Decision **PROPOSED DECISION OF ALJ COOK (Mailed 8/19/2005)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Recovery of Pre-Deployment Costs of the Advanced Metering Infrastructure Project (U 39 M)	Application 05-03-016 (Filed March 15, 2005)

(List of Appearances is attached as Appendix A.)

DECISION APPROVING LIMITED PRE-DEPLOYMENT FUNDING FOR PACIFIC GAS AND ELECTRIC COMPANY'S ADVANCED METERING INFRASTRUCTURE PROJECT

1. Summary

This decision approves a limited amount of pre-deployment funding for Pacific Gas and Electric Company's (PG&E) proposed Advanced Metering Infrastructure (AMI) Project. The adopted amount of $7.0 million is less than the $49 million requested because it is limited to funding associated with activities to assess minimum functionality and investments that would provide value to ratepayers independent from the decision on whether ratepayers should invest in PG&E's proposed AMI Project. It would not be reasonable for ratepayers to fund the other activities that make up the $49 million request in advance of the determination that the proposed AMI Project is reasonable in total. This decision adopts specific ratemaking and cost recovery treatment for the authorized funds and continues PG&E's existing memorandum account to enable PG&E to record costs for activities that are not authorized in today's decision.

2. Background

On March 15, 2005, PG&E filed the instant application, seeking authorization to spend up to $49 million over six months for pre-deployment costs for its proposed AMI Project. The application also requested approval of specific ratemaking and cost recovery treatment for its pre-deployment expenditures.

On May 18, 2005, Assigned Commissioner Peevey issued a ruling laying out his approach to the case. The ruling required PG&E to file supplemental testimony on minimum functionality issues on May 31, 2005. Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), the County of Yolo and the Cities of Davis, West Sacramento and Woodland (jointly, Yolo County Parties), Silicon Valley Leadership Group (SVLG), and Hunt Technologies, Inc. served testimony on June 13, 2005. PG&E and SVLG served rebuttal testimony on June 17, 2005.

A prehearing conference was held on June 23, 2005. Two days of evidentiary hearings were held on June 27 and 28, 2005. Opening Briefs were filed by PG&E, TURN, ORA, Yolo County Parties, and South San Joaquin Irrigation District (SSJID). Reply Briefs were filed by PG&E, TURN, ORA, and SSJID.

3. Outstanding Procedural Matters

The Administrative Law Judge (ALJ) identified exhibit numbers for two late filed exhibits on the last day of evidentiary hearings, Exhibits 5A and 302. Without objection these exhibits were received into evidence as of August 1, 2005.

On July 28, 2005, ORA filed a motion to file its opening brief one day out of time. ORA was unable to file by the July 27, 2005 deadline due to a combination of human and computer error. Although the deadline for reply briefs was extremely tight, in light of the fact that ORA notified all parties that its brief would be late and served it by email upon all parties by 3:00 p.m. the following day, the motion to accept the late-filed brief should be granted.

We affirm all rulings made by the ALJ up to this point in the proceeding. To the extent that any motions remain outstanding, all such motions are denied.

4. The Positions

At their heart, the positions of parties are fairly simple. PG&E believes that it has satisfied the minimum functionality criteria specified by Commissioner Peevey's May 18, 2005 Ruling, has conducted a thorough due diligence process to develop its project, and has proposed an appropriate scope and scale for pre-deployment activities, which honor the Commission's objectives related to pursuing AMI and demand response capabilities in a timely manner. In addition, PG&E believes that it has a pending application (A.05-06-028) for a highly cost-effective project, and that even if the exact project it recommends is not ultimately adopted, the Commission will approve some form of AMI for PG&E so that all of the pre-deployment expenditures it proposes will be useful to ratepayers.

