded labor costs provide an additional basis for evaluating PG&E's proposed M&O labor factor. The following table compares PG&E's GRC M&O labor factor to 2001 actual values.

M&O Labor Factor Per PG&E GRC and 2001 Actual			
Category	GRC	2001 Actual	Difference
Generation	21.05	20.97	(0.08)
Electric Transmission	6.66	7.75	1.09
Gas Transmission	5.18	5.13	(0.05)
Public Purpose	2.39	2.88	0.49
Electric Distribution	41.08	40.11	(0.97)
Gas Distribution	23.64	23.16	(0.48)
Total	100.00	100.00	0.00
Source: OC-405			

PG&E's GRC M&O labor factor is inconsistent with the factor it used in its recent FERC filing and 2001 actual results. PG&E admits the electric transmission forecasts reflected in its FERC filing are more current than its GRC forecasts. PG&E's GRC M&O labor factor significantly over-allocates costs to distribution and generation. Therefore, Overland recommends using PG&E's FERC M&O labor factor in this GRC.

The following table illustrates the impact of the M&O labor factor issue on Account 920 through 923 costs allocated to electric transmission.

Account 920 through 923 Utility Common Costs Per Overland Illustration of Impact of M&O Labor Factor Issue (In Thousands of Dollars)	
Account	Amount
A&G Study Costs (in 2002 dollars)	82,210
PIP Costs (in 2000 dollars)	14,106
NSD Costs (in 2001 dollars)	21,262
Total	117,578
Electric Transmission Factor Difference	0.0162
Increase in Electric Transmission Allocation	1,905
Source: Schedules 10-4 to 10-6 and OC-405	

The following table illustrates the impact of the M&O labor factor issue on PG&E's other A&G accounts, based on PG&E's cost forecasts for those accounts.

M&O Labor Allocation Factor Issue Illustration of Impact on Accounts 925 to 935 (In Thousands of 2000 Dollars)	
Description	Per PG&E
Account 925 - Injuries and Damages	78,412
Account 926 - Employee Pensions & Benefits	296,229
Account 930 - Miscellaneous General Expenses	10,298
Account 935 - Maintenance of General Plant	7,184
Total	392,123
Electric Transmission Factor Difference	0.0162
Increase in Electric Transmission Allocation	6,352
Source: PG&E Exhibit 6, WP 6-192, 6-233, 6-282 & 6-303	

Performance Incentive Plan

The Performance Incentive Plan (PIP) is PG&E's annual short-term incentive pay plan. The PIP covers about one-third of PG&E's workforce.[10] The PIP payments are earned during the plan year and paid in March of the following year.[11]

The annual payments are based on the employee's participation rate and the PIP score for the department in which the employee works. The participation rate is a fixed percentage of the employee's base pay. The participation rates vary by employee category. For example, the participation rate for clerical employees is 8% and the participation rate for managers is 15%.[12]

The PIP score reflects the department's actual performance compared to annual performance measures. The PIP score can range from 0.0 to 2.0. For the 2001 plan year the highest PIP score was **Confidential (REDACTED)** and the lowest PIP score was **(REDACTED)**. [13] The employee's annual bonus is determined by multiplying the employee's base salary times the participation rate and the PIP score. For example, an employee with a base salary of $50,000 and a participation rate of 10% in a department with a PIP score of 1.5 would receive a bonus of $7,500.[14]

The PIP score is the weighted average of the Business Unit Performance Component and the Utility Performance Component. The Business Unit Performance Component reflects department level measures and is given a weight of 70%. The Utility Performance Component reflects PG&E's earnings-per-share and is given a weight of 30%.[15] Similar to the PIP score, the unweighted Business Unit Performance and Utility Performance Components can range from 0.0 to 2.0. If the Business Unit Performance score is 1.2 and the Utility Performance Component is .8, the PIP score is 1.08.[16]

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[10] PG&E Exhibit 4, page 4-3

[11] OC-62

[12] OC-56

[13] OC-64

[14] $50,000 times 10% equals $5,000 times 1.5 equals $7,500.

[15] OC-62

[16] Business Unit score of 1.2 times 70% weighting equals .84. Utility score of .8 times weighting of 30% equals .24. Total of .84 and .24 is 1.08.

Earnings-per-share is calculated by dividing utility operating earnings by the 12 month average number of PG&E Corporation shares outstanding. Utility operating earnings are total utility earning less bankruptcy and energy-crises related items.[17] PG&E filed for bankruptcy during the 2001 plan year. The Utility Performance Component PIP score for the 2001 plan year was **(REDACTED)**.[18]

The Business Unit Performance component reflects departmental performance measures such as budget performance, client quality of service survey results, safety incidents and response times. PG&E provided the Business Unit Performance measures for the 2002 plan year in the response to OC-65. Most departments have five to ten performance measures.

Beginning in 2002, the PIP payments received by some employees will be adjusted to reflect the employee's individual performance rating. The PIP payments for employees who receive the highest rating (about 15% of the total group) will be increased by 14% and the employees who receive the lowest individual rating will not receive a PIP payment.[19]

Cost Forecast

PG&E's 2003 PIP cost forecast is $41,622,000 stated in year 2000 dollars. PG&E's forecast reflects 2000 plan year values calculated at a PIP score of 1.0.[20]

The following table shows PIP costs for the 2001 plan year calculated at a PIP score of 1.0.

[17] OC-66

[18] OC-64 **Confidential**

[19] PG&E Exhibit 4, page 4-6

[20] PG&E Exhibit 4, page 4-1

(REDACTED)

Six officers received PIP payments exceeding **(REDACTED)** each for the 2001 plan year.[21] The 2001 plan year payout at a 1.0 PIP score is $44.0 million in year 2000 dollars.[22]

The following table shows the PIP costs for the 1996 through 2002 plan years at a PIP score of 1.0.

Performance Incentive Plan Payments at 1.0 PIP Score 1996 - 2001			
Year	Officer	Other	Total
2001	2,561,575	42,804,009	45,365,584
2000	2,174,340	39,448,307	41,622,647
1999	1,937,427	31,146,218	33,083,645
1998	1,624,355	30,164,539	31,788,894
1997	1,490,575	33,002,931	34,493,506
1996	2,403,061	30,535,834	32,938,895
Source: OC-58			

The PIP payout at a 1.0 PIP score for the 2001 plan year is 43% higher than the comparable amount for the 1998 plan year. That increase reflects increased participation rates. The following table compares the participation rates in 1998 to the 2001 rates.

[21] OC-59

[22] $45,366,080 divided by 1.0312. Escalation factor per PG&E Account 920 WP 6-68

Performance Incentive Plan Participation Rates 1998 & 2001 Excluding Officers & Attorneys		
Category	1998	2001
Non-Exempt Clerical	6	6
Technical & Professional	6	8
Supervisors	6	10
Managers	11	15
Directors	16	20
Source: OC-69		

The following table shows the total actual payout for PIP plan years 1996 through 2001.

Performance Incentive Plan Actual Payout 1996 - 2001			
Year	Officer	Other	Total
2001	3,628,014	59,990,137	63,618,151
2000	0	49,717,480	49,717,480
1999	3,202,351	54,431,718	57,634,069
1998	3,055,989	49,909,287	52,965,276
1997	1,858,400	41,538,825	43,397,225
1996	834,175	21,882,716	22,716,891
Source: OC-58			

PG&E's 2003 forecast reflects the targeted payout at a PIP score of 1.0 for the 2000 plan year. The PIP is designed with the expectation that the PIP score will average 1.0 over time.[23] In PG&E's 1999 GRC Decision, the CPUC determined that is was reasonable to base the test year PIP forecast on an expected PIP score of 1.0.[24] A PIP score of 1.0 provides a reasonable basis for forecasting 2003 PIP costs. Overland accepted PG&E's 2003 forecast of the total PIP payout.

ORA's total compensation analysis indicates PG&E's total compensation, including PIP payments at a 1.0 PIP score, exceeds market by approximately 5.17%.[25] Therefore, a significant portion of PG&E's PIP forecast arguably represents excessive compensation. That concern is mitigated by the CPUC's PIP policy described in the cost allocation section.

[23] PG&E Exhibit 4, page 4-2 and 4-7

[24] D.00-02-046, page 256

[25] ORA Results of Operations Report, Chapter 11

Cost Allocations

PIP costs are allocated using a three-step process. First, the costs are allocated between expense and capital. Second, the forecasted expense is allocated between ratepayers and shareholders. Third, the above-the-line expense amount is allocated to UCCs.

PG&E allocated 6.76% of its 2003 PIP forecast to capital.[26] PG&E allocated the remaining 93.24% of its PIP forecast to above-the-line operating expense. PG&E allocated the above-the-line operating expense to UCCs using the M&O labor factor.

PG&E's capital allocation is inconsistent with its own accounting practices. PG&E's decision not to allocate any of its PIP costs to the below-the-line category is inconsistent with long-standing CPUC policy.

Capital Allocation

PG&E's PIP capital allocation is significantly understated as a result of a forecasting logic error. PG&E capitalizes approximately 30% of its PIP costs on its accounting books. The following table shows the percentage of PIP costs PG&E charged to construction during the years 1997 through 2001.

Performance Incentive Plan Percent Construction Per PG&E	
Description	Percent
2001	34.5
2000	36.0
1999	25.2
1998	32.6
1997	32.4
Source: OC-57	

PG&E records the capitalization of PIP costs in two separate A&G accounts. PG&E includes the PIP at the targeted PIP score of 1.0 in its employee benefit labor burden.[27] The expense credit for those capitalized costs is recorded in Account 926, Employee Pensions and Benefits. PG&E also records an expense credit for capitalized PIP costs

[26] PG&E Exhibit 6 workpaper 6.36

[27] OC-55

in Account 922, Administrative Expenses Transferred -Credit.[28] The capital credit in Account 922 reflects the capital portion of the difference between PG&E's actual PIP costs and the targeted amount reflected in the labor burden.

The labor burden procedure charges a pro-rata portion of the PIP costs to capital accounts when labor costs are charged to capital. PG&E charged approximately 32% of its total labor costs to construction in 2002.[29] Therefore, the labor burden procedure capitalized approximately 32% of PG&E's PIP costs at the 1.0 target in 2002. Although PIP costs are recorded in Account 920, the expense credit for capitalized PIP costs is recorded in Account 926, Employee Benefits. The expense credit is recorded in Account 926 because most of the benefits burden relates to costs that are recorded in Account 926.

As described in Chapter 11, PG&E's Account 926 forecast reflects separate forecasts of the total cost of PG&E's various types of employee benefits. PG&E applied a capital labor factor of 30.35% to those forecasts to eliminate benefit costs attributable to construction. The capital labor factor used in PG&E's Account 926 forecast workpapers takes the place of the employee benefits burden process actually recorded on PG&E's books.

PG&E did not include an expense credit in its Account 926 forecast for the PIP costs normally capitalized through the benefits burden. Therefore, PG&E's Account 926 forecast does not reflect the negative expense normally recorded in the account to reflect the capitalization of PIP costs through the benefits burden.

PG&E's Account 920 workpapers reflect the gross PIP payment forecast of $41.6 million and an offsetting credit to transfer PIP costs to construction of $2.8 million.[30] The construction credit shown in PG&E's Account 920 workpapers reflects a capital factor of 6.8%. That factor is referred to as the "Account 920 Capitalization Factor" on the Factors page of PG&E's R.O. A&G Model and represents the total percentage of A&G labor costs allocated to construction in PG&E's A&G Study.

The PIP forecast reflects all of PG&E's operations, not just the departments included in PG&E's A&G Study. The capital factor used to capitalize PIP costs should reflect the

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[28] OC-55

[29] OC-418 and Chapter 11, Account 926 Section.

[30] PG&E Exhibit 6 Workpapers, Volume 1, page 6-36

percentage of PG&E's total labor costs that are capitalized. Based on 2002 recorded amounts, that factor is 32.22%.[31] PG&E's PIP capital factor of 6.76% is inconsistent with the scope of its PIP forecast, PG&E's accounting procedures and actual 2002 results. Overland recommends the following adjustment to correct PG&E's allocation of PIP costs to construction.

Performance Incentive Plan **2003 Allocation to Capital Per Overland** (In Thousands of 2000 Dollars)	
Description	Total
Total PIP Forecast	41,622
2002 Capital Labor Factor Per Overland	0.3222
PIP Capital Credit Per Overland	(13,411)
PIP Capital Per PG&E	(2,815)
2003 Forecast Adjustment	(10,596)
Source: PG&E Exh. 6 WP 6-36 and Chapter 11	

Overland's recommended capital labor factor of 32.22% is explained in the Account 926 section of Chapter 11.

Allocation to Shareholders

In PG&E's two most recent general rate cases, the CPUC adopted a PIP forecast based on a PIP score of 1.0 and allocated 50% of that forecast to shareholders as a below-the-line cost. PG&E's 1996 GRC Decision contains the following discussion of PIP costs.

> As we have stated in the past, a management incentive pay program provides no incentive to utility management if the utility receives the full amount in rates (see D.86-12-095, 23 CPUC 2d 187 and D.93-12-043). Thus, if the utility performs as expected, the utility would receive 100% of the incentive pay revenues to provide utility managers. Incentive pay, however, is designed to reward managers (and by implication their utility) who perform better than expectations. We will grant 50% of the requested amount, consistent with our treatment of this type of program in Edison's proposed general rate order...

PG&E's 1999 GRC Decision includes the following discussion of the CPUC's policy concerning PIP costs. [32]

[31] OC-418 and Chapter 11, Account 926 Section.

[32] D.00-02-046, page 256

> We find no compelling evidence for a change in our current practice of allowing 50% recovery of targeted incentives from ratepayers. As we have held, shareholders and ratepayers alike benefit from the good performance that incentive programs such as the PIP seek to encourage. We continue to believe that equal sharing of costs is fair, and that it provides appropriate incentives to the utility to perform in ways that benefit ratepayers and shareholders alike. Moreover, since the actual payout is less than the targeted amount in any year when employees do not perform well enough to earn targeted payouts, there is an unacceptable risk of overcollection of costs in the test year if we allow the inclusion of 100% of the targeted payout in rates. Continuing our policy of allowing 50% of targeted payouts mitigates this concern.

Overland recommends allocating 50% of PIP expense to the below-the-line category consistent with the CPUC's long-standing policy concerning incentive pay. The PIP plan is designed to produce benefits for both ratepayers and shareholders. Therefore, the CPUC's policy of allocating 50% of the costs of the PIP to shareholders is fair.

Under the PIP, 30% of the incentive pay is based on PG&E's earnings-per-share. Shareholders benefit when PG&E meets or exceeds its earnings per share target. Charging an extra fee to ratepayers because PG&E earns its expected profit level is not fair.

The business area performance measures account for 70% of the PIP incentive pay. The business area objectives place significant weight on financial budget performance. The financial budget objectives benefit both ratepayers and shareholders because exceeding budget performance objectives increases profits and reduces the cost of providing utility services. Therefore, a substantial portion of the business area performance component is allocable to shareholders.

Approximately 32% of the PIP is allocable to capital. Capital-related PIP costs are charged to construction and ultimately to plant in service. The PIP costs charged to plant are recovered from ratepayers as depreciation expense. PG&E earns a return on its investment in PIP capital costs until those costs are recovered through depreciation.

The CPUC did not allocate any of the capitalized PIP plant costs to shareholders in the 1996 or 1999 GRCs. Overland accepted that treatment of PIP capital costs and did not allocate any PIP capitalized plant costs to shareholders in this GRC. Instead, Overland allocated 100% of the PIP capital costs to ratepayers.

On a total cost basis, Overland allocated 66% of the annual PIP costs to ratepayers as shown below.

Performance Incentive Plan Shareholder Allocation Per Overland			
		Ratepayer	Ratepayer
Description	Total	Share	Percent
PIP Expense Portion	67.78	50%	33.89
PIP Capital Portion	32.22	100%	32.22
Total PIP Cost	100.00		66.11
Source For Capital Percent: Chapter 11, Account 926 Section			

Overland's ratepayer allocation is arguably excessive given the purpose and design of the PIP.

The average PIP participation rate was approximately 10.5% for the 2000 plan year. [33] At a PIP score of 1.0, the PIP represents approximately 9.5% of combined base salary and PIP.[34] The Total Compensation Study indicates that PG&E's compensation, including the PIP at a score of 1.0, exceeds market rates by 5.17%.[35] Overland allocated 34% of the combined PIP capital and expense costs to shareholders. That allocation equals 3.2% of base pay plus PIP. Thus, even with Overland's PIP allocation, the ratepayer's portion of PG&E's total compensation still exceeds 100% of market.

The PIP is not PG&E's only incentive pay program. PG&E provides cash awards to employees through its Cash Rewards & Recognition Program. That program is "designed to provide immediate recognition to individuals or teams of significant achievements or innovative suggestions through monetary or non-monetary awards." [36] The monetary awards cannot exceed $5,000 per recipient. The award amounts are set commensurate with the significance of the achievement. Most PG&E employees are eligible to participate in the program. However, only non-union employees are eligible for monetary awards. The recommended budget for the Cash Rewards & Recognition Program for non-union employees is 0.9% to 1.8% of labor costs.[37] The actual cost of the Cash Rewards & Recognition Program was $5.1 million in 2002.[38]

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[33] OC-56

[34] 10.5 percent divided by 110.5 percent equals 9.5%

[35] ORA Results of Operations Report, Chapter 11

[36] OC-153

[37] OC-153

[38] OC-383

The Cash Rewards & Recognition Program is an incentive pay program that is arguably subject to the CPUC's policy of allocating 50% of incentive pay to below-the-line accounts. Overland did not recommend a below-the-line allocation for the Cash Rewards & Recognition Program because most of the costs of the program are recorded in non-A&G accounts.

If 100% of the Cash Rewards & Recognition Program is assigned to ratepayers, as proposed by PG&E, the ratepayers share of total incentive pay rises to 70% under Overland's PIP recommendation. That share is calculated below.

Performance Incentive Plan **Ratepayer Share of Incentive Pay with Cash Rewards & Recognition Program** (In Thousands of 2000 Dollars)			
	Cost	Ratepayer Share	Ratepayer Percent
PIP	41,622	66	27,471
Cash Rewards & Recognition (estimate)	5,000	100	5,000
Total	46,622	70	32,471

Non-Study Department Costs

PG&E's A&G Study was restricted to departments within its Corporate Services organization. PG&E's A&G Study excluded Corporate Services Departments that typically charge their costs to other Departments. For example, PG&E's A&G Study did not include its Learning Services and Information Systems Technology Services (ISTS) Departments because those Departments charge their costs to other Departments.[39]

Some of the costs charged to Accounts 920, 921 and 923 come from Departments that were excluded from PG&E's A&G Study. PG&E refers to those charges as "Non-Study Department" (NSD) costs. [40] NSD costs are charged to A&G accounts when the NSD charges an order that translates to an A&G expense account.

PG&E's 2003 A&G forecasts include $26 million for NSD costs. PG&E included a separate provision for NSD costs in its forecasts "to ensure that all A&G costs are captured in the GRC." [41]

[39] PG&E Exhibit 4, page 2-32 and 2-49

[40] PG&E Exhibit 6, WP 6-49 and OC-120

[41] PG&E Exhibit 4, page 2-77

The NSD costs included in PG&E's 2003 forecast reflect 2001 recorded costs with adjustments to eliminate POR related costs and costs included in forecasts of A&G Study Departments. [42] The 2001 recorded/adjusted data used by PG&E to forecast 2003 NSD costs reflects charges to approximately 400 separate orders. Overland classified those orders by type. The following table shows PG&E's 2003 NSD forecast by type of order.

Non-Study Department Costs PG&E's 2003 Forecast by Category - 2001 Dollars				
Category	920	921	923	Total
Accounting Adjustments	(1,276,068)	(97,789)	2,603,365	1,229,508
Environmental Services	1,060,796	247,401	54,658	1,362,855
Information Systems Technology Srvcs	10,452,020	7,017,901	1,860,392	19,330,313
Real Estate	1,585,201	731,678	324,919	2,641,798
Miscellaneous Charges	1,350,696	219,556	517,977	2,088,229
Total	13,172,645	8,118,747	5,361,311	26,652,703
Source: OC-1, file AandG_NSD				

Schedule 10-7 shows Overland's classification of each of the individual orders. The NSD costs are a substantial component of PG&E's Account 920, 921 and 923 forecasts. The following table shows the NSD costs as a percentage of PG&E's total A&G Study costs excluding holding company charges.

Non-Study Department Costs NSD Costs as a Percent of PG&E's 2003 Forecast				
Description	920	921	923	Total
A&G Study Costs -Exclude Holding Co.	91,060,000	16,570,000	58,745,000	166,375,000
NSD Costs	13,173,000	8,119,000	5,361,000	26,653,000
Total	104,233,000	24,689,000	64,106,000	193,028,000
Percent NSD	12.64	32.89	8.36	13.81
Source: PG&E Exh.-6 WP 6-35, 6-71 and 6-118				

The NSD costs have not received the type of review given to A&G Study costs. PG&E's testimony concerning the NSD costs is less than one page in length. PG&E's testimony erroneously indicates the NSD forecast reflects 2000 recorded costs.[43] As previously noted the NSD forecast is based on 2001 recorded costs.

[42] PG&E Exhibit 6, WP 6-34 and OC-1, file titled AandGNSD and Forsgard interview

[43] PG&E Exhibit 4, page 2-77

PG&E did not make any forecast adjustments to the NSD costs. PG&E did exclude selected orders containing POR and other below-the-line costs from the NSD costs. PG&E did not assign any of the NSD costs to construction. PG&E assigned all of the adjusted 2001 NSD costs to the utility common category.

Accounting Adjustments

The accounting adjustments category includes (1) standard cost variance amounts for utility departments that charge out most of their costs to other departments through charge-back arrangements and (2) corrections of past accounting errors. The largest order included in the category is directly offset by another order within the accounting adjustment category. Specifically, the Over Absorption-Fleet order of $20.9 million reflects an accounting error which is corrected by the Fleet Adj. Correct FERC Accounts order of negative $20.9 million.

Many of the accounting adjustments are for costs that are normally charged to PG&E's A&G Departments under internal charge-back procedures.[44] PG&E used a variety of approaches to forecast 2003 costs for its A&G Departments. Some of PG&E's forecasts reflect the department's 2002 budget. The 2002 budgets include anticipated internal charge-back costs. Adding 2001 recorded NSD accounting adjustments to 2002 budgeted amounts is an improper forecasting method and results in double counting and omission of costs.

PG&E's A&G Study departmental forecasts, in theory, reflect forecasts of actual expected 2003 costs. There is no basis for forecasting a positive or negative level of accounting adjustments in 2003. Therefore, setting the 2003 accounting adjustment forecast equal to zero reflects current expectations and is consistent with the A&G Study approach.

Accounting adjustments can go in both directions and should zero out over time. Overland recommends a 2003 forecast of zero for the NSD accounting adjustments category. Overland's recommended adjustment reduces total company forecasted costs by $1.2 million.

The Learning Center accounting adjustment is discussed below to illustrate the forecast errors that result from combining 2001 recorded NSD accounting adjustments with 2003 A&G study departmental forecasts. The $1.9 million Learning Center Correction was

[44] OC-121

one of the largest recorded NSD accounting adjustments in 2001. The Learning Center provides training services to PG&E organizations and external third parties. All of the Learning Center's costs are distributed throughout PG&E's operations and maintenance expense accounts through internal charge-backs.[45] Prior to 2002, PG&E recorded the revenue received from third parties as a reduction in Learning Center expenses. Beginning in 2002, PG&E records the revenues received from third parties in other operating revenues. That accounting change was made to accurately segregate other operating revenues from operating expenses.[46]

The Learning Center accounting adjustment reflects a one-time accounting entry recorded in December 2001 to adjust 2001 results to reflect the new accounting treatment. The entry increased Account 921 by the total amount of costs associated with third party usage of the Learning Center. [47] The entire amount was charged to Account 921 even though PG&E's prospective accounting change will spread the costs throughout PG&E's operations and maintenance expense accounts in 2002 and 2003. Approximately 10% of the Learning Center's costs are charged to A&G Accounts. The other 90% of the Learning Center's costs are charged to non-A&G operations and maintenance expense accounts and construction.[48]

The December 2001 one-time entry should not be included in PG&E's 2003 forecast of Account 921 NSD costs for several reasons. First, the entry will not recur in 2003. Second, the entry reflects costs that are not properly includable in Account 921. Third, including the entry in the 2003 Account 921 NSD forecast will result in the costs being included in PG&E's 2003 GRC forecasts twice: Once in Account 921 and again in the forecasts for the Non-A&G accounts that are normally and properly charged for the costs. Finally, PG&E's forecast of other operating revenues apparently does not reflect the accounting change.

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[45] OC-139

[46] OC-377

[47] OC-377

[48] OC-139

PG&E currently records revenues from third party usage of the Learning Center in Account 456, Other Electric Revenues.[49] PG&E's testimony concerning that revenue account does not mention the Learning Center accounting change.[50] PG&E's Other Operating Revenues workpapers do not contain any indication that Learning Center third-party revenues are included in PG&E's 2003 forecast for Account 456. [51] PG&E's apparently failed to reflect the Learning Center accounting change in its forecast of other operating revenues. The accounting change increased expenses and revenues by equal amounts. Reflecting the increase in expenses while ignoring the increase in revenues is improper, even if PG&E's forecasts do not double count the expenses (which they do).

