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Before the Public Utilities Commission
of the State of California

Application of Pacific Gas and Electric Company for Approval of its 2010 Rate Design Window Proposal for 2-Part Peak Time Rebate and Recovery of Incremental Expenditures Required for Implementation. (U39E)	Application 10-02-028 (Filed February 26, 2010)
Application of Pacific Gas and Electric Company for Approval to Defer Consideration of Default Residential Time-Variant Pricing until Its Next General Rate Case Phase 2 Proceeding, or in the Alternative for Approval of its Proposal for Default Residential Time-Variant Pricing and For Recovery of Incremental Expenditures Required for Implementation. (U39E)	Application 10-08-005 (Filed August 9, 2010)

REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Before the Public Utilities Commission
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REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure and the February 7, 2012 Joint Ruling of the Assigned Commissioner and Presiding Administrative Law Judge and Administrative Law Judge's ("ALJ"), the Division of Ratepayer Advocates ("DRA") hereby submits its Reply Brief on Pacific Gas and Electric Company's ("PG&E") Peak Time Rebate ("PTR") application.

In this proceeding, PG&E proposes that the Commission ignore the benefits that PG&E, California's other utilities and this Commission have previously found to be achievable by PTR. PG&E's claims that the PTR program will not deliver significant benefits is based on only two studies, one of which was severely compromised by unfavorable weather. The two studies relied upon by PG&E were taken from a set of nearly 20 PTR studies provided to the record in this proceeding.

PG&E's position is largely based on conjecture about the likely success of SmartRate and the likely failure of PTR. The latter was in stark contrast to the PTR demand reduction estimates so recently adopted for SCE and SDG&E in D.12-04-045. If PG&E's proposal to further delay or cancel PTR is adopted, the company will have wasted, and will continue to waste, hundreds of millions in ratepayer dollars, as described herein, while the company continues to collect a rate of return on its Smart Meters. The Commission should reject this proposal and allow PTR to proceed in 2013 and 2014.

Further, in ordering PTR to proceed, the Commission should reject PG&E's proposed revenue requirements. It instead should adopt DRA's proposed revenue requirement. This includes ordering the company to stop aggressively marketing its SmartRate program, and to divert money, provided in A.05-06-028 for SmartRate outreach, to promoting PTR.

DRA anticipated and responded to many of PG&E's arguments in its Opening Brief ("OB"). Therefore, in the Reply, DRA will only highlight particular issues to which it feels an additional response would benefit the Commission's determination in this proceeding. Therefore, some of the sections are left blank. To the extent DRA does not respond to arguments PG&E made in its Opening Brief, this should not be read as agreement to PG&E's position. Furthermore, the Commission should reject PG&E's request to adopt specific findings identified in its summary of recommendations, section 2. Most of these findings relied upon Dr. George's voluminous workpapers submitted only a few days before Dr. George testified. There was not sufficient record to validate that those numbers were accurate.

II. PROCEDURAL HISTORY

DRA addressed this section in its Opening brief and will not repeat it here.

III. Should the CPUC Proceed with PTR on the Current Schedule

The Commission should direct PG&E to proceed with PTR implementation because the potential foregone demand response benefits of PG&E not moving forward with PTR are substantial.

PG&E is using scare tactics, pointing to a number of problems with PTR, some speculative,[1] in order to persuade the Commission to stop PTR. DRA finds PG&E's arguments disingenuous. In this PTR proceeding, PG&E has turned 180 degrees from its position on PTR in the SmartMeter Upgrade case. PG&E might be able to claim that its PTR forecast in the SmartMeter Upgrade turned out to be too optimistic, and that a "reality check" between these two cases was required owing to the passage of time. However, PG&E failed to raise these concerns in the latest demand response proceedings[2]. If PG&E truly believes that PTR is fatally flawed, it should have raised these issues in those proceedings because both PTR and Critical Peak Pricing ("CPP") were major pricing-related demand response programs being considered. Moreover, all three utilities were involved, including PG&E.

When SCE and SDG&E presented substantial load impact forecast for PTRs, which were eventually adopted by the Commission, PG&E presented no challenge at all. The DR proceedings were happening in parallel with this PTR proceeding, so PG&E cannot claim that there is a timing issue. If PG&E had grave doubts about PTR, it would have behooved PG&E to alert the Commission about PTR in the demand response consolidated proceeding. Granted, it did so in this proceeding. But remaining silent in the demand response proceeding led to an incomplete record in that proceeding and a contradictory record between this proceeding and the demand response proceeding. DRA does observe that SCE and SDG&E's PTR demand response projections were performed mostly by Freeman-Sullivan & Company. This is the same firm that PG&E hired to perform and prepare demand response ex-ante and ex-post reports for its programs. In

[1] PG&E OB, SUMMARY OF RECOMMENDATIONS, pp. vi, vii.

[2] A.11-03-001 et al, D.12-04-045 .

fact, PG&E's witness, Dr. Stephen George, is a Principal Consultant and Chief Executive Officer of this firm.[3]

The Commission should discount PG&E's claim and its "change of opinion"[4] when other evidence out there still strongly supports PTR. In contrast, PG&E's abandonment of PTR could be extremely detrimental to ratepayers. DRA already notes the PTR benefits that could be lost. In addition, PG&E appears to be ready to promote its SmartRate[5] program even though it has proven to be very costly and, according to PG&E's own evidence, is unlikely to produce the amount of demand response anticipated by the Commission in D.09-03-026[6].

It is clear that PG&E intends to spend the remaining SmartRate acquisition fund, which it asserted to now be $13 million. With no PTR available, PG&E would concentrate on its SmartRate option. So, at a minimum, it would deplete the $13 million. However, PG&E also states that its target is a 100,000 SmartRate enrollment in 2013[7]. To reach that target, using only funds already authorized, PG&E could spend no more than $167 per new SmartRate participant. This is nearly a factor of 10 less than the amount ($1,660 per customer) that PG&E has spent for marketing to date. If PG&E had to spend the same kind of money to acquire every new SmartRate customer as it has spent to date, it would have to spend another $130 million[8] [9], which PG&E likely would

[3] Ex. PG&E-2, Chapter 9, Attachment 1.

[4] PG&E OB, p. vii, pp. 4-6.

[5] PG&E OB, p. 21

[6] Id. PG&E now projects that demand response from its SmartRate program will grow from the current 5.2 MW to 30 MW by 2014, about a six-fold increase. This would require growth in the demand response per participant, in addition to the 4-fold increase in the number of participants PG&E projects. PG&E does not explain how it expects to achieve these goals. In contrast, D.09-03-026 adopted PTR savings through 2030 of 5,714 MW ranging from an estimated 210 MW in 2010 to an estimated 326 MW in 2030 (see PG&E OB p. 20).