TURN and ORA believe that the scope and scale of PG&E's proposed pre-deployment efforts is overbroad and unjustified without a finding that moving forward with AMI is cost-effective. They argue that if the Commission decides that ratepayer funding is not appropriate for PG&E's proposed AMI project, the ratepayers will have paid up to $49 million for an integration effort that has no value to ratepayers unless AMI is deployed.

SSJID and Yolo County Parties are pursuing potential municipalization of certain areas in PG&E's current service territory and seek to limit the AMI pre-deployment and installed metering and communication system costs in the areas where they hope to acquire customers in order to ensure the lowest cost of municipalization possible.

5. Are the Minimum Functionality Criteria Satisfied?

In the May 18, 2005 Ruling, Commissioner Peevey set forth six minimum functionality criteria that the proposed AMI metering and communications system must meet in order for the Commission to consider approving ratepayer funding of pre-deployment activities. The six minimum functionality criteria described in the ruling indicated that the AMI system should:

- be capable of supporting a wide range of price responsive tariffs;
- collect data at a detail level that supports customer understanding of hourly usage patterns and their relation to energy costs;
- allow access to personal usage data such that customer access frequency does not result in additional AMI system hardware costs;
- be compatible with customer education, energy management, customized billing, and complaint resolution applications;
- be compatible with utility system applications that promote and enhance system operating efficiency and improve service reliability, such as remote meter reading, outage management, reduction of theft and diversion, improved forecasting, workforce management, etc.; and
- be capable of interfacing with load control communication technology.[1]

PG&E presented a thorough case in Exhibits 1 and 2 regarding the specifics of how it expects its selected system to meet these six minimum functionality criteria. PG&E notes that the key to meeting these criteria is selection of a system that is sufficiently flexible to respond to changing

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[1] This list is a condensed summary of the list in *Appendix A of the May 18, 2005 ACR*.

regulatory requirements. For example, PG&E identified at least one sub-criteria from the list (the ability to support two part hourly real time pricing rates) as something that can be accommodated but could become significantly more costly to provide than expected, depending upon the complexity of the rate design ultimately selected by the Commission. In addition, PG&E stated that it has not yet begun defining what an energy cost information tool would encompass. Depending upon the definition, such a tool could be more or less costly to implement within the selected AMI system, but there is nothing in the selected system that impedes development of different energy information tools.

ORA points to the PG&E testimony that costs may rise to support different aspects of the functionality criteria as proof that PG&E might not meet the minimum functionality criteria. For example, ORA identifies that PG&E does not currently anticipate providing same day access to hourly usage data for every customer as proof that PG&E may not meet the criteria that the selected system should allow access to personal usage data such that customer access frequency does not result in additional AMI system hardware costs. ORA also appears to find fault with PG&E for not spending a significant amount of time and money testing its system for purposes of assuring that the minimum functionality criteria are met. (ORA Brief, p. 8.)

When asked by the ALJ to explain PG&E's due diligence process to ensure that the system selected met the minimum functionality, PG&E witness Corey explained:

> "[I]n addition to vendor assurances that we can meet all of those [minimum functionality] requirements, we did have conference calls with a number of utilities that have deployed the specific technology that we are looking at. And we've made site visits to two other utilities that deployed similar technology; in one case, exactly the

> same technology. And we're confident in their representations that…these systems can provide the functionality that the Commission requires." (RT 121:26-122:5.)

PG&E has presented a convincing case that the system it has selected will meet the minimum functionality criteria identified by Commissioner Peevey. We do not find it unreasonable that PG&E cannot specify each and every way that costs might be impacted by regulatory approaches (like rate design) that the Commission **might** develop in the future. The system selected appears to be sufficiently flexible to accommodate different approaches to rate design and informational tools. Based on the evidence presented and the due diligence activities that PG&E conducted, we find that PG&E's proposed AMI Project will meet the minimum functionality criteria established by Commissioner Peevey. This finding does not prejudge that the system selected by PG&E is the correct system or best system or provides the best value for ratepayers. These are issues to be decided in A.05-06-028.