Environmental Services

The Environmental Services NSD costs consist of charges from PG&E's Environmental Services organization. The following table shows the charges by originating organization.

NSD Environmental Costs 2003 Forecast Per PG&E	
PCC	Amount
Environmental Support and Services	436,846
Field Services Group	470,745
Compliance Support	63,883
Gas Transmission Support	68,720
Site Remediation	213,318
Orders	109,344
Total	1,362,856
Source: OC-1 and OC-504	

The environmental organizations included in the NSD charges were excluded from the A&G Study. Overland accepted PG&E's forecast of environmental NSD costs.

[49] OC-377

[50] PG&E Exhibit 6, Chapter 16

[51] PG&E Exhibit 6, Chapter 16 Workpapers

Information Systems Technology Services (ISTS)

PG&E's 2003 NSD forecast includes $19.3 million of ISTS costs. The ISTS costs reflect 12% of the costs of operating PG&E's mainframe computer systems and the costs of operating PG&E's communications network.

The following orders account for 68% of the NSD ISTS costs.

NSD ISTS Costs Large Orders Included In PG&E Forecast	
Order	Amount
C&TS Support	5,373,876
Transmission System Monitoring & Dispatch	1,436,879
Non-CIS B&G System	1,259,984
CI Net Support (Routers, Switches, Hubs)	1,131,554
Maintain and Operate SF Client Server	1,030,669
ISTS Facility Site Leases	926,377
Maintain and Operate FF Client Server	798,825
Internet Infrastructure O&M	691,299
Software & Hardware Contracts - Client Server	574,034
Total	13,223,497
Source: OC-1	

The Transmission System Monitoring & Dispatch order tracks costs for PG&E's telecommunications transmission equipment.[52] The Non-CIS B&G System order tracks software license and contract costs related to operating PG&E's mainframe computer system.[53] The CI-Net Support (Routers, Switches, Hubs) order is used by PG&E's ISTS Corporate Infrastructure Department to track costs. [54] The ISTS Facility Site Leases order primarily tracks rents paid for telecommunications transmission facility sites.[55] The Internet Infrastructure O&M order reflects costs of operating the Company's web infrastructure.[56] The C&TS Support order is discussed below. Excluding that order, the

[52] OC-380

[53] OC-122

[54] OC-120

[55] OC-121

[56] OC-121

NSD ISTS costs reflect ongoing costs of operating PG&E's information systems and communications systems. Overland accepted PG&E's NSD ISTS cost forecast for all orders except C&TS Support.

The C&TS Support order is used to track ISTS charges for A&G projects. The following table shows the C&TS Support costs included in PG&E's Forecast by sending order.

NSD ISTS Costs - Accounts 920 and 921 C&TS Support Costs By Sending Order	
Order	Amount
SAP System Integration Project (12 orders)	3,117,167
Circuit Leasing	1,498,548
Day to Day Operations	230,241
Radio Program Initiative	134,733
DRP - Operations Support	124,474
Various small orders	268,713
Total	5,373,876
Source: OC-378	

The SAP System Integration (SI) Project was completed in June 2001. The SAP SI project was designed to (1) integrate the SAP financial/materials management system with the Utility Operations SAP Work Management System into a single database; and (2) upgrade SAP from the previous Version 3.1 to Version 4.6.[57] The total cost of the SAP SI project was $15.4 million.[58]

The SAP SI charges are non-recurring and should not be included in PG&E's 2003 forecast of NSD costs. PG&E has agreed to eliminate SAP SI orders costs from its forecasts for the SAP Operations and Controls Department and Budget Departments.[59] The SAP SI costs included in PG&E's NSD forecast should receive the same treatment.

Data Request OC-378 asked PG&E to explain why the SAP SI upgrade costs were included in its 2003 NSD forecast. PG&E's response indicates:

> These PG&E costs originate in cost centers in the [ISTS] organization. Although many of these ISTS resources were dedicated to the SAP SI upgrade until its

[57] OC-96

[58] OC-97

[59] Chapter 3

completion in mid-2001, these ISTS employees will continue to work on SAP-related and other IT projects in the future. There is a continuing business need for these support resources.

PG&E has not provided a forecast of the CT&S Support costs that will be required in 2003 by project or order. Some of the resources dedicated to the SAP SI project in 2001 may be redeployed to other projects in 2003. However, that observation does not support a conclusion that the cost of those resources will be charged to A&G expense. Some of the new projects may be capital projects. Some of the new projects could be below-the-line projects for setting up information systems for the new companies required by PG&E's POR. Some of the new projects may be charged to non-A&G operations and maintenance expense accounts such as customer accounts expense. PG&E's 2003 capital and operations and maintenance expense forecasts presumably reflect the new projects. Therefore, including the 2001 SAP SI charges in the 2003 NSD forecast could double count the cost of those resources. Recorded 2001 SAP SI charges do not provide a reliable basis for forecasting 2003 A&G NSD C&TS support costs.

Overland recommends the following adjustment to remove SAP SI project costs from PG&E's 2003 NSD forecast.

Non-Study Department Costs Forecast Adjustment to Eliminate SAP SI Costs	
Account	Amount
Account 920	2,068,137
Account 921	1,049,030
Forecast Adjustment in 2001 Dollars	3,117,167
Source: OC-378	

The remaining C&TS Support costs reflect PG&E's ongoing operations. The circuit leasing costs reflect the cost of obtaining telecommunications bandwidth to support PG&E's operations.[60] Overland accepted PG&E's forecast for the remaining C&TS Support costs.

Overland's adjusted NSD ISTS forecast is $16.2 million. That forecast includes costs for operating PG&E's mainframe computer systems, client servers, telecommunications systems and intranet infrastructure. Part of the usage of those systems is capital related. For example, PG&E charged approximately 32% of its labor costs to capital in

[60] OC-378

2002. Therefore, a substantial portion of the activity on its telecommunications system is caused by capital activities.

PG&E excluded the ISTS organization from its A&G Study. As a result, PG&E did not gather the data needed to allocate ISTS NSD costs between capital and expense. Some of the ISTS NSD costs are arguably allocable to capital. Overland did not recommend a capital allocation for the ISTS NSD costs because PG&E did not provide adequate data to allocate the costs.

PG&E did not provide any testimony to support its NSD ISTS costs. PG&E's showing concerning NSD ISTS costs is inadequate given the relatively large amount of the costs. In future GRCs, PG&E should provide detailed testimony supporting its forecast of NSD ISTS charges.

Real Estate

The real estate charges reflect costs incurred by PG&E's Building and Land Services Department in connection with property transactions and relocations. The real estate charges total $2.6 million. The following orders account for 64% of the charges.

NSD Costs Large Real Estate Orders	
Account	Amount
Manage Land Corp.	527,070
Real Estate Portfolio Planning	465,013
Cost of Selling Real Property	442,399
Real Property Transactions - Leases	150,934
Miscellaneous Real Estate Revenue	115,973
Total	1,701,389
Source: OC-1	

PG&E's major work category (MWC) EQ- Sale of Real Property accounts for $1.3 million of the $2.6 million in real estate charges.[61] That MWC is described in PG&E's testimony concerning the Building and Land Services Department.[62] The NSD real estate costs reflect ongoing operations. Overland accepted PG&E's forecast of NSD real estate costs.

[61] OC-107

[62] PG&E Exhibit 4, page 12-9

Miscellaneous Charges

The miscellaneous charges category totals $2.1 million. The category includes approximately 150 orders. The following table shows the seven largest orders.

NSD Costs Miscellaneous Charges - Large Orders	
Order	Amount
Supplier Profile Management	326,066
Vendor Pre-Payments	158,148
GAMP (Geysers Air Monitoring)	147,431
FERC Planning Project	139,500
RF Safety Program Project	117,924
VP California Gas Transmission	81,049
GRI Pipe Corrosion Testing	79,649
Total	1,049,767
Source: OC-1	

Many of the miscellaneous charges appear to be the result of accounting errors. For example, the San Francisco Meter Reading, North Bay Gas Construction, and North Coast Gas Field Services organizations each charged approximately $1,100 to Account 920. Those organizations do not normally charge A&G expense and the most likely explanation for the charges is an accounting coding error.

It is not apparent why Geysers Air Monitoring costs should be charged to A&G expense. GRI Pipe Corrosion Testing apparently refers to the Gas Research Institute. It is not apparent why pipe corrosion testing costs are charged to A&G expense.

Accounting errors occur every year. Therefore, it is reasonable to expect some level of accounting errors to occur in 2003. The erroneous charges to A&G accounts inflate A&G expenses and understate operations and maintenance expenses. Therefore, as long as PG&E reduces its O&M forecasts to reflect costs it anticipates charging to A&G in error in 2003, the total forecast will be accurate.

PG&E uses a variety of approaches to forecasting expense accounts. There is no assurance that PG&E has reduced its operations and maintenance expense forecasts to reflect the accounting errors included in the NSD miscellaneous charges category. Therefore, including the accounting errors in the 2003 A&G forecast creates a significant risk that the costs will be reflected in PG&E's forecasts twice, once in A&G and once again in other operations and maintenance expense forecasts.

The NSD miscellaneous charges include $81,049 for PG&E's Vice President California Gas Transmission cost center, including $77,122 of labor costs. If PG&E's 2003 gas transmission forecasts fully reflects the labor costs of that cost center, including those labor costs in the NSD forecast double counts those costs.

Similarly, if the GRI Pipeline Corrosion Testing program costs are also included in PG&E's 2003 forecast of gas transmission and distribution expense, including those costs in the NSD forecast double counts those costs. PG&E has failed to demonstrate that its forecasts of NSD miscellaneous charges do not double count costs included in other operating expense forecasts.

PG&E included the recorded 2001 costs for 150 NSD miscellaneous charge orders in the 2003 A&G forecast without conducting a detailed review of the orders and without ensuring that the same costs are excluded from other GRC expense account forecasts. PG&E's forecasting methodology for NSD miscellaneous charges is improper and should be rejected.

Based on an order by order review of the 2001 charges, Overland estimates that no more than 50% of the 2001 NSD miscellaneous charges represent legitimate A&G costs. Overland recommends the following adjustment to reduce NSD miscellaneous charges to reflect Overland's forecast of NSD miscellaneous charges.

NSD Miscellaneous Charges 2003 Forecast Adjustment Per Overland	
Order	Amount
PG&E Forecast	2,088,229
Adjustment Percent	50%
Forecast Adjustment	(1,044,115)
Source: OC-1	

The following table summarizes the NSD adjustments proposed by Overland.

Accounts 920 Through 923 Summary of Non-Study Department Adjustments Per Overland (In Thousands of 2001 Dollars)				
Description	920	921	923	Total
Accounting Adjustments	1,276	98	(2,603)	(1,229)
C&TS Support SAP SI	(2,068)	(1,049)	0	(3,117)
Miscellaneous Charges	(676)	(110)	(259)	(1,045)
Total	(1,468)	(1,061)	(2,862)	(5,391)

Summary of Overland's Forecast

The following table shows Overland's forecasts for Accounts 920 through 923 by component.

Accounts 920 through 923 2003 Forecast Per Overland (In Thousands of Dollars)					
Description	920	921	922	923	Total
A&G Study Total	83,211	11,292	(12,876)	60,791	142,418
Non-Study Department Costs	11,705	7,058	0	2,499	21,262
Severance Costs	1,297	0	0	0	1,297
Hazardous Waste Mechanism	1,172	88	0	0	1,260
Labor Transfer	117	(108)	0	0	9
Subtotal	97,502	18,330	(12,876)	63,290	166,246
De-escalation	(6,036)	(1,012)	786	(3,493)	(9,755)
PIP in 2000 Dollars	20,811	0	(6,705)	0	14,106
Total	112,277	17,318	(18,795)	59,797	170,597

The following table shows the differences between PG&E's forecasts and Overland's forecasts by component.

Accounts 920 through 923 2003 Forecast Differences (In Thousands of Dollars)					
Description	920	921	922	923	Total
A&G Study Total	(7,849)	(5,278)	(5,399)	(65,957)	(84,483)
Non-Study Department Costs	(1,468)	(1,061)	0	(2,862)	(5,391)
Severance Costs	0	0	0	0	0
Hazardous Waste Mechanism	0	0	0	0	0
Labor Transfer	0	0	0	0	0
Subtotal in 2002 Dollars	(9,317)	(6,339)	(5,399)	(68,819)	(89,874)
De-escalate to 2000 Dollars	579	350	331	3,798	5,058
PIP in 2000 Dollars	(20,811)	0	(3,890)	0	(24,701)
Total in 2000 Dollars	(29,549)	(5,989)	(8,958)	(65,021)	(109,517)

As can be seen above, on a total utility expense basis, the differences between Overland and PG&E are limited to the A&G Study, NSD, de-escalation and PIP categories. The de-escalation difference merely reflects the escalation impact of the A&G Study and NSD differences.

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 920 PER PG&E

PCC	TITLE	PG&E ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	1,023	0	0	40	0	128	0	0	0	0	0	0	855
10409	SVP - TREASURER & CFO	612	147	0	0	0	0	46	24	138	6	6	92	153
12573	BUSINESS & FINANCIAL PLANNING	1,341	94	0	0	0	23	94	50	46	0	35	39	962
12574	BUSINESS PROCESS IMPROVEMENT	543	0	0	0	0	0	0	0	0	0	0	0	543
10443	VP INFORMATION SYSTEMS (ISTS)	373	65	0	0	0	0	0	0	0	0	0	0	308
11943.1	SAP OPERATIONS & CONTROL	1,889	0	0	38	0	0	0	0	0	0	0	0	1,851
10395	VP & CONTROLLER	485	0	0	0	0	0	0	0	0	0	0	0	485
10396	BUDGET	2,368	0	0	0	0	0	0	0	0	0	0	0	2,368
10397.1	PAYROLL	2,712	841	542	0	0	0	0	0	0	0	0	0	1,329
10398.1	ACCOUNTS PAYABLE	3,131	313	204	21	0	0	209	56	1,220	33	0	380	695
10400	CORPORATE ACCOUNTING	4,413	0	0	27	2	79	88	81	167	32	24	150	3,763
10403	CAPITAL ACCOUNTING	3,335	650	0	0	0	0	110	173	223	0	80	120	1,978
12078	RISK MANAGEMENT	2,479	0	248	0	0	0	211	0	880	0	496	645	0
10372	CORPORATE SECURITY	1,518	51	0	29	99	0	72	157	369	0	51	197	492
11319.1	PURCHASING	2,118	0	0	55	0	0	76	0	0	0	227	0	1,760
10512	SVP - PUBLIC AFFAIRS	469	8	0	168	0	0	0	0	0	0	0	0	294
10311.1	VP COMMUNICATIONS	707	0	0	0	0	0	11	0	0	0	0	0	696
10304.1	INTERNAL & EXT. COMMUNICATIONS	1,535	0	0	46	0	0	0	0	0	0	0	0	1,489
10314	MEDIA RELATIONS	1,584	0	0	33	0	0	281	0	0	0	0	0	1,271
10305.1	VP GOVERNMENT RELATIONS	529	0	0	13	0	15	4	4	0	6	0	4	482
12243.1	LOCAL GOVERNMENT RELATIONS	2,893	0	0	2	0	330	202	26	0	0	0	0	2,334
10421	VP REGULATORY RELATIONS	928	0	0	0	0	0	0	288	0	0	0	0	640
10407	REGULATORY RELATIONS	1,265	0	0	6	0	0	11	74	249	45	79	160	641
10408.1	REVENUE REQUIREMENTS	7,878	0	0	2	0	0	583	672	3,164	643	672	1,290	852
10892	EXTERNAL RELATIONS	656	0	0	75	0	0	0	0	0	98	0	0	482
10373.1	VP HUMAN RESOURCES	547	0	0	0	0	0	0	0	0	0	0	0	547
10374	INDUSTRIAL RELATIONS	1,446	260	0	0	0	0	0	0	0	0	0	0	1,185
10382.1	HR BUSINESS OPS, SVCS & SYST	4,404	793	0	31	0	0	0	0	0	0	0	0	3,581
10383	BENEFITS	1,871	0	0	0	0	0	0	0	0	0	0	0	1,871
10384.1	HR SERVICES	7,425	742	0	0	0	0	772	297	1,566	0	223	671	3,153
10385	COMPENSATION	817	0	0	0	0	0	0	0	0	0	0	0	817
12566.1	PROFESSIONAL STAFFING & DIVER.	1,415	0	0	0	0	0	0	0	0	0	0	0	1,415
10447	SVP & GENERAL COUNSEL	387	0	0	0	0	0	0	0	0	0	0	0	387
10448	LAW	14,866	177	0	28	0	0	1,197	2,057	3,916	65	788	1,390	5,248
11675	SH&C DIRECTORS IMMED. OFFICE	481	104	0	0	0	0	23	14	168	0	4	100	68
10450	SH&C WORKERS COMPENSATION	6,118	1,897	0	0	0	0	409	183	1,754	0	59	1,435	382
10451.1	SH&C THIRD PARTY CLAIMS	2,848	171	0	1	0	0	40	101	1,868	0	34	623	9
10452	SH&C SAFETY ENGINEERING	2,039	0	0	0	0	0	0	0	0	0	0	0	2,039
10950.1	VP ENVIRONMENTAL AFFAIRS	1,101	14	7	55	0	0	117	103	417	29	63	0	296
12241	AFFILIATE RULES & REG. COMPLY	562	0	0	0	0	39	0	0	0	0	0	0	523
10446	CORPORATE SECRETARY	4	0	0	0	0	0	0	0	0	0	0	0	4
10422	RECORDS CENTER	337	0	0	11	0	0	24	8	2	18	9	1	264
TOTAL UTILITY		93,454	6,327	1,000	680	102	614	4,579	4,370	16,146	974	2,850	7,297	48,514
HOLDING COMPANY MULTI-FACTOR		100.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ALLOCATE HOLDING COMPANY COMMON			0	0	(680)	680	0	0	0	0	0	0	0	0
TOTAL AFTER HOLDCO ALLOCATION		93,454	6,327	1,000	0	782	614	4,579	4,370	16,146	974	2,850	7,297	48,514
M&O LABOR ALLOCATOR		100.00	0.00	0.00	0.00	0.00	0.00	21.05	6.66	41.08	2.39	5.18	23.64	0.00
ALLOCATE UTILITY COMMON			0	0	0	0	0	10,212	3,231	19,930	1,159	2,513	11,469	(48,514)
TOTAL AFTER ALLOCATIONS		93,454	6,327	1,000	0	782	614	14,791	7,601	36,076	2,134	5,363	18,766	0
ELIMINATE NON A&G COSTS		(2,396)	0	(1,000)	0	(782)	(614)	0	0	0	0	0	0	0
ACCOUNT 920 A&G STUDY COSTS		91,058	6,327	0	0	0	0	14,791	7,601	36,076	2,134	5,363	18,766	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 921 PER PG&E

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	201	0	0	8	0	25	0	0	0	0	0	0	168
10409	SVP - TREASURER & CFO	529	127	0	0	0	0	40	21	119	5	5	79	132
12573	BUSINESS & FINANCIAL PLANN	118	8	0	0	0	2	8	4	4	0	3	3	85
12574	BUSINESS PROCESS IMPROVE	97	0	0	0	0	0	0	0	0	0	0	0	97
10443	VP INFORMATION SYSTEMS (IS	73	13	0	0	0	0	0	0	0	0	0	0	61
11943.1	SAP OPERATIONS & CONTROL	628	0	0	13	0	0	0	0	0	0	0	0	616
10395	VP & CONTROLLER	155	0	0	0	0	0	0	0	0	0	0	0	155
10396	BUDGET	451	0	0	0	0	0	0	0	0	0	0	0	451
10397.1	PAYROLL	984	305	197	0	0	0	0	0	0	0	0	0	482
10398.1	ACCOUNTS PAYABLE	542	54	35	4	0	0	36	10	211	6	0	66	120
10400	CORPORATE ACCOUNTING	508	0	0	3	0	9	10	9	19	4	3	17	434
10403	CAPITAL ACCOUNTING	347	68	0	0	0	0	11	18	23	0	8	12	206
12078	RISK MANAGEMENT	2,393	0	239	0	0	0	203	0	850	0	479	622	0
10372	CORPORATE SECURITY	288	10	0	6	19	0	14	30	70	0	10	37	93
11319.1	PURCHASING	154	0	0	4	0	0	6	0	0	0	17	0	128
10512	SVP - PUBLIC AFFAIRS	72	1	0	26	0	0	0	0	0	0	0	0	45
10311.1	VP COMMUNICATIONS	133	0	0	0	0	0	2	0	0	0	0	0	131
10304.1	INTERNAL & EXT. COMMUNICA	194	0	0	6	0	0	0	0	0	0	0	0	188
10314	MEDIA RELATIONS	371	0	0	8	0	0	66	0	0	0	0	0	298
10305.1	VP GOVERNMENT RELATIONS	256	0	0	6	0	7	2	2	0	3	0	2	233
12243.1	LOCAL GOVERNMENT RELATIC	1,199	0	0	1	0	137	84	11	0	0	0	0	967
10421	VP REGULATORY RELATIONS	204	0	0	0	0	0	0	63	0	0	0	0	141
10407	REGULATORY RELATIONS	155	0	0	1	0	0	1	9	30	5	10	20	78
10408.1	REVENUE REQUIREMENTS	768	0	0	0	0	0	57	66	308	63	66	126	83
10892	EXTERNAL RELATIONS	730	0	0	84	0	0	0	0	0	110	0	0	537
10373.1	VP HUMAN RESOURCES	114	0	0	0	0	0	0	0	0	0	0	0	114
10374	INDUSTRIAL RELATIONS	210	38	0	0	0	0	0	0	0	0	0	0	172
10382.1	HR BUSINESS OPS, SVCS & SY	1,290	232	0	9	0	0	0	0	0	0	0	0	1,049
10383	BENEFITS	23	0	0	0	0	0	0	0	0	0	0	0	23
10384.1	HR SERVICES	837	84	0	0	0	0	87	33	177	0	25	76	356
10385	COMPENSATION	50	0	0	0	0	0	0	0	0	0	0	0	50
12566.1	PROFESSIONAL STAFFING & D	244	0	0	0	0	0	0	0	0	0	0	0	244
10447	SVP & GENERAL COUNSEL	14	0	0	0	0	0	0	0	0	0	0	0	14
10448	LAW	1,265	15	0	2	0	0	102	175	333	6	67	118	446
11675	SH&C DIRECTORS IMMED. OFF	219	47	0	0	0	0	10	6	77	0	2	45	31
10450	SH&C WORKERS COMPENSAT	392	122	0	0	0	0	26	12	112	0	4	92	25
10451.1	SH&C THIRD PARTY CLAIMS	533	32	0	0	0	0	7	19	350	0	6	117	2
10452	SH&C SAFETY ENGINEERING	261	0	0	0	0	0	0	0	0	0	0	0	261
10950.1	VP ENVIRONMENTAL AFFAIRS	193	3	1	10	0	0	20	18	73	5	11	0	52
12241	AFFILIATE RULES & REG. COM	65	0	0	0	0	5	0	0	0	0	0	0	61
10446	CORPORATE SECRETARY	87	0	0	0	0	0	0	0	0	0	0	0	87
10422	RECORDS CENTER	91	0	0	3	0	0	6	2	0	5	3	0	71
TOTAL UTILITY		17,439	1,158	472	192	19	185	800	509	2,757	211	717	1,434	8,986
HOLDING COMPANY MULTI-FACTOR		100.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ALLOCATE HOLDING COMPANY COMMOI			0	0	(192)	192	0	0	0	0	0	0	0	0
TOTAL AFTER HOLDCO ALLOCATION		17,439	1,158	472	0	211	185	800	509	2,757	211	717	1,434	8,986
M&O LABOR ALLOCATOR		100.00	0.00	0.00	0.00	0.00	0.00	21.05	6.66	41.08	2.39	5.18	23.64	0.00
ALLOCATE UTILITY COMMON			0	0	0	0	0	1,892	598	3,691	215	465	2,124	(8,986)
TOTAL AFTER ALLOCATIONS		17,439	1,158	472	0	211	185	2,691	1,107	6,449	425	1,183	3,558	0
ELIMINATE NON A&G COSTS		(868)	0	(472)	0	(211)	(185)	0	0	0	0	0	0	0
ACCOUNT 920 A&G STUDY COSTS		16,571	1,158	0	0	0	0	2,691	1,107	6,449	425	1,183	3,558	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923
PER PG&E

ADJUSTMENT	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON	TOTAL
HOLDING CO. LABOR & MATERIALS	0	0	0	0	0	11,076	3,893	21,315	1,368	2,741	12,106	0	52,500
HOLDING COMPANY CONTRACTS	0	0	0	0	0	3,241	1,019	6,310	363	852	3,717	0	15,501
UTILITY CONTRACTS	0	0	0	0	0	8,250	3,562	19,414	695	14,940	11,886	0	58,746
TOTAL A&G STUDY	0	0	0	0	0	22,567	8,474	47,039	2,426	18,533	27,709	0	126,747

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - MATERIALS AND LABOR
PER PG&E