[7] PG&E OB p.21

[8] DRA estimated that PG&E has spent $1,660 per SmartRate enrollment, to date. See, DRA OB, p.27. At the end of 2011, PG&E enrolled approximately 22,000. To reach 100,000, PG&E needs to enroll 78,000 customers. $1,660 * 78,000 = $130 million.

[9] In contrast, per PG&E's projected PTR spending if the Commission directs PTR to go forward, PG&E

seek in other proceedings. The following table illustrates the costs (including opportunity costs of losing PTR benefits) between PG&E's policy direction and that of DRA's.

	PG&E's primary proposal ($ millions)	PG&E's backup proposal ($ millions)	DRA's proposal ($ millions)
Lost PTR benefits	$265		
PTR implementation costs		$32	$6
On-going SmartRate Acquisition Costs (assume 100,000 enrollment)	$13 – 130	$13 – 130	Limit Smartrate spending, divert it to PTR, $11[10]
Total (potentially)	$278 – 415	$45 – 162	$6 - $18

The loss to ratepayers caused by PG&E's inability to fulfill its Advanced Metering Infrastructure ("AMI")-enabled rate benefits does not stop with the lost of PTR benefits. The SmartRate benefits themselves also will be substantially lower than what was projected in the original AMI proceeding (A.05-06-028). There, PG&E had projected $338 million benefits, based on 363 MW demand response impact, from the SmartRate (or CPP) as part of the justification for the AMI built-out. PG&E now has substantially reduced its expected demand response from the SmartRate.[11] Most recently, PG&E suggested a goal of signing up approximately 100,000 SmartRate customers. Currently, the SmartRate has 22,000 participants, and in aggregate, they produce a load reduction of 5.2 MW. If PG&E could achieve and enrollment level of 100,000 participants, the total demand response would increase to 26 MW. PG&E projects 30 MW of demand response from the 100,000 participants it expects to have enrolled in SmartRate by year-end

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would spend about $15 per active participant. See, DRA OB, p.26.

[10] DRA estimated $11 million for the PTR outreach/inquiry.

[11] D.06-07-027, p. 48 & p. 50.

2013.[12] This means that PG&E has adjusted its SmartRate demand response downward by over 90%!

Even though SmartRate is not the focus of this proceeding, PG&E proposes to expand SmartRate as its preferred alternative to implementing PTR. Thus, the Commission must consider whether expanding SmartRate exposes PG&E to problems of equal or greater magnitude than PG&E alleges for PTR. One very serious problem is that its SmartRate program is too costly owing to poor customer acceptance, creating costs that vastly exceed benefits. If PG&E desires to continue on this path, it needs to research ways to improve the SmartRate to make it cost-effective. Preferably, PG&E should proceed to implement PTR as an alternative that can provide the same or more demand response at much lower cost.

A. The SMU Decision

In its Opening Brief, DRA discussed how the Smart Meter Upgrade ("SMU") Decision found that the PTR program would deliver significant benefits, and that the program was needed to make the Smart Meter Upgrade cost effective and beneficial to ratepayers.[13] In its Opening Brief, PG&E instead argued that the SMU Decision provides many reasons why the Commission should reconsider whether it should proceed with PTR at this time:

> *PG&E submits that the SMU decision itself provides many reasons why the Commission should reconsider that question, and find that it has the discretion to decide the issue based on the most recent evidence, which warrants caution.*
> *First, in the SMU decision, the CPUC stated repeatedly that the expected benefits were just estimates, and were uncertain. For example, the CPUC stated: "in the event that PTR benefits are considered, we agree, to an extent, that demand*

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[12] See PG&E OB, p. 21. However, there is absolutely no support on the record for PG&E's 30 MW estimate, which would require a substantial increase from the 234 watts per participant provided by the current SmartRate program, to 300 watts (0.3 kW) per participant. See DRA OB, p. 15 and PG&E OB, p. 21.

[13] DRA Opening Brief pp. 3-6, citing D. 09-03-026.

response related to PTR will likely be less than that estimated by PG&E." (D.09-03-026, p. 132, emphasis added.)[14]

PG&E is misinterpreting the decision. This quotation explains why the decision adjusted PG&E's estimate of PTR demand response benefits downward. The Commission believed PG&E had overstated the PTR benefits. Thus it reduced both the demand response MWs and benefits by approximately 10%. PG&E originally estimated $290 million in PTR benefits, and the Commission adopted $263 million. PG&E estimated a load reduction of 6,307 MW, while the Commission adopted 5,714 MW.[15]

It is difficult to infer, from the quotations to D.09-03-026 that PG&E provided, that the Commission was expecting to see a wholesale change that would result in the PTR benefits and demand response completely evaporating. Any business case, consistent with the requirements for due diligence, will anticipate variation between of the projected and actual outcome, and will attempt to incorporate such risks in its analysis by adjusting its estimates and through the use of discount rates and sensitivity analysis. But it is hard to believe that the decision anticipated a wholesale abandonment of PTR in favor of a Smart Rate program that the Commission had previously used to justify the expenditures approved in PG&E's original AMI application (A.05-06-028).

PG&E further argues that the Commission approved the AMI Upgrade partly because the original business case included $104.4 million in net benefits.[16] This is still not enough to make up for the removal of $263 million in PTR benefits. Moreover, as mentioned in Section II, PG&E has substantially reduced its CPP demand response, which is likely to eliminate the net benefits in the original AMI business case. PG&E's brief also notes that approval was predicated on unquantified benefits from potential future technology upgrades. PG&E has not identified any technology upgrades that would make up for the $263 million loss in PTR benefits.

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[14] PG&E Opening Brief pp. 7-8.

[15] D.09-03-026, mimeo, p. 134.

[16] PG&E Opening Brief at 8.

There are serious consequences to departing from a central premise of Commission decisions. Ratepayers already have made an investment in AMI deployment costs that is irreversible. The Commission should direct PG&E to move forward with PTR and make every effort to accomplish the demand response that PG&E originally claimed.

B. PTR Pilot Results

In defending its position that PTR will not produce significant load reduction, PG&E relies on two limited studies both performed by Christensen Associates. The two studies are on PTR programs for SDG&E and for Commonwealth Edison ("ComEd"). According to PG&E, the studies show, "that it is no longer a given that default PTR will unequivocally generate larger aggregate impacts compared with a successful marketed opt-in rate."[17] These two studies should be given little weight, and do not discredit the 17 PTR studies cited by DRA[18] and even the four opt-in PTR studies cited by PG&E[19].