6. Should Ratepayers Fund Any AMI Pre-Deployment Activities?

On brief, TURN discusses that historically the Commission ensures that the requirements of Pub. Util. Code § 451 are met by either reviewing proposed programs, deeming them reasonable and authorizing a set amount of costs or allowing for separate accounting of project costs with after the fact reasonableness review.[2] TURN states that "PG&E's request for authority to recover up to $49 million in pre-deployment costs for an AMI project that has yet to be approved, without further reasonableness review and without any analysis

[2] All section references are to the Public Utilities Code unless otherwise indicated.

of cost-effectiveness, contravenes basic Commission regulatory policies …" by forgoing both pre-authorization review of the costs it seeks authority for, and after the fact reasonableness review. (TURN Brief, pp. 1-2.) TURN believes that forgoing this review would not allow the Commission to find that the charges associated with recovery of PG&E's pre-deployment costs are just and reasonable as required by § 451.

TURN also argues that Commission precedent does not support PG&E's request for pre-approval of expenditures in advance of assessment of the cost-effectiveness or reasonableness. TURN points to Decision (D.) 01-04-006 and D.01-07-029 which upheld the proposition that "the burden to demonstrate reasonableness for cost recovery will be on each respondent utility" for emergency reliability programs even in light of the energy crisis that California was suffering from. (See D.01-07-029, p. 3.) TURN indicates that subsequent rulings in A.04-01-009 and A.04-02-026 followed past precedent by rejecting utility requests for pre-approval of cost recovery of certain project components prior to a comprehensive review of the projects as a whole. (TURN Brief, pp. 4-5.)

6.1 Discussion and Conclusion

TURN and ORA appear to argue that because no party has reviewed PG&E's proposed pre-deployment expenditures for reasonableness that the Commission is foreclosed from finding that the expenditures are reasonable. However, PG&E's application clearly stated that it was seeking a finding of reasonableness of its proposed pre-deployment expenditures. The fact that TURN and ORA chose not to evaluate the cost-effectiveness of PG&E's proposed expenditures places the Commission in an awkward position with respect to the robustness of the record, but does not preclude the Commission from independently assessing the expenditures that PG&E has proposed for reasonableness. This argument really goes to the issue of what level of funding should be authorized, not whether funding can or should be authorized, and thus we do not find that it is inherently inappropriate for ratepayers to fund AMI pre-deployment activities.

TURN and ORA argue on policy grounds that it is unwise for the Commission to separate review of the proposed pre-deployment expenditures and scope proposed by PG&E from review of the deployment decision. In essence, they argue that there is no way that the pre-deployment activities will be reasonable unless the Commission approves deployment of AMI, a determination that has not yet been made. Under this reasoning, finding PG&E's proposed pre-deployment costs reasonable requires the Commission to assume that AMI deployment will occur, resulting in prejudgment of the deployment application.

The analogy drawn by TURN to the ruling by the ALJ and Assigned Commissioner in A.04-01-009 (and A.04-02-026) is particularly on point. For example, on page 2 of the *Assigned Commissioner and Administrative Law Judge Ruling Denying Motion Requesting Authorization to Sign Contracts and Recover Cancellation Costs*, the ALJ and Commissioner state:

> "In this application, PG&E is proposing to construct the SGRP [Stem Generator Replacement Project], and is requesting approval of the reasonableness of the SGRP in advance of actual construction. It is also requesting that the Commission set a cost for the SGRP that will carry with it a presumption of reasonableness. Entering into the contracts is one of the first steps in the SGRP."

If you were to replace terms in the above quote that relate to "construction of the SGRP" with "deploying AMI" you would describe PG&E's proposal in this application. Pursuit of the activities PG&E has defined as pre-deployment for its AMI Project are, like signing contracts in the above quote, the first steps in deploying AMI. However, the bulk of these arguments again go to the proper scope and definition of pre-deployment activities, not whether or not <u>any</u> pre-deployment activities should be funded by ratepayers. Therefore, we find that there is no legal impediment to authorizing pre-deployment activities and we will consider the scope of the activities on the merits.