PCC	TITLE		CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
HOLDING COMPANY LABOR AND MATERIALS														
20001	CHAIRMAN, CEO AND PRESIDENT	2,572	0	0	2,572	0	0	0	0	0	0	0	0	0
20020	SRVP GENERAL COUNSEL	952	0	0	952	0	0	0	0	0	0	0	0	0
20021	LAW DEPARTMENT	3,414	4	0	3,001	107	0	40	0	0	0	0	0	262
20022.1	INTERNAL AUDIT	8,319	316	0	915	1,697	0	241	58	699	150	50	266	3,927
20023	LEGAL COMPLIANCE AND ETHICS	853	0	0	853	0	0	0	0	0	0	0	0	0
20024	RISK INITIATIVES	419	0	0	0	0	0	0	0	0	0	0	0	419
20075	SVP PUBLIC AFFAIRS	176	0	0	176	0	0	0	0	0	0	0	0	0
20076.1	VP FEDERAL GOV. & REG REL.	2,709	0	0	1,165	0	542	163	515	135	27	108	54	0
20077	REGIONAL GOVERNMENTAL REL.	703	0	0	120	2	427	0	0	0	0	0	0	155
20050	SRVP HR	5,114	0	0	5,114	0	0	0	0	0	0	0	0	0
20060	VP AND ASSISTANT TO CHAIRMAN	632	0	0	632	0	0	0	0	0	0	0	0	0
20010.1	CORPORATE SECRETARY	2,669	0	0	2,390	121	0	0	0	0	0	0	0	158
20061.1	VP CORPORATE COMMUNICATIONS	2,078	0	0	831	0	1,247	0	0	0	0	0	0	0
20030.1	SR VP CFO	1,668	0	0	834	0	834	0	0	0	0	0	0	0
20031	SR VP CONTROLLER	656	0	0	472	37	0	0	0	0	0	0	0	147
20032	CORPORATE ACCOUNTING	3,886	0	0	177	691	0	0	0	0	0	0	0	3,018
20042	TAX	7,238	0	0	7,238	0	0	0	0	0	0	0	0	0
20028	FINANCIAL PLANNING	691	0	0	691	0	0	0	0	0	0	0	0	0
20037	FINANCIAL ANALYSIS	1,411	0	0	656	169	0	0	0	0	0	0	0	585
20043	TECH. & RISK MANAGEMENT ACCT	870	0	0	870	0	0	0	0	0	0	0	0	0
20041	INVESTOR RELATIONS	1,157	0	0	173	443	0	0	0	0	0	0	0	541
20029	VP STRATEGIC PLANNING	992	0	0	992	0	0	0	0	0	0	0	0	0
20040	RISK MANAGEMENT	1,362	0	0	1,362	0	0	0	0	0	0	0	0	0
20035	VP & TREASURER	1,163	0	0	1,163	0	0	0	0	0	0	0	0	0
200036	BANKING & MONEY MANAGEMENT	2,553	0	0	2,144	0	0	0	0	0	0	0	0	408
20038	INSURANCE	1,425	0	0	1,425	0	0	0	0	0	0	0	0	0
20039	INVESTMENT & BENEFIT FINANCE	684	0	0	547	0	0	137	0	0	0	0	0	0
20045.1	CORP. INFORMATION TECHNOLOGY	1,377	0	0	1,377	0	0	0	0	0	0	0	0	0
TOTAL HOLDCO LABOR AND MATERIALS		57,743	320	0	38,841	3,269	3,050	581	573	834	177	158	320	9,619
MULTI-FACTOR ALLOCATIONS														
	CHAIRMAN, CEO AND PRESIDENT				(2,572)	607								1,965
	SRVP GENERAL COUNSEL				(952)	225								727
	LAW DEPARTMENT				(3,001)	708								2,292
	INTERNAL AUDIT				(915)	216								699
	SVP PUBLIC AFFAIRS				(176)	42								134
	VP FEDERAL GOV. & REG REL.				(1,165)	275								890
	REGIONAL GOVERNMENTAL REL.				(120)	28								91
	VP AND ASSISTANT TO CHAIRMAN				(632)	149								483
	CORPORATE SECRETARY				(2,390)	564								1,825
	VP CORPORATE COMMUNICATIONS				(831)	196								635
	SR VP CFO				(834)	197								637
	SR VP CONTROLLER				(472)	111								360
	CORPORATE ACCOUNTING				(177)	42								135
	FINANCIAL PLANNING				(691)	163								528
	VP STRATEGIC PLANNING				(992)	234								758
	VP & TREASURER				(1,163)	274								888
	CORP. INFORMATION TECHNOLOGY				(1,377)	325								1,052
HEADCOUNT ALLOCATIONS														
	LEGAL COMPLIANCE AND ETHICS				(853)	90								764
	INVESTMENT & BENEFIT FINANCE				(547)	57								490
	SRVP HR				(5,114)	537								4,577
CAPITALIZATION ALLOCATIONS														
	BANKING & MONEY MANAGEMENT				(2,144)	693								1,452
	FINANCIAL ANALYSIS				(656)	212								444
	INVESTOR RELATIONS				(173)	56								117
INSURANCE (INSURANCE FACTOR)					(1,425)	605								821
RISK MANAGEMENT (REVENUES FACTOR)					(1,362)	784								578
TAX (TAX FACTOR)					(7,238)	3,318								3,920
TECH. & RISK MANAGEMENT ACCOUNTING					(870)	275								595
TOTAL WITH ALLOCATION OF HOLDCO COMM		57,743	320	0	0	14,253	3,050	581	573	834	177	158	320	37,476
ALLOCATION OF UTILITY COMMON (M&O LAB)				0	0	0	0	7,889	2,496	15,395	896	1,941	8,859	(37,476)
ELIMINATE NON-UTILITY & CAPITAL		(17,623)	(320)			(14,253)	(3,050)							0
HOLDCO CORPORATE COSTS (MULTI-FACTOR)		16,206				3,826								12,380
ALLOCATE CORPORATE COST UTILITY COM		0					0	2,606	824	5,086	296	641	2,927	(12,380)
ELIMINATE AFFILIATE CORPORATE COST		(3,826)				(3,826)								0
TOTAL HOLDING COMPANY LABOR AND MATERIALS		52,500	0	0	0	0	0	11,076	3,893	21,315	1,368	2,741	12,106	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - HOLDING CO. CONTRACTS
PER PG&E

PCC	TITLE	AS ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
20001	CHAIRMAN, CEO AND PRESIDENT	1,300	0	0	1,300	0	0	0	0	0	0	0	0	0
20002	PRESIDENT NEG	579	0	0	0	579	0	0	0	0	0	0	0	0
20021	LAW	2,922	0	0	2,865	0	57	0	0	0	0	0	0	0
20022.1	INTERNAL AUDIT	1,693	49	0	0	891	0	0	0	65	0	65	123	501
20023	LEGAL COMPLIANCE & BUSINESS	246	0	0	246	0	0	0	0	0	0	0	0	0
20075	SrVP PUBLIC AFFAIRS	2,354	0	0	182	0	2,172	0	0	0	0	0	0	0
20076.1	VP FEDERAL GOV AND REG RELATIONS	1,619	0	0	1,114	0	459	40	7	0	0	0	0	0
20077	REGIONAL GOVERNMENT RELATIONS	426	0	0	426	0	0	0	0	0	0	0	0	0
20050	SrVP HR	2,214	0	0	2,214	0	0	0	0	0	0	0	0	0
20060	VP AND ASSISTANT TO THE CHAIRMAN	42	0	0	0	0	41	0	0	0	0	0	0	0
20010.1	CORPORATE SECRETARY	2,732	0	0	2,732	0	0	0	0	0	0	0	0	0
20061.1	VP CORPORATE COMMUNICATIONS	6,226	0	0	1,424	0	4,803	0	0	0	0	0	0	0
20030.1	SrVP CFO	2,977	0	0	2,977	0	0	0	0	0	0	0	0	0
20031	SrVP CONTROLLER	537	0	0	537	0	0	0	0	0	0	0	0	0
20032	CORPORATE ACCOUNTING	649	0	0	649	0	0	0	0	0	0	0	0	0
20034	SrVP CORPORATE DEVELOPMENT	1,444	0	0	0	1,444	0	0	0	0	0	0	0	0
20042	TAX	1,100	0	0	320	50	200	0	0	0	0	0	0	530
20037	FINANCIAL ANALYSIS	23	0	0	23	0	0	0	0	0	0	0	0	0
20043	TECHNICAL & RISK MANAGEMENT ACCTG	102	0	0	102	0	0	0	0	0	0	0	0	0
20041	INVESTOR RELATIONS	183	0	0	183	0	0	0	0	0	0	0	0	0
20029	VP STRATEGIC PLANNING	52	0	0	52	0	0	0	0	0	0	0	0	0
20040	RISK MANAGEMENT	610	0	0	610	0	0	0	0	0	0	0	0	0
20036	BANKING & MONEY MANAGEMENT	37	0	0	37	0	0	0	0	0	0	0	0	0
20038	INSURANCE	346	0	0	346	0	0	0	0	0	0	0	0	0
20039	INVESTMENT & BENEFIT FINANCE	7	0	0	7	0	0	1	0	0	0	0	0	0
20045.1	CORPORATE INFORMATION TECHNOLOGY	269	0	0	269	0	0	0	0	0	0	0	0	0
TOTAL HOLDING COMPANY CONTRACTS		30,689	49	0	18,614	2,964	7,731	41	7	65	0	65	123	1,032
MULTI-FACTOR ALLOCATIONS														
	CHAIRMAN, CEO AND PRESIDENT	0	0	0	(1,300)	307	0	0	0	0	0	0	0	993
	LAW	0	0	0	(2,865)	676	0	0	0	0	0	0	0	2,189
	SrVP PUBLIC AFFAIRS	0	0	0	(182)	43	0	0	0	0	0	0	0	139
	VP FEDERAL GOV AND REG RELATIONS	0	0	0	(1,114)	263	0	0	0	0	0	0	0	851
	REGIONAL GOVERNMENT RELATIONS	0	0	0	(426)	101	0	0	0	0	0	0	0	325
	VP AND ASSISTANT TO THE CHAIRMAN	0	0	0	(0)	0	0	0	0	0	0	0	0	0
	CORPORATE SECRETARY	0	0	0	(2,732)	645	0	0	0	0	0	0	0	2,087
	VP CORPORATE COMMUNICATIONS	0	0	0	(1,424)	336	0	0	0	0	0	0	0	1,087
	SrVP CFO	0	0	0	(2,977)	703	0	0	0	0	0	0	0	2,274
	SrVP CONTROLLER	0	0	0	(537)	127	0	0	0	0	0	0	0	410
	CORPORATE ACCOUNTING	0	0	0	(649)	153	0	0	0	0	0	0	0	496
	VP STRATEGIC PLANNING	0	0	0	(52)	12	0	0	0	0	0	0	0	39
	CORPORATE INFORMATION TECHNOLOGY	0	0	0	(269)	64	0	0	0	0	0	0	0	206
HEADCOUNT ALLOCATIONS														
	LEGAL COMPLIANCE AND ETHICS	0	0	0	(246)	26	0	0	0	0	0	0	0	220
	INVESTMENT & BENEFIT FINANCE	0	0	0	(7)	1	0	0	0	0	0	0	0	6
	SRVP HR	0	0	0	(2,214)	233	0	0	0	0	0	0	0	1,982
CAPITALIZATION ALLOCATIONS														
	BANKING & MONEY MANAGEMENT	0	0	0	(37)	12	0	0	0	0	0	0	0	25
	FINANCIAL ANALYSIS	0	0	0	(23)	7	0	0	0	0	0	0	0	16
	INVESTOR RELATIONS	0	0	0	(183)	59	0	0	0	0	0	0	0	124
INSURANCE (INSURANCE FACTOR)		0	0	0	(346)	147	0	0	0	0	0	0	0	199
RISK MANAGEMENT (REVENUES FACTOR)		0	0	0	(610)	351	0	0	0	0	0	0	0	259
TAX (TAX FACTOR)		0	0	0	(320)	147	0	0	0	0	0	0	0	173
TECH. & RISK MANAGEMENT ACCOUNTING		0	0	0	(102)	32	0	0	0	0	0	0	0	70
TOTAL WITH ALLOCATION OF HOLDCO COMM		30,689	49	0	0	7,408	7,731	41	7	65	0	65	123	15,202
ALLOCATION OF UTILITY COMMON (M&O LAB)		0	0	0	0	0	0	3,200	1,012	6,245	363	787	3,594	(15,202)
ELIMINATE NON-UTILITY & CAPITAL		(15,188)	(49)	0	0	(7,408)	(7,731)	0	0	0	0	0	0	0
TOTAL CONTRACTS		15,501	0	0	0	0	0	3,241	1,019	6,310	363	852	3,717	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - UTILITY CONTRACTS
PER PG&E

PCC	TITLE	AS ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	225	0	0	0	0	50	0	0	0	0	0	0	175
10409	SVP - TREASURER & CFO	6,030	1,447	0	0	0	0	452	241	1,357	60	6	905	1,562
12573	BUSINESS AND FINANCIAL PLANNING	17	0	0	0	0	0	0	0	0	0	0	0	17
12574	BUSINESS PROCESS IMPROMENT INITIATIVES	0	0	0	0	0	0	0	0	0	0	0	0	0
10395	VP & CONTROLLER	1,716	0	0	0	0	0	0	0	0	0	0	0	1,716
10396	BUDGET	129	0	0	0	0	0	0	0	0	0	0	0	129
10397.1	PAYROLL	5	0	0	0	0	0	0	0	0	0	0	0	5
10398.1	ACCOUNTS PAYABLE	159	11	18	0	0	0	8	2	44	1	0	13	62
10400	CORPORATE ACCOUNTING	504	0	0	0	0	0	0	0	0	0	0	0	504
10403	CAPITAL ACCOUNTING	370	0	0	0	0	0	0	0	0	0	0	0	370
12078	RISK MANAGEMENT	2,000	0	0	0	0	0	0	0	797	0	602	602	0
10443	VP ISTS	200	0	0	0	0	200	0	0	0	0	0	0	0
11943.1	SAP OPERATIONS & CONTROL	1,732	0	0	20	0	0	0	0	0	0	0	0	1,712
10304.1	INTERNAL AND EXTERNAL COMMUNICATIONS	1,040	0	0	0	0	65	0	0	0	0	0	0	975
10305.1	VP GOVERNMENTAL RELATIONS	280	0	0	0	0	102	0	0	0	0	0	0	177
10311.1	VP COMMUNICATIONS	544	0	0	0	0	318	0	0	0	0	0	0	226
10314	MEDIA RELATIONS	227	0	0	0	0	0	5	0	0	0	0	0	222
10407	REGULATORY RELATIONS	200	0	0	1	0	0	1	5	38	3	14	24	115
10408.1	REVENUE REQUIREMENTS	4,866	0	0	0	0	300	95	108	2,287	108	108	1,693	169
10421	VP REGULATORY RELATIONS	53	0	0	0	0	0	0	0	0	0	0	0	53
10512	SVP - PUBLIC AFFAIRS	39	0	0	0	0	0	1	0	0	0	0	0	38
10892	EXTERNAL RELATIONS	105	0	0	0	0	0	0	0	0	0	0	0	105
12243.1	LOCAL GOVERNMENT RELATIONS - AREAS 1-8	85	0	0	0	0	0	21	0	0	0	0	0	64
10373.1	VP HUMAN RELATIONS	124	0	0	0	0	0	0	0	0	0	0	0	124
10374	INDUSTRIAL RELATIONS	20	4	0	0	0	0	0	0	0	0	0	0	16
10382.1	HR BUSINESS OPERATIONS, SERVICES & SYSTEMS (BOSS)	847	153	0	0	0	0	0	0	0	0	0	0	695
10383	BENEFITS	227	20	0	0	0	0	0	0	0	0	0	0	208
10384.1	HR SERVICES	158	16	0	0	0	0	17	6	33	0	5	14	67
10385	COMPENSATION	23	0	0	0	0	0	0	0	0	0	0	0	23
12566.1	PROFESSIONAL STAFFING AND DIVERSITY	347	0	0	0	0	0	0	0	0	0	0	0	347
10447	SVP & GENERAL COUNSEL	0	0	0	0	0	0	0	0	0	0	0	0	0
10448	LAW	32,795	7	0	0	0	2,700	2,942	1,575	4,547	5	13,029	2,797	5,192
10450	SAFETY HEALTH AND CLAIMS - WORKERS COMP	2,212	686	0	0	0	0	149	83	598	0	30	490	176
10451.1	SAFETY HEALTH AND CLAIMS - THIRD PARTY CLAIMS	1,146	69	0	0	0	0	8	30	776	0	2	258	3
10452	SAFETY HEALTH AND CLAIMS - SAFETY ENGINEERING	2,248	0	0	0	0	0	0	0	0	0	0	0	2,248
10950.1	VP ENVIRONMENTAL AFFAIRS	201	3	1	10	0	0	21	19	76	5	11	0	54
11675	SH&C DIRECTORS IMMEDIATE OFFICE	15	0	0	0	0	0	0	0	0	0	0	0	15
12241	AFFILIATE RULES AND REGULATORY COMPLIANCE	400	0	0	0	0	400	0	0	0	0	0	0	0
10372	CORPORATE SECURITY	284	5	95	1	0	0	11	63	40	0	21	14	34
10446	CORPORATE SECRETARY	251	0	0	0	0	0	0	0	0	0	0	0	251
10422	RECORDS CENTER	17	0	0	0	0	0	0	0	0	0	0	0	17
11319.1	PURCHASING	3,604	0	0	0	0	0	0	0	0	0	0	0	3,604
TOTAL UTILITY CONTRACTS		65,446	2,418	114	33	0	4,136	3,730	2,132	10,593	182	13,828	6,810	21,472
ALLOCATION OF UTILITY COMMON (M&O LAB)		0	0	0	0	0	0	4,520	1,430	8,821	513	1,112	5,076	(21,472)
ELIMINATE NON-UTILITY & CAPITAL		(6,700)	(2,418)	(114)	(33)	(0)	(4,136)	0	0	0	0	0	0	0
TOTAL CONTRACTS		58,746	0	0	0	0	0	8,250	3,562	19,414	695	14,940	11,886	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 920 PER OVERLAND

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GEN FOSSIL	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	1,023	0	0	40	0	128	0	0	0	0	0	0	855
10409	SVP - TREASURER & CFO	612	147	0	0	0	0	46	24	138	6	6	92	153
12573	BUSINESS & FINANCIAL PLANNING	1,341	94	0	0	0	229	94	50	46	0	35	39	755
12574	BUSINESS PROCESS IMPROVEMENT	543	0	0	0	0	0	0	0	0	0	0	0	543
10443	VP INFORMATION SYSTEMS (ISTS)	373	65	0	0	0	0	0	0	0	0	0	0	308
11943.1	SAP OPERATIONS & CONTROL	1,889	0	0	38	0	0	0	0	0	0	0	0	1,851
10395	VP & CONTROLLER	485	0	0	0	0	0	0	0	0	0	0	0	485
10396	BUDGET	2,368	0	0	0	0	0	0	0	0	0	0	0	2,368
10397.1	PAYROLL	2,548	790	510	0	0	0	0	0	0	0	0	0	1,248
10398.1	ACCOUNTS PAYABLE	3,131	665	204	21	0	0	209	56	1,220	33	0	380	343
10400	CORPORATE ACCOUNTING	4,413	0	0	27	2	788	88	81	167	32	24	150	3,055
10403	CAPITAL ACCOUNTING	3,335	1,047	0	0	0	0	110	173	223	0	80	120	1,582
12078	RISK MANAGEMENT	2,067	0	207	0	0	0	176	0	734	0	413	538	0
10372	CORPORATE SECURITY	1,518	51	0	29	99	0	72	157	369	0	51	197	492
11319.1	PURCHASING	2,118	615	0	55	0	0	76	0	0	0	227	0	1,145
10512	SVP - PUBLIC AFFAIRS	469	0	0	0	168	118	0	0	0	0	0	0	184
10311.1	VP COMMUNICATIONS	707	0	0	0	0	286	0	0	0	0	0	0	421
10304.1	INTERNAL & EXT. COMMUNICATIONS	1,358	0	0	0	0	0	0	0	0	0	0	0	1,358
10314	MEDIA RELATIONS	1,584	0	0	33	0	249	281	0	0	0	0	0	1,022
10305.1	VP GOVERNMENT RELATIONS	529	0	0	308	0	15	4	4	0	6	0	4	186
12243.1	LOCAL GOVERNMENT RELATIONS	3,171	181	0	2	0	1,357	221	0	0	0	0	0	1,409
10421	VP REGULATORY RELATIONS	928	0	0	0	0	0	0	288	0	0	0	0	640
10407	REGULATORY RELATIONS	1,265	0	0	6	0	0	11	74	249	45	79	160	641
10408.1	REVENUE REQUIREMENTS	7,345	0	0	2	0	0	577	661	2,851	642	661	1,189	762
10892	EXTERNAL RELATIONS	404	0	0	46	0	144	0	0	0	61	0	0	153
10373.1	VP HUMAN RESOURCES	547	0	0	0	0	0	0	0	0	0	0	0	547
10374	INDUSTRIAL RELATIONS	1,446	488	0	0	0	0	0	0	0	0	0	0	957
10382.1	HR BUSINESS OPS, SVCS & SYST	3,492	629	0	24	0	0	0	0	0	0	0	0	2,839
10383	BENEFITS	1,871	270	0	0	0	117	0	0	0	0	0	0	1,484
10384.1	HR SERVICES	7,425	2,342	0	0	0	0	777	142	1,148	0	169	492	2,355
10385	COMPENSATION	817	117	0	0	0	0	0	0	0	0	0	0	700
12566.1	PROFESSIONAL STAFFING & DIVER.	1,415	326	0	0	0	0	0	0	0	0	0	0	1,089
10447	SVP & GENERAL COUNSEL	387	0	0	0	0	0	0	0	0	0	0	0	387
10448	LAW	14,866	697	0	0	0	1,420	1,250	1,551	4,546	288	749	2,212	2,153
11675	SH&C DIRECTORS IMMED. OFFICE	481	132	0	0	0	0	21	16	134	0	5	73	101
10450	SH&C WORKERS COMPENSATION	5,446	2,011	0	0	0	0	365	221	1,104	0	76	904	764
10451.1	SH&C THIRD PARTY CLAIMS	2,673	532	0	1	0	0	32	81	1,494	0	27	498	8
10452	SH&C SAFETY ENGINEERING	1,697	0	0	0	0	0	0	0	0	0	0	0	1,697
10950.1	VP ENVIRONMENTAL AFFAIRS	1,101	14	7	55	0	0	117	103	417	29	63	0	296
12241	AFFILIATE RULES & REG. COMPLY	562	0	0	0	0	225	0	0	0	0	0	0	337
10446	CORPORATE SECRETARY	93	0	0	0	0	0	0	0	0	0	0	0	93
10422	RECORDS CENTER	337	0	0	11	0	0	24	8	2	18	9	1	264
TOTAL UTILITY		90,181	11,213	926	699	269	5,075	4,551	3,691	14,842	1,159	2,676	7,049	38,032
HOLDING COMPANY MULTI-FACTOR		100.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ALLOCATE HOLDING COMPANY COMMON			0	0	(699)	699	0	0	0	0	0	0	0	0
TOTAL AFTER HOLDCO ALLOCATION		90,181	11,213	926	0	968	5,075	4,551	3,691	14,842	1,159	2,676	7,049	38,032
M&O LABOR ALLOCATOR		100.00	0.00	0.00	0.00	0.00	0.00	20.51	8.28	40.59	2.36	5.00	23.26	0.00
ALLOCATE UTILITY COMMON			0	0	0	0	0	0	0	0	0	0	0	0
TOTAL AFTER ALLOCATIONS		90,181	11,213	926	0	968	5,075	4,551	3,691	14,842	1,159	2,676	7,049	38,032
ELIMINATE NON A&G COSTS		(6,969)	0	(926)	0	(968)	(5,075)	0	0	0	0	0	0	0
ACCOUNT 920 A&G STUDY COSTS		83,212	11,213	0	0	0	0	4,551	3,691	14,842	1,159	2,676	7,049	38,032

