California Public Utilities Commission
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CPUC APPROVES PHASE 1 GENERAL RATE CASE FOR PG&E

SAN FRANCISCO, May 5, 2011 - The California Public Utilities Commission (CPUC) today adopted a settlement in Phase 1 of Pacific Gas and Electric Company's (PG&E) General Rate Case (GRC), which deals with PG&E's overall revenue requirements. The settling parties include PG&E, The Utility Reform Network (TURN), the CPUC's Division of Ratepayer Advocates, and 14 other parties to the proceeding.

In its GRC application, PG&E requested an increase of more than $1 billion for 2011, 19 percent higher than their currently authorized revenues. This increase would have been followed by increases of roughly $300 million in 2012 and 2013. In contrast, the settlement approves a $395 million increase in 2011, less than 40 percent of the amount requested by PG&E. The additional increases for 2012 and 2013 are also lower under the terms of the settlement – $180 million in each year instead of $300 million. The settlement raises 2011 revenues for the categories covered in Phase 1 of this GRC by 7 percent compared to the currently authorized level, or about 3 percent compared to PG&E's total electric revenue requirement.

In addition to resolving the revenue requirements, the settlement agreement includes other provisions. PG&E will pay for an independent audit of its Smart Meter-related costs, to be overseen by the CPUC; the fee for non-sufficient funds will be lowered to $9 from the current level of $11.50; and PG&E will file an application by the end of the year to comprehensively reassess all of its fees related to Direct Access and Community Choice Aggregation.

Today's decision also imposes two reporting requirements on PG&E. The first is a semi-annual pipeline safety report on PG&E's natural gas distribution system, which will provide detailed descriptions of capital projects related to distribution pipeline safety. The second new requirement is an annual report that will explain discrepancies between budgeted and actual expenditures on electric generation, electric distribution, and natural gas distribution projects. These annual reports require PG&E to explain why projects are deferred or reprioritized and indicate what projects were completed instead of the projects initially identified in their annual budgets. The reports will help the CPUC, and other interested parties, ensure that the funds approved for these types of projects are used for their intended purpose.

The ratemaking treatment for old PG&E meters replaced by Smart Meters remains contested by the participating parties. At the beginning of 2011, PG&E's unrecovered balance on the old meters was approximately $340 million. This stock of meters had, on average, an expected useful life of 18 years, over which PG&E would have received a return on its investment if they were not replaced by Smart Meters. PG&E and TURN both agreed in the settlement that PG&E should receive $19 million per year to pay off the $340 million balance over 18 years. They disagreed over the ratemaking treatment of that balance. PG&E argued that the remaining balances in each year should receive the full rate of return, currently set at 8.8 percent. TURN argued that because the old meters are no longer used and useful, the balance should receive no return at all.

Today's decision rejects both positions because they are inconsistent with the CPUC's precedent and do not reflect a fair division of costs between ratepayers and shareholders. When long-lived assets are retired prematurely, in most cases the CPUC has significantly accelerated cost recovery for shareholders, generally to four or five years. Today's decision reduces the 18-year amortization period to six years, which increases the total annual revenue requirement by nearly $38 million, or 0.3 percent.

"When deciding on the appropriate rate of return for prematurely retired assets, it is important to consider the reason the asset has been prematurely retired and the cost implications of the early retirement on ratepayers. In this case, PG&E and the other utilities were encouraged to submit applications to upgrade their meters in order to achieve key state policy goals such as enhancing grid reliability, implementing demand response programs, and encouraging customers to shift load to offpeak hours. Moreover, Smart Meters were found to yield net benefits for customers; therefore there is no cost burden to be shared between ratepayers and shareholders," said CPUC President Michael R. Peevey, adding that because money loses value over time, a zero rate of return actually imposes a cost on PG&E.

Today's decision grants PG&E an overall rate of return on the old meters of 6.3 percent, about 2 and a half percent less than the full rate of return. This has the effect of raising the total revenue requirement by $17.3 million, or 0.1 percent, and increases an average monthly residential bill of $90 by approximately 9 cents.

The proposal voted on is available at http://docs.cpuc.ca.gov/word_pdf/AGENDA_DECISION/134542.pdf.

For more information on the CPUC, please visit www.cpuc.ca.gov.

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