November 9, 2009

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA  94177

Subject:  Smart Grid Project Memorandum Account

Dear Mr. Cherry:

Advice Letter 3537-E is effective September 10, 2009.

Sincerely,

Julie A. Fitch, Director
Energy Division
October 8, 2009

Advice 3537-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Smart Grid Project Memorandum Account

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariffs. The affected tariff sheets are listed on the enclosed Attachment I.

Purpose

The purpose of this advice letter is to establish a memorandum account to track the cost PG&E incurs associated with projects for which PG&E has requested funding from the United States Department of Energy (DOE) as authorized in Ordering Paragraph 2 of Decision (D.) 09-09-029.

Background

On December 18, 2008, the Commission issued Order Instituting Rulemaking (R.) 08-12-009 to consider Smart Grid technologies. After several workshops and much discussion, the Commission issued D.09-09-029 on September 10, 2009. This decision established the process for review of Smart Grid projects by investor-owned utilities seeking funding from the DOE.

D.09-09-029 (O.P. 2) authorized investor-owned utilities to establish memorandum accounts to track the costs associated with Smart Grid projects for which the utility requested funding from the DOE. PG&E has submitted requests for funding for three projects from the DOE. One of these projects is associated with PG&E’s electric transmission system, and cost recovery is being requested at the Federal Energy Regulatory Commission (FERC). The remaining two requests involve cost recovery from this Commission. The first is a proposal to expand the deployment of customer energy management capabilities previously approved under PG&E’s Smart Meter program. The second is a proposal to develop a compressed air energy storage facility to store off-peak energy for future on-peak energy needs and to assist in integrating intermittent renewables.
 TARiff Revisions

This advice letter requests the establishment of a new Electric Preliminary Statement Part FD for a memorandum account to accrue PG&E’s incremental CPUC-jurisdictional revenue requirements from the effective date of D.09-09-029 associated with Smart Grid projects for which PG&E has requested funding from DOE, including the above-referenced two CPUC-jurisdictional projects. In this memorandum account, each project will be tracked in a separate subaccount. Once a project is authorized for recovery by this Commission (through the application or advice letter process) and approved for funding by the DOE, the proposed tariff allows for the transfer of the balance in the subaccount to the Distribution Revenue Adjustment Mechanism for recovery up to the total expenditure cap established by CPUC decision or resolution. If PG&E spends more than the expenditure cap, the revenue requirements associated with expenditures over the cap will continue to accrue in the memorandum account until the Commission authorizes recovery through a separate request or subject to such disposition as the Commission may otherwise authorize. Ongoing revenue requirements associated with expenditures under the cap will continue to be transferred to DRAM annually.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than October 28, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
Effective Date

PG&E requests that this advice filing become effective upon approval by the Commission.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes to the General Order 96-B service list should be directed to Sally Cuaresma at (415) 973-5012. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: http://www.pge.com/tariffs

Vice President, Regulatory Relations

Attachments

cc: Service List R.08-12-009
**Company name/CPUC Utility No.** Pacific Gas and Electric Company (ID U39 M)

<table>
<thead>
<tr>
<th>Utility type:</th>
<th>Contact Person: Olivia Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td>✗ ELC ✗ GAS</td>
<td>Phone #: 415.973.9312</td>
</tr>
<tr>
<td>☐ PLC ☐ HEAT ☐ WATER</td>
<td>E-mail: <a href="mailto:oxb4@pge.com">oxb4@pge.com</a></td>
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**EXPLANATION OF UTILITY TYPE**

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<td>PLC = Pipeline</td>
<td>HEAT = Heat</td>
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<td>WATER = Water</td>
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**Advice Letter (AL) #:** 3537-E  
**Tier:** 3

**Subject of AL:** Smart Grid Project Memorandum Account

**Keywords (choose from CPUC listing):** Memorandum Account

**AL filing type:** ☒ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.09-09-029

Does AL replace a withdrawn or rejected AL? N/A

If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL: N/A

Is AL requesting confidential treatment? N/A

If so, what information is the utility seeking confidential treatment for: No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: N/A