7. If Ratepayer Funding of Pre-Deployment Activities is Allowed, What is the Proper Scope of Pre-Deployment Activities for Funding?

How "pre-deployment" is and should be defined is an important consideration in this case. Because PG&E has already performed its system requirements analysis, request for proposals, evaluation of bidders, and conducted its due diligence, PG&E defines pre-deployment differently than San Diego Gas & Electric Company and Southern California Edison Company who also filed applications for AMI "pre-deployment" funds in March 2005. Because PG&E is farther along in its internal decision making process than the other utilities and believes its proposed investment to be essentially cost-effective on the basis of operational benefits, the activities it has defined as pre-deployment consist of preparing its existing legacy systems to accept data from its proposed AMI system, establishing and testing processes for meter and communication system installation and billing. PG&E witness Corey describes the funding that it requests as "specifically to test the incremental benefits of the technology, and to test the end-to-end data integrity, and to test the installation processes and the other business processes associated with deployment [of AMI]." (RT 75:22-25.) Likewise, witness Vahlstrom describes the activities to be performed during PG&E's defined pre-deployment period as follows:

> "PG&E has long said that the intention of this test is not strictly to test the viability of the technology, but the processes of installing it and that all the hookups can be made properly through all of its systems, and that it will bill properly." (RT 54:18-22.)

PG&E's pre-deployment activities do not consist of a significant amount of testing that the AMI system selected physically works or meets the minimum functionality criteria. Under cross examination by ORA, PG&E witness Vahlstrom stated: "I would say the costs represented by meter deployment [testing] is a small percentage of the [$] 49 million [requested]." (RT 59:12-13.) Meter testing and functionality testing is an activity that both ORA and TURN argue is more appropriate for funding prior to a Commission determination that pursuing AMI is cost-effective for ratepayers. In essence, ORA and TURN argue that pre-deployment costs should, at most, be limited to costs associated with physical testing and minimum functionality analysis.

PG&E argues that the scope of pre-deployment activities it has proposed is appropriate and critical to allow PG&E to be in the position of having "a viable demand response tool in the summer of 2007," which it argues is required by the Commission's demand response goals. (PG&E Brief, p. 1.) PG&E states that the Commission has a clearly articulated goal of implementing the capability for customers to respond to price signals by 2007, citing the vision statement described in D.03-06-032, and that to meet that goal, it must complete its systems integration and testing work that it describes as its pre-deployment activities as promptly as possible. "PG&E believes there is a strong likelihood that the Commission will permit PG&E to move forward with its overall AMI Project. For these reason [sic] and others, there is virtually no risk associated with authorizing PG&E's pre-deployment funding request." (PG&E Brief, p. 5.)

TURN, on the other hand, argues that PG&E's justification regarding meeting the 2007 demand response goals "is unsupportable as a rationale for the level of spending sought for pre-deployment costs." TURN argues that in other proceedings (specifically A.05-06-006, PG&E's 2006-2008 demand response program application) that PG&E is seeking modification of the demand response goals the Commission has established in order to account for the lack of residential participation in demand response programs. TURN also points out that PG&E has adequate resources to meet its 2007 demand, it justifies its AMI deployment plans primarily on the basis of operational savings, not demand response savings, and modifying the timeline of deployment would not impact the program costs. (TURN Brief, p. 9.) Finally, TURN notes that even if PG&E's aggressive timeline were pursued, very little meter deployment would actually occur by 2007, limiting the demand response that could occur by 2007.

ORA also takes issue with PG&E's position that the Commission has indicated a "mandate" for the utilities to deploy AMI by 2007. ORA notes that the Vision Statement language relied on by PG&E explicitly does not prejudge the cost-effectiveness of specific proposals and states it should be viewed as a starting point. (ORA Brief, p. 5.)