The two studies do not show that PG&E's proposal to offer only opt-in CPP would generate more demand response than would default PTR. The first study involves SDG&E's 2011 pilot PTR program. In discussing the SDG&E pilot study, PG&E's witness testified to the following:

> *San Diego had an unfortunate summer in many regards for purposes of evaluating this pilot. Primarily it was a very cool summer and they had a couple of hot days. And then they had the unfortunate outage that actually occurred on an event day as well.*
> *So even though there were five or six days for the purposes of this analysis, the evaluators threw out everything but August 28th and September 7th, I think.*
> *So anything that's included or drawn from the pilot you have to keep in mind that these conclusions are based on very limited evidence and very limited event data evidence….It just*

[17] PG&E/George, 4 RT 523, lines 25-28 through RT 524 lines 1-13.

[18] Ex. DRA-1, p. 1-3.

[19] Ex. PG&E-02, Table 9-1, p. 9-10.

> *got victimized by unfortunate weather conditions and other things.*[20]

PG&E's witness, who used the Christensen SDG&E pilot study as his "work paper," admitted that he thinks that the study had limited usefulness due to unfavorable weather conditions. Further, in SDG&E's own report to the CPUC, the company recommended moving forward with PTR[21], and SDG&E and the Commission have projected significant PTR demand response next year.

As for the other pilot study, also conducted by Christensen, on ComEd's PTR program, DRA testified,

> *There were some interesting differences between the way that event responders were defined in the first report, Phase 1 report versus the second report which is the final report. And in the first report they used a 90 percent significance level, and that was later altered to an 80 percent significance level in the final report…*
> *So to me it reflects somewhat of a shifting of the goal posts type of analysis that I don't know why they settle on the 80 percent criterion. It is clear that if they used some other test of significance that the number of event responders would either be higher or lower, depending on what that number is. So to me that somewhat casts some doubt on Dr. George's hypothesis that 10 percent is some magic number that will respond to a price-based incentive.*[22]

DRA does not believe either study definitively casts doubt on the effectiveness of PTR, especially given the numerous other studies discussed. Both the Brattle Group analysis and the Baltimore Gas & Electric experience with PTR indicate that the program will be beneficial. Further, as discussed in DRA's Opening Brief and below, even if PTR elicits only a 10 percent response rate, which is a conservative estimate, that is still much higher than PG&E can ever hope to achieve by its Opt-in CPP.

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[20] PG&E/George, 4 RT 531, lines 18-26.

[21] Ex, PG&E-11, p. 8.

[22] DRA/Levin, 4 R T 594 lines 18-28; 4 RT 595 lines 5-15.

In its Opening Brief, PG&E claims that the studies relied on by DRA, which show the PTR has been both effective at reducing load and liked by customers, would have different results than a default PTR.[23] There is no evidence that there would be a difference in customer satisfaction or in effectiveness in a default PTR. As DRA testified, "if customers who did opt in had a stronger preference for PTR than they did for CPP …the same would be true for a default type of program."[24] Even if one assumes a significantly lower demand response per customer for a default PTR than for opt-in, the program still beats SmartRate hands down because PTR has a much higher likelihood of reaching the majority of "event responders". As DRA stated in its Opening Brief, even if only 10% are event responders[25], 10% of 4.5 million customers is 450,000 customers, which is more than an order of magnitude higher than the number of customers (22,000) now enrolled in Smart Rate or that PG&E can ever hope to enroll in SmartRate even with aggressive marketing.

C. Advantages and Disadvantages of Delaying PTR

1. Long Term Residential Rate Vision

a) PG&E's Request to Defer PTR is a Stalling Tactic

PG&E asked the Commission to, at least, defer ruling on default PTR for PG&E until after (1) the Commission has determined its long-term vision for residential rates and (2) San Diego Gas & Electric ("SDG&E") has reported the results of its 2012 full rollout of PTR to 1.3 million residential customers.

So, PG&E is not talking about delaying its PTR by one year after SDG&E fully rollout its PTR, but also after the Commission opens up a proceeding to discuss the whole long-term vision for residential rates. The reality is that many rulemaking proceedings can require multiple years to complete. Furthermore, even after the Commission decides

[23] PG&E OB, pp. 13-14.

[24] DRA/Levin, 4 RT 604, lines 23-28.

[25] As PG&E claims, see PG&E OB p. 10.

its future vision, implementing it may require legislative changes, which would take more time. As PG&E noted the Commission adopted default PTR to be in compliance with AB1X.[26] PG&E also noted that both DRA and TURN argued that default PDP would be illegal. There are also complications with TOU options in that they cannot be applied to lower tiers based on current law.[27] Considering all these factors, it may be another three or four years before all these issues can be resolved, sacrificing several years of potential PTR benefits.

The Commission's prior decision to adopt default PTR, to comply with existing law, and to provide customers the opportunity to try time-varying rates, is a practical and beneficial choice that is still valid today.

2. SDG&E Full Rollout

As discussed above and in DRA's Opening Brief, there is no need to review the results of SDG&E's full rollout of PTR for PG&E to proceed with PTR. PG&E's proposal is nothing more than a delay tactic. Further, it should be noted that PG&E appears to be more concerned about potentially having to expend a few millions dollars, if they come from shareholders, than letting several hundred millions ratepayer benefits vaporize!

PG&E argued that, if the Commission does not wait for SDG&E's PTR rollout, PG&E may end up investing in software programming for PTR that may later need to be changed.[28] It noted that the SDG&E PTR deployment will be the first program in the country that will rely on mass communication. It emphasized that no empirical data are available to address one key question with default PTR rollout:

> *"There is no empirical evidence yet on the key question of what level of participation and resulting per customer load reduction default PTR can achieve using mass media notification. But there will be very soon. SDG&E's full-scale*

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[26] PG&E OB, p. 16, FN. 9.

[27] Id, pp. 16-17.

[28] PG&E OB, p. 14.

rollout of PTR next month for summer 2012 will be the first test in the industry of default PTR with mass media notification (Ex. PG&E-2, p. 9-4, lines 25 - 30.) Once the SDG&E data is available (expected by April 1, 2013, if not sooner), it will be possible for the first time to compare its average impact across the full residential population to the average from its 2011 pilot that relied on personalized notification." [29]

PG&E has not explained what changes to the PTR IT design would be required if the level of participation were less than expected owing to the use of mass media notification. The incremental IT costs, based on PG&E's projection, is $8.3 million. If the Commission rejects PG&E's dubious updated revision, it will be $3.9 million. Based on DRA's projection, it is $3 million.[30] It is difficult to envision a revision would exceed the range of estimates already on the record. While PG&E appears to vehemently resist the possibility of a change that could cost a few million dollars, it has no hesitation in abandoning a $263 million benefit. The main difference between the former and the latter is that the former could be borne by PG&E shareholders' while the latter would be borne by ratepayers. Furthermore, the greater concern should be the danger of wasting customer education and outreach funding, as there is no evidence that such funding expended for the Smart Rate has produced viable results.

