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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design, to Revise its Customer Bills, and to Seek Recovery of Incremental Expenditures.	Application 10-03-014 (Filed March 22, 2010)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rule 8.3 of the Commission's Rules of Practice and Procedure, the City and County of San Francisco ("CCSF") gives notice of the following *ex parte* communication. The communication took place on Friday, February 4, 2011 at 11:00 a.m. in the Commission's San Francisco offices. The communication was oral and included discussion of the attached document summarizing CCSF's presentation.

Margaret Meal, Regulatory and Legislative Affairs Manager for the San Francisco Public Utilities Commission ("SFPUC"), and Thomas Long, Deputy City Attorney for CCSF, initiated the communication with Scott Murtishaw, Advisor to Commission President Michael Peevey.

CCSF stated that the proposal of Pacific Gas and Electric Company ("PG&E") to flatten its generation rates through the use of a Conservation Incentive Adjustment ("CIA") is both unnecessary and harmful. CCSF pointed out that PG&E has failed to demonstrate a need for flattened generation rates despite bearing the burden of proof. CCSF also explained that PG&E's proposal would harm Community Choice Aggregators, confuse customers, and increase PG&E's revenue requirement. CCSF further stated that PG&E improperly relied on decisions adopting settlement agreements to assert, inaccurately, that the Commission had adopted a policy that all utilities should have flat generation rates. CCSF supported these points with the information in the attached presentation package.

Dated: February 9, 2011

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ATTACHMENT

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PG&E's CIA Proposal: Unnecessary and Harmful

Meg Meal, Manager Regulatory and Legislative Affairs, SFPUC Power Enterprise

Thomas Long, Deputy City Attorney, Office of the City Attorney

CleanPowerSF

City and County of San Francisco

February 4, 2011

PG&E's CIA proposal should not be adopted

- PG&E has failed to demonstrate a need for flattened generation rates
  - No showing that a flat generation rate is cost-based
  - Distribution rates are already tiered to provide conservation incentive for all customers
- PG&E's CIA proposal would
  - harm CCAs and is anti-competitive,
  - confuse customers, and
  - increase PG&E's revenue requirement

PG&E has failed to show that flat generation rates are cost-based

- D.10-06-030 required PG&E's CIA proposal to be addressed in evidentiary hearings – CCSF had pointed out absence of cost support
- In the hearings, PG&E failed to provide any cost analysis showing that its generation costs are insensitive to aggregate usage.
  - PG&E's only argument: its upper tier generation rates are higher than its average generation rate, an arithmetic truism that proves nothing
- PG&E's expert acknowledged that tiered generation rates may be cost-justified, *i.e.*, cost of service could increase as aggregate usage increases
- CCSF showed that, because power supplies are dispatched in order from lowest cost to highest cost, one would expect generation costs to increase as load increases
- Without a cost analysis, PG&E cannot substantiate its claim that upper tier customers subsidize lower tier customers

The CIA is not needed to ensure PG&E customers have a conservation incentive

- There is currently a 12.5 cent tier differential in PG&E's E-1 distribution rates, approximately half of the total tier differential that is now in bundled rates

Current E-1 ENERGY CHARGE (c/kWh)	Dist./Other	Gen.	Total
Tier 1	7.3	4.6	11.9
Tier 2	8.0	5.5	13.5
Tier 3	14.9	14.1	29.1
Tier 4 and above	19.8	20.3	40.0
TOP-BOTTOM TIER DIFFERENTIAL	**12.5**	**15.7**	**28.2**

- Current rate structure provides conservation incentive to all customers
- CCSF supports maintaining a 50/50 split of the tier differential between distribution and generation rates

The CIA is anti-competitive and harms CCAs

- The CIA would prevent CCAs from adopting cost-based, tiered rates that promote conservation
- Flat generation rates for PG&E makes tiered CCA rates less competitive for higher usage customers
- CCSF testimony showed that a CCA's preferred rate design would be tiered rates, to
  a) Encourage conservation, and
  b) Match rates to cost – for example, supply costs will likely be tied to volume limits

The CIA would increase rate complexity and confuse customers

- Positive and negative amounts on bills for the new CIA rate element would prompt many customer questions, e.g.,
  - "Is this credit because I paid too much last month?"
  - "What service am I getting for this new charge?"
- The new CIA rate element would make it difficult to compare bills before and after the change
- Some CCA customer bills would show negative delivery charges
- Some customers may get a back door rate increase by virtue of PG&E's zero minimum charge

The CIA would increase rate complexity and confuse customers

Example: under CIA proposal, E-7 residential time-of-use customers would see negative rate component

Current E-7 Rates

SUMMER Peak

ENERGY CHARGE (c/kWh)	Dist./Other	Gen	Total
Tier 1	12.6	18.0	30.6
Tier 2	12.6	18.0	30.6
Tier 3	17.8	28.5	46.2
Tier 4 and above	21.4	35.8	57.2

PG&E's proposed E-7 Rates

SUMMER Peak

ENERGY CHARGE (c/kWh)	Dist/Other	Gen	Total
Tier 1	(13.4)	42.4	29.0
Tier 2	(11.7)	42.4	30.6
Tier 3 and above	2.4	42.4	44.8

The CIA would increase PG&E's costs and its revenue requirement

- The CIA would require an extensive customer education program to try to limit the inevitable customer confusion
- PG&E has given no thought to what an education program would entail and how much it would cost; clearly, the costs would be considerable
- The new CIA rate element would cost $3.6 million for billing system re-programming, which PG&E has improperly already included in the Phase 1 GRC settlement

PG&E's reliance on decisions adopting settlements for SDG&E and SCE is improper

- Under CPUC rules, Commission adoption of settlements is non-precedential for other cases
- The SCE decision (D.09-08-028) addressed a different situation: SCE's rates included all of the tiering in generation rates, so, unlike PG&E, SCE's delivery charges did not include a conservation incentive
- The SCE decision did not address any of CCSF's objections here: (1) absence of cost support for flat generation rates; (2) foreclosing tiered rates by CCAs; (3) bill complexity caused by the CIA; (4) customer confusion; (5) increased revenue requirement

Conclusion

- **PG&E's CIA Proposal should be rejected**

CERTIFICATE OF SERVICE

I, PAULA FERNANDEZ, declare that:

I am employed in the City and County of San Francisco, State of California. I am over the age of eighteen years and not a party to the within action. My business address is City Attorney's Office, City Hall, Room 234, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102; telephone (415) 554-4623.

On February 9, 2011, I served the **NOTICE OF EX PARTE COMMUNICATION** by electronic mail on all parties on the service list A10-03-014.

☒ **BY UNITED STATES MAIL:** Following ordinary business practices, I sealed true and correct copies of the above documents in addressed envelope(s) and placed them at my workplace for collection and mailing with the United States Postal Service. I am readily familiar with the practices of the San Francisco City Attorney's Office for collecting and processing mail. In the ordinary course of business, the sealed envelope(s) that I placed for collection would be deposited, postage prepaid, with the United States Postal Service that same day.

Jerry O. Crow
Kerntax
4309 Hanh Ave.
Bakersfield, CA 93309

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed on February 9, 2011, at San Francisco, California.

/S/
PAULA FERNANDEZ