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 921 PER OVERLAND

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	201	0	0	8	0	25	0	0	0	0	0	0	168
10409	SVP - TREASURER & CFO	529	127	0	0	0	0	40	21	119	5	5	79	132
12573	BUSINESS & FINANCIAL PLANNING	118	8	0	0	0	20	8	4	4	0	3	3	67
12574	BUSINESS PROCESS IMPROVEMENT	97	0	0	0	0	0	0	0	0	0	0	0	97
10443	VP INFORMATION SYSTEMS (ISTS)	73	13	0	0	0	0	0	0	0	0	0	0	61
11943.1	SAP OPERATIONS & CONTROL	132	0	0	3	0	0	0	0	0	0	0	0	129
10395	VP & CONTROLLER	155	0	0	0	0	0	0	0	0	0	0	0	155
10396	BUDGET	(27)	0	0	0	0	0	0	0	0	0	0	0	(27)
10397.1	PAYROLL	810	251	162	0	0	0	0	0	0	0	0	0	397
10398.1	ACCOUNTS PAYABLE	542	115	35	4	0	0	36	10	211	6	0	66	59
10400	CORPORATE ACCOUNTING	298	0	0	2	0	53	6	5	11	2	2	10	206
10403	CAPITAL ACCOUNTING	347	109	0	0	0	0	11	18	23	0	8	12	164
12078	RISK MANAGEMENT	161	0	16	0	0	0	14	0	57	0	32	42	0
10372	CORPORATE SECURITY	288	10	0	6	19	0	14	30	70	0	10	37	93
11319.1	PURCHASING	154	45	0	4	0	0	6	0	0	0	17	0	83
10512	SVP - PUBLIC AFFAIRS	72	0	0	0	26	18	0	0	0	0	0	0	28
10311.1	VP COMMUNICATIONS	133	0	0	0	0	54	0	0	0	0	0	0	79
10304.1	INTERNAL & EXT. COMMUNICATIONS	161	0	0	0	0	0	0	0	0	0	0	0	161
10314	MEDIA RELATIONS	371	0	0	8	0	58	66	0	0	0	0	0	239
10305.1	VP GOVERNMENT RELATIONS	256	0	0	149	0	7	2	2	0	3	0	2	90
12243.1	LOCAL GOVERNMENT RELATIONS	843	48	0	1	0	361	59	0	0	0	0	0	375
10421	VP REGULATORY RELATIONS	204	0	0	0	0	0	0	63	0	0	0	0	141
10407	REGULATORY RELATIONS	155	0	0	1	0	0	1	9	30	5	10	20	78
10408.1	REVENUE REQUIREMENTS	716	0	0	0	0	0	56	64	278	63	64	116	74
10892	EXTERNAL RELATIONS	359	0	0	41	0	128	0	0	0	54	0	0	136
10373.1	VP HUMAN RESOURCES	114	0	0	0	0	0	0	0	0	0	0	0	114
10374	INDUSTRIAL RELATIONS	210	71	0	0	0	0	0	0	0	0	0	0	139
10382.1	HR BUSINESS OPS, SVCS & SYST	1,082	195	0	8	0	0	0	0	0	0	0	0	880
10383	BENEFITS	23	3	0	0	0	1	0	0	0	0	0	0	18
10384.1	HR SERVICES	837	264	0	0	0	0	88	16	129	0	19	55	266
10385	COMPENSATION	50	7	0	0	0	0	0	0	0	0	0	0	43
12566.1	PROFESSIONAL STAFFING & DIVER.	244	56	0	0	0	0	0	0	0	0	0	0	187
10447	SVP & GENERAL COUNSEL	14	0	0	0	0	0	0	0	0	0	0	0	14
10448	LAW	1,265	59	0	0	0	121	106	132	387	25	64	188	183
11675	SH&C DIRECTORS IMMED. OFFICE	219	60	0	0	0	0	9	7	61	0	2	33	46
10450	SH&C WORKERS COMPENSATION	335	124	0	0	0	0	22	14	68	0	5	56	47
10451.1	SH&C THIRD PARTY CLAIMS	478	95	0	0	0	0	6	14	267	0	5	89	1
10452	SH&C SAFETY ENGINEERING	213	0	0	0	0	0	0	0	0	0	0	0	213
10950.1	VP ENVIRONMENTAL AFFAIRS	193	3	1	10	0	0	20	18	73	5	11	0	52
12241	AFFILIATE RULES & REG. COMPLY	65	0	0	0	0	26	0	0	0	0	0	0	39
10446	CORPORATE SECRETARY	87	0	0	0	0	0	0	0	0	0	0	0	87
10422	RECORDS CENTER	91	0	0	3	0	0	6	2	0	5	3	0	71
TOTAL UTILITY		12,669	1,663	214	246	45	873	577	431	1,790	172	259	810	5,589
HOLDING COMPANY MULTI-FACTOR		100.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ALLOCATE HOLDING COMPANY COMMON			0	0	(246)	246	0	0	0	0	0	0	0	0
TOTAL AFTER HOLDCO ALLOCATION		12,669	1,663	214	0	290	873	577	431	1,790	172	259	810	5,589
M&O LABOR ALLOCATOR		100.00	0.00	0.00	0.00	0.00	0.00	20.51	8.28	40.59	2.36	5.00	23.26	0.00
ALLOCATE UTILITY COMMON			0	0	0	0	0	1,146	463	2,269	132	279	1,300	(5,589)
TOTAL AFTER ALLOCATIONS		12,669	1,663	214	0	290	873	1,724	894	4,059	304	539	2,110	0
ELIMINATE NON A&G COSTS		(1,378)	0	(214)	0	(290)	(873)	0	0	0	0	0	0	0
ACCOUNT 920 A&G STUDY COSTS		11,292	1,663	0	0	0	0	1,724	894	4,059	304	539	2,110	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923
PER OVERLAND

ADJUSTMENT	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON	TOTAL
HOLDING CO LABOR AND MATERIALS	0	0	0	0	0	4,541	2,048	7,868	475	1,113	4,487	0	20,533
HOLDING COMPANY CONTRACTS	0	0	0	0	0	1,007	322	1,967	135	293	1,158	0	4,881
UTILITY CONTRACTS	0	0	0	0	0	6,838	3,096	14,117	393	2,509	8,423	0	35,376
TOTAL A&G STUDY	0	0	0	0	0	12,386	5,466	23,953	1,002	3,915	14,068	0	60,791

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - MATERIALS AND LABOR
PER OVERLAND

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
HOLDING COMPANY LABOR AND MATERIALS														
20001	CHAIRMAN, CEO AND PRESIDENT	2,572	0	0	0	2,572	0	0	0	0	0	0	0	0
20020	SRVP GENERAL COUNSEL	952	0	0	0	952	0	0	0	0	0	0	0	0
20021	LAW DEPARTMENT	3,414	0	0	0	2,731	0	0	0	0	0	0	0	683
20022.1	INTERNAL AUDIT	7,320	519	0	0	2,372	0	0	0	0	0	0	0	4,430
20023	LEGAL COMPLIANCE AND ETHICS	853	0	0	0	445	0	0	0	0	0	0	0	408
20024	RISK INITIATIVES	419	0	0	0	105	0	0	0	0	0	0	0	314
20075	SVP PUBLIC AFFAIRS	176	0	0	0	176	0	0	0	0	0	0	0	0
20076.1	VP FEDERAL GOV. & REG REL.	2,466	0	0	74	74	1,406	148	469	123	25	99	49	0
20077	REGIONAL GOVERNMENTAL REL.	703	0	0	0	0	703	0	0	0	0	0	0	0
20050	SRVP HR	5,114	0	0	0	3,666	0	0	0	0	0	0	0	1,448
20060	VP AND ASSISTANT TO CHAIRMAN	632	0	0	0	418	0	0	0	0	0	0	0	213
20010.1	CORPORATE SECRETARY	2,669	0	0	0	1,622	0	0	0	0	0	0	0	1,047
20061.1	VP CORPORATE COMMUNICATIONS	1,738	0	0	0	1,738	0	0	0	0	0	0	0	0
20030.1	SR VP CFO	1,668	0	0	0	834	834	0	0	0	0	0	0	0
20031	SR VP CONTROLLER	656	0	0	0	509	0	0	0	0	0	0	0	147
20032	CORPORATE ACCOUNTING	3,644	0	0	0	3,327	0	0	0	0	0	0	0	317
20042	TAX	6,032	0	0	6,032	0	0	0	0	0	0	0	0	0
20028	FINANCIAL PLANNING	518	0	0	0	518	0	0	0	0	0	0	0	0
20037	FINANCIAL ANALYSIS	1,411	0	0	0	907	0	343	0	0	0	61	0	101
20043	TECH. & RISK MANAGEMENT ACCT	870	0	0	0	501	0	0	0	0	0	0	0	369
20041	INVESTOR RELATIONS	1,157	0	0	0	772	0	0	0	0	0	0	0	386
20029	VP STRATEGIC PLANNING	1,202	0	0	0	1,202	0	0	0	0	0	0	0	0
20040	RISK MANAGEMENT	1,362	0	0	0	1,021	0	0	0	0	0	0	0	340
20035	VP & TREASURER	743	0	0	743	0	0	0	0	0	0	0	0	0
200036	BANKING & MONEY MANAGEMENT	2,553	0	0	2,553	0	0	0	0	0	0	0	0	0
20038	INSURANCE	1,425	0	0	1,425	0	0	0	0	0	0	0	0	0
20039	INVESTMENT & BENEFIT FINANCE	684	0	0	547	0	0	137	0	0	0	0	0	0
20045.1	CORP. INFORMATION TECHNOLOGY	931	0	0	0	931	0	0	0	0	0	0	0	0
TOTAL HOLDCO LABOR AND MATERIALS		53,884	519	0	11,374	27,393	2,943	627	469	123	25	159	49	10,202
MULTI-FACTOR ALLOCATIONS		0	0	0	(0)	0	0	0	0	0	0	0	0	0
	VP FEDERAL GOV. & REG REL.	0	0	0	(74)	17	0	0	0	0	0	0	0	57
	VP & TREASURER	0	0	0	(743)	175	0	0	0	0	0	0	0	568
HEADCOUNT ALLOCATIONS		0	0	0	(0)	0	0	0	0	0	0	0	0	0
	INVESTMENT & BENEFIT FINANCE	0	0	0	(547)	57	0	0	0	0	0	0	0	490
CAPITALIZATION ALLOCATIONS		0	0	0	(0)	0	0	0	0	0	0	0	0	0
	BANKING & MONEY MANAGEMENT	0	0	0	(2,553)	825	0	0	0	0	0	0	0	1,728
INSURANCE (INSURANCE FACTOR)		0	0	0	(1,425)	605	0	0	0	0	0	0	0	821
RISK MANAGEMENT (REVENUES FACTOR)		0	0	0	0	0	0	0	0	0	0	0	0	0
TAX (TAX FACTOR)		0	0	0	(6,032)	2,765	0	0	0	0	0	0	0	3,267
TECH. & RISK MANAGEMENT ACCOUNTING		0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL WITH ALLOCATION OF HOLDCO COMM		53,884	519	0	0	31,838	2,943	627	469	123	25	159	49	17,131
ALLOCATION OF UTILITY COMMON (M&O LAB)		0	0	0	0	0	0	3,514	1,418	6,954	404	857	3,985	(17,131)
ELIMINATE NON-UTILITY & CAPITAL		(35,300)	(519)	0	0	(31,838)	(2,943)	0	0	0	0	0	0	0
HOLDCO CORPORATE COSTS (MULTI-FACTOR)		16,206	0	0	0	14,257	0	0	0	0	0	0	0	1,949
ALLOCATE CORPORATE COST UTILITY COM		0	0	0	0	0	0	400	161	791	46	97	453	(1,949)
ELIMINATE AFFILIATE CORPORATE COST		(14,257)	0	0	0	(14,257)	0	0	0	0	0	0	0	0
TOTAL HOLDING COMPANY LABOR AND MATERI		20,533	0	0	0	0	0	4,541	2,048	7,868	475	1,113	4,487	0

SCHEDULE 10-6
(PAGE 2)

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - HOLDING COMPANY CONTRACTS
PER OVERLAND

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	ELECTRIC PUB. PUR.	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
20001	CHAIRMAN, CEO AND PRESIDENT	425	0	0	0	425	0	0	0	0	0	0	0	0
20002	PRESIDENT NEG	579	0	0	0	579	0	0	0	0	0	0	0	0
20021	LAW	330	0	0	0	264	0	0	0	0	0	0	0	66
20022.1	INTERNAL AUDIT	1,693	49	0	0	1,015	0	0	0	107	0	58	87	378
20023	LEGAL COMPLIANCE & BUSINESS	246	0	0	0	128	0	0	0	0	0	0	0	117
20075	SrVP PUBLIC AFFAIRS	2,354	0	0	0	2,354	0	0	0	0	0	0	0	0
20076.1	VP FEDERAL GOV AND REG RELATIONS	1,619	0	0	142	0	1,351	53	20	0	27	0	0	27
20077	REGIONAL GOVERNMENT RELATIONS	426	0	0	0	0	426	0	0	0	0	0	0	0
20050	SrVP HR	1,425	0	0	0	922	0	0	0	0	0	0	0	503
20060	VP AND ASSISTANT TO THE CHAIRMAN	42	0	0	0	0	42	0	0	0	0	0	0	0
20010.1	CORPORATE SECRETARY	2,732	0	0	0	1,774	0	0	0	0	0	0	0	957
20061.1	VP CORPORATE COMMUNICATIONS	6,226	0	0	0	5,853	0	0	0	0	0	0	0	374
20030.1	SrVP CFO	357	0	0	0	235	0	0	0	0	0	0	0	121
20031	SrVP CONTROLLER	250	0	0	0	194	0	0	0	0	0	0	0	56
20032	CORPORATE ACCOUNTING	649	0	0	593	0	0	0	0	0	0	0	0	56
20034	SrVP CORPORATE DEVELOPMENT	1,444	0	0	0	1,444	0	0	0	0	0	0	0	0
20042	TAX	1,100	0	0	320	50	200	0	0	0	0	0	0	530
20037	FINANCIAL ANALYSIS	23	0	0	23	0	0	0	0	0	0	0	0	0
20043	TECHNICAL & RISK MANAGEMENT ACCTG	102	0	0	0	59	0	0	0	0	0	0	0	43
20041	INVESTOR RELATIONS	183	0	0	0	122	0	0	0	0	0	0	0	61
20029	VP STRATEGIC PLANNING	52	0	0	0	52	0	0	0	0	0	0	0	0
20040	RISK MANAGEMENT	610	0	0	610	0	0	0	0	0	0	0	0	0
20036	BANKING & MONEY MANAGEMENT	37	0	0	37	0	0	0	0	0	0	0	0	0
20038	INSURANCE	346	0	0	346	0	0	0	0	0	0	0	0	0
20039	INVESTMENT & BENEFIT FINANCE	7	0	0	7	0	0	1	0	0	0	0	0	0
20045.1	CORPORATE INFORMATION TECHNOLOGY	269	0	0	0	269	0	0	0	0	0	0	0	0
TOTAL HOLDING COMPANY CONTRACTS		23,525	49	0	2,077	15,739	2,018	54	20	107	27	58	87	3,290
MULTI-FACTOR ALLOCATIONS														
	VP FEDERAL GOV AND REG RELATIONS	0	0	0	(142)	33	0	0	0	0	0	0	0	108
	CORPORATE ACCOUNTING	0	0	0	(593)	140	0	0	0	0	0	0	0	453
HEADCOUNT ALLOCATIONS														
	INVESTMENT & BENEFIT FINANCE	0	0	0	(7)	1	0	0	0	0	0	0	0	6
CAPITALIZATION ALLOCATIONS														
	BANKING & MONEY MANAGEMENT	0	0	0	(37)	12	0	0	0	0	0	0	0	25
	FINANCIAL ANALYSIS	0	0	0	(23)	7	0	0	0	0	0	0	0	16
INSURANCE (INSURANCE FACTOR)		0	0	0	(346)	147	0	0	0	0	0	0	0	199
RISK MANAGEMENT (REVENUES FACTOR)		0	0	0	(610)	351	0	0	0	0	0	0	0	259
TAX (TAX FACTOR)		0	0	0	(320)	147	0	0	0	0	0	0	0	173
TECH. & RISK MANAGEMENT ACCOUNTING		0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL WITH ALLOCATION OF HOLDCO COMM		23,525	49	0	0	16,577	2,018	54	20	107	27	58	87	4,529
ALLOCATION OF UTILITY COMMON (M&O LAB)		0	0	0	0	0	0	953	302	1,860	108	235	1,071	(4,529)
ELIMINATE NON-UTILITY & CAPITAL		(18,643)	(49)	0	0	(16,577)	(2,018)	0	0	0	0	0	0	0
TOTAL CONTRACTS		4,881	0	0	0	0	0	1,007	322	1,967	135	293	1,158	0

PACIFIC GAS AND ELECTRIC COMPANY
2003 GENERAL RATE CASE
ACCOUNT 923 - UTILITY CONTRACTS
PER OVERLAND

PCC	TITLE	OVERLAND ADJUSTED	CAPITAL	O&M	HOLD. CO. COMMON	AFFILIATE	BELOW THE LINE	GENERATION	ELECTRIC TRANS.	ELECTRIC DISTRIB.	PUBLIC PURPOSE	GAS TRANS	GAS DISTRIB.	UTILITY COMMON
10405	PRESIDENT & CEO	225	0	0	0	0	50	0	0	0	0	0	0	175
10409	SVP - TREASURER & CFO	430	0	0	0	0	0	0	0	0	0	0	0	430
12573	BUSINESS AND FINANCIAL PLANNING	17	0	0	0	0	0	0	0	0	0	0	0	17
12574	BUSINESS PROCESS IMPROMENT INITIATIVES	0	0	0	0	0	0	0	0	0	0	0	0	0
10395	VP & CONTROLLER	1,186	0	0	0	0	200	0	0	0	0	0	0	986
10396	BUDGET	129	0	0	0	0	0	0	0	0	0	0	0	129
10397.1	PAYROLL	5	0	0	0	0	0	0	0	0	0	0	0	5
10398.1	ACCOUNTS PAYABLE	159	11	18	0	0	0	8	2	44	1	0	13	62
10400	CORPORATE ACCOUNTING	504	0	0	0	0	0	0	0	0	0	0	0	504
10403	CAPITAL ACCOUNTING	370	111	0	0	0	0	0	0	0	0	0	0	259
12078	RISK MANAGEMENT	1,866	0	0	0	0	0	0	0	746	0	560	560	0
10443	VP ISTS	200	0	0	0	0	200	0	0	0	0	0	0	0
11943.1	SAP OPERATIONS & CONTROL	1,408	0	0	20	0	0	0	0	0	0	0	0	1,388
10304.1	INTERNAL AND EXTERNAL COMMUNICATIONS	848	0	0	0	0	148	0	0	0	0	0	0	700
10305.1	VP GOVERNMENTAL RELATIONS	280	0	0	0	0	206	0	0	0	0	0	0	74
10311.1	VP COMMUNICATIONS	544	0	0	0	0	409	0	0	0	0	0	0	135
10314	MEDIA RELATIONS	227	0	0	0	0	36	5	0	0	0	0	0	186
10407	REGULATORY RELATIONS	200	0	0	1	0	0	1	5	38	3	14	24	115
10408.1	REVENUE REQUIREMENTS	3,946	0	0	0	0	452	565	65	1,102	0	39	747	977
10421	VP REGULATORY RELATIONS	53	0	0	0	0	0	0	0	0	0	0	0	53
10512	SVP - PUBLIC AFFAIRS	39	0	0	0	0	0	0	0	0	0	0	0	39
10892	EXTERNAL RELATIONS	153	0	0	18	0	54	0	0	0	23	0	0	58
12243.1	LOCAL GOVERNMENT RELATIONS - AREAS 1-8	85	0	0	0	0	0	21	0	0	0	0	0	64
10373.1	VP HUMAN RELATIONS	124	0	0	0	0	0	0	0	0	0	0	0	124
10374	INDUSTRIAL RELATIONS	20	4	0	0	0	0	0	0	0	0	0	0	16
10382.1	HR BUSINESS OPERATIONS, SERVICES & SYSTEMS (BOSS)	847	153	0	0	0	0	0	0	0	0	0	0	695
10383	BENEFITS	227	20	0	0	0	0	0	0	0	0	0	0	208
10384.1	HR SERVICES	158	16	0	0	0	0	17	6	33	0	5	14	67
10385	COMPENSATION	23	0	0	0	0	0	0	0	0	0	0	0	23
12566.1	PROFESSIONAL STAFFING AND DIVERSITY	347	0	0	0	0	0	0	0	0	0	0	0	347
10447	SVP & GENERAL COUNSEL	0	0	0	0	0	0	0	0	0	0	0	0	0
10448	LAW	20,839	7	0	0	0	2,700	2,942	1,575	4,547	5	1,073	2,797	5,192
10450	SAFETY HEALTH AND CLAIMS - WORKERS COMP	2,505	794	0	0	0	0	149	83	598	0	30	490	361
10451.1	SAFETY HEALTH AND CLAIMS - THIRD PARTY CLAIMS	1,146	69	0	0	0	0	8	30	776	0	2	258	3
10452	SAFETY HEALTH AND CLAIMS - SAFETY ENGINEERING	1,003	0	0	0	0	0	0	0	0	0	0	0	1,003
10950.1	VP ENVIRONMENTAL AFFAIRS	201	3	1	10	0	0	21	19	76	5	11	0	54
11675	SH&C DIRECTORS IMMEDIATE OFFICE	15	0	0	0	0	0	0	0	0	0	0	0	15
12241	AFFILIATE RULES AND REGULATORY COMPLIANCE	400	0	0	0	0	400	0	0	0	0	0	0	0
10372	CORPORATE SECURITY	284	5	95	1	0	0	11	63	40	0	21	14	34
10446	CORPORATE SECRETARY	251	0	0	0	0	0	0	0	0	0	0	0	251
10422	RECORDS CENTER	17	0	0	0	0	0	0	0	0	0	0	0	17
11319.1	PURCHASING	304	0	0	0	0	0	0	0	0	0	0	0	304
TOTAL UTILITY CONTRACTS		41,585	1,191	114	50	0	4,854	3,747	1,848	8,000	37	1,755	4,918	15,071
ALLOCATION OF UTILITY COMMON (M&O LAB)		0	0	0	0	0	0	3,091	1,248	6,117	356	754	3,505	(15,071)
ELIMINATE NON-UTILITY & CAPITAL		(6,209)	(1,191)	(114)	(50)	(0)	(4,854)	0	0	0	0	0	0	0
TOTAL CONTRACTS		35,376	0	0	0	0	0	6,838	3,096	14,117	393	2,509	8,423	0

PACIFIC GAS AND E**LECTRIC COMPANY**
NON-AandG STUDY PCC COSTS
2001 RECORDED / ADJUSTED PER PGandE

SCHEDULE 10-7

PCC/Order	Description	920	921	923	Total	Category
2009756	Inter dept A&G Exps	0	179,878	0	179,878	ACCOUNTING
3000197	Under(Over) Absorption C&TS	(32,012)	34,327	0	2,315	ACCOUNTING
3000198	Under(Over) Absorption Learning Services	(61,665)	(6,878)	0	(68,543)	ACCOUNTING
3000407	A&G Property Taxes Transfer Utility	0	(649,296)	0	(649,296)	ACCOUNTING
3000433	Materials Burden Non Diablo	(1,039,049)	130,019	0	(909,031)	ACCOUNTING
3004657	Under(Over) Absorption BLSORG	(148,503)	4,730	0	(143,773)	ACCOUNTING
3004659	Under(Over) Absorption Material	79,684	145,618	0	225,302	ACCOUNTING
3004660	Under(Over) Absorption Gen Svcs	4,257	6,025	0	10,282	ACCOUNTING
3004780	Under(Over) Absorption Purchasing	(102,066)	28,433	0	(73,633)	ACCOUNTING
3004781	Under(Over) Absorption TES	0	(75,575)	0	(75,575)	ACCOUNTING
3004783	Under(Over) Absorption Geosciences	69,234	16,456	0	85,690	ACCOUNTING
3004937	Under(Over) Absorption Fleet	(20,881,339)	(3,604)	0	(20,884,943)	ACCOUNTING
3005121	Under(Over) Absorption BLSFAC	(94,257)	746,015	0	651,758	ACCOUNTING
8050465	Fleet Adj Correct FERC Accounts	20,879,889	29,759	0	20,909,648	ACCOUNTING
8050672	Fleet Clearing Cost FERC Acct Adj AB	0	65,920	0	65,920	ACCOUNTING
8050673	Fleet Clearing Cost FERC Acct Adj FA	0	10,613	0	10,613	ACCOUNTING
9007430	Adjustment Order (12555)	0	(161,524)	0	(161,524)	ACCOUNTING
9007749	FERC Reg Cat Corr Order 2018365	0	122,550	0	122,550	ACCOUNTING
9007789	FERC Acct Correction Ord 3005277 3005377	0	0	2,542,298	2,542,298	ACCOUNTING
9007790	FERC Acct Correction Ord 3005277 3005377	0	(2,603,365)	61,067	(2,542,298)	ACCOUNTING
9007869	Correct FERC Acct for labor CE in 921	49,760	0	0	49,760	ACCOUNTING
9007870	Correct FERC Acct for labor CE in 921	0	(49,760)	0	(49,760)	ACCOUNTING
9007969	Correct FERC Account Learning Ctr	0	1,754,497	0	1,754,497	ACCOUNTING
9007970	Correct FERC Account Learning Ctr	0	177,383	0	177,383	ACCOUNTING
	TOTAL ACCOUNTING	(1,276,068)	(97,779)	2,603,365	1,229,518	
10449	Environmental Services	0	111,425	1,617	113,042	ENVIRON
10449	Environmental Services	323,804	0	0	323,804	ENVIRON
12364	Environmental Field Service	385,217	0	0	385,217	ENVIRON
12632	Environmental Compl Support	0	4,816	0	4,816	ENVIRON
12632	Environmental Compl Support	59,067	0	0	59,067	ENVIRON
12633	Environmental CGT Support	0	4,704	0	4,704	ENVIRON
12633	Environmental CGT Support	64,016	0	0	64,016	ENVIRON
12634	Environmental Field Service	0	85,528	0	85,528	ENVIRON
12635	Environmental Site Remed	0	14,237	0	14,237	ENVIRON
12635	Environmental Site Remed	199,081	0	0	199,081	ENVIRON
3000363	Env Svc Support	0	16,392	30,828	47,220	ENVIRON
3000363	Env Svc Support	25,178	0	0	25,178	ENVIRON
3004917	Environmental Operations Support Fleet	4,432	10,298	22,213	36,944	ENVIRON
	TOTAL ENVIRON	1,060,796	247,401	54,658	1,362,856	
10245	ISTS Business Development	49,420	59,097	5,569	114,086	ISTS
11202	Information Systems Project Mgmt	1,367	(1,422)	0	(55)	ISTS
2021685	IT Security Services	118,533	85,689	0	204,222	ISTS
2021765	Intranet Operations and Maintenance	35,928	26,768	0	62,696	ISTS
3000022	C&TS Support	2,540,691	2,716,162	117,023	5,373,876	ISTS
3000177	ISTS Facility Site Leases	63,740	862,637	0	926,377	ISTS
3004997	Non CIS B&G System	210,334	236,767	812,883	1,259,984	ISTS
3005599	Correct FERC Acct ISTS Mainframe A&G	(304,603)	(204,862)	(25,541)	(535,006)	ISTS
8002696	Net Internet/Intranet	138,617	(10,349)	0	128,269	ISTS
8003157	CI Trans Third Prty RTU,TransTrip,E20s	87,947	0	0	87,947	ISTS
8003917	C&TS Netwk Coord. Cntr & Disaster Recov.	60,395	0	0	60,395	ISTS
8009401	C&TS IVR	2,291	0	0	2,291	ISTS
8019339	800MHz Wireless Radio Alternatives Exp.	57,094	0	0	57,094	ISTS
8030572	LI Net SNA Support	33,588	22,203	0	55,791	ISTS
8030574	LI Net Support (Routers, Switches, Hubs)	92,957	0	0	92,957	ISTS
8030575	LI Net Telecomn Training Classes	38,528	0	0	38,528	ISTS
8030717	CI Net Domain Server Support	76,606	54,162	0	130,768	ISTS
8030718	CI Net Support (Routers, Switches, Hubs)	650,075	474,552	6,927	1,131,554	ISTS
8030719	CI Net Web Server Support	69,466	(15,808)	0	53,657	ISTS
8030720	CI Net Firewall Support	80,713	(48,377)	0	32,335	ISTS
8030722	CI Net DNS/DHCP/DNA	407,673	0	0	407,673	ISTS
8030723	CI Net Mail Host Gateways	47,581	0	0	47,581	ISTS
8030725	LI Trans Fiber Optics	1,147	0	0	1,147	ISTS
8030726	LI Trans Digital Micro Wave	1,553	0	0	1,553	ISTS
8030727	LI Trans Analog Micro Wave	3,175	0	0	3,175	ISTS
8030729	LI Trans Multiplex	2,220	0	0	2,220	ISTS
8030731	LI Com DC Plant	13,618	0	0	13,618	ISTS
8030732	LI Com AC Plant	2,504	0	0	2,504	ISTS
8030734	LI Com Structures	16,614	0	0	16,614	ISTS
8030735	LI Com High Volume Air Conditioning	27,631	0	0	27,631	ISTS
8030736	LI Com Cable Plant	6,047	0	0	6,047	ISTS
8030737	LI Com Telecom Training Classes	3,215	2,249	0	5,464	ISTS
8030738	Trans Fiber Optics	126,210	0	0	126,210	ISTS