PG&E has always assumed that mass media would be one of its major communication methods, and this was discussed in its AMI Upgrade business case.[31] In addition, DRA has supported PG&E to move forward with its mass media outreach and

[29] PG&E OB, ibid.

[30] The $8.3 million and $3 million did not account for the $1.6 million that was supposed to have been granted in the Upgrade for contingency. Therefore, if the contingency allowance was counted, the incremental fund based on PG&E's updated case would be $6.7 million and for DRA's case, it would be $1.4 million.

[31] "PG&E has developed a general strategy for an estimated $7.5 million annual marketing campaign to achieve an average of 50% residential awareness rate of an event without any enabling technology. The media strategy calls for two phases to achieve the objective: Education phase: This includes a pre-summer media and PR effort to raise general awareness of the program; and 2. Event phase: Media and PR during events focused on immediately notifying customers an event is in effect. The day of the event activities will include newspaper, spot radio, TV and geo-targeted online efforts." D.09-03-026, mimeo, pp 74-75.

notification. As stated in DRA's testimony and Opening Brief, DRA did not recommend any mass media funding disallowance.[32] Finally, if Smart Rate could ever be expanded to yield the kind of participation that PTR could provide, comparable mass communication also might need to be employed for outreach and notification.

As explained in DRA's Opening Brief, even under PG&E's latest and most pessimistic scenario, the demand response from PTR is substantially higher than what PG&E expected its SmartRate to generate.[33] Hence, PG&E's current plan to replace SmartRate with PTR provides the Commission no assurance of producing comparable benefits, and doing so could be very detrimental to ratepayers.

3. Demand Response Benefits of PTR compared with Other Alternatives

In its Opening Brief PG&E argues that "it is very possible that the Commission will be giving up little, if anything if the proposal to postpone PTR" is adopted.[34] PG&E estimates that PG&E's PTR program will only deliver demand response benefits between 48 MW to 108 MW.[35] As DRA discussed in its Opening Brief, the Commission just issued its Demand Response Decision indicating that PTR would deliver significant load reduction for both Southern California Edison ("SCE") and ("SDG&E").[36] SDG&E's PTR program is expected to produce between 69 and 71 MW of peak load reduction between 2012 and 2014. SCE's PTR program is expected to produce between 332 and 371 MW of peak load reduction over the same period.[37] PG&E was an active participant in the Demand Response proceeding. PG&E never challenged these forecasts. Yet, without any real justification of its analysis, PG&E now argues that PTR can only be

[32] DRA OB, p. 35.

[33] DRA OB, pp. 16-17.

[34] PG&E OB, p. 34.

[35] Ex. PG&E-18.

[36] D.12-04-045, Appendix B.

[37] Ibid.

expected to achieve a much lower amount of demand response, even though PG&E is larger than both SDG&E and SCE.

The Commission should give no weight to PG&E's guesses that the demand response benefits will be only 48 to 108 MWs. These estimates are much different than what PG&E proposed and the litigated outcome in the AMI upgrade proceeding. They are also so much lower than what the Commission recently adopted for SCE and SDG&E that they lack credibility. Further, PG&E did not produce these estimates in its testimony or rebuttal testimony, but, rather, in response to questions from the ALJ during hearing. They have not been tested by vigorous analysis, or been subject to the litigation process, as have been the projections developed in the AMI upgrade and demand response proceedings. Moreover, they are clearly biased towards PG&E's position that PTR will not succeed.

4. Customer Impacts and Satisfaction

In comparing an optional CPP program with no PTR to PTR rates, the Commission should take into account the following advantages and disadvantages to customers of the programs as testified by DRA, and unrefuted by PG&E:

> *CPP has significant disadvantages for individual customers that limited its attractiveness as an opt-in rate. First of all, customers need to make a commitment in advance to the program. Secondly, they will experience the very nature of the program greater month-to-month bill volatility than the would under their normal rate. Three, there is a risk of higher bills after bill protection expires. And four, there is no flexibility… to opt out of specific events which might be a desirable characteristic if the customer experiences sort of unusual circumstances like a visitor or, you know, an elderly relative decides to come in and visit for a while, or there is an illness in the family. So it is a very inflexible program.*
>
> *And conversely, PTR I see as a much more customer friendly program issue. There is no risk of higher bills for individual customers, at least in the short term. There is no need for an advanced commitment by customers. They can participate or not participate as they see fit. They have complete flexibility to use energy as needed for comfort and health without*

penalty, without any penalty beyond normal rates if they simply choose not to respond to a particular event

And another thing that is very interesting is in a PTR program there is a need to have a minimum number of events. We see with CPP that the number of events is limited in California to 9 to 15 events. So even if a cool summer as we had in San Diego, the utility is forced to call events even when there is no need simply because of a revenue constraint. There is no such revenue constraint with PTR. So if there is no need, if there is a cool summer you don't have any events. You don't need to annoy people. And conversely, if it is a unusually hot summer you can have more than 15 events without causing necessarily a revenue problem.

There is absolutely no evidence that any customers have been dissatisfied with PTR. Whereas, the SmartRate has a very low voluntary enrollment rate, and PG&E admits that enrollment rate has been helped by $50 sign up payments.[38]

5. Accuracy and "Structural Benefits"[39]

While PG&E writes much about the problems with PTR, and how the inaccuracy of the rebates is a fatal flaw in the program, PG&E disregards all of the problems with its preferred SmartRate (CPP) alternative.[40] In fact, the entire discussion of structural inaccuracy in PG&E's Opening Brief is disingenuous because: (1) PG&E provides no new evidence that could not have been known to the Commission when it approved AMI for PG&E, SDG&E, and SCE, based in part on the demand response provided by PTR; and (2) PG&E's fails to respond to evidence that the SmartRate also causes structural benefits that could be comparable to those of PTR. In fact, in touting its SmartRate, PG&E completely ignores the fact that CPP will produce structural benefiters and free riders also. As DRA testified, a customer who is living in a cooler coastal area, and is on SmartRate, could receive a significant discount on his electric bill even without taking

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[38] Ex. DRA-3, p. 31.

[39] Although all parties agreed on a common briefing outline for this proceeding after much deliberation, PG&E chose to ignore the common outline for this heading and instead use a more self serving heading.