7.1 Discussion

Based on the record developed, we agree with TURN and ORA that the investments that PG&E has identified as pre-deployment activities are activities that, for the most part, provide limited value to ratepayers if the Commission ultimately decides AMI should not be pursued. These are activities that would be necessitated only if PG&E deploys a new metering and communication infrastructure. As described in its Reply Brief PG&E's "pre-deployment is not simply analysis or research and development. PG&E's pre-deployment activities are an integral part of its actual AMI Project.” (PG&E Reply Brief, p. 3.) A small portion ($3 million) of the identified funding is to install and test 5,000 meters, which will include testing that enhancements of the installed meters meet PG&E’s requirements. (RT 80:2-9.)

When asked by the ALJ whether PG&E expects “any system benefits associated with the pre-deployment expenditures, independent of installation of AMI”, PG&E witness Corey responded:

> “a certain component of the pre-deployment costs are going to the [interval] billing capability, which is the deployment of the 1.5 [CorDaptix] system upgrade for our billing system.
>
> And even though we might not pursue that at this time [absent the AMI project], we would likely…pursue that at some later time…outside the AMI project.” (RT 121:4-14.)

Thus, PG&E identifies only one component of its proposed pre-deployment activities that it would pursue, independent of the decision to deploy AMI. The remainder of the proposed pre-deployment activities relate to developing the system for processing meter data into a format to render bills, preparing and installing the hardware and software to send and receive data from the AMI system, developing interfaces between PG&E legacy systems and the AMI system, system design work to protect customers service and billing accuracy while fulfilling the benefits of the system, and project management, reengineering of internal processes and training. These are clearly activities that must be undertaken to implement AMI; however, the question is whether it is reasonable for the Commission to authorize ratepayer funding for these activities **prior to** a finding that ratepayers should fund PG&E’s AMI Project.

7.2 Conclusion

We conclude that it is only reasonable at this time to authorize ratepayer funding for a narrow set of activities: 1) those that provide value to ratepayers regardless of whether the Commission ultimately decides that ratepayers should fund the AMI project, a decision that will be rendered in A.05-06-028, and 2) activities designed to test minimum meter functionality, prior to committing to full scale deployment are reasonable for ratepayers to fund, given the past direction to explore the cost-effectiveness of installing AMI.

This is not to say that the costs or activities PG&E has proposed within its definition of pre-deployment are unreasonable *per se*; in fact, PG&E has presented a compelling case that these activities are necessary to any AMI project's success. Rather, that it would be unreasonable for the Commission to commit ratepayer funding to these activities at this time without having a record on the full project. Despite PG&E's statements that it has filed its evolving business case several times in R.02-06-001, there has been no record developed yet through the evidentiary process to test, rebut, or verify PG&E's assumptions or results. Because the AMI Project cost-effectiveness is highly dependent on the assumptions about costs, benefits, energy and capacity prices, and demand response, an evidentiary record is needed in order to ensure that the Commission has a sufficient basis to establish cost-effectiveness. While we do not doubt that PG&E believes it has presented an accurate picture of the costs and benefits for its ratepayers, the Commission has not yet made a finding that it is cost-effective for ratepayers to fund. We note that in general, cost recovery for capital additions occurs through general rate cases, as confirmed by PG&E witness Bottorff, so the fact that we do not pre-approve ratepayer cost recovery at this time does not foreclose PG&E from pursuing these activities. In fact, PG&E

already has authorization to record costs associated with all of these activities in a memorandum account, which further preserves its ability to seek future cost recovery.

8. What Amount of AMI Pre-Deployment Costs Should be Authorized?

Exhibit 9 provides a table summarizing PG&E's full request for ratepayer funding for this pre-deployment application.

