PG&E Letter to Commissioners on Draft Resolution L-411
(Dated April 8, 2011)

APPENDIX B

PG&E's Edits to TURN's Alternative Approach Criteria

- The Commission should identify the types of infrastructure replacement projects that it most wants to encourage, which would typically be the types of projects included in general rate case-type (*e.g.*, GRC or GT&S) applications. For example, for the electric utilities, projects would include proactive replacement of poles and underground cables, replacement of existing substation transformers that are over 50 years old or that otherwise require replacement based on reasonable engineering assessments, and work to improve the reliability of the worst-performing or highest priority distribution circuits on their system based on reasonable engineering assessments.[3] For gas utilities, projects would include accelerating existing programs of distribution pipeline replacement, replacement of the riskiest or highest priority gas transmission lines based on reasonable engineering assessments, and installing "smart pigs" in gas transmission lines.
- The property that the investment is made in must be CPUC-jurisdictional (i.e., no electric utility can spend the money on FERC jurisdictional transmission).
- For ~~dual-fuel~~ utilities that provide both gas and electric services, at least 90% of the incremental investment amount must ~~not exceed~~ be attributable to the tax benefits associated with ~~the specific electric or gas~~ that particular service function (i.e., SDG&E and PG&E ~~cannot~~ must generally use ~~spend~~ electric system tax benefits to invest in their electric systems and gas system tax benefits to invest in their gas systems).

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[3] Costs associated with hooking up new customers or serving increasing customer demand in the normal course of business would not be within this category. Such spending is not "infrastructure replacement" but rather "infrastructure additions."

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- The property that the investment is made in must itself be eligible for bonus depreciation (determination of whether an investment is eligible for bonus depreciation shall be made based on the same criteria as determination of whether tax benefits are the result of bonus depreciation, and will be based on IRS guidance).[4] [5]
- At least 90% of ~~The property that~~ the investment ~~is made in~~ must have a tax depreciable life of at least 15 years (to ensure most of the spending is on assets where accelerated depreciation has the most value to ratepayers), and any remaining investments must be ancillary to such investments.
- The spending must not provide generation capacity at a new plant.[6]

[4] This means that a type of investment is not to be treated as an incremental investment unless it is also treated as the type of item that generates a bonus depreciation tax benefit.

[5] This criterion is intended to prevent the tax benefits form being spent on real estate or software, except as permitted under the 10% cap for "ancillary" investments.

[6] PG&E has a number of small hydroelectric generation projects that are controversial and, in TURN's view, should not be funded with the tax benefits. Both this provision and the 15-year minimum would also prevent additions to utility photovoltaic programs previously approved in separate applications.