[40] PG&E OB p. 25.

any action to lower usage. Such a customer would be "getting a payment for doing nothing."[41] While PG&E claims that it only targets SmartRate to the Central Valley, their own report shows that they have marketed SmartRate to customers who have received Smart Meters, and spent significant ratepayers dollars doing so.[42]

6. Timing Relative to Generation Capacity Forecasts

7. Cost

PG&E argued that, though it requested $32.3 million incremental cost to perform a successful two-stage rollout of default PTR, the true costs of default PTR is much more:

> *Because of inherent CRL inaccuracies, an annual shortfall of between $20 and $34 million still have to be recovered in all residential customers' rates, based on a PTR-a incentive of 50 cents per kWh, as DRA's witness agreed. (DRA, Levin TR. p. 633, lines 15 - 20; Ex. PG&E-2, p. 1-5 and 9-28, lines 3 - 11.) Furthermore, every year after the initial rollout, the utility still has to advertise that the program exists, make 4.5 million customers continually aware of it, and incur the costs of mass media notification for all, plus direct one-to-one notification for those requesting it. Those and other ongoing costs of default PTR would amount to about $15 million per year in 2105 and 2016, assuming a full roll out of PTR in 2014. (Ex. DRA-1, p. 5-5, PG&E, Response to DRA-026, Q 1; Ex. DRA-6.)* [43]

It should be first noted, in its "Ordering Paragraph 3" ("OP3") report, that PG&E touted that even structural winners provide demand response.[44] Nevertheless, the revenue shortfall caused by the so-called CRL inaccuracy, which is recovered through a rate increase to other customers, should not be included in cost-benefit analysis of the program. From the perspective of all ratepayers, the participants bill reduction benefits

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[41] DRA/Levin, 4 RT 617, lines 11-28 through RT618, lines 1-11.

[42] Ex. PG&E-18. "In 2011, customers with a newly-installed and/or read SmartMeter received up to three outreach communications integrating information on SmartRate with information on the SmartMeter. "

[43] PG&E OB, p. 35.

[44] Exhibit DRA-3, at 48.

will cancel out the non-participants' bill increase costs. PG&E's witness admitted as such:

> *Q At line 23, page 1-5, you say: PG&E's original unchallenged estimate of structural savings was in the range of 30 million to 50 million annually based on a $0.75 per kilowatt-hour PTR-a incentive.....Was that structural savings taken into account in the business case of Application 07-12-009?*
>
> *A Number 07, that's the upgrade Decision, correct?*
>
> *Q Yeah.*
>
> *A Or Application. Thank you. No. It is my understanding that the cost effectiveness used in that case would not recognize the structural savings. And I don't believe it was factored in.*[45]

PG&E witness' understanding is consistent with the Commission's adopted method for estimating the cost-effectiveness of demand response programs, as shown in table below:

Table 1: Costs and Benefits Considered in the Four SPM Tests[46]

	TRC	**PAC**	**RIM**	**Participant**
Administrative costs	COST	COST	COST	
CAISO market participation revenue	BENEFIT	BENEFIT	BENEFIT	
Avoided costs of supplying electricity	BENEFIT	BENEFIT	BENEFIT	
Bill Increases				COST
Bill Reductions				BENEFIT
Capital costs to LSE	COST	COST	COST	
Capital costs to participant	COST			COST
Environmental benefits	BENEFIT			
Incentives paid		COST	COST	BENEFIT
Increased supply costs	COST	COST	COST	
Market benefits	BENEFIT	BENEFIT	BENEFIT	
Non-energy/monetary benefits	BENEFIT			BENEFIT
Revenue gain from increased sales			BENEFIT	
Revenue loss from reduced sales			COST	

[45] PG&E/Pease, 1RT, 44, lines 8-28.

[46] D.10-12-024, "DECISION ADOPTING A METHOD FOR ESTIMATING THE COST-EFFECTIVENESS OF DEMAND RESPONSE ACTIVITIES" at 34.

Notably, the cell representing "Incentives paid" under the Total Resource Cost ("TRC") test is blank, indicating that the incentive costs are merely a transfer payment between those who receive incentives and those who do not.

In addition to this revenue shortfall, PG&E tried to inject new costs to assert that PTR is not cost-effective. These include $15 million per year, which consists of $7.9 million outreach and $5.1 million inquiry cost.[47] It is troubling that PG&E's analysis was not comprehensive when its goal was to justify a significant investment of hundreds of millions through its AMI business case. Only when it came to the time to implement the program did PG&E started to realize that these costs exist. DRA notes, in the Opening Brief, that the Commission should not grant PG&E additional funding that was not included to justify the SmartMeter Upgrade cost-benefit analysis. Some kind of customer outreach and the provision for customer inquiry would have been required to implement any PTR program, whether it was one-part or two-part PTR. PG&E should not be allowed or encouraged to understate its costs to justify a project, and once it is approved, turn around and request additional cost recovery.[48] The Commission should ignore these "additional on-going costs".

IV. PROGRAM ELEMENTS

A. Design of PTR Generally

B. Design of Customer-Specific Reference Level (CRL) as the Savings Threshold

C. Bill Protection

DRA proposed to exclude PTR benefits from the bill protection ("BP") calculation for customers electing SmartRate.[49] PG&E opposes DRA's proposal.[50]

[47] DRA OB, at 39.

[48] DRA OB, p. 39.

[49] Ex. DRA-1, p. 2-10.

[50] PG&E OB, pp. 42-43.

PG&E's OB states[51]:

> *"The concept associated with bill protection on SmartRate is very simple. Specifically, if a customer agrees to take the risk of enrolling in SmartRate, they should be provided assurance over a limited period of time that they will pay no more under SmartRate than under the schedule that they otherwise would have taken service. Since customers on PG&E's standard schedules will be served with PTR unless they elect SmartRate, SmartRate bill protection should include the benefits that the customer would have otherwise received under PTR. Only by including PTR benefits in this manner will a customer truly be indifferent to choosing SmartRate during the bill protection period. In its discussion of bill protection, the Commission describes its intent as follows: "With bill protection, a customer's first year on a new PDP rate is a no-lose proposition since any annual increase relative to the otherwise applicable rate will be refunded." (D.10-02-032, p. 15.)*

Contrary to PG&E's OB, PG&E's BP proposal is inconsistent with the Commission's broader objective, which is to foster cost-effective demand response. PG&E's statement that "only by including PTR benefits in this manner will a customer truly be indifferent to choosing SmartRate during the bill protection period"[52] has it backwards. Under PG&E's proposed bill protection scheme, a customer cannot lose by choosing CPP, but can lose by choosing PTR. Under DRA's proposal, both PTR and CPP would be protected relative to the pre-existing non-dynamic rate (E-1, in most cases). Unlike PG&E's BP proposal, DRA's BP proposal does not favor either demand response program, whether it is SmartRate or PTR. Both PTR and SmartRate use the capability of AMI to promote demand response. There is no evidence that the Commission intended to favor CPP over PTR, as would be the case under the PG&E proposal.

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[51] PG&E OB p. 39.

[52] PG&E Opening Brief, p. 42.