Table 1: PG&E Cost Request

Line No.	Activity	Estimate	Estimated Capital Expenditure	Estimated Expense
1	AMI Interface System	$18.7	$15.6	$3.1
2	AMI Master System Controller(s)	12.0	12.0	0.0
3	Systems Integration and Project Management	6.5	5.0	1.5
4	Enterprise Application Integration (EAI) Interface	6.5	1.8	4.7
5	Meters and Network Equipment for Testing	3.0	3.0	0.0
6	System Design	2.4	0.0	2.4
7	Total	$49.1	$37.4	$11.7

These cost estimates translate into the expected revenue requirements set forth in Table 2.

Table 2: PG&E Revenue Requirements

Line No.		2005	2006	2007
1	Electric Revenue Requirement	$7,570,368	$4,074,008	$4,023,963
2	Gas Revenue Requirement	$6,186,639	$2,220,664	$2,238,197
3	Total Revenue Requirement Data from Exhibit 5A.	$13,757,007	$6,294,672	$6,262,160

Given the reduced scope of ratepayer funding that we should authorize, as described above, the Commission should authorize ratepayer funding of $4.0 million for CorDaptix upgrade activities (Exhibit 4, Table A-1, line 15) and $3.0 million for meters and network equipment for testing (Exhibit 4, Table A-1, sum of lines 16 and 17). These activities are estimated to cost a total of $7.0 million, with the CorDaptix upgrades costs treated as an expense and the meters and network elements treated as capital. PG&E should be authorized to record up to $4.0 million in pre-deployment expenses and $3.0 million in pre-deployment capital additions. PG&E has allocated costs between gas and electric ratepayers based on relative number of meters in PG&E's system, although ultimately the costs will be recorded as they are actually incurred. This estimation method results in $3.83 million estimated expenditures for electric and $3.17 for gas.

No party offered an alternative methodology of translating expenses and capital additions to a revenue requirement. PG&E should file, as part of its comments on the proposed decision, the expected 2005 revenue requirement for these activities using its results of operation model, so that we may establish expected revenue requirement for the authorized pre-deployment funding adopted today.

9. What Ratemaking Accounts Need to be Modified or Created?

In order to record the costs authorized in this decision, PG&E will need to modify the definition of pre-deployment costs currently set forth in its Advanced Metering and Demand Response Account (AMDRA) and create a comparable account for the gas side. It is reasonable to authorize PG&E to make modifications to the language of its AMDRA account to provide for recording of the costs authorized today. In addition, it is reasonable to create a Gas Advanced Metering Account (GAMA). PG&E shall file an Advice Letter with the Energy Division within 5 days of the effective date of this decision that updates its AMDRA tariff sheets consistent with the limitations on costs described in this decision, and establishes a GAMA consistent with the limitations on costs described herein. Because we have reviewed these categories of costs in this application and found them reasonable, subsequent review of these costs should be limited to verification that the costs recorded are consistent with the limitations set forth in this decision.

PG&E proposes that the costs recorded in AMDRA and GAMA be verified quarterly, upon PG&E filing an Advice Letter, and that the verified recorded balances be transferred to the Distribution Revenue Adjustment Mechanism (DRAM) and the Core Fixed Cost Account (CFCA) for recovery. Verified costs transferred to the DRAM would then be recovered in distribution rates in PG&E's Annual Electric True-Up proceeding in the same manner as other distribution revenues. Recorded costs transferred to the CFCA would then be recovered from ratepayers in PG&E's next gas transportation rate change. PG&E would allocate recorded costs only to core gas customers.

SSJID suggests that the Commission should state that future departing load should not be responsible to pay any costs associated with AMI pre-deployment activities. PG&E argues that "it is speculative, at best, to assume that certain customers in PG&E's service territory will leave PG&E's service. … There is no basis in the record to exempt certain PG&E customers from cost responsibility …" (PG&E Reply Brief, p. 11.) Because we cannot speculate as to when or if current PG&E customers will leave the system, we find it impractical to establish any exemption of customers from cost responsibility. We find PG&E's proposed approach of recovering approved AMI pre-deployment costs through electric distribution rates and gas transportation rates to be reasonable. To the extent that the Commission does not adopt an alternative ratemaking approach to recovering the 2006 revenue requirements associated with the AMI pre-deployment activities authorized in today's decision, the quarterly Advice Letter process described herein should continue.