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PCC/Order	Description	920	921	923	Total	Category
8030739	Trans Digital Micro Wave	232,870	0	0	232,870	ISTS
8030740	Trans Analog Micro Wave	180,375	0	0	180,375	ISTS
8030741	Trans Switching	61,146	0	0	61,146	ISTS
8030742	Trans Multiplex	68,735	0	0	68,735	ISTS
8030743	Trans Carrier	171,340	0	0	171,340	ISTS
8030744	Com DC Plant	333,292	0	0	333,292	ISTS
8030745	Com AC Plant	113,021	0	0	113,021	ISTS
8030746	Com Towers	43,173	0	0	43,173	ISTS
8030747	Com Structures	159,891	0	0	159,891	ISTS
8030748	Com High Volume Air Conditioning	80,958	0	0	80,958	ISTS
8030749	Com Cable Plant	157,425	0	0	157,425	ISTS
8030776	Telecm Training Classes	30,359	23,540	0	53,898	ISTS
8032100	Trans Sys Monitoring & Dispatch	852,073	584,806	0	1,436,879	ISTS
8032101	Trans Clearances Maintenance	282,505	0	0	282,505	ISTS
8032102	Trans Documentation Maintenance	346,155	0	0	346,155	ISTS
8032336	CI Trans Long Haul Cable	56,858	0	0	56,858	ISTS
8032841	APP ITAM Applications	1,927	1,567	0	3,495	ISTS
8032896	CI Net E Page Support	31,057	34,812	0	65,869	ISTS
8033938	RTS/GLT97 System Maintenance	14,096	9,824	0	23,921	ISTS
8035996	LI Net 3270 Network	114,521	0	0	114,521	ISTS
8036439	CI Network Services Contracts	0	0	59,651	59,651	ISTS
8036440	CI Leased Line Cost Reduction Initiative	117,512	84,479	25,711	227,702	ISTS
8036538	Sacramento PBX/VMS Project	26,851	0	0	26,851	ISTS
8036614	Drawing Correction NOC Data Rm SFGO	9,144	0	0	9,144	ISTS
8036616	CI Voice Communication/Data Room Tel Fee	48,505	47,144	0	95,649	ISTS
8037456	CI System Wide Router Memory Upgrade	4,152	0	0	4,152	ISTS
8037617	123 Mission Cable Removal	11,017	(5,652)	0	5,365	ISTS
8037656	Relocate PG&E IT Southern Energy PP	3,081	0	0	3,081	ISTS
8038575	Application Server Consolidation Exp	1,149	0	0	1,149	ISTS
8038582	Inet Infrastructure Authentication	7,089	0	10,000	17,089	ISTS
8038583	Inet Infrastructure Security	7,421	97,209	1,275	105,905	ISTS
8040652	ISTS WEB STANDARDIZATION PROJECT	19,019	0	0	19,019	ISTS
8040875	Maintain & Operate FF Client Server	456,410	324,814	17,601	798,825	ISTS
8041033	Maintain & Operate SF Client Server	622,679	393,785	14,204	1,030,669	ISTS
8041116	Develop & Test Client Server	143,479	98,306	0	241,785	ISTS
8041117	S/W & H/D Contracts Client Server	25,139	70,591	478,304	574,034	ISTS
8042179	Web Mail Project	26,634	17,368	0	44,001	ISTS
8043997	Add 800 MHz repeater at Sutter Buttes	6,102	0	0	6,102	ISTS
8044577	ITAM Infrastructure Database Maintenance	27,682	20,806	0	48,488	ISTS
8045098	CISCO Hardware Maintenance Contract	0	0	216,728	216,728	ISTS
8045638	Internet Infrastructure O&M	170,016	427,976	93,308	691,299	ISTS
8045640	Internet Security	103,636	156,634	0	260,270	ISTS
8046759	CI E&P Logical Drawing for SAP	5,850	4,121	0	9,971	ISTS
8047065	Virtual Private Network Pilot	6,993	4,515	0	11,507	ISTS
8047066	Intranet Engineering & Planning	28,000	20,448	0	48,448	ISTS
8047318	EDMS/Cold On Demand Sftwr& Hrdwr Upgrade	0	7,964	7,644	15,608	ISTS
8047396	FFIOC Fiber Distribution Project EXP.	13,182	16,422	1,105	30,709	ISTS
8047796	Universal Internet Access Project	17,927	13,224	0	31,151	ISTS
8048256	FFIOC Existing Equipment Relocations	13,265	0	0	13,265	ISTS
8048557	Fiber Optic Data Collection	65,896	0	0	65,896	ISTS
8048558	Fiber Optic Mark & Locate	2,889	0	0	2,889	ISTS
8048559	Fiber Optic Mapping/OSP Development	46,175	0	0	46,175	ISTS
8048832	Client Server SF Management ASCON	17,526	14,989	0	32,515	ISTS
8048833	Client Server SF Monitoring ASCON	6,548	5,188	0	11,736	ISTS
8048834	Client Server SF Backup ASCON	7,687	5,967	0	13,654	ISTS
8048835	Client Server SF Hardware ASCON	6,672	5,144	0	11,816	ISTS
8048916	Client Server SF After Hrs Sup ASCON	2,482	1,631	0	4,113	ISTS
8048917	Client Server SF Management NT Srvrs	14,878	13,184	0	28,063	ISTS
8048918	Client Server SF Monitoring NT Srvrs	6,223	5,113	0	11,337	ISTS
8048919	Client Server SF Backup NT Srvrs	2,951	0	0	2,951	ISTS
8048920	Client Server SF Hardware NT Srvrs	3,341	3,017	0	6,358	ISTS
8048922	Client Server SF Management UNIX	12,168	11,538	0	23,706	ISTS
8048923	Client Server SF Monitoring UNIX	2,408	2,421	0	4,828	ISTS
8048924	Client Server SF Backup UNIX	2,027	1,929	0	3,955	ISTS
8048925	Client Server SF Hardware UNIX	3,461	3,781	0	7,242	ISTS
8048936	Asset Management for Computer Operations	32,430	0	0	32,430	ISTS
8049423	Internet Infrastructure Upgrade Expense	0	101,922	0	101,922	ISTS
8049679	Emergency Fiber Restoration SanFrancisco	6,345	0	0	6,345	ISTS
8049803	Emergency Fiber Restoration Milpitas	10,627	0	0	10,627	ISTS
70000160	MLX Operational Support	116,203	80,551	0	196,754	ISTS
70000161	MLX Enhancements	29,834	22,626	18,000	70,460	ISTS
70000162	NEB Operational Support	36,665	24,731	0	61,397	ISTS
	TOTAL ISTS	10,452,020	7,017,901	1,860,392	19,330,313	

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PCC/Order	Description	920	921	923	Total	Category
10236	Business Systems Management	3,718	0	0	3,718	MISC
10239	Scheduling & Accounting	1,354	0	0	1,354	MISC
10241	Opportunity Analysis	1,589	0	0	1,589	MISC
10251	Dir Product Management	3,712	0	0	3,712	MISC
10257	Los Medanos Foreman	20,236	0	0	20,236	MISC
10258	Tracy Foreman	12,807	0	0	12,807	MISC
10266	External Corrosion	1,680	0	0	1,680	MISC
10268	Pipeline Engineering	11,517	2,340	0	13,857	MISC
10272	Sr Topock Foreman	13,106	0	0	13,106	MISC
10274	Sr Hinkley Foreman	16,842	0	0	16,842	MISC
10280	GIS Development	16,768	4,925	10,086	31,779	MISC
10281	Mapping	11,765	4,676	0	16,442	MISC
10284	System Integrity	1,287	0	0	1,287	MISC
10308	State Governmental Relations	(49,878)	0	0	(49,878)	MISC
10324	General Services Support	8,217	6,462	0	14,679	MISC
10466	ETEC Project Management	3,097	0	0	3,097	MISC
10468	Electric Trans Mtc Sub Superint Sacto	1,890	0	0	1,890	MISC
10470	Grid Maint & Constr Sub Superint Martn	3,091	0	0	3,091	MISC
10471	Grid Maint & Constr Sub Superint Cncrd	3,477	0	0	3,477	MISC
10473	Grid Maint & Constr Sub Superint MLand	1,276	0	0	1,276	MISC
10505	Round Mountain Control Center	3,391	0	0	3,391	MISC
10507	Job Estimating Tools Project Team	0	1,085	0	1,085	MISC
10513	TSM&C - Insulation & Coating Supt -Davis	10,317	0	0	10,317	MISC
10831	Contract Development & Management	2,025	0	0	2,025	MISC
10832	Design Engineering/Drafting	9,399	1,406	0	10,805	MISC
10834	Electric Trans Mtc System Protection	1,017	0	0	1,017	MISC
10835	Electric Trans Mtc Line Supv Table Mtn	2,928	1,102	0	4,029	MISC
10836	Electric Trans Mtc Moss Lndg Line Supv	1,531	0	0	1,531	MISC
10838	Electric Trans Mtc Line Supr Bellota	1,741	0	0	1,741	MISC
10876	NB Gas Construction Vallejo	1,067	0	0	1,067	MISC
10885	CGT Line 300 Pipeline South	1,318	0	0	1,318	MISC
10886	CGT Line 300 Pipeline North	12,097	0	0	12,097	MISC
10955	Electric Transm. Rates FERC	1,625	0	0	1,625	MISC
10984	SF Gas Construction	1,821	0	0	1,821	MISC
11046	Area 1 Project Management	1,811	1,451	0	3,262	MISC
11066	Blocked by BFC1 11/7/01	(1,060)	1,418	0	358	MISC
11588	EX OM&C Civil Construction	1,132	0	0	1,132	MISC
11601	EX DeSabla Technical Foreman	1,556	0	0	1,556	MISC
11616	EX Auberry Technical Foreman	5,004	0	0	5,004	MISC
11691	Electric Trans Mtc Line Supvr Lakvll	2,854	1,057	0	3,910	MISC
11694	Electric Trans Mtc Line Supvr Fresno	4,626	1,449	0	6,075	MISC
11723	EB Electric Construction	2,757	0	0	2,757	MISC
11724	EB Gas T&R	4,814	0	0	4,814	MISC
11744	MI Mission Account Services	1,357	0	0	1,357	MISC
11747	MI Electric Construction	1,512	0	0	1,512	MISC
11750	MI Mapping	1,531	0	0	1,531	MISC
11786	NB Estimating	1,122	0	0	1,122	MISC
11808	NC Gas Field Services	1,067	0	0	1,067	MISC
11811	NC Office Services	1,244	0	0	1,244	MISC
11823	Electric Trans Mtc GC Twr/Insul & Coat	1,956	0	0	1,956	MISC
11824	G.C. Measurements & Controls	1,244	0	0	1,244	MISC
11839	GC Gas North Bay	1,178	0	0	1,178	MISC
11848	GC Electric De Anza	5,715	0	0	5,715	MISC
11873	DeAnza & San Jose Mapping	1,407	0	0	1,407	MISC
11878	SJ Electric Field Services	1,151	0	0	1,151	MISC
11887	NV Electric Field Services	1,038	0	0	1,038	MISC
11889	NV Officer Services	64,089	0	0	64,089	MISC
11894	NV Electric Construction	4,194	0	0	4,194	MISC
11996	CC Electric Field Services	1,672	0	0	1,672	MISC
12020	KE Electric Field Services	1,538	0	0	1,538	MISC
12027	KE Electric Construction	3,583	1,131	0	4,714	MISC
12044	SI Electric Field Services	3,340	0	0	3,340	MISC
12054	SI Electric Construction	3,345	1,029	0	4,374	MISC
12073	Administrative Services	14,907	2,944	0	17,851	MISC
12084	YO Electric Field Services	4,027	0	0	4,027	MISC
12103	LP Office Services	1,245	0	0	1,245	MISC
12121	SF Gas T&R	3,253	0	0	3,253	MISC
12132	SF Meter Reading	1,161	0	0	1,161	MISC
12135	SF Electric Field Services	1,228	0	0	1,228	MISC
12189	DI Service Planning	2,450	0	0	2,450	MISC
12190	DI Electric Construction	3,077	1,391	0	4,468	MISC
12193	DI Electric Field Services	1,317	0	0	1,317	MISC
12197	FR Electric Field Services	1,104	0	0	1,104	MISC
12344	SF OM&C Support Services	32,655	0	0	32,655	MISC

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PCC/Order	Description	920	921	923	Total	Category
12346	EB OM&C Support Services	2,572	0	0	2,572	MISC
12347	DI OM&C Support Services	3,224	0	0	3,224	MISC
12348	MI OM&C Support Services	0	1,935	0	1,935	MISC
12348	MI OM&C Support Services	14,817	0	0	14,817	MISC
12349	DA/SJ Support Svcs Estimating/Mapping	2,862	0	0	2,862	MISC
12353	FR OM&C Support Services	5,158	0	0	5,158	MISC
12354	LP OM&C Support Services	5,880	0	0	5,880	MISC
12355	ST OM&C Support Services	17,655	0	0	17,655	MISC
12356	YO OM&C Support Services	7,758	0	0	7,758	MISC
12357	NV OM&C Support Services	4,635	0	0	4,635	MISC
12358	SA OM&C Support Services	1,576	0	0	1,576	MISC
12359	SI OM&C Support Services	4,327	0	0	4,327	MISC
12361	NC OM&C Support Services Central	2,648	0	0	2,648	MISC
12368	Corporate Infrastructure	2,197	3,200	0	5,397	MISC
13537	Vice President, California Gas Trans	77,122	3,927	0	81,049	MISC
2018365	Public Safety Information Program	4,032	11,840	23,106	38,978	MISC
2019926	Bldg Maintenance Fleet Main Ops	3,854	0	0	3,854	MISC
2019929	Expense Tools Fleet Maint & Ops	3,367	0	0	3,367	MISC
3000008	Governmental Relations Support	6,689	0	0	6,689	MISC
3000011	Regulatory Support	1,152	0	0	1,152	MISC
3000429	Company car use credit for personal use	0	(42,455)	0	(42,455)	MISC
3001217	Regulatory Filings/Data Requests Rates	0	0	4,561	4,561	MISC
3003497	Clearing CstCtr Std Cst Adjustments	0	5,301	0	5,301	MISC
3004417	PEDS Development & Maintenance	0	0	54,527	54,527	MISC
3004597	General Services Materials Support	0	0	82,472	82,472	MISC
3004778	General Services Security Support	0	(1,421)	0	(1,421)	MISC
3005137	PG&E Funding LLC Unbilled Labor	0	3,315	0	3,315	MISC
8007358	CAFM Space Management Program	15,948	6,999	15,849	38,796	MISC
8008696	DCS IVR	10,293	0	0	10,293	MISC
8008699	TCS Upgrade to Ver. 5	7,420	0	0	7,420	MISC
8008805	Project Tracking Database	29,196	0	0	29,196	MISC
8011297	Job Tracking Database Development	0	0	8,804	8,804	MISC
8015577	Experian Project	9,871	5,567	3,674	19,111	MISC
8021093	Automatic Call Monitoring CCO	2,506	0	0	2,506	MISC
8021822	Energy Efficiency Project Management	4,840	3,840	5,430	14,110	MISC
8023656	San Joaquin Credit Union	1,166	1,126	0	2,292	MISC
8024136	CCO Internet Project	32,544	0	0	32,544	MISC
8025999	Santa Ynez Valley SC Buelton	2,701	0	0	2,701	MISC
8026697	SW25 HVP BTC/C6 Expense	16,169	0	0	16,169	MISC
8027836	HVP Circuit Standards	4,603	0	0	4,603	MISC
8034876	RF Safety Program Project	117,924	0	0	117,924	MISC
8036078	Larse Alarm Analog Standards	2,494	0	0	2,494	MISC
8036086	Serviceability Tools and Methods Program	0	0	4,190	4,190	MISC
8036476	Leadership Recruitment Initiative (2000)	0	2,739	0	2,739	MISC
8038077	HVP Phase III Expense Component	6,854	0	0	6,854	MISC
8038158	CA Newark/Sunol Relocate MW & Guy Tower	4,045	0	0	4,045	MISC
8038331	RAS Internet Initiatives Phase 1	0	0	22,336	22,336	MISC
8038586	OSP InSight Software Training	1,457	0	0	1,457	MISC
8038996	Mitigation Land Banks	8,340	5,194	2,700	16,233	MISC
8040522	CellNet Bankruptcy Delta Prj Receipt	0	(95,838)	0	(95,838)	MISC
8040636	WIP Enhancement Project	69,250	(117,074)	32,380	(15,444)	MISC
8041035	Video Conferencing Support	2,647	10,658	0	13,304	MISC
8044625	SLA for Intermediate Draw Library System	39,723	(46,658)	0	(6,936)	MISC
8046876	FERC Planning Project	23,376	16,124	100,000	139,500	MISC
8047057	Billing BPA Malin Sub MW Canadian Ph1	56,422	0	0	56,422	MISC
8047660	Supplier Profile Management	151,935	152,896	21,235	326,066	MISC
8048096	STM Implementation	2,622	0	0	2,622	MISC
8048616	Fuel Dispenser Work at Jackson SC	5,533	0	0	5,533	MISC
8049139	Larse Southern Digital Reverse Poller Pr	4,417	0	0	4,417	MISC
8049760	Fresno SC Hoist Cleanup	1,867	0	0	1,867	MISC
8049981	Contract Process Improvement	3,108	3,335	8,186	14,629	MISC
8050274	PICT (Process Improvement Coord. Team)	3,816	7,388	0	11,204	MISC
9000118	Abnormal Materials Write off CSVC	0	5,364	0	5,364	MISC
9000123	Prescription Safety Glass Pgm. Fleet	0	17,399	0	17,399	MISC
9001109	GAMP (Geysers Air Monitoring Program)	102,889	44,542	0	147,431	MISC
9005190	Davis Energy Group Ventilation Cooling	0	(1,404)	0	(1,404)	MISC
9005971	Earthwatch Analysis of InSAR Radar Image	24,930	6,283	30,561	61,774	MISC
9006190	GRI Pipeline Corrosion Testing (phase 2)	5,531	2,191	71,927	79,649	MISC
9006670	Northeast Utilities System UT Inspection	0	20,247	15,953	36,200	MISC
9006791	EPRI Socket Weld Fatigue Cracking Test	5,184	2,702	0	7,886	MISC
9006889	Sprint Florence Substation GPR Study	1,188	0	0	1,188	MISC
9006909	Via Wireless GPR study for site MER 213	1,230	0	0	1,230	MISC
9006969	EPRI Socket Weld Fatigue Cracking Tests	6,670	3,536	0	10,205	MISC
9007029	Calpine GPP#13 LP Turbines NDE Exam	1,879	0	0	1,879	MISC

