Pacific Gas and Electric Company®

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VIA EMAIL AND, TO NAMED RECIPIENTS, HAND DELIVERY
April 26, 2011

Commission President Michael Peevey
Commissioner Mark Ferron
Commissioner Mike Florio
Commissioner Catherine J. K. Sandoval
Commissioner Timothy Alan Simon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Application 09-12-020

Dear Commissioners:

I am writing on behalf of Pacific Gas and Electric Company (PG&E) as a follow-up to several matters relating to retired meter costs that were discussed at the All-Party Meeting in Phase 1 of PG&E's General Rate Case (GRC) held by Commissioners Sandoval and Ferron on April 20, 2011. We greatly appreciate the Commissioners' willingness to consider PG&E's concerns regarding the appropriate return to be authorized on retired assets when the Commission encourages utility assets to be replaced and finds the replacement to be cost effective.

At the meeting, PG&E representatives made reference to various materials that help to illustrate or explain PG&E's position on the proper treatment of the retired meter costs. With this letter, we are providing copies of the following materials:

1. Pacific Bell Decision, with markings (Tab A). During the meeting parties discussed the attached Pacific Bell decision (see marked portions) that addressed the problem of early retirements of equipment and stranded costs that resulted from those early retirements. The marked pages show that to the extent the early retirements were attributable to technological change, and not due to affirmative marketing practices of Pacific Bell and its affiliates (called "migration" strategies), the utility would continue to earn a full return on the stranded costs from the early retired assets. PG&E believes that concerning the current situation of utility replacements made on account of technological change, the Pacific Bell decision is the closest to being on point.

2. An early CPUC ruling and PG&E ratemaking testimony from two PG&E advanced metering proceedings, with markings (Tab B). At the meeting we also discussed an early ruling in the Commission's investigation regarding advanced metering that ordered the

utilities -- in their applications setting forth advanced metering proposals -- to identify how they planned to treat the retired meters from a ratemaking standpoint. (The applicable portion of this ruling is so marked.) In response to that request, in both PG&E's initial SmartMeter proceeding and PG&E's SmartMeter Upgrade proceeding, PG&E proposed to treat the retirements as an ordinary retirement with no reduction to net plant (i.e., rate base). The various places where the retirement of the meters was identified and discussed in PG&E's testimony are marked. PG&E's proposal engendered no controversy in either proceeding and was adopted.

3. <u>Excerpts from cross-examination by a consumer group in Southern California Edison's GRC two months before the hearings on PG&E's SmartMeter Upgrade (Tab C).</u> As discussed at the meeting, at least one consumer group has understood the utilities' proposals for some time, despite the fact that this group waited until after the investment was made to object to PG&E's proposed treatment. The attached cross-examination took place in June 2008, prior to the hearings on PG&E's SmartMeter Upgrade during which no such concerns were raised.

4. <u>Copies of PG&E's initial SmartMeter and Upgrade Decisions, marked to show the incremental cost-benefit analysis that justified replacement of the existing meters (Tab D)</u>. The purpose of this incremental cost-benefit analysis was to show that on an incremental present value revenue requirement ("PVRR") basis that the revenue requirements for the new meters (i.e., the incremental cost to customers) would be offset by incremental savings to customers that would also be reflected in rates (i.e., reduced meter reading costs and other savings). The adopted incremental PVRR cost-benefit analysis in both SmartMeter proceedings reflected a litigated outcome. In addition, the adopted incremental analysis reflected the approach that sunk costs (i.e., the cost of the existing meters) would be treated on a status quo basis (i.e., that even though the meters were being retired they would continue to be included in rate base). Had it been intended that the rate base treatment of the existing meters was to change, then that change should have appeared in the incremental cost-benefit analysis for customers.[1] For context, the incremental business analysis that was used to justify replacing the existing meters had been established earlier in the Commission directed investigation referenced in item 2 above.

[1] In contrast, PG&E did provide that the tax benefits that were derived from early retirement (write-off) of the existing meters would be passed through to customers by a *reduction* to rate base. It would be fundamentally inconsistent to eliminate (or reduce) rate base recovery for retired meter costs while at the same time conferring on ratepayers (through a rate base *reduction*) the tax benefits derived from an immediate write-off of those same retired meter costs.

We hope these materials are helpful and should you have any questions please call.

Very truly yours,

/s/

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cc : Mark S. Wetzell
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All Parties on Service List A.09-12-020