In Resolution E-3937, the Commission authorized PG&E to record certain types of costs in gas and electric Advanced Metering Infrastructure Memorandum Accounts (AMIMA) while this application was pending. PG&E may transfer any recorded costs that are consistent with the activities and dollars authorized in this decision from the AMIMA accounts to its AMDRA and GAMA. PG&E should file an Advice Letter to effect the transfer. PG&E may continue to utilize the existing AMIMA accounts approved by Resolution E-3937 to record the costs of activities described in those accounts that do not receive pre-approved ratepayer funding in this decision.

10. Municipalization Issues

The Yolo County Parties request that the Commission "prohibit PG&E from installing meters in the eastern portion of Yolo County subject to potential annexation until and unless the proposed [Sacramento Municipal Utility District] SMUD annexation is rejected or withdrawn." (Yolo County Parties Brief, p. 2.) PG&E states it "has no present plans to install AMI test meters in Yolo County during the pre-deployment phase of its AMI Project." (Exhibit 3, p. 1-10).

Consistent with its statements, we will affirm that PG&E should not install AMI test meters or network elements in Yolo County during the pre-deployment phase. However, we will not currently impose restrictions on AMI deployment, since this decision does not address whether ratepayer funding of deployment activities is reasonable. PG&E's proposed deployment plan and schedule is the subject of A.05-06-028 and will be decided there.

11. Comments on Proposed Decision

The proposed decision of the assigned ALJ was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on _____. Reply comments were filed on _____.

12. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michelle Cooke is the assigned ALJ in this proceeding.

Findings of Fact

1. The AMI system selected is sufficiently flexible to accommodate different approaches to rate design and informational tools.
2. PG&E's proposed AMI Project will meet the minimum functionality criteria established by Commissioner Peevey.
3. PG&E's pre-deployment activities do not consist of a significant amount of testing that the AMI system selected physically works or meets minimum functionality criteria.
4. The activities PG&E has defined as pre-deployment consist of preparing its existing legacy systems to accept data from its proposed AMI system, establishing and testing processes for meter and communication system installation and billing.
5. Finding PG&E's proposed pre-deployment costs reasonable requires the Commission to assume that AMI deployment will occur, resulting in prejudgment of the deployment application.
6. PG&E identifies only one component of its proposed pre-deployment activities that it would pursue, independent of the decision to deploy AMI.

7. There has been no record developed through the evidentiary process to test, rebut, or verify PG&E's AMI business case assumptions or results.

8. The fact that we do not pre-approve ratepayer cost recovery for certain activities does not foreclose PG&E from pursuing these activities.

9. PG&E already has authorization to record costs associated with all of its defined pre-deployment activities in a memorandum account, which preserves its ability to seek future cost recovery.

10. The CorDaptix upgrade and meter and network elements for testing are estimated to cost $7.0 million.

11. The authorized pre-deployment funding translates to an expected 2005 revenue requirement of no more than $3.83 million for electric and no more than $3.17 million for gas.

12. PG&E will not install AMI test meters or network elements in Yolo County during the pre-deployment phase.

13. PG&E's proposed deployment plan and schedule is the subject of A.06-05-028.

Conclusions of Law

1. Because ORA made reasonable efforts to serve its brief as promptly as possible, its motion to accept its late-filed brief should be granted.

2. The finding that PG&E's proposed AMI Project meets the minimum functionality criteria does not establish that the system selected by PG&E is the correct or best system, or provides the best value for ratepayers. These are issues to be decided in A.05-06-028.

