



**Pacific Gas and
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VIA EMAIL

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Commission President Michael Peevey
Commissioner Michael Florio
Commissioner Catherine Sandoval
Commissioner Timothy Alan Simon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Commission President Peevey and Commissioners Florio, Sandoval, and Simon:

I am writing on behalf of Pacific Gas and Electric Company to express PG&E's strong opposition to Draft Resolution L-411, as most recently revised and posted on the Commission's website on March 7, 2011 ("Fourth Draft Resolution"). This resolution should be rejected (or substantially modified) for two reasons.

First, PG&E's 2011 GRC Settlement, which was executed by the parties *after* the Small Business Act, includes results of operations tables that do not reflect PG&E's additional capital spending in 2009 and 2010 or the tax effects of the Small Business Act. Thus, either *both* the additional capital spending and the Small Business Act must be considered or *neither* must be considered. By cherry-picking and reflecting only the item that reduces rate base (*i.e.*, the Small Business Act), as the Fourth Draft Resolution proposes to do, the Commission would be adopting ratemaking that is patently unjust and unreasonable for PG&E. This one-sided approach would effectively result in an authorized rate base for 2011 that is far below PG&E's actual rate base.

Second, the Fourth Draft Resolution will impair PG&E's ability to enhance its capital investment program so as to maximize customer benefits and help create jobs consistent with the intent of both the Small Business Act and New Tax Law. Specifically, the Fourth Draft Resolution's requirement that PG&E file an application or Tier 3 advice filing to identify specific projects, sources of funding, and need for the incremental projects fundamentally misconstrues the nature of the capital budgeting process for a large utility such as PG&E, especially for mass asset spending (such as pole and transformer replacement). As PG&E has repeatedly emphasized, substantial lead time and advance planning is required to actually implement increased capital spending, and time is of the essence to enable PG&E to take advantage of the New Tax Law's benefits, which for capital spending sunset in part on December 31, 2011 and in whole, on December 31, 2012.

PG&E recognizes that the Commission has an interest in reviewing the capital investments of the utilities that it regulates. The Commission has ample authority to do so as part of the GRC process. In addition, in the proposed decision and alternate proposed decision in

PG&E's 2011 GRC, the Commission has taken the added step of requiring PG&E to provide annual reports comparing its actual spending by Major Work Category against its proposed budgets – a significant new requirement that PG&E will not oppose. By requiring PG&E and other utilities to file an application or detailed Tier 3 advice letter in advance of making any capital investment to take advantage of the New Tax Law, the Fourth Draft Resolution effectively defeats the purpose of the legislation and threatens to deprive customers of much-needed tax stimulus dollars that could be used to improve the state's utility infrastructure, create jobs, and boost the economy.

For the foregoing reasons, PG&E urges the Commissioners to reject the Fourth Draft Resolution outright in order to send a clear message to utilities and the financial community that the Commission encourages the additional investment in capital infrastructure that the New Tax Law and Small Business Act were intended to spur. As a lesser alternative, PG&E requests that the Fourth Draft Resolution be held in order to incorporate significant revisions to reflect the concerns described above.

Very truly yours,



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