PCC/Order	Description	920	921	923	Total	Category
9007049	Vendor Pre Payments	11,709	146,439	0	158,148	MISC
9007169	USDA Boiler Efficiency Analysis	1,075	0	0	1,075	MISC
9007209	After Meter Services Gas	15,549	13,786	0	29,335	MISC
9007629	NCPA GRP Study Ukiah Metering Station	1,863	0	0	1,863	MISC
9007649	EPRI Socket Weld Fatigue Cracking	2,822	0	0	2,822	MISC
9007650	EPRI Overlay Repair of Socket Weld Spec.	20,598	4,261	0	24,859	MISC
9007770	Material Integrity Solutions SLiM Test	1,941	0	0	1,941	MISC
9007949	Telephone Usage Tax Credit	0	(21,600)	0	(21,600)	MISC
	TOTAL MISC	1,350,696	219,546	517,977	2,088,218	
10615	Miscellaneous Real Estate Revenue	0	114,234	1,739	115,973	REAL ESTATE
3000140	Real Estate Portfolio Planning	280,895	170,117	14,000	465,013	REAL ESTATE
3000143	Cost of selling Real Property Corp	278,891	132,693	30,815	442,399	REAL ESTATE
3000167	Manage Land Corp	328,571	179,640	18,859	527,070	REAL ESTATE
3000302	Timber Inventory GIS	57,883	29,506	0	87,389	REAL ESTATE
8000909	ARMY ST S.F. GASHOLDER SITE SALE	1,487	0	0	1,487	REAL ESTATE
8001034	MADERA SERVICE CENTER SALE, BLDGS 5374,	4,296	0	0	4,296	REAL ESTATE
8001043	BAKERSFIELD FEE STRIP SALE	2,674	0	0	2,674	REAL ESTATE
8001044	GILROY SERVICE CENTER SIXTH ST SALE,	4,207	0	0	4,207	REAL ESTATE
8001053	NOVATO SERVICE CENTER PROPERTY SALE	1,037	0	0	1,037	REAL ESTATE
8001112	KING RANCH SALE 1287.52	5,726	0	0	5,726	REAL ESTATE
8001113	SAN RAFAEL GASHOLDER SALE SBE135 21 14	11,414	0	0	11,414	REAL ESTATE
8001162	OLD REDDING SERVICE CENTER SALE,SHASTA	1,636	0	0	1,636	REAL ESTATE
8001174	BURNEY GARDENS TIMBERLAND SALE	3,445	0	0	3,445	REAL ESTATE
8001220	HAYFORK S/C SALE, 2.14 AC TRINITY CTY	10,378	0	0	10,378	REAL ESTATE
8001257	SAROS PROJECT	7,314	0	0	7,314	REAL ESTATE
8001278	EASTERN SWETT RANCH SALE	2,551	0	0	2,551	REAL ESTATE
8001279	VALLEJO SWETT RANCH SALE	4,255	0	0	4,255	REAL ESTATE
8001332	Marina Vista, Martinez,135 7 001,P4	8,877	0	0	8,877	REAL ESTATE
8001335	ARTOIS SESRVICE CENTER, 135 11 016,P1	2,334	0	0	2,334	REAL ESTATE
8001336	MARYSVILLE OFFICE, BLDG 2930	1,531	0	0	1,531	REAL ESTATE
8001381	ANGUIN SUB SALE OF 1.56 ACRES	5,306	0	0	5,306	REAL ESTATE
8001498	McArthur Swamp Property Sale/Donation	1,005	0	0	1,005	REAL ESTATE
8001625	Viking Way and Old Oregon Trail Sale	18,329	0	0	18,329	REAL ESTATE
8001665	Station H,.55AC, 1134 Miller, Oakland	3,217	0	0	3,217	REAL ESTATE
8001748	LINE 108 FEE STRIP SALE WAWONA STONUM	2,320	0	0	2,320	REAL ESTATE
8002021	RICHMOND GASHOLDER SITE PROPERTY SALE	8,096	0	0	8,096	REAL ESTATE
8002147	Sale of Decoto Pipeyard, Union City	45,141	0	0	45,141	REAL ESTATE
8003705	Line 108 Fee Strip Sale Parkview/Wawona	1,485	0	0	1,485	REAL ESTATE
8003706	Line 108 Fee Strip Sale Pacific/Parkview	2,287	0	0	2,287	REAL ESTATE
8009063	Tunnel Timber Sale	15,363	0	0	15,363	REAL ESTATE
8013396	Cassel Fire Station Prop Sale	1,414	1,125	0	2,539	REAL ESTATE
8013818	Dolphin Sub Sale, Santa Cruz Boardwalk	0	0	5,000	5,000	REAL ESTATE
8015316	Sonoma SC Property Sale, 2.966 acres	0	(20,996)	0	(20,996)	REAL ESTATE
8016156	High Street & Hwy580, Oakland Sub Sale	1,412	1,292	0	2,704	REAL ESTATE
8017916	San Rafael Office Site Sale 3.065 acres	8,362	7,177	8,084	23,622	REAL ESTATE
8018180	Harris Yacht Harbor, W.Pittsburg Sale	19,310	15,884	4,064	39,257	REAL ESTATE
8018742	Rushing Meadow Timber Sale	12,605	4,535	4,549	21,689	REAL ESTATE
8019400	Richmond Substation Sale, W.Cutting Blvd	4,522	3,692	0	8,215	REAL ESTATE
8020421	LI Non Specific Sites	0	0	(2,039)	(2,039)	REAL ESTATE
8020978	BLI Management	0	0	11,765	11,765	REAL ESTATE
8021637	Pineflat Substation Property Sale	6,477	3,289	12,217	21,983	REAL ESTATE
8021638	Watsonville CSO, .35 acres Property Sale	3,652	2,252	0	5,904	REAL ESTATE
8022117	Tiger Creek Timber Sale Amador	3,566	3,654	0	7,221	REAL ESTATE
8022119	Emigrant Gap Helicptr Timber Sale Placer	1,477	1,191	0	2,668	REAL ESTATE
8023116	Neroly Road Property Sale Antioch	0	0	3,229	3,229	REAL ESTATE
8023556	Sunset City Property Sale	3,950	(35,824)	0	(31,874)	REAL ESTATE
8023840	Sonora S/C Property Sale	6,652	1,922	0	8,574	REAL ESTATE
8024257	Idaho Maryland Property Sale	1,261	1,565	10,879	13,705	REAL ESTATE
8025656	14th & P St, Bakersfield Property Sale	2,169	2,937	4,393	9,499	REAL ESTATE
8027281	Marysville S/C Addition Property Sale	2,846	1,972	0	4,818	REAL ESTATE
8028018	Kern Power Plant Property Sale	5,116	2,792	18,249	26,156	REAL ESTATE
8028019	Los Medanos RV Storage Property Sale	0	0	1,285	1,285	REAL ESTATE
8028020	Martinez Pwr Plant Site Property Sale	1,668	0	4,900	6,568	REAL ESTATE
8028021	Oleum Power Plant Property Sale	0	0	15,180	15,180	REAL ESTATE
8029178	San Jose Lenzen St. Property Sale	15,828	7,748	1,948	25,524	REAL ESTATE
8030496	77 Beale 19th Flr Reconfiguration (2of2)	0	0	(7,498)	(7,498)	REAL ESTATE
8032216	Spaulding Helicopter Timber Sale	1,829	1,605	0	3,434	REAL ESTATE
8032217	Spaulding Tractor Timber Sale	1,132	1,190	0	2,322	REAL ESTATE
8032218	Olive Dr.T/L Fee, Concord Property Sale	2,175	3,053	1,386	6,614	REAL ESTATE
8032264	Real Estate Analysis	27,255	17,340	0	44,596	REAL ESTATE
8032265	Real Estate Project Planning	28,233	19,817	0	48,050	REAL ESTATE
8032266	Real Property Transactions Leases	61,716	32,790	56,428	150,934	REAL ESTATE
8034756	Prune Ave, Fremont Property Sale	1,871	0	0	1,871	REAL ESTATE

PACIFIC GAS AND E**LECTRIC COMPANY**
NON-AandG STUDY PCC COSTS
2001 RECORDED / ADJUSTED PER PGandE

SCHEDULE 10-7

PCC/Order	Description	920	921	923	Total	Category
8035676	Lincoln Hwy. Timber Sale	17,325	8,895	0	26,220	REAL ESTATE
8037404	Miscellaneous Small $ Property Managmt	0	0	4,770	4,770	REAL ESTATE
8037478	215/245 Market Street TDRs	2,503	0	0	2,503	REAL ESTATE
8037539	Bay Point, Port Chicago Property Sale	14,521	7,178	5,687	27,386	REAL ESTATE
8037540	Claremont Sub T/L Corridor Property Sale	5,256	1,936	1,094	8,286	REAL ESTATE
8037749	123 Mission RAS Move to 245 M/6,7	4,323	4,431	4,340	13,094	REAL ESTATE
8037752	123 Mission RAS Move to 77Beale/8 (1of2)	1,411	1,481	8,535	11,427	REAL ESTATE
8037793	123 Mission Vacate 9th Floor	0	(60,647)	23,005	(37,642)	REAL ESTATE
8038456	1919 Webster St, Oakland ETEC Relocation	6,557	4,983	5,995	17,535	REAL ESTATE
8038561	Victor/Lodi SC Property Sale	2,155	0	4,484	6,640	REAL ESTATE
8038660	123 Mission St Tear Down 22 through 26	1,259	17,992	52,277	71,529	REAL ESTATE
8038798	Bakersfield SC Kern DO Remodel (3 of 3)	4,790	0	0	4,790	REAL ESTATE
8039159	Humbug Valley Salvage Sale Timber	7,813	3,503	0	11,317	REAL ESTATE
8039160	Fremont Blvd, Fremont Property Sale	1,879	1,093	0	2,973	REAL ESTATE
8040060	111 Almaden Office Bldg Sale	0	0	(6,200)	(6,200)	REAL ESTATE
8040259	Concord Area Plan & Hookston Sq Lease	2,685	0	0	2,685	REAL ESTATE
8040261	Warehouse Consolidation Portfolio Plan	5,435	0	0	5,435	REAL ESTATE
8040262	Antioch Area Portfolio Planning	12,073	0	0	12,073	REAL ESTATE
8040397	San Jose Portfolio Planning	12,571	0	0	12,571	REAL ESTATE
8041493	2427 Sana Cruz Ct Santa Rosa Prop Sale	1,206	1,122	1,500	3,828	REAL ESTATE
8041716	Court Street West Property Sale	5,407	3,220	0	8,627	REAL ESTATE
8041860	Drawings 245 Mkt 2nd Flr Comm Room	20,143	0	0	20,143	REAL ESTATE
8043218	Tiger Creek II Timber Sale	14,186	6,278	0	20,464	REAL ESTATE
8043242	Marysville Parking Lot Sale	5,290	2,051	0	7,341	REAL ESTATE
8044092	123 Mission St Relocate VP Cust Svcs	19,537	0	0	19,537	REAL ESTATE
8044093	123 Mission St Reloc. Business Planning	5,426	0	0	5,426	REAL ESTATE
8044587	123 Mission, 27 Tear Down	1,777	0	0	1,777	REAL ESTATE
8045642	123 Mission St 14th Flr. Remodel(2 of 3)	5,899	0	0	5,899	REAL ESTATE
8047738	San Jose Call Ctr. Exp. Proj. (2 of 2)	2,613	0	0	2,613	REAL ESTATE
8047779	Clovis Service Center Sale	5,359	1,620	0	6,979	REAL ESTATE
8048829	Lake Valley Fire Salvage Timber Sale	14,721	9,986	0	24,707	REAL ESTATE
8049037	Environmental Due Diligence	19,083	0	0	19,083	REAL ESTATE
8049039	Powerhouse Salvage Timber Sale	6,590	4,223	0	10,813	REAL ESTATE
8049127	GEMS Chalk Cliff to SFGO	0	(1,110)	0	(1,110)	REAL ESTATE
8049278	Poe Fire Salvage Timber Sale	6,963	5,248	0	12,211	REAL ESTATE
	TOTAL REAL ESTATE	1,585,201	731,678	324,919	2,641,798	
TOTAL		**13,172,645**	**8,118,747**	**5,361,311**	**26,652,703**	

Chapter 11
Allocation of Other A&G Accounts And Common Plant

The Chapter addresses allocations for the following A&G accounts.

A&G Accounts Addressed in Chapter 11		
Account	Title	ORA Witness
924	Property Insurance	Phillips
925	Injuries and Damages	Phillips
926	Employee Pensions and Benefits	Woods
930	Miscellaneous General Expenses	Phillips

This Chapter also addresses the allocation of common plant to UCCs.

The 2003 forecasts for the A&G accounts reviewed in this Chapter were developed by the ORA witnesses listed above. Overland's responsibility for the accounts is limited to allocating ORA's 2003 forecast to regulatory categories, including affiliates, capital, below-the-line and UCCs.

Summary of Issues

The following issues are developed in this Chapter.

1. **Accounts 925 and 926.** Increased the capital, below-the-line and affiliate allocations for workers compensation costs (excluding bonds and fees) by 2.46% to reflect 2002 labor costs and Overland's A&G study results. The recommended factors reduce utility expense by $1.2 million, based on PG&E's 2003 forecast.

2. **Accounts 925 and 926.** Revised the M&O labor allocation factor used to allocate utility expense to UCCs to reflect the factor contained in PG&E's January 2003 FERC electric transmission rate application.

3. **Account 925.** Reduced utility expense by $326,064 to correct PG&E's failure to allocate any of the workers compensation bonds and fees costs to capital.

4. **Account 925.** Allocated 19.9% of third party claims costs capital based on a review of 2002 claims. Based on PG&E's 2003 forecast, the recommended capital allocation reduces utility expense by $2.3 million.

5. **Account 925.** Reduced utility expense by $1.3 million to allocate 50% of Director's and Officer's liability insurance costs to the below-the-line category consistent with the allocation adopted in PG&E's 1999 GRC.

6. **Account 926.** Increased capital, below-the-line and affiliate allocations by 2.22% to reflect 2002 labor costs and Overland's A&G Study results. The recommended factors reduce utility expense, based on PG&E's forecast, by $6.6 million.

7. **Account 930.** Directly assigned the $4.294 million MCI-PG&E Exchange of Rights fee to electric transmission to remove the costs from the GRC. PG&E agrees the costs should be excluded for the GRC.

8. **Common Plant.** Rejected PG&E's illogical approach of allocating residual common plant to Diablo Canyon based on 1994 plant costs and 1993 allocation factors. Allocated an additional $82 million in common plant to Diablo Canyon using the revised M&O labor factor.

9. **Common Plant.** Updated and corrected the M&O labor allocation factor used to allocate residual common plant to UCCs to reflect the factor contained in PG&E's 2003 FERC electric transmission rate application.

Account 924 - Property Insurance

PG&E's Account 924 forecast consists primarily of property insurance costs. The following table shows PG&E's 2003 Account 924 forecast by component.

Account 924 - Property Insurance 2003 Forecast Per PG&E - 2000 Dollars	
Description	Amount
All Risk Property Insurance	17,499,429
Aircraft Hull	51,000
Blanket Crime - Employee Dishonesty	336,000
Business Travel (named aircraft)	12,000
Business Travel (public conveyance)	36,000
Cargo/Oil Equipment	12,000
Miscellaneous Bonds	430,250
Diablo Canyon - All Risk Property	(2,884,597)
Humboldt Bay Nuclear - All Risk	(141,118)
Total	15,350,964
Source: PG&E Exhibit 6 WP 6-146	

Cost Allocations

PG&E assigned the Diablo Canyon and Humboldt Bay nuclear power plant property insurance directly to generation. PG&E assigned the remaining Account 924 costs to the utility common category. PG&E allocated the utility common costs to UCCs based on 2000 recorded plant balances, excluding Diablo Canyon.[1]

PG&E's allocation of the utility common costs is shown below.

Account 924 - Property Insurance 2003 Forecast Per PG&E - 2000 Dollars	
Description	Percent
Generation -Excluding Nuclear	7.40
Electric Transmission	10.57
Gas Transmission	9.69
Public Purpose Programs	0.11
Electric Distribution	52.42
Gas Distribution	19.81
Total	100.00
Source: PG&E R.O. Model, A&G Module	

Approximately 95% of the Account 925 utility common costs are property insurance costs. Plant provides a reasonable basis for allocating property insurance costs. Overland accepted PG&E's allocations for Account 924.

[1] PG&E Exhibit 6, page 3-4

Account 925 - Injuries and Damages

PG&E's 2003 forecast for Account 925 consists primarily of workers compensation and general liability costs. The following table shows PG&E's 2003 forecast by component.

Account 925 - Injuries and Damages 2003 Forecast Per PG&E	
Description	Amount
Workers Compensation - Gross	50,245,000
Workers Comp. - Capital Portion	(15,248,000)
Workers Comp. - Bonds & Fees	1012000
Directors & Officers Liability Ins.	2689000
Third Party Claims	11768000
Settlements and Damages	20,198,000
Liability Insurance & Misc.	8,588,000
Total	79,252,000
Source: PG&E Exhibit 6, WP 6-164 and 6-175	

Cost Allocations

PG&E directly assigned $840,000 to nuclear generation. PG&E allocated 30.35% of its gross workers compensation cost forecast to capital.[2] PG&E allocated all of the remaining Account 925 costs to utility above-the-line UCCs using the M&O labor allocator. PG&E's workers compensation capital allocation factor of 30.35% reflects base labor costs charged to construction in 2000.

Workers Compensation

PG&E allocated workers compensation costs (excluding bonds and fees) to capital based on the overall capital labor factor and allocated the expense portion to UCCs based on the M&O labor factor.

As described in the Account 926 Section of this Chapter, Overland recommends a labor capital factor of 32.22% for 2003. As described in Chapter 10, Overland recommends using the updated M&O labor factor from PG&E's recent FERC electric transmission rate application in this GRC. PG&E's Account 925 workers compensation allocations should be revised to reflect Overland's recommended capital and M&O labor factors.

[2] PG&E Exhibit 6 WP 6-165

The following table compares Overland's recommended factors to the factors used in PG&E's GRC application.

Account 925 Workers Compensation 2003 Allocations Per Overland			
Description	PG&E	Overland	Difference
Capital	30.35	32.22	1.87
Below-The Line	0.00	.49	0.49
Affiliates	0.00	0.10	0.10
Generation	14.66	13.79	(0.87)
Electric Transmission	4.64	5.56	0.92
Gas Transmission	3.61	3.36	(0.25)
Public Purpose Programs	1.66	1.59	(0.07)
Electric Distribution	28.61	27.26	(1.35)
Gas Distribution	16.47	15.63	(0.84)
Total	100.00	100.00	0.00
Source: OC-405 and Schedule 11-2			

Overland's recommended capital, below-the-line and affiliate factors are the same as its recommended factors for employee benefits costs. Those factors are developed in the Account 926 section of this Chapter.

The combined 2.46% increase in capital, below-the-line and affiliate allocations reduces utility expense by $1.2 million, based on PG&E's forecast. [3]

PG&E did not allocate any of its workers compensation bonds and fees forecast to construction. The workers compensation bonds and fees forecast should be allocated in the same manner as other workers compensation costs. That allocation reduces total utility Account 925 expense by $326,064.[4]

Third Party Claims

PG&E allocated 100% of its third party claims costs to UCCs using the M&O labor allocator. PG&E did not allocate any of its third party claims costs to construction. PG&E's capital allocation is inconsistent with its allocation of the labor costs of its

[3] PG&E forecast of $50.245 million times 2.46%

[4] $1,012,000 times 32.22%

Safety Health and Claims Department third party claims section. PG&E allocated 6% of that section's labor costs to capital. [5]

Overland analyzed PG&E's 2002 third party claims by type and department and determined that 19.9% of PG&E's third party claims were attributable to construction activities. That analysis is described in the Third Party Claims Section of Chapter 6.

Overland recommends a capital allocation of 19.9% for the third party claims costs included in Account 925. That allocation reduces total utility Account 925 expense by $2.3 million (based on PG&E's forecast) to eliminate the cost of claims that would be avoided in the absence of PG&E's ongoing construction program.[6] Overland accepted the use of the M&O labor factor to allocate the expense portion of third party claims costs to UCCs.

Directors' and Officers Liability Insurance

PG&E assigned 100% of its Directors' and Officers' (D&O) liability insurance costs to the utility common category. PG&E's 1999 GRC Decision allocated 50% of D&O liability insurance costs to the below-the-line category. That decision states:[7]

> TURN, joined by Enron, recommends that 50% of the cost of officers' and directors' insurance allocable to the utility be further allocated to shareholders as a below-the-line expense...They reason that a portion of the utility cost should be borne by shareholders because the insurance is intended to provide benefits for shareholders. TURN and Enron note that this recommendation is consistent with the treatment of the issue in Edison's 1995 GRC. (D.96-01-011, 64, CPUC2d 241, 319.)
>
> We adopt a 50% allocation to shareholders as an appropriate reflection of the benefits received by shareholders from this insurance.

Overland recommends allocating 50% of the D&O liability insurance forecast to the below-the-line category is consistent with CPUC policy. Overland accepted the use of the M&O labor factor to allocate the above-the-line portion of D&O insurance costs to UCCs.

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[5] PG&E A&G Study WP 2-825

[6] PG&E forecast of $11,768,000 times 19.9%

[7] D.00-02-046, page 305

Settlements and Damages and General Liability Insurance

PG&E allocated 100% of its settlements and damages and general liability insurance costs to expense and allocated that expense to UCCs using the M&O labor factor. Approximately 32% of PG&E's total labor costs are charged to construction. Some portion of the settlements, damages and liability insurance costs are allocable to construction. However, the incremental portion of those costs that would be avoided in the absence of PG&E's ongoing construction program is difficult to quantify.

Overland has not examined the specific matters included in PG&E's settlements and claims costs. Overland accepted PG&E's decision to allocate 100% its settlements and claims and liability insurance costs to expense. Overland also accepted the use of the revised M&O labor allocator to allocate the costs to UCCs.

Account 926 - Employee Pensions and Benefits

Account 926 reflects employee benefits costs. The following table shows PG&E's 2003 employee benefit forecast stated in year 2000 dollars.

Account 926 - Employee Pensions and Benefits 2003 Forecast Per PG&E - in 2000 Dollars	
Description	Amount
Pension	91,145
Medical	72,385
Long-Term Disability	43,002
Post Retirement Medical	41,891
Savings Fund	23,365
Dental Plan	14,161
PBOP - Life Insurance	2,904
Vision Plan	2,293
Employee Relocation	2,183
Group Life Insurance	1,593
Tuition Reimbursement	1,098
Service Awards	581
Flexible Compensation	(372)
Total	296,229
Source: PG&E Exhibit 6 WP 6-196	

Account 926 is reported net of amounts charged to construction, below-the-line and other balance sheet accounts. The amounts shown above are net operating expense amounts.

Cost Allocations

PG&E forecast total company gross amounts for each category of employee benefits.[8] PG&E allocated the gross amounts to capital, holding company, below-the-line, affiliate and utility common categories. Schedule 11-1 shows PG&E gross forecasts and allocations by benefit type. PG&E allocated the utility common category to UCCs using the M&O labor allocation factor. [9]

The following table shows PG&E's allocations to the capital, affiliate and below-the-line categories.

Account 926 2003 Allocations Per PG&E	
Description	Percent
Capital	30.35
Below-the-Line	0.08
Affiliates	0.16
Source: Schedule 11-1	

PG&E's capital allocation is based on recorded 2000 straight-time productive labor costs ("2000 base labor costs").[10] PG&E's 2000 capital labor factor is inconsistent with actual results for 2001 and 2002. PG&E provided capital labor factors for 2001 and 2002 in the response to OC-418. That response indicates capital labor factors of 31.74% for 2001 and 31.32% for 2002.

PG&E made enhancements to its SAP system in 2001 and 2002 that improved its ability to track labor costs charged to clearing accounts. As a result, recorded 2001 and 2002 labor costs are more accurate than recorded 2000 labor costs.[11]

[8] PG&E Exhibit 4, page 5-2

[9] PG&E Exhibit 6, WP 6-233

[10] OC-418

[11] OC-418

The capital labor amounts used by PG&E to calculate the 2000, 2001 and 2002 capital labor factors exclude the A&G labor costs capitalized through Account 922.[12] The failure to include those amounts in capital labor is an error that understates the capital labor factor.

Overland's recommended A&G Study results significantly increase the amount of costs charged to capital and below-the-line categories. Overland calculated corrected capital, below-the-line and affiliate labor factors for 2001 and 2002 using the recorded data provided in the response to OC-418 and Overland's recommended A&G study results. Those calculations are shown on Schedule 11-2. The corrected factors are shown below.

Account 926 Corrected 2001 and 2002 Labor Factors		
Description	2001	2002
Capital	32.78	32.22
Below-the-Line	0.53	0.49
Affiliates	0.11	0.10
Source: Schedule 11-2		

The 2002 labor costs are the most current available recorded data. The 2002 recorded costs reflect enhancements to PG&E's SAP accounting system that allow more accurate tracking of labor costs charged to clearing. The 2002 costs produce a reasonable result compared to 2001 recorded amounts. Overland recommends using the corrected 2002 labor factors to allocate Account 926 costs to regulatory categories.

The corrected factors reflect the A&G Study allocations for the capital, affiliate and below-the-line categories recommended by Overland in Chapters 3 through 6. PG&E's below-the-line allocation reflects a spreading of the recorded 2000 below-the-line amount of $331,000.[13] PG&E's affiliate allocation reflects 2000 recorded charges. [14]

PG&E's approach of setting is 2003 forecast for the below-the-line category equal to the fixed dollar amount charged below-the-line in 2000 is illogical. PG&E's forecasts of its 2003 gross benefits costs are substantially higher than its 2000 gross benefits

[12] OC-418

[13] OC-422

[14] PG&E R.O. Model, A&G Module, Factors page

costs.[15] Therefore, the below-the-line allocation should be made on a percentage basis using the labor factors rather than as a fixed dollar amount.

Overland accepted the use of the M&O labor factor to allocate the above-the-line expense portions of employee benefits costs to UCCs. Overland recommended a revision to PG&E's M&O labor allocator in Chapter 10.

The following table shows the impact of Overland's recommended capital, below-the-line and affiliate factors, based on PG&E's 2003 gross cost forecasts.

Account 926 - Employee Benefits **Impact of Capital, Below-the-line and Affiliate Allocations** (In Thousands of 2000 Dollars)			
	Overland	PG&E	Difference
Capital	32.22	30.35	1.87
Below-the-Line	0.49	0.08	0.41
Affiliates	0.10	0.16	(0.06)
Total	32.81	30.59	2.22
PG&E Gross Forecast			296,229
Utility Expense Impact			(6,576)
Source: PG&E Exhibit 6 WP 6-196 and Schedules 11-1 and 11-2			

ORA's Account 926 forecasts are lower than PG&E's forecasts. Therefore, the impact of Overland's recommended factors based on ORA's forecasts will be lower than the amounts shown above.

Account 930

Account 930, Miscellaneous General Expense, includes a variety of items. The largest item is the public purpose program costs paid to the California Energy Commission. PG&E's 2003 forecast for the public purpose program costs is $78.0 million stated in 2000 dollars.[16] Excluding the public purpose program costs, PG&E's 2003 forecast for Account 930 is $13,285,000 in 2000 dollars.

The other costs recorded in Account 930 include Diablo Canyon decommissioning trust expenses, CPUC intervener compensation, bank service fees and the MCI-PG&E

[15] PG&E Exhibit 4, Table 5-1

[16] PG&E Exhibit 6 WP, page 6-283

Exchange of rights cost. PG&E's 2003 Account 930 forecast reflects 2000 recorded costs with seven adjustments. In total, the adjustments increase the forecast by $563,000. [17]

Cost Allocations

PG&E assigned $78.0 million to the public purpose category for the program costs it pays to the California Energy Commission. PG&E assigned the $2.97 million of nuclear decommissioning trust fund expenses included in its 2003 forecast to the generation UCC. PG&E allocated all of the remaining costs included in its forecast to UCCs using the M&O labor allocator.

Overland accepts PG&E's direct assignment of the public purpose program and nuclear decommissioning trust fund costs.

PG&E's forecast includes $4,294,080 for the MCI-PG&E Exchange of Rights fee.[18] PG&E provided the following description of the MCI-PG&E Exchange of Rights agreement in the response to OC-276.

> The MCI-PG&E Exchange of Rights charges are the result of a non-monetary exchange between MCI and PG&E. PG&E entered into a Commission-approved agreement with MCI allowing MCI to attach fiber optic cables to PG&E's electric transmission facilities in exchange for PG&E using telecommunications capacity on MCI's network.