3. The fact that TURN and ORA chose not to evaluate the cost-effectiveness of PG&E's proposed expenditures does not preclude the Commission from

independently assessing the expenditures that PG&E has proposed for reasonableness.

4. There is no legal impediment to authorizing pre-deployment activities.

5. The investments that PG&E has identified as pre-deployment activities are activities that, for the most part, provide limited value to ratepayers if the Commission ultimately decides AMI should not be funded by ratepayers because these are activities that would be necessitated only if PG&E deploys a new metering and communication infrastructure.

6. It would be unreasonable for the Commission to commit ratepayer funding to the broader set of activities that PG&E has defined as pre-deployment without having a record on the full project.

7. It is only reasonable at this time to authorize ratepayer funding for a narrow set of activities that provide value to ratepayers regardless of whether the Commission ultimately decides that ratepayers should fund the AMI Project and activities designed to test minimum meter functionality given past direction to explore the cost-effectiveness of installing AMI.

8. PG&E should be authorized to record up to $4.0 million in pre-deployment expenses and $3.0 million in pre-deployment capital additions.

9. It is reasonable to authorize PG&E to modify its AMDRA account to provide for recording of costs authorized today and to create a GAMA.

10. Subsequent review of the costs recorded in AMDRA and GAMA should be limited to verification that the costs recorded are consistent with the limitations set forth in this decision.

11. Costs recorded in AMDRA and GAMA should be verified quarterly, upon PG&E filing an Advice Letter, and the verified balances transferred to the DRAM

and CFCA for recovery in the Annual Electric True-Up proceeding and gas transportation rate change proceedings, respectively.

12. PG&E's proposed approach of recovering authorized AMI pre-deployment costs through electric distribution rates and gas transportation rates is reasonable.

13. PG&E should not install AMI test meters or network elements in Yolo County during the pre-deployment phase.

O R D E R

IT IS ORDERED that:

1. Exhibits 5A and 302 are received into evidence as of August 1, 2005.

2. The motion of the Office of Ratepayer Advocates to accept its late-filed brief is granted.

3. Pacific Gas and Electric Company (PG&E) is authorized to spend ratepayer funding on activities that provide value to ratepayers regardless of whether the Commission ultimately decides that ratepayers should fund the AMI Project and activities designed to test minimum meter functionality given past direction to explore the cost-effectiveness of installing AMI, specifically its identified CorDaptix upgrade and meter and network elements for testing activities.

4. PG&E shall file an Advice Letter within 5 days of the effective date of this decision to update its Advanced Metering and Demand Response Account (AMDRA) tariff sheets and to establish a Gas Advanced Metering Account (GAMA) consistent with the limitations on activities described in this decision.

5. PG&E may record up to $4.0 million in pre-deployment expenses and $3.0 million in pre-deployment capital additions in its AMDRA and GAMA for activities consistent with those approved in this decision.

6. Subsequent review of the costs recorded in AMDRA and GAMA shall be limited to quarterly verification, upon PG&E filing an Advice Letter, that the costs recorded are consistent with the limitations set forth in this decision and the verified balances transferred to the Distribution Revenue Adjustment Mechanism and Core Fixed Cost Account for recovery in the Annual Electric True-Up proceeding and gas transportation rate change proceedings, respectively.

7. PG&E may file an Advice Letter to transfer any recorded costs that are consistent with the activities and funding level authorized in this decision from its Advanced Metering Infrastructure Memorandum Accounts (AMIMA) to its AMDRA and GAMA.

8. PG&E may continue to utilize the existing AMIMA accounts approved by Resolution E-3937 to record costs of activities described in those accounts that did not receive pre-approved ratepayer funding in this decision.

9. PG&E shall not install AMI test meters or network elements in Yolo County during the pre-deployment phase.

10. Application 05-03-016 is closed.

This order is effective today.

Dated ___________________________, at San Francisco, California.

Appendix A
List of Appearances

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(END OF APPENDIX A)