Finally, DRA's BP proposal is consistent with bill protection for non-residential customers, while PG&E's is not. Nonresidential customers have only one dynamic rate option, and bill protection is with respect to the otherwise applicable non-dynamic rate. In most cases, the otherwise applicable non-dynamic rate for residential customers is Schedule E-1. For consistency with nonresidential customers, bill protection should be with respect to the E-1 rates without PTR.

D. Customer Outreach and Education Methods

E. Other Program Design Issues

V. PTR REVENUE REQUIREMENT AN COST RECOVERY

A. Uncontested Issues

1. PG&E's Proposal to Address PTR Triggered CARE Shortfall is not an uncontested Issue, Nor is it Lawful.

On page 47 of PG&E's OB, PG&E makes an untimely proposal to change how CARE shortfalls are calculated and allocated. It is inappropriate to make a new proposal for the first time in a brief. For that reason alone, DRA recommends that this proposal be rejected. This proposal also would be a violation of Public Utilities Code Section 327 (a) (7) and a provision of the all-party Settlement Agreement on Marginal Cost and Revenue Allocation that was adopted by the Commission in D.11-12-053.

PG&E states on p.46 of its OB that it proposes to allocate structural savings back to the residential class. And PG&E goes on to say that the "…allocation of these structural savings will make upper tier residential rates higher than they otherwise would be." (PG&E OB, p. 46) If structural savings costs result in higher upper tier residential rates, this will result in an increase in the CARE shortfall (at present), as it is defined by a provision of the all-party Settlement Agreement on Marginal Costs and Revenue Allocation[53]. The CARE shortfall is calculated as the difference between CARE and

[53] Decision 11-12-053 adopted Settlements on PG&E's recent GRC Phase II proceeding. Appendix A, the Settlement agreement on Marginal Cost and Revenue Allocation contains the following provision: The cost of the CARE program will be determined and the CARE surcharge will be set once per year in the Annual Electric True-Up (AET) proceeding based on the difference between CARE and non-CARE rates excluding the CARE surcharge, the CSI and DWR Bond charge. The cost will be allocated to

non-CARE rates excluding the CARE surcharge, the CSI and DWR Bond Charge. If non-CARE upper tier rates increase and CARE rates increase by different amounts, this will result in an increase in the CARE shortfall. And PU Code Section 327 (a) (7)[54] clearly requires that the costs of the CARE program be allocated on an equal cents per kWh basis.

PG&E's proposal to "refrain from counting the amount of PTR structural savings toward the CARE discount" would unilaterally change a provision of a settlement that defines how to calculate the CARE shortfall. It also would result in a portion of CARE costs not being allocated as required by PU Code Section 327 (a) (7). PG&E's proposal should be rejected as it would result in a violation of state law.

B. Outreach and Education Costs

PG&E's Opening Brief is very critical of DRA's Outreach and Education funding proposal, claiming that "DRA's witness lacks marketing expertise" and that "DRA's testimony lacks proper factual foundation."[55] The fact that DRA's witnesses do not work in marketing does not make them unqualified to analyze PG&E's funding proposals. As DRA described in its Opening Brief, PG&E has continually increased its estimated outreach costs with extremely poor results. These results should be plainly obvious to any analyst and do not speak well for PG&E's marketing expertise.

1. PG&E's Marketing of SmartRate Has Been a Complete Failure

PG&E's criticisms of DRA's more modest outreach and education proposals is particularly surprising considering what a failure PG&E's marketing of its SmartRate has been. As DRA described in its Opening Brief, between 2008 and 2011, PG&E has sent

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eligible customers on an equal cents per kWh basis and collected through the CARE surcharge component of PPP rates. This iterative determination of the CARE surcharge is described in paragraph VIII, 1. F. 3, above. (Appendix A, Section VIII, part 3e (1), p. 15

[54] PU Code Section 327 (a) (7) states: For electrical corporations and for public utilities that are both electrical corporations and gas corporations, allocate the costs of the CARE program on an equal cents per kilowatthour or equal cents per therm basis to all classes of customers that were subject to the surcharge that funded the program on January 1, 2008.

[55] PG&E Opening Brief pp. 49-54.

direct mailings to its customers and at a cost of close to $37 million.[56] However, it has generated very few (22,136) enrollments. This translates to $1,660 per participant. In describing the fact that acceptance in 2009 (3.34 percent) was lower than in 2008 (8.0 percent), PG&E states that "this difference is due, perhaps in large part, to the fact that the 2008 campaign offered a $50 sign-up incentive to all customers whereas most marketing waves in 2009 did not include an incentive."[57] So PG&E's has had to essentially entice customers to sign up for SmartRate, and the sign up incentive has produced an abysmal sign up rate.

Further, in 2011 alone, the company spent $19,284,518 to for 1,391 new enrollments, which translates to $13,863.78 per enrollment, an unacceptably expensive marketing campaign borne by PG&E's ratepayers.[58] For 2011, PG&E states that it:

> *"…did not track the quantity of unique customers that received more than one communication as part of the integrated campaign in 2011. At a minimum, however, 1,778,371 unique customers received at least one of these integrated outreach materials in 2011. As a result of the 2011 integrated outreach campaign, PG&E received 13,369 customer indications of interest in SmartRate."*[59]

This is an unbelievably low interest rate, yet the company insists on spending more money marketing this program rather than PTR. This amounts to throwing good money after bad and should be rejected.

2. PG&E's Direct Mail Cost Request should be Rejected

In the Opening Brief, DRA has fully demonstrated that PG&E's direct mail technique was too costly.[60] Whereas PG&E suggested, in its Opening Brief, that the

[56] Ex. DRA-3, p.42; Ex. PG&E-20, table 3-6.

[57] Ex. DRA-3, p. 31.

[58] Ex. DRA-3, Tables 3-2, p. 24 ; Ex. PG&E-20 table 3-6.

[59] Ex. PG&E-20, FN 4.

[60] DRA OB, p. 34.

direct mail is necessary to maximized enrollment by technology-enabled customers.[61] PG&E provided no real empirical evidence to show how direct mail improved enrollment cost-effectively. In its own defense, PG&E notes that, according to SDG&E's PTR pilot study, SDG&E will continue to use direct mail as the primary source for program education.[62] However, it fails to recognize that SDG&E's customer feedback:

> *[I]t appears that the direct mail strategy worked well for the pilot; however, there is an interest in more environmentally friendly communication channels, such as mass media and email, to communicate the program on a larger scale in 2012. The two messages are currently being evaluated….to determine which message was more successful and will be used in the 2012 full roll-out.*[63]

3. The Commission Should Adopt DRA's Proposal that PG&E Redirect Funding to PTR

In this proceeding, DRA has argued that PG&E's two largest spending categories, Customer Outreach and Education and Customer Inquiry, should be funding from unspent funds authorized in D.06-07-027.[64] PG&E has had plenty of time, and has spent plenty of money, marketing SmartRate without success. On the other hand, the Commission has found that PTR will deliver significant demand response in the recent Demand Response Decision. PG&E opposes DRA's proposal, arguing that "using funds for their intended purpose is both appropriate compliance with the CPUC's decisions to date, as the well as the right thing to do for PG&E's customers and the state." As stated above, PG&E's proposal to continue aggressively marketing SmartRate amounts to throwing good ratepayer money after bad and should be rejected.