PG&E accounts for non-monetary exchange by recorded equal and offsetting revenues and expenses in Other Operating Revenues and Miscellaneous General Expenses.[19]

PG&E directly assigns the MCI-Exchange of Rights revenues and expenses to electric transmission in its FERC transmission owners filings. Data Request OC-276 asked PG&E why it did not assign the Account 930 costs to electric transmission in this case. PG&E's response states:

> In preparing the A&G estimates for this GRC, the MCI expense was not removed from Account 930 because it was assumed that the offsetting MCI revenue was not removed from [other operating revenues]. This assumption was incorrect.

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[17] PG&E Exhibit 6 WP, page 6-259 and 6-260.

[18] OC-426

[19] OC-276

> The MCI revenues were, in fact, adjusted out of the [other operating revenues] estimate. To achieve a symmetric treatment, the MCI expense in Account 930 ($4,294,000) should also be removed. Accordingly, PG&E will revise its A&G estimate at the next opportunity in the GRC schedule.

The MCI-PG&E Exchange of Rights fee should be directly assigned to the electric transmission category to remove the costs from the GRC.

Common Plant

Common plant includes plant recorded in the following FERC plant accounts.

Common Plant FERC Accounts	
Account	Title
389	Land and Land Rights
390	Structures and Improvements
391	Office Furniture and Equipment
392	Transportation Equipment
393	Stores Equipment
394	Tools, Shop and Garage Equipment
395	Laboratory Equipment
396	Power Operated Equipment
397	Communications Equipment
398	Miscellaneous Equipment
399	Other Tangible Property
Source: PG&E 2000 Form 1 page 206	

PG&E tracks common plant by functional codes rather than FERC plant accounts. The following table shows PG&E's recorded common plant as of December 2000 by functional code.

Common Plant Adjusted December 2000 Balance Per PG&E		
Code	Title	Total
CAU	Common - Autos	587,204,000
CCE	Common - Communications Equipment	285,325,000
CDH	Common - Data Handling	199,500,000
CIS	Common - Customer Information Syst.	189,889,000
CNP	Common - Nuclear Plant	145,229,000
COE	Common - Office Equipment	161,095,000
COT	Common - Other	79,396,000
CST	Common - Structures	848,621,000
CSTL	Common - Structures Land	69,605,000
CSW	Common - Software	72,316,000
	Total	2,638,180,000
Source: OC-75		

PG&E tracks all of its plant in a large SAP asset management data base. The data base lists asset number, asset description, asset class, receiver cost center, original cost and accumulated depreciation by asset. [20] Overland reviewed the asset management data base for the common plant functional codes. [21]

PG&E directly assigned many common plant assets to UCCs based on the receiver cost center shown for the asset. Receiver cost centers are generally facilities, such as a power plant or service center. The receiver cost center is viewed as the "owner" of the asset.[22]

PG&E allocated the common plant that was not directly assigned to a UCC to UCCs using the 2000 M&O labor factor modified to exclude nuclear generation and Line 401 gas transmission costs.[23] This Chapter refers to the common plant that PG&E allocated using the modified M&O labor factor as "residual common plant." The following table shows PG&E's December 2000 adjusted directly assigned and residual common plant by functional code.

[20] OC-144

[21] OC-146

[22] OC-145

[23] PG&E Exhibit 6, WP page 8-132

Common Plant Adjusted December 2000 Balance Per PG&E - Direct and Allocated				
Code	Title	Direct	Residual	Total
CAU	Common -Autos	497,316,000	89,888,000	587,204,000
CCE	Common - Communications Equipment	148,772,000	136,553,000	285,325,000
CDH	Common - Data Handling	111,962,000	87,538,000	199,500,000
CIS	Common - Customer Information Syst.	189,889,000	0	189,889,000
CNP	Common - Nuclear Plant	145,229,000	0	145,229,000
COE	Common - Office Equipment	92,433,000	68,662,000	161,095,000
COT	Common - Other	47,772,000	31,624,000	79,396,000
CST	Common - Structures	382,903,000	465,718,000	848,621,000
CSTL	Common - Structures Land	43,474,000	26,131,000	69,605,000
CSW	Common - Software	56,706,000	15,610,000	72,316,000
	Total	1,716,456,000	921,724,000	2,638,180,000
Source: OC-75				

The asset data base lists numerous assets for each functional code. For example the CCE functional code (communications equipment) includes approximately 1,070 assets. Discovery delays prevented Overland from completing its review of common plant direct assignments.

Diablo Canyon Common Plant

The common plant assigned to the Diablo Canyon Nuclear Power Plant consists of the following two categories.

Common Plant CNP - Common Plant Nuclear - December 2000	
Description	Amount
Plant Site Common Plant	88,098,000
Allocated Common Plant	57,131,000
Total	145,229,000
Source: OC-148 and OC-501	

The plant site common plant is directly assigned to Diablo Canyon using the same procedures used to make other direct assignments. The allocated common plant reflects a frozen value from PG&E's 1996 electric industry restructuring Diablo Canyon Sunk Cost proceeding. [24]

[24] OC-147 and OC-148

The following table shows the fixed components of the CNP allocated common plant.

Common Plant CNP - Allocated Common Plant	
Description	Amount
Fairfield Computer Center	6,426,589
Microwave Link - SF to DC	863,123
San Ramon Training Center	2,670,937
San Luis Obispo Cust. Svc Office	180,600
San Luis Obispo Svc. Center	69,024
Pismo Beach Materials Facility	271,761
General Office PCs and Furniture	2,904,639
General Office Other	38,959,458
San Ramon Research Center	4,784,869
Total	57,131,000
Source: OC-501	

The fixed amounts reflect adjusted 1994 plant costs allocated to Diablo Canyon using A&G labor factors adopted in PG&E's 1993 GRC. [25] The $57.1 million of allocated common plant is a substitute for the residual common plant that would otherwise be allocated to Diablo Canyon using the M&O labor factor. PG&E excluded nuclear generation labor from the M&O labor factor to prevent any additional allocations of residual common plant to Diablo Canyon.

Nuclear generation accounts for 15.3% of PG&E's recorded 2001 M&O labor costs.[26] In total, PG&E only allocated 5.5% of its common plant costs to nuclear generation. The $57.1 million of CNP allocated common plant only represents 5.8% of the total residual common plant, as calculated below.

Common Plant Nuclear Generation Residual Common Plant	
Description	Amount
Residual Common Plant Per PG&E	921,724,000
Add: CNP Allocated Plant	57,131,000
Total Residual including CNP	978,855,000
Nuclear Percent (CNP/total)	5.84
Source: OC-75 and OC-501	

[25] OC-147, Attachment 1, page 2-4 and OC-148, Attachment 1, page II-19

[26] OC-405, Diablo and Humboldt

Data Requests OC-147 asked PG&E to explain its Diablo Canyon common plant allocations and CPUC decisions impacting those allocations. PG&E's response provides the following cryptic explanation "All of the common and general plant associated with Diablo Canyon is assigned consistent with D.97-05-088 and the URG Decision 02-04-016..."

D.97-05-088 addressed the sunk cost of Diablo Canyon for purposes of determining electric industry restructuring transition costs. The Decision adopted a sunk cost of $3.286 billion as of December 31, 1996. That sunk cost amount included the $57.131 million of CNP allocated common plant.[27] The Decision does not contain any discussion of the Diablo Canyon allocated common plant.

PG&E's testimony in the D.97-05-088 proceeding contains the following discussion of common plant.[28]

> Consistent with the Diablo Canyon cost segregation and chargeback methodology adopted in the 1988 Diablo Canyon settlement agreement and implemented in PG&E's General Rate Cases, additional utility common plant, such as computer centers, telecommunications equipment, building space and fleet vehicles, would be removed from PG&E's utility rate base and reallocated to Diablo Canyon...Any additional Common Utility Plant allocated to Diablo Canyon in future rate proceedings will be reflected in an adjustment to Diablo Canyon Sunk Costs.

The 1988 Diablo Canyon settlement was adopted in D.88-12-083. That decision contains the following description of the 1988 settlement.[29]

> After four years of preparation for trial PG&E, the DRA, and the Attorney General agreed to a settlement under which Diablo Canyon costs are excluded from rate base and are recovered over a period of 28 years under a method called performance based pricing. This decision approves and adopts the settlement....The settlement provides that ratepayers pay only for power produced by Diablo Canyon at an escalating price determined by a formula tied to the Consumer Price Index. All costs of the operation of Diablo Canyon are paid by PG&E. The operating risks of the plant are shifted from the ratepayers to the utility and its shareholders.

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[27] OC-147, Attachment 1, page 2-4 and Attachment 2, page 7

[28] OC-147, Attachment 1, A.96-03-054, Exhibit PG&E-1, March 29, 1996

[29] D.88-12-083, page 1

The Diablo Canyon performance based ratemaking mechanism required the removal of Diablo Canyon costs from rate base and operating expense in PG&E's General Rate Cases. The CPUC rejected the use of an incremental cost approach for assigning costs to Diablo Canyon in PG&E's 1990 GRC.[30] The CPUC rejected the incremental cost approach again in PG&E's 1999 GRC Decision.[31]

D.97-05-088 also adopted a new Incremental Cost Incentive Pricing (ICIP) mechanism for Diablo Canyon. Under the ICIP, the sunk costs of Diablo Canyon were to be amortized over a 5 year period ending December 31, 2001. D.97-05-088 determined that the 1988 Diablo Canyon rate settlement was voided by AB 1890 and had no force and effect as of the effective date of D.97-05-088. [32]

D.97-05-088 required a financial verification audit of the adopted sunk costs to verify the accuracy of the figures. That audit was completed in September 1988. The audit report noted that including allocated common costs in Diablo Canyon sunk costs was inconsistent with the treatment given to common costs in other non-nuclear sunk-cost proceedings.[33] The audit report includes the following discussion of CPUC policy concerning transition cost recovery of allocated common plant costs.

> In D.97-11-074 the Commission adopted PG&E's proposal that "off-site generation-related common and general plant not be recovered initially in the transition cost balancing account pending efforts by utilities to mitigate such costs. To the extent these off-site common and general plant costs cannot be fully mitigated, the uneconomic costs of off-site common and general plant may be recoverable through transition cost treatment. However, we put the utilities on notice that such mitigation efforts will be throughly reviewed and scrutinized in the annual transition cost proceedings and we expect the utilities to use their best efforts to find alternative uses for these assets. Further, because these allocated common costs are not generation related per se, and could be used for any number of alternative purposes, they are not specifically afforded sunk cost treatment under Section 367 of AB 1890.

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[30] D.89-12-057, page 50

[31] D.00-02-046, page 264

[32] D.97-05-088 page 70 and OP 10.

[33] OC-148, Attachment 1, Agreed Upon Special Procedures Review of Diablo Canyon Sunk Costs, Pacific Gas & Electric Company, Mitchell Titus and Barrington-Wellesley Group, September 3, 1998, page II-20.

The audit report contains the following conclusions concerning the allocated common costs.[34]

> Although the Commission has previously approved rates based on the Company's proposed allocation of common facilities costs to Diablo Canyon, the $57.1 million in allocated common facilities costs is questioned because of the Commission's alternative treatment of these identical costs in the non-nuclear sunk cost proceedings and because there is no specific provision in AB 1890 for inclusion of General Utility Plant costs in sunk costs. Further, since the underlying assets have many alternative uses, it is reasonable to assume that their market value is greater than their recorded depreciated original cost....The Commission should review this matter again and consider adoption of consistent treatment of allocated general plant costs in applicable sunk cost proceedings.

The CPUC never addressed the common plant recommendation contained in the Audit Report.[35]

D.02-04-016 adopted interim 2002 revenue requirements for the retained generation of PG&E, Southern California Edison and San Diego Gas & Electric. That decision adopted a cost-of-service based approach for setting retained generation revenue requirements. The interim rates were adopted on an expedited basis. The Decision states:

> Typically, a Commission proceeding addressing utility costs consumes substantial time analyzing the reasonableness of such costs. However, the current energy situation has required expeditious preparation of forecasts by the utilities and a similar rapid review by staff, interveners, and the Commission. Normally parties have a greater amount of time to perform discovery and analyze other parties' presentations. Thus, as a consequence of time constraints, the costs presented have undergone a less thorough review than normal. As most parties have stated, the expedited nature of the proceeding has significantly affected the reliability of the data presented at the hearings.

D.02-04-016 does not contain any discussion of common plant. Largely because of concerns about the reliability of the forecast data submitted by the utilities, the Decision adopted TURN's proposal to use December 2000 recorded amounts to set rate base. The Decision made the 2002 URG interim revenue requirements subject to true-up based on recorded 2002 costs and review in this GRC. The Decision ordered PG&E to submit an advice letter revising its revenue requirements amounts to reflect the

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[34] OC-148, Attachment 1, page II-21

[35] OC-148, Attachment 2, D.00-09-008, page 5

Decision.[36] PG&E filed the required calculations in Advice Letter 2233-E on April 24, 2002. The Advice Letter and attachments do not mention common plant. However, PG&E represents that the approach it used to allocate common plant to Diablo Canyon in this GRC was also used to calculate the revenue requirements shown in the Advice Letter.[37] The CPUC approved the Advice Letter on June 12, 2002.[38]

PG&E's general headquarters, computer and communications infrastructure provide benefits to Diablo Canyon. Overland reviewed the organization charts for the Diablo Canyon organization in this case and in the 1999 GRC.[39] With limited exceptions, the organizations located at Diablo Canyon do not perform the functions performed by PG&E's Corporate Services Departments. Therefore, the infrastructure used and managed by those organizations should be allocated to Diablo Canyon.

PG&E's retained generation revenue requirements are required to be cost-based.[40] PG&E has failed to demonstrate why the unique common plant allocations it proposes for Diablo Canyon are needed to produce a cost-based revenue requirement.

PG&E's proposed 5.8% allocation of residual common plant to Diablo Canyon is inadequate. The methodology PG&E used to allocate residual common plant to Diablo Canyon is illogical. The allocations are based on a 1988 settlement that no longer has any force or affect. The allocations reflect 1994 recorded plant costs and A&G labor factors taken from its 1993 GRC. Using 1994 plant costs for a 2003 test year is illogical and improper. The costs ignore plant additions and retirements occurring in 1995 through 2003, a nine year period. Ignoring nine years of plant activity is improper.

The 1996 sunk cost verification audit includes the following description of the factors used by PG&E to allocate residual common plant to Diablo Canyon.

> The allocated [common plant] amounts included in the Statement of Sunk Costs are based upon Diablo Canyon Labor Factors (DLF) approved for use in the allocation of general and administrative expense in the 1993 GRC.

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[36] D.02-04-016, OP 8

[37] OC-148

[38] OC-410

[39] OC-98 and Overland's 1999 GRC Administrative and General Efforts Study and Cost Separations Report, page 5-8.

[40] D.02-04-016, page 2

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> [The] DLF used in the calculations were taken from the workpapers in the 1996 GRC. However, the rates used are not specifically mentioned in D.95-12-055 because this matter was not contested in that proceeding. The DLF were derived from DLF adopted in the 1993 GRC (D.92-12-057) based upon Diablo Canyon Use Studies. However, the text from the order in this proceeding (D.92-12-055 pages 77-80) provided by the Company in response to DCA-90 addresses factors to be used for the allocation of General and Administrative expenses to Diablo Canyon, and apparently does not anticipate the allocation of General Office and similar types of plant balances to the Diablo Canyon project. In fact, it appears that the intent of the G&A cost allocation is to remove Diablo Canyon related expenses from base rates since they are recoverable under the PBR in the Diablo Canyon settlements.

The methodology and data used by PG&E to allocate residual common plant to Diablo Canyon have apparently not been specifically endorsed by the CPUC in any proceeding.

The allocation of common plant costs in PG&E's sunk cost proceeding does not provide a sound basis for allocating residual common plant to Diablo Canyon in PG&E's 2003 GRC. The 1998 financial verification audit specifically questioned the propriety of including the allocated common costs in sunk costs. The financial verification audit noted that PG&E's treatment of those costs was inconsistent with CPUC policy and PG&E's treatment of common costs for its other power plants. Moreover, even if the costs were properly included in sunk costs, that does not provide a basis for under-allocating residual common costs to Diablo Canyon in this GRC.

The 2002 URG proceeding was processed on an expedited basis without a detailed review of costs. D.00-04-016 does not mention common plant allocations. Therefore, D.00-04-016 does not provide a basis for under-allocating common plant costs to nuclear generation.

PG&E's proposed 5.8% allocation is inconsistent with the results of the A&G Study it filed in this case. PG&E's 2003 GRC A&G study allocates 12.5% of its A&G labor costs to Diablo Canyon.[41] PG&E's proposed allocation is also inconsistent with its M&O labor factor. The 2001 M&O labor factor for nuclear generation is 15.32%.[42] PG&E admits the

[41] PG&E Exhibit 6 WP 6-67

[42] OC-405

M&O labor provides a sound basis for allocating residual common plant. Indeed, PG&E uses its modified M&O labor factor to allocate 94% of its residual common plant.

PG&E's proposed 5.8% allocation to nuclear generation is based on outdated costs and factors and a faulty methodology that is inconsistent with the methodology it uses to allocate common plant costs to other UCCs. PG&E's proposed methodology is inconsistent with the cost-of-service approach required by D.00-03-046. PG&E's proposed methodology produces results that are excessive compared to its own A&G Study results and the M&O labor factor. PG&E's proposed methodology has apparently never been specifically endorsed by the CPUC in any proceeding. The M&O labor factor provides a sound basis for allocating residual common plant costs. Therefore, that factor should be used to allocate residual common plant costs to nuclear generation.

Overland recommended an adjustment to PG&E's proposed M&O labor factor in Chapter 11. Specifically, Overland recommended the use of the updated M&O labor factor contained in PG&E's January 2003 FERC electric transmission rate application in this GRC. That updated M&O labor factor should be used to allocate residual common plant.

The following table compares Overland's recommended allocation of December 2000 residual common plant to PG&E's allocation.

Residual Common Plant Allocation Overland Compared to PG&E - December 2000			
Function	PG&E	Overland	Difference
Generation	118,694,000	200,820,000	82,126,000
Electric Transmission	71,276,000	81,082,000	9,806,000
Gas Transmission	50,557,000	48,932,000	(1,625,000)
Public Purpose	25,864,000	23,093,000	(2,771,000)
Electric Distribution	445,215,000	397,219,000	(47,996,000)
Gas Distribution	267,250,000	227,710,000	(39,540,000)
Total	978,856,000	978,856,000	0
Source: Overland workpapers			

Overland's recommended allocation factors for residual common plant also apply to the associated reserve for depreciation. The following table compares Overland's recommended allocation of the December 2000 residual common plant depreciation reserve to PG&E's allocation.

Residual Common Plant Allocation - Depreciation Reserve Overland Compared to PG&E - December 2000			
Function	PG&E	Overland	Difference
Generation	71,230,000	76,233,000	5,003,000
Electric Transmission	24,888,000	30,779,000	5,891,000
Gas Transmission	17,654,000	18,575,000	921,000
Public Purpose	9,031,000	8,766,000	(265,000)
Electric Distribution	155,461,000	150,789,000	(4,672,000)
Gas Distribution	93,319,000	86,441,000	(6,878,000)
Total	371,583,000	371,583,000	0
Source: Overland workpapers			

In combination, Overland's recommended allocation of common plant and the associated accumulated reserve for depreciation decreases distribution net plant by $76.0 million.

The reduction in distribution common plant reduces depreciation expense. PG&E's proposed depreciation rates for common plant range from 2.67% for office furniture and equipment to 10.07% for communications equipment. Using an assumed average depreciation rate of 4%, Overland estimates the recommended common plant allocations reduce distribution depreciation expense by $3.5 million. [43]

[43] $47.996 million plus $39.540 million times 4%.

PACIFIC GAS & ELECTRIC
PENSONS AND BENEFITS
ACCOUNT 926
2003 FORECAST PER PG&E

	DESCRIPTION	GROSS TOTAL	CAPITALIZED	HOLDING CO.	BELOW THE LINE	AFFILIATE	UTILITY EXPENSE	DE-ESCALATE TO 2000 $	UITLITY EXPENSE IN 2000 $
COST									
	MEDICAL	113,456	(34,431)	(172)	(207)	(13)	78,633	(6,248)	72,385
	PBOP	60,300	(18,299)	(91)	(11)	(7)	41,892	0	41,892
	VISION PLAN	3,300	(1,002)	(5)	(1)	0	2,292	0	2,292
	DENTAL PLAN	20,384	(6,186)	(31)	(4)	(2)	14,161	0	14,161
	GROUP LIFE INSURANCE	2,449	(743)	(4)	(4)	0	1,698	(105)	1,593
	PBOP - LIFE INSURANCE	4,243	(1,288)	(6)	(2)	(1)	2,946	(43)	2,903
	LONG-TERM DISABILITY	61,900	(18,785)	(94)	(12)	(7)	43,002	0	43,002
	FLEXIBLE COMPENSATION	(536)	163	1	0	0	(372)	0	(372)
	PENSION PLAN	131,376	(39,869)	(199)	(29)	(16)	91,263	(118)	91,145
	SAVINGS FUND	34,756	(10,548)	(53)	(58)	(4)	24,093	(729)	23,364
	EMPLOYEE RELOCATION	3,248	(986)	(5)	(1)	0	2,256	(72)	2,184
	TUITION REIMBURSEMENT	1,634	(496)	(2)	(1)	0	1,135	(36)	1,099
	SERVICE AWARDS	886	(269)	(1)	0	0	616	(34)	582
	TOTAL	437,396	(132,739)	(662)	(330)	(50)	303,615	(7,385)	296,230

PERCENTAGE						
	MEDICAL	1.00000	0.30347	0.00152	0.00182	0.00011	0.69307
	PBOP	1.00000	0.30347	0.00151	0.00018	0.00012	0.69473
	VISION PLAN	1.00000	0.30364	0.00152	0.00030	0.00000	0.69455
	DENTAL PLAN	1.00000	0.30347	0.00152	0.00020	0.00010	0.69471
	GROUP LIFE INSURANCE	1.00000	0.30339	0.00163	0.00163	0.00000	0.69334
	PBOP - LIFE INSURANCE	1.00000	0.30356	0.00141	0.00047	0.00024	0.69432
	LONG-TERM DISABILITY	1.00000	0.30347	0.00152	0.00019	0.00011	0.69470
	FLEXIBLE COMPENSATION	1.00000	0.30410	0.00187	0.00000	0.00000	0.69403
	PENSION PLAN	1.00000	0.30347	0.00151	0.00022	0.00012	0.69467
	SAVINGS FUND	1.00000	0.30349	0.00152	0.00167	0.00012	0.69320
	EMPLOYEE RELOCATION	1.00000	0.30357	0.00154	0.00031	0.00000	0.69458
	TUITION REIMBURSEMENT	1.00000	0.30355	0.00122	0.00061	0.00000	0.69461
	SERVICE AWARDS	1.00000	0.30361	0.00113	0.00000	0.00000	0.69526
	TOTAL	1.00000	0.30348	0.00151	0.00075	0.00011	0.69414

SOURCE: PG&E EXHIBIT 6 WP 6-197 TO 6-209

Public Version

PACIFIC GAS & ELECTRIC
2002 LABOR ALLOCATORS
ACCOUNT 926

DESCRIPTION	DIRECT	CLEARING	TOTAL	A&G CAPITAL ACCOUNT 922	ADJUST BELOW THE LINE	ADJUST AFFIILATE	TOTAL	FACTORS
OPERATIONS AND MAINTENANCE	512,508	83,750	596,258	0	0	0	596,258	58.08
ADMINISTRATIVE & GENERAL	63,544	16,122	79,666	(10,000)	(1,951)	299	68,014	6.63
BENEFITS & PAYROLL TAXES (1)		25,510	25,510	0	0	0	25,510	2.49
CAPITAL	237,665	83,100	320,765	10,000	0	0	330,765	32.22
AFFILIATE	533	766	1,299	0	0	(299)	1,000	0.10
BELOW-THE-LINE	1,990	1,059	3,049	0	1,951	0	5,000	0.49
TOTAL	816,240	210,307	1,026,547	0	0	0	1,026,547	100.00

NOTE: A&G STUDY AMOUNTS ARE APPROXIMATIONS

NOTE (1): PG&E INCLUDED THIS AMOUNT IN LABOR CLEARING EXPENSE IN OC-418. OVERLAND ACCEPTED THAT TREATMENT PENDING ADDITIONAL INFORMATION

SOURCE: OC-418

Public Version

PACIFIC GAS & ELECTRIC
2001 LABOR ALLOCATORS
ACCOUNT 926

DESCRIPTION	DIRECT	CLEARING	TOTAL	A&G CAPITAL ACCOUNT 922	ADJUST BELOW THE LINE	ADJUST AFFIILATE	TOTAL	FACTORS
OPERATIONS AND MAINTENANCE	481,246	78,616	559,862	0	0	0	559,862	58.99
ADMINISTRATIVE & GENERAL	60,436	737	61,173	(10,000)	(3,865)	534	47,842	5.04
BENEFITS & PAYROLL TAXES (1)	0	24,242	24,242	0	0	0	24,242	2.55
CAPITAL	220,862	80,290	301,152	10,000	0	0	311,152	32.78
AFFILIATE	744	790	1,534	0	0	(534)	1,000	0.11
BELOW-THE-LINE	1,017	118	1,135	0	3,865	0	5,000	0.53
TOTAL	764,305	184,793	949,098	0	0	0	949,098	100.00

NOTE: A&G STUDY AMOUNTS ARE APPROXIMATIONS

NOTE (1): PG&E INCLUDED THIS AMOUNT IN LABOR CLEARING EXPENSE IN OC-418. OVERLAND ACCEPTED THAT TREATMENT PENDING ADDITIONAL INFORMATION

SOURCE: OC-418

Chapter 12
Selected Income Tax Issues

ORA witness Cabrera has primary responsibility for reviewing PG&E's income tax forecasts. Overland reviewed selected income tax issues. This Chapter addresses the following income tax issues reviewed by Overland.