Resolution Required? ☒ Yes ☐ No

Requested effective date: November 9, 2009  
No. of tariff sheets: 1

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting). N/A

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**CPUC, Energy Division**  
Tariff Files, Room 4005  
DMS Branch  
505 Van Ness Ave., San Francisco, CA 94102  
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

**Pacific Gas and Electric Company**  
Attn: Brian K. Cherry, Vice President, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, CA 94177  
E-mail: PGETariffs@pge.com
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<td>ELECTRIC PRELIMINARY STATEMENT PART FD SMART GRID PROJECT MEMORANDUM ACCOUNT</td>
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<td>Sheet 1</td>
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ELECTRIC PRELIMINARY STATEMENT PART FD
SMART GRID PROJECT MEMORANDUM ACCOUNT

1. PURPOSE: The purpose of the Smart Grid Project Memorandum Account (SGPMA) is to record and recover the incremental Operations and Maintenance (O&M) and Administrative and General (A&G) expenditures and capital-related revenue requirements associated with PG&E’s incurred costs for Smart Grid Projects as authorized by the Commission in Ordering Paragraph 2 of Decision (D.) 09-09-029 from the effective date of that decision.

2. APPLICABILITY: The SGPMA applies to all customer classes, except for those specifically excluded by the Commission.

3. REVISION DATE: Once a project is approved by the Commission and by the Department of Energy (DOE), the balance in the subaccount for that project is transferred to the Distribution Revenue Adjustment Mechanism (DRAM) Account at the end of each year through the Annual Electric True-up Advice Letter until the PG&E portion of the total expenditure amount adopted for that project is reached. Revenue requirements associated with expenditures in excess of the adopted amounts shall continue to accrue in the subaccount, but are not transferred to DRAM for recovery unless and until authorized by the Commission.

4. RATES: SGPMA does not have a separate rate component.

5. ACCOUNTING PROCEDURES: PG&E shall maintain a separate subaccount for each project for which PG&E has requested DOE funding. The balance in the SGPMA shall be the sum of the subaccount balances. As of September 10, 2009, PG&E shall make entries to each subaccount at the end of each month as follows:

   a. A debit entry equal to PG&E’s incremental O&M and A&G expenses and capital-related costs incurred for the Smart Grid Project, including an allowance for Franchise Fees and Uncollectible (FF&U) Accounts expenses. Capital-related costs include depreciation expenses, the return on investment, federal and state income taxes, property taxes associated with the cost of installed equipment and an allowance for FF&U. This entry is net of any costs funded by the DOE or other third party and facilities or services provided by vendors.

   b. A credit entry to transfer amounts to the DRAM for recovery as authorized by the Commission.

   c. An entry equal to the interest on the average of the balance in the account at the beginning of the month and the balance in the account after the above entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H. 15, or its successor.

(N)
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## PRELIMINARY STATEMENT

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Anderson & Poole
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Barkovich & Yap, Inc.
Bartle Wells Associates
C & H Sugar Co.
CA Bldg Industry Association
CAISO
CLECA Law Office
CSC Energy Services
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California League of Food Processors
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Chris, King
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City of Palo Alto
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Consumer Federation of California
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Davis Wright Tremaine LLP
Day Carter Murphy
Defense Energy Support Center
Department of Water Resources
Department of the Army
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Hanna & Morton
Hitachi
International Power Technology
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Los Angeles Dept of Water & Power
Luce, Forward, Hamilton & Scripps LLP
MBMC, Inc.
MRW & Associates
Manatt Phelps Phillips
Matthew V. Brady & Associates
McKenzie & Associates
Merced Irrigation District
Mirant
Modesto Irrigation District
Morgan Stanley
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New United Motor Mfg., Inc.
North Coast Solar Resources
Northern California Power Association
Occidental Energy Marketing, Inc.
OnGrid Solar
Praxair
R. W. Beck & Associates
RCS, Inc.
Recon Research
SCD Energy Solutions
SCE
SMUD
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Seattle City Light
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Sierra Pacific Power Company
Silicon Valley Power
Silo Energy LLC
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Sunshine Design
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eMeter Corporation