Even before the Commission issues its final decision in this proceeding, the company should consider its customers' interests in having their money spent wisely.

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[61] PG&E OB, p 51.

[62] PG&E OB, p. 53.

[63] Exhibit PG&E-11 p. 22.

[64] DRA OB, p. 30.

Indeed, there is nothing improper about the company redirecting money in this instance. In fact, within PG&E's Smart Meter deployment program, more money has been spend on Information Technology upgrades than was initially estimated, and less money was spent on other areas. PG&E has treated funding as fungible even outside the Smart Meter arena. As the Commission's Consumer Protection and Safety Division ("CPSD") report in the San Bruno investigation states,

> *"A Commission audit shows that PG&E was provided rate recovery for pipeline transmission operations and maintenance; however, every year since 1996, PG&E Company spent 4.9% or $39 million less than the Commission authorized over the period 1997 to 2010."*[65]

Here, it is appropriate for PG&E to redirect money from SmartRate marketing to PTR, rather than requiring more money from ratepayers.

C. Customer Inquiry

PG&E argues that the Commission should reject DRA's proposed disallowance in customer inquiry area.[66] PG&E states that it receives many customer phone calls on an annual basis, and that PTR would generate more customer inquiries:

> *No matter how clear the outreach messaging, experience consistently indicates that about 5% of those customers affected by a new program or rate will call or visit a PG&E local office in the first year they are exposed to the rate. In addition, PG&E's PTR program, based on mass media outreach, will inform customers that if they want to be notified of events to either go on line or call PG&E. These calls alone could easily amount to half of the assumed 5%. (Ex. PG&E-2, p. 5-3, lines 2- 6; PG&E Phillips, TR. p. 769 lines 15 - 28). PG&E received over 18 million calls to its 800 number in 2010, of which about half cannot be handled by*

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[65] Consumer Protection & Safety Division Incident Investigation Report, Released January 12, 2012, p. 131. I.12-01-007, Ordering Paragraph 12 makes this report an Exhibit in that proceeding. PG&E OB, pp. 17.

[66] PG&E OB, p. 58.

automated systems and are thus handled by PG&E's approximately 900 Customer Service Representatives.[67] *The forecasted percentages of customers who are expected to call in during the first two years of PTR equates to about 71,400 calls in 2013 when Stage 1 rolls out to 420,000 customers, and, in 2014 with the Stage 2 PTR rollout to the remaining 4.1 million customers, PG&E expects 764,511 customers will call and talk with a CSR for details regarding the default tariff.*[68]

If this is the case, it unclear why PG&E did not seemingly identify customer inquiry implementation costs in the Upgrade case. DRA suspects that this omission may have been based on the fact that PG&E routinely asks for tens or hundreds of millions of dollars in customer inquiry costs in its GRC Phase one proceedings. To the extent that relatively minor incremental costs might have been foreseen, they could easily have been absorbed into the GRC budget.[69] Based on the customer inquiry calls that PG&E described in its Opening Brief and quoted above, the forecasted PTR phone calls would represent approximately 0.4 percent (in 2013) and 4 percent[70] (in 2014) of the annual calls that PG&E generally receives.

As DRA has previously noted, it would not be a good policy to grant additional funding that was not identified in the cost/benefit analysis that was used in justifying the funding for AMI. This merely would reward poor planning, give no incentives for the utility to control its costs, and provide the utility with no accountability.[71]

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[67] Ibid.

[68] PG&E OB, p. 61.

[69] DRA OB p. 39.

[70] 71,400/18,000,000=0.4%, 764,511/18,000,000=4%.

[71] DRA OB, p. 39.

D. Information Technology and Online Enablement

1. PG&E's Alleged New Functionalities are Suspect

In its Opening Brief, PG&E disputed DRA's IT estimates.[72] The Commission should take PG&E's new estimates with skepticism. The purpose for both PG&E's February 2010 and October 2011 update filings remains identical, and that is to determine the incremental costs of adding functionalities to enable PTR-b.[73] PG&E tried to use Exhibit DRA-7 to suggest that the true costs were much smaller for the specific functionalities for which DRA recommended disallowances. However, one cannot infer the alleged smaller funding amount by reviewing DRA-7.

Yet DRA-7 casts many doubts about PG&E's claimed new functionalities. First of all, the business recommendations for a PTR Scope presentation to PG&E's management were made in June 2010. This is merely 3-4 months after PG&E filed its initial PTR application that contained lower costs than did the update filing. Second, preparing such presentation package likely would have required some time. For it would have involved discussions between PG&E personnel in various departments, identification of business needs, validation relative to market conditions, customer feedback, etc. So, it is very conceivable that the discussion would have started a few months before February 2010. PG&E's IT witness testified about how thorough process this process is:

> *A There is -- we have a very carefully scripted governance and gating process for cost authorization to do work. Depending on the work we are doing, we first need to make sure it is purely incremental work, because it needs to be in adherence to the work we are being asked to do. We shouldn't be building things for work that is outside the scope of the request, even outside of these proceedings. It is best*

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[72] PG&E asserted that it indicated modest costs of $37,826 allocated for third-party vendor services to support PTR-b enrollment. (PG&E OB, at 64.) However, it is not clear how this relates to DRA's disallowance of "moving enrollment functionality and processes, currently supported via a 3rd party provider, to internally supported functionality through enhancements to the PG&E CC&B system." One is the funding for 3rd party while DRA's disallowance is on PG&E's internalizing this process.

[73] PTR-b is the higher rebate level paid to customers who install home area network devices.

practice to focus on what you need to do. Then those costs are -- go through a series of both IT gates and business gates. And I believe in my -- one of the data responses I refer to our -- we have what is called a CAB process for Customer Advisory Board. All changes and costs for those changes go through that board, and everything -- all the steps up to that.[74]

Based on this kind of time line, it was not clear for whom PG&E was preparing these business requirements. At that time, there was no indication that the Commission might delay the PTR proceeding, and that PG&E might file its PTR update. It might be that PG&E was engaging in a process of finalizing business requirements for internal use, and had no intentions of updating its cost requests before the Commission. As PG&E's IT witness noted, the earlier estimates were "conceptual" in nature. It would not be surprising that this PTR scope presentation was PG&E's internal discussion aimed at making its estimates more precise.