- Hydro and fossil power plant Tax Regulatory Asset amortization
- Capitalized A&G overheads deduction

Summary of Issues

This Chapter recommends the following income tax expense adjustments.

1. PG&E's 2003 deferred income tax expense forecast should be reduced by $23.4 million to reflect a 20-year amortization period for PG&E's fossil and hyrdo power plant Tax Regulatory Asset.

2. PG&E's 2003 current income tax expense forecast should be reduced by $9.7 million to reflect the tax deduction for A&G overheads capitalized on PG&E's books but deducted currently for income tax purposes.

Hydro and Fossil Power Plant Tax Regulatory Asset Amortization

PG&E's 2003 forecast includes $27.558 million in deferred income tax expense to reflect amortization of a hydro and fossil generation "Tax Regulatory Asset."[1] A one dollar increase in deferred income tax expense increases PG&E's revenue requirement by $1.6889.[2] Thus, the amortization increases PG&E's generation revenue requirement by $46.5 million.

The Tax Regulatory Asset reflects amounts receivable from ratepayers for income tax temporary differences that were provided flow-through ratemaking treatment prior to the implementation of electric industry restructuring.

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[1] PG&E Income Tax WP 11-433 and 11-268

[2] 1 / (1-tax rate) = 1 / (1-.4079) = 1.68890

The following discussions of income tax accounting and the regulatory history of the Tax Regulatory Asset are necessary predicates to addressing the issues in this area.

Income Tax Accounting and Ratemaking

The tax rules for the recognition of income and deductions sometimes vary from the accounting rules for recognizing revenues and expenses. As a result, revenues and expenses are sometimes recognized in different years for book and tax return purposes.

PG&E's tax returns and financial statements ultimately reflect the same set of business transactions. As a result, the annual differences between pre-tax book income and taxable income reverse over time. Accordingly, the timing differences are referred to as book/tax temporary differences.

Book/tax temporary differences can receive either flow-through or normalization treatment for ratemaking purposes. Flow-through ratemaking treatment refers to the policy of basing rates on the income tax liability reported on the utility's income tax return for the current year. In other words, under the flow-through method, income tax expense reflects the income recognition rules used for income tax return purposes. From the perspective of accounting theory, the flow-through method can be viewed as cash basis or "pay-as-you-go" accounting.

The alternative to the flow-through method is the normalization method. The normalization method reflects accrual basis accounting. The normalization method recognizes the current and future income tax obligations arising from the revenues and expenses recognized on the utility's current financial statements. In other words, under the normalization method, income tax expense reflects the income recognition rules used for financial reporting purposes rather than the income recognition rules used for tax return purposes. The income tax expenses accrued on the company's books to reflect taxes payable in future years are referred to as "deferred income tax expenses." Deferred income tax expenses are sometimes accrued many years before the taxes are actually paid.

The CPUC has a long-standing ratemaking policy of requiring flow-through ratemaking treatment for temporary differences to the extent permitted by applicable tax laws.[3] The Economic Recovery Act of 1981 required normalization of the federal depreciation

[3] D.59926; D.93848; D.84-05-036 COL 6; D.87-12-063 pages 18 and 21; California Supreme Court, Southern California Gas v. CPUC, 1979 Cal. Lexis 210).

method and life temporary differences for all plant placed into service after December 31, 1980 as a condition of eligibility for accelerated depreciation.[4] The CPUC policy is to provide flow-through treatment for all temporary differences other than Post-1980 federal depreciation method and life differences, with limited exceptions.

Generally Accepted Accounting Principals (GAAP) require normalization accounting for all temporary differences.[5] PG&E records deferred income tax liabilities pursuant to GAAP for temporary differences that receive flow-through ratemaking treatment. GAAP also requires the recognition of regulatory assets and liabilities for differences between the GAAP and ratemaking treatment of temporary differences.[6] The regulatory assets reflect the amounts receivable through rates in future years when the temporary differences reverse and flow-through treatment results in higher revenue requirements for older plant vintages. PG&E refers to the regulatory asset for flow-through items as the Tax Regulatory Asset.[7]

The Tax Regulatory Asset is also referred to as the FAS 109 regulatory asset. FAS 109 is the GAAP pronouncement that requires the normalization of temporary differences. FAS 109 specifically provides for the recognition of the regulatory asset. [8]

Regulatory History

The CPUC determined that the Tax Regulatory Asset for hydro and fossil generation plant was eligible for transition cost recovery in D.97-05-088. The CPUC authorized a four year amortization of the Tax Regulatory Asset in that decision.[9]

The total Tax Regulatory Asset of $619,159,000 was quantified in the CPUC's 1997 audit of generation sunk costs.[10] The amortization was recorded as an entry in PG&E's

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[4] D.93848

[5] FAS 109, Accounting For Income Taxes, paragraphs 8 and 16

[6] FAS 109, Accounting For Income Taxes, paragraph 29 and SFAS 71, Accounting For the Effects of Certain Types of Regulation.

[7] PG&E Exhibit 10 Revised, page 12-4

[8] FAS 109, Accounting For Income Taxes, Paragraph 29

[9] D.97-11-074, page 161

[10] OC-366, Agreed Upon Special Procedures Review of Unrecorded Sunk Costs and Future Costs, Mitchell & Titus and Barrington-Wellesley Group, March 1997, Exhibit PG-1-4.

Transition Cost Balancing Account (TCBA).[11] The amortization transferred the Tax Regulatory Asset from the normal regulatory asset account to the TCBA over the amortization period.

D.97-05-088 includes the following discussion of the Tax Regulatory Asset.[12]

> ...PG&E, Edison, SDG&E, ORA, and TURN were able to reach consensus on property related tax issues....and presented a joint proposal addressing [that] issue....These parties agree that transition cost taxes (also known as regulatory tax receivables) are fully eligible for recovery during the transition period. Parties have also agreed that all property-related regulatory tax receivables or payables will be amortized to zero by the end of the transition period, which will settle all property-related tax benefits or obligations between ratepayers and utilities, except as provided for in the decisions related to Diablo Canyon, Palo Verde and SONGS. Thus, the parties believe that the goals of the Preferred Policy Decision and AB 1890 have been met and that this treatment fairly shares the benefits and costs during the transition period, concludes the obligations between ratepayers and shareholders at the end of the transition period, and accommodates the requirements imposed by taxing authorities.
>
> ....We adopt this stipulation, included in this decision as Attachment 5, and commend the parties for working through these complex issues....

D.97-05-088, Attachment 5, contains the following discussion of the issue.[13]

> Traditionally, the Regulatory Asset and the Deferred Tax Liability have been of equal but opposite amounts. During the CTC period, this relationship will be decoupled as the Regulatory Receivable will be recovered over the CTC period, but the Deferred Tax Liability will unwind naturally. This will have the effect of funding the deferred tax over the CTC period. This funded amount (Regulatory Receivable - Deferred Tax Liability) will earn or pay a return which will be included in the CTC Revenue Requirement.

The transition period for generation costs was January 1, 1998 through December 31, 2001, with the exception of certain nuclear settlements. [14] D.97-05-088 required a four year straight-line amortization beginning on January 1, 1998 and ending on December 31, 2001. PG&E recorded the amortization in 1998, 1999 and the first seven months of

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[11] PG&E Electric Tariffs, Preliminary Statement, Section AV.6.b.2.a

[12] D.97-11-074, page 164

[13] D.97-11-074, Attachment 5, page 6, footnote 7.

[14] D.97-11-074, page 8

2000. In August 2000, PG&E completed the amortization of the Tax Regulatory Asset on an accelerated basis pursuant to Section 6.C, Accelerated Costs Section, of its TCBA. The accelerated completion was based on PG&E's position that it had fully recovered all of its generation-related transition costs at that time. [15]

PG&E has subsequently determined that the actual amortization occurring in 2000 was the regular annual straight-line amortization of $155 million. PG&E also maintains that no amortization occurred in 2001.[16] Data Request OC-364 asked PG&E to explain why the amortization was zero in 2001. PG&E's response states:

> Assembly Bill ABx1-6 rededicated PG&E's generation assets to public service at least through 2006. As a result of that action, CPUC Decision 02-04-016 set an interim revenue requirement for Utility Retained Generation for 2002, based on net book values as of December 30, 2000. Therefore, amortization for 2001 was zero.

The CPUC adopted an interim 2002 revenue requirement for PG&E's retained generation facilities in D.02-04-016. That decision adopted a cost-of-service based approach for setting retained generation revenue requirements. The interim rates were adopted on an expedited basis. The Decision states:[17]

> Typically, a Commission proceeding addressing utility costs consumes substantial time analyzing the reasonableness of such costs. However, the current energy situation has required expeditious preparation of forecasts by the utilities and a similar rapid review by staff, interveners, and the Commission. Normally parties have a greater amount of time to perform discovery and analyze other parties' presentations. Thus, as a consequence of time constraints, the costs presented have undergone a less thorough review than normal. As most parties have stated, the expedited nature of the proceeding has significantly affected the reliability of the data presented at the hearings.

D.02-04-016 adopted a December 2000 rate base for practical reasons. The Commission was concerned about the accuracy and reliability of the forecasts presented by PG&E.[18] The hearings were held in August 2001 and December 2000

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[15] PG&E, 2001 Annual Transition Cost Proceedings, Testimony, page 3-5

[16] OC-366 and OC-364

[17] D.02-04-106, page 6

[18] D.02-04-016, pages 18, 62 and 79 and FOF 7, 8 and 9

recorded amounts were the most recent recorded year-end amounts available at that time. [19]

D.02-04-016 does not mention the Tax Regulatory Asset. However, PG&E's testimony in the proceeding contained a brief discussion of the asset. That portion of PG&E's testimony is shown below.[20]

> In Decision 97-11-074, the Commission authorized PG&E to recover its Financial Accounting Standard (FAS) 109 tax regulatory asset for its non-nuclear generation assets, related to the past flow-through of tax benefits to ratepayers in earlier years. This recovery was to occur of the four-year transition period.
>
> After the full collection of the tax regulatory asset, the underlying tangible assets would be fully "normalized." This means that ratepayers would have paid for the total deferred tax liability due to tax authorities. The deferred tax liability arises whenever the net book value of assets exceeds the net tax value, since future revenue related to book depreciation cannot be fully offset by tax depreciation deducted on the utility's tax return. As ratepayers fund this amount, the actual amount funded (rather than the full deferred tax liability) is deducted from rate base to provide ratepayers a return on the funds advanced.
>
> The starting point for the scenarios results in a book value for ratemaking purposes higher than the remaining tax basis of the assets. In turn, this creates a deferred tax liability since collection of the starting point book depreciation will result in revenue that is not offset with a tax deduction.
>
> Since PG&E is collecting the FAS 109 regulatory asset, it treats the non-nuclear generation assets as fully normalized in calculating the revenue requirement. In other words, the full amount of the deferred tax liability is deducted from the net plant balance in computing rate base. However, PG&E has made an adjustment in the calculation of the regulatory asset amortization in Scenarios 2 and 3 to reflect that the FAS 109 regulatory asset has not yet been fully recovered.

D.02-04-106 required PG&E to file an advice letter updating its 2002 revenue requirements amounts consistent with the decision.[21] PG&E filed the required calculations in Advice Letter 2233-E on April 24, 2002. Attachment 4 to that Advice Letter shows a remaining FAS 109 Regulatory Asset balance of $155 million as of

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[19] D.02-04-106 page 3

[20] OC-410

[21] D.02-04-016, OP 8

December 2000, a 10 year amortization period, and 2002 amortization of $15.5 million.[22] The CPUC approved the advice letter on June 12, 2002.[23]

PG&E 2003 Cost Forecast

PG&E proposes a three year amortization of the December 31, 2002 unamortized balance in this GRC. The following table shows PG&E 2003 amortization forecast.

Tax Regulatory Asset 2003 Amortization Per PG&E	
Description	Amount
Total Asset Per D.97-11-074 and Sunk Cost Audit	619,159,000
Amortization Period per D.97-11-074	4
Annual Amortization	154,789,750
Years 1998, 1999 and 2000	3
Accumulated Amortization 12/31/00	(464,369,250)
Unlocated Difference	234,314
Accumulated Amortization 12/31/00 Per PG&E	(464,134,936)
Year 2002 Amortization (10 year)	(15,502,406)
Accumulated Amortization 12/31/02	(479,637,342)
Unamortized Balance 12/31/02	139,521,658
Forecast Amortization Period (2003 to 2005)	3
2003 Amortization	46,507,219
Tax Factor (1-.40746)	0.59254
2003 Amortization - Deferred Tax	27,557,388
Source: OC-366 and PG&E Tax WP 11-434	

The amortization period proposed by PG&E reflects the three year GRC cycle. [24] The CPUC has not approved the three-year amortization period proposed by PG&E. [25]

PG&E's GRC application reflects (1) the Tax Regulatory Asset amortization and (2) full income tax normalization for all fossil and hydro generation temporary differences.[26]

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[22] OC-410

[23] OC-410

[24] OC-364

[25] Wedlake interview

[26] Wedlake interview

After completion of the regulatory asset amortization, all fossil and hydro temporary differences will be fully normalized.

The CPUC's long-standing policy is to require flow-through treatment for temporary treatment to the extent permitted by tax laws. PG&E proposes full normalization treatment for its fossil and hydro generation assets on a prospective basis for practical reasons. Approximately 78% of the regulatory asset has been charged to TCBA and is not eligible for recovery through the prospective URG revenue requirement. As a result, that portion of the previous regulatory asset can not be recognized and most of the fossil and hydro plant temporary differences must be accounted for on a normalization basis. The most straight forward approach is to complete the regulatory asset amortization and use normalization accounting for all fossil and hydro temporary differences on a prospective basis. [27]

PG&E's proposed Tax Regulatory Asset amortization raises the following issues.

- Are the Tax Regulatory Asset costs eligible for cost recovery in this GRC?
- Was the amortization completed prior to the beginning of the 2003 test year?
- If the amortization has not been completed, what amortization period should be used in 2003?

<u>GRC Eligibility</u>

D.02-04-016 specifically rejected including past expenses in the determination of prospective retained generation revenue requirements. The Decision states:[28]

> In this phase of the rate stabilization proceeding (RSP), both PG&E and Edison have sought recovery of past expenses incurred during the rate freeze in the URG revenue requirement. The recovery of "past expenses" is a distinct issue from establishing a prospective URG revenue requirement. We affirm ALJ DeUlloa's July 2001 rulings in which he ruled among other things that:
>
> > The scope of evidentiary hearings set to begin on July 23, 2001, is the determination of utility retained generation asset (URG) revenue requirements. Issues concerning stranded cost recovery or the end of the rate freeze will not be addressed.

[27] Wedlake interview

[28] D.02-04-016, page 5

> Although we adopt a URG revenue requirement that does not include past expenses, this decision does not preclude the possibility of later modifications to the utilities' revenue requirements to account for what were previously considered as stranded or uneconomic cost. In D.02-01-001 we explicitly provided for further consideration of the utilities' recovery of such costs.

The Tax Regulatory Asset was designated as an eligible transition cost in D.97-11-074.[29] PG&E's testimony in this GRC states D.97-05-088 "established the eligibility of the Tax Regulatory Asset as a sunk cost appropriate for amortization through the Transition Cost Balancing Account." [30]

The Tax Regulatory Asset was an approved transition costs that was at risk of non-recovery during the transition period. PG&E's fossil and hydro plant is now subject to cost-based ratemaking on a prospective basis. Overland has not analyzed the issues raised by the transition from at-risk recovery of uneconomic generation costs to cost-of-service ratemaking. Those issues should be addressed within a comprehensive and consistent policy framework. Developing that framework is outside of the scope of this GRC.

The CPUC has not addressed the disposition of unrecovered transition costs existing at the end of the rate freeze. D.02-01-001 states:[31]

> Further proceedings will address the impact of AB 6X on the AB 1890 rate freeze paradigm, and the actual end of the rate freeze...We must also determine the extent and disposition of stranded costs left unrecovered, and will address this in proceedings subsequent to our determinations regarding the rate freeze.

The policies adopted in those proceedings will have a direct bearing on the treatment of unamortized Tax Regulatory Assets. Therefore, deciding the ratemaking treatment of unamortized Tax Regulatory Assets in this GRC would arguably be premature.

The ratemaking treatment of the Tax Regulatory Asset arguably should be deferred to the future proceedings provided for in D.02-01-001. Deferring the issue to future proceedings would reduce PG&E's 2003 deferred tax expense forecast by $27.6 million.

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[29] OC-364

[30] PG&E Exhibit 10 Revised page 12-4

[31] D.02-01-001, page 25

PG&E's testimony in the 2002 URG proceeding referred to a FAS 109 regulatory asset that had not been fully recovered under two of the three scenarios it presented in that case. PG&E's approved 2002 interim URG revenue requirement includes amortization of the Tax Regulatory Asset over a ten year period. The 2002 URG revenue requirement was adopted on an expedited basis. The cost data presented in that proceeding underwent a less through review than normal.[32] The 2002 URG revenue requirement is subject to true-up based on actual costs.

D.02-01-016 does not mention the Tax Regulatory Asset. PG&E's testimony on the issue was brief and somewhat vague. Therefore, the inclusion of the Tax Regulatory Asset in PG&E's adopted 2002 URG interim revenue requirement arguably should not be given significant weight. However, in deference to the adopted 2002 interim URG revenue requirement, Overland accepted PG&E's premise that the Tax Regulatory Asset is eligible for GRC recovery.

Unamortized Balance

The CPUC required a four year amortization of the Tax Regulatory Asset ending in December 2001. That amortization transferred the Tax Regulatory Asset to the Transition Cost Balancing Account. The CPUC has not modified the provisions of the TCBA that require the four year amortization. [33]

PG&E claims the adoption of Assembly Bill X1-6 in January 2001 terminated the amortization. D.02-01-001 was issued on January 2, 2002, almost a year after the passage of AB X1-6. That decision addresses issues related to the three-cent per kilowatt hour surcharge granted in D.01-03-082 and TURN's accounting proposal concerning transition costs. D.02-01-001 states:[34]

> According to the Utilities there is no chance for future transition cost recovery because they cannot sell their plants pursuant to AB 6X, and generation revenues no longer go directly towards transition cost recovery. They further contend that the California Procurement Adjustment (CPA) mandated by AB 1X eliminates any further opportunity for headroom.
>
> Depending on when the rate freeze ended, there are still possibilities for transition cost recovery. While it is true that the Utilities cannot now sell their

[32] D.02-04-016, page 6

[33] OC-149, Preliminary Statement, Transition Cost Balancing Account, Sec. AV.6.B.2 a.

[34] D.02-01-001, page 11.

> generation plants, if these plants return to cost of service regulation to some extent their value can be recovered through rates. Moreover, contrary to the Utilities' assertions there has been headroom in the TCBA again in recent months since wholesale energy prices have significantly decreased. In addition, the CPA itself does not have any direct impact on headroom. We also note that other forms of compensation are possible and have not yet been foreclosed in the event that we find compensation is warranted.

D.03-02-028, issued on February 13, 2003, addressed PG&E's Annual Transition Cost Proceeding (ATCP) for the period from July 1, 2000 through June 30, 2001. That decision does not contain any discussion of regulatory asset amortization. PG&E's ATCP testimony indicates the Tax Regulatory Asset Amortization was completed in August 2000. D.03-02-208 approves the entries PG&E recorded in its TCBA account during the annual period, with limited exceptions.[35] Those exceptions are not related to the Tax Regulatory Asset.

The interim URG revenue requirement adopted in D.02-04-016 covered the period January 2002 through December 2002. The CPUC has not adopted a retained generation revenue requirement for the year 2001. The CPUC mandated amortization period for the Tax Regulatory Asset ended on December 31, 2001. The CPUC has not modified the mandated amortization period. Therefore, the regulatory asset amortization was arguably completed in 2001 and no further amortization is necessary. However, out of deference to the adopted 2002 URG interim revenue requirement, Overland accepted PG&E's premise that the Tax Regulatory Asset amortization has not been completed.

Amortization Period

If the Tax Regulatory Asset is eligible for GRC recovery and an unamortized balance existed at the beginning of the 2003 test year, an appropriate amortization period must be determined

The CPUC's policy is to require flow-through ratemaking for temporary differences to the extent permitted by tax laws. The tax laws do not require normalization treatment of any of the temporary differences reflected in the Tax Regulatory Asset.

The amortization period should, to the extent practical, reflect the CPUC income tax ratemaking policy. Under the CPUC policy, the Tax Regulatory Asset would be recovered from ratepayers as the flow-through temporary differences reverse over the

[35] D.03-02-028, COL 1

remaining book lives of the assets. The remaining book life of PG&E's hydro plant averages 23 years.[36] The remaining life for PG&E's fossil plant averages 3 years. However, the fossil plant only accounts for 9% of the combined fossil and hydro original cost as of December 31, 2001.[37] Overland recommends an amortization period of 20 years. That amortization period is based on the remaining lives of PG&E's fossil and hydro generation plant.

Overland recommends the following adjustment to reflect a 20 year amortization of the Tax Regulatory Asset.

Tax Regulatory Asset Amortization Per Overland Deferred Tax Expense	
Description	Amount
Unamortized Balance Per PG&E - 12/31/2002	139,521,658
Amortization Period	20
Annual Amortization	6,976,083
Tax Factor	0.59254
Amortization - Deferred Tax Level	4,133,608
Amortization Per PG&E	27,557,388
Adjustment to Deferred Tax Expense	(23,423,780)
Source: PG&E Tax WP 11-269	

PG&E's three year amortization period reflects the GRC cycle. Fossil and hyrdo power plant deferred income tax expenses are not a function of the frequency of GRCs. PG&E's proposed three year amortization period should be rejected because it is arbitrary and inconsistent with the underlying costs and the CPUC's income tax policies.

The adopted 2002 URG interim revenue requirement reflects a ten year amortization period. PG&E's testimony in the 2002 URG proceeding did not contain any support for the ten year amortization period. The ten year amortization period is arbitrary and inconsistent with the CPUC's income tax policies. However, the ten year amortization period is more reasonable than the three year period proposed by PG&E. The ten year amortization period should be considered if Overland's primary recommendation of a 20 year amortization period is rejected.

[36] OC-360, PG&E May 1, 2002 Annual Depreciation Letter to the CPUC

[37] OC-360, PG&E May 1, 2002 Letter, excludes land

Capitalized A&G Overheads Deduction

Prior to 2000, PG&E generally capitalized the same amount of A&G overheads for both book and tax purposes.[38] In December 2000, PG&E made an election that allows it to deduct certain A&G overheads that are capitalized for book purposes.[39]

PG&E's 2001 Tax Return Workpapers contain a three page background document that describes the change made in 2000. The **Confidential** document includes the following description of the change. [40]

(REDACTED)

[38] OC-409-1, Attachment 2. Note: general comment does not apply to vintages prior to 1987.

[39] OC-263, page 717 - **Confidential**

[40] OC-263, page 717 - **Confidential**

IRC Section 481 (a) allows PG&E to retroactively adopt the de minimis rule for the period 1989 through 1999. The **Confidential** background paper contains the following description of the Section 481 adjustment.[41]

(REDACTED)

The total retroactive deduction allowed under the Section 481 (a) adjustment is **(REDACTED)**. Under Section 481 (a) the retroactive deduction is recognized on a straight line basis over the four years 2001 through 2003. The amortization in 2003 is **(REDACTED)**.[42]

The A&G overheads capitalized temporary difference is a flow-through difference. [43] The current deductibility of A&G costs that are capitalized on the books reduces income taxes currently payable to the government.

PG&E's 2003 current income tax forecast does not reflect any deduction for the A&G overheads that can be deducted under the de minimis rule. [44] The failure to forecast that deduction is an error that directly overstates current income tax expense.

PG&E did forecast a basis difference for A&G overheads for the 2003 vintage year of plant additions in its tax depreciation calculations.[45] That basis difference reduces the tax basis of the plant and the related tax depreciation deducted in the current income tax calculation. The decreased tax depreciation increases taxable income and does not

[41] OC-263, page 718 - **Confidential**

[42] OC-263, page 737 - **Confidential**

[43] For example, see D.87-12-063, pages 18 through 21

[44] Wedlake interview and PG&E Income Tax WP pages 11-56, 11-59 and 11-62

[45] OC-266, Attachment OC-266-01-2, page B.1.e

correct or offset the failure to deduct the A&G costs in the current income tax calculation.

PG&E's 2003 forecast of the A&G overheads tax basis difference for current year plant additions is $12.5 million.[46] That current year basis difference does not include the 2003 Section 481 (e) deduction of **(REDACTED)**.

Overland recommends the following total company level adjustment to 2003 current income tax expense to reflect the proper A&G overheads deduction.

(REDACTED)

The recommended forecast adjustment corrects PG&E's failure to deduct capitalized A&G overheads pursuant to the de minimis rule.

[46] Attachment OC-409-01-2 and Attachment OC-266-01-2, page B.1.e