STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

June 3, 2011

TO PARTIES OF RECORD IN APPLICATION 09-12-020, INVESTIGATION 10-07-027

At the Commission Meeting of May 5, 2011, Commissioner Timothy Alan Simon reserved the right to file a concurrence in Decision 11-05-018. The decision was mailed on May 13, 2011.

The concurrence of Commissioner Timothy Alan Simon is now available and is attached herewith.

/s/ KAREN V. CLOPTON
Karen V. Clopton, Chief
Administrative Law Judge

KVC:oma

Attachment

Concurrence of Commissioner Timothy Alan Simon
Decision on Pacific Gas and Electric Company Test Year 2011
General Rate Increase Request

I offer my support for this Decision,[1] as it takes a fair and balanced approach to cost recovery for the only contested issue outside of the Settlement Agreement in this proceeding. The challenging issue of the appropriate treatment of the estimated $341 million[2] in plant balance for retired electromechanical meters revolves around our interpretation of prior Decisions addressing analogous plant retirements. However, even as the Proposed Decision offers a comprehensive case history offered for support of parties' positions, there are unique elements in this particular case that warrant a somewhat creative solution.

Cause and Cost-effectiveness of SmartMeters

By adopting a 6.3 percent rate of return,[3] this Decision basically splits the 169 basis point difference (1.69 percent) between the Proposed Decision and the original Alternate Proposed Decision in their respective 5.73 percent and 7.42 percent proposed returns on the undepreciated plant balance. Thus, the modifications to the Alternate Proposed Decision resulted in an adopted decision that gives PG&E a very fair return on ratebase on their undepreciated balance for electromechanical meters over the 6 year amortization period. Most importantly, this change was discussed openly and adopted by Commission majority vote after deliberation at the May 5, 2011 Commission meeting.

As noted in the Alternate PD, this Commission issued policies that caused the Smart Meter deployment, leading to the early retirement of the electromechanical meters. Consistent with prior Commission Decisions, this Decision compresses the amortization period into fewer years than requested so as to reduce the impact of the decision point of whether PG&E should earn a rate of return.[4] Thus, shareholders get full recovery of the undepreciated plant balance while ratepayers pay less for rate of return over the proposed 6 year amortization period than they would under PG&E's proposed 18 year period.

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1 Decision on Pacific Gas and Electric Company Test Year 2011 General Rate Increase Request (D.11-05-018), May 5, 2011.
2 *Id.* at 43.
3 *Id.* at 62-63. D.11-05-018 authorizes a return on equity (ROE) of 6.55%, which results in an after tax return of 6.3%.
4 *Id.* at 42-49.

Concluding Thoughts

In addition, since the Smart Meter program was deemed cost-effective insofar as it will provide net benefits to ratepayers over the long term, it is critical that we send the proper signal to investors about future technology replacements. Thus, this decision adopts a rate of return on undepreciated plant that is below PG&E's authorized rate of return and return on equity, but higher than the embedded cost of long term debt. And while it is true that PG&E is earning a full return on its SmartMeters simultaneously, I believe this Decision's modified return on the retired meters represents a fair compromise between the competing interests and policy goals in this proceeding.

Dated May 31, 2011, at San Francisco, California.

/s/ TIMOTHY ALAN SIMON
Timothy Alan Simon
Commissioner