The presentation also demonstrated that the majority of the assumptions for the business recommendations appeared invalid when PG&E filed its October 2011 updates. For example, as PG&E's IT witness testified:

Q Just turn to the next page of this PowerPoint after the cover page. It says PTR-b Recommendation, and then it shows 2011. Below that there is a bullet point, "Approximately 8600 to 10,000 customers." Does that mean that you expected 8600 to 10,000 customers in 2010 to have PTR-b, or does that mean something else?

A I think this is under the assumption if we rolled out PTR in 2010, yes, that we would have 86 to 10,000 customers.

Q But that didn't happen, right?

A Correct.

Q And then under 2012 it says 45,000 customers. So based on the current schedule would that 2012 be -- would that be updated to 2014, do you know?

[74] PG&E/Warnock, 2RT, 182, lines 10-27.

A So we would need to reassess this. Time has passed[75].

PG&E indicated that it was going to perform a HAN pilot for 500 customers initially. And, it also was hoping to expand that participation to 5,000 by 2013.[76] However, this HAN pilot is based on ZigBee version 1.0, which is awaiting an upgrade to new industry standards. These impending of changes and the associated uncertainties further call into question PG&E alleged need for the new functionality. Indeed, we cannot know what the requirements will be to accommodate the new ZigBee standard.[77] PG&E's PTR-b scope and business recommendations package contains the projected funding, but it will need to be adjusted to reflect the delay that has already occurred in implementing PTR. Moreover, the whole approach may not be the lowest cost option, according to DRA consultant:

> *Q But it is your recommendation that if any customer wants to sign up for PTR-b, that they have to call a third party number, is that your recommendation?*
>
> *A Yes, as it is done today with your Smart AC program, the same process and procedure, so we don't have to build a new system, which I imagine is successful right now, as you articulated to me in the AC program.*
>
> *Q And what's the basis -- was it your conclusion that few new customers will sign up for PTR-b?*
>
> *A Yes, based upon the fact in the testimony by PG&E the current structure of being able to apply for the PTR-b is restricted based upon the current technology deployed. Now that may change in the future based upon how PG&E completes some of its home area network architecture designs and offers additional energy reduction capabilities, but as it is now it is quite restricted and is flowing along the same*

[75] PG&E/Warnock, 2RT, 187, lines 6-24.

[76] Ex. PG&E-5, p. 3-2.

[77] PG&E confirmed that it would wait for ZigBee 2.0 and does not anticipate it to be available prior to 2014. Ex. PG&E-5, p. 3-3.

paths that you have tested and worked with for the last number of years. And you have said it has been successful[78].

2. The Commission Should Adjust PG&E's IT Incremental Costs Down by $1.6 Million

PG&E continues to argue that its incremental IT costs are $8.6 million,[79] ignoring the contingency allowance granted in the Upgrade decision. In its response to a question asked by the ALJ, PG&E stated that D.09-03-026 did not earmark a portion of the contingency (Risk-based Allowance) for IT or any for other specific purposes. This interpretation is contrary to the Upgrade decision. The Commission noted, in adopting PG&E's broad application of the risk-based allowance methodology for the Upgrade, that it is essential to make sure such costs would not be recovered again in another proceeding:

> *In adopting PG&E's broad application of the risk based allowance methodology to its cost estimates, for both the original AMI project and the Upgrade, we feel it is vital to fully consider the implications of the risk based allowance concept. Specifically, we must consider if, and to what extent, it can be assumed that the risk based allowances for the original AMI project should cover specific requested Upgrade costs. Also, going forward, <u>we must be vigilant in identifying future costs related to the Upgrade that should be covered by the risk based allowance that we are adopting today, rather than covered by additional rates adopted in another proceeding</u> where such costs might be raised, such as in a future general rate case (GRC).*[80]

PG&E's own workpapers identified that $1.6 million was included as a risk-based allowance for the PTR IT project.[81] It clearly states that PG&E received an IT-related contingency allowances associated with the $4 million that was approved for IT related

[78] DRA/Pennington, 3RT 349, lines 22-28.

[79] PG&E OB, p. 62.

[80] D.09-03-026, mimeo, p. 90, emphasis added.

[81] Exhibit PG&E-3, WP 4-7, Risk based allowance, IT contingency.

work in the Upgrade. It further notes that the $1.6 million represents a 40% contingency allowance on the $4 million approved for PTR related IT work, which was PTR system integration.[82]

Accordingly, the Commission should adjust PG&'s incremental IT cost request $1.6 million downward.

E. Recovery of Costs in the GRC vs. Recovery in this PTR Proceeding

DRA has addressed this issue in the Opening Brief. PG&E continues to oppose to DRA's recommendation to defer 2014 outreach and inquiry costs to 2014 GRC phase 1.[83] PG&E argued that the Commission's decision for 2014 GRC may be delayed to the first or second quarter of 2014. It complained that PG&E would not know what tactics were funded for the summer of 2014. Therefore, PG&E argued that it is not proper to defer such cost determination in 2014 GRC.[84] DRA would like to note that this is another area that PG&E demonstrates its unwillingness to take some risk when it is involved with shareholder costs. Ratepayers have already been unfairly burdened with substantial reduced Smart Meter-enable rate benefits. It is inequitable to further expose ratepayers to substantial risks for duplicative cost recovery if these same type of costs are addressed in two places: this PTR proceeding and the 2014 GRC case.

F. Other Revenue Requirement/Cost Recovery Issues

VI. OTHER ISSUES

VII. CONCLUSION

For the reasons discussed in DRA's testimony, Opening Brief and this Reply Brief, the Commission should adopt DRA's primary recommendation to order PG&E to proceed with the PTR program. PG&E's proposal that the Commission should rely on PG&E's SmartRate program for residential demand response, rather than the PTR

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[82] Ibid.

[83] PG&E OB, pp. 66-68.

[84] Id, p. 68.

program approved by D.09-03-026, is built entirely on two speculative premises and should be rejected. First, PG&E warns that PTR would cause customers to become angry because of "customers who *do* take action and use less energy on the event day, but due to the inaccuracy of the CRL as a proxy, are not paid because they did not end up getting below the savings threshold."[85] This is pure speculation, for PTR was been tried repeatedly and no indications of customer dissatisfaction have surfaced. Second, PG&E claims that the Commission may not be giving up much demand response by setting aside PTR in favor of SmartRate.[86] Yet, even if PG&E could quadruple its SmartRate enrollment, the demand response would be much lower than is possible with PTR, where all customers not on SmartRate are participants.

Further, the Commission should adopt DRA's reasonable revenue requirement proposals.

Respectfully Submitted,

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[85] PG&E OB, p. 21.

[86] PG&E OB, p. 34.