**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
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RESPONSE OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION TO THE PETITION FOR MODIFICATION OF THE DIVISION OF RATEPAYER ADVOCATES AND THE UTILITY REFORM NETWORK OF D. 08-07-045

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Pursuant to Rule 16.4 (f) of the Commission's Rules of Practice and Procedure, the California Large Energy Consumers Association ("CLECA") files this response to the Petition for Modification of D.08-07-045 ("Petition") filed jointly by the Division of Ratepayer Advocates ("DRA") and The Utility Reform Network ("TURN"). In their Petition for Modification, DRA and TURN request a delay of the implementation of voluntary Critical Peak Pricing ("CPP"), also referred to as Peak Day Pricing ("PDP"), for residential customers of Pacific Gas and Electric Company ("PG&E") until February 1, 2013, one year later than the current date of February 1, 2012. They also request that PG&E's E-RSMART program be closed to new customers on February 1, 2011 and that it be moved to the new residential PDP rates on February 1, 2013 unless customers opt to return to the default Peak Time Rebate ("PTR") option. DRA and TURN also ask for a delay in the implementation of default residential PDP rates until 2016 or later and a delay in the implementation of voluntary residential Real Time Pricing ("RTP") until 2018 or later. CLECA opposes this Petition for Modification for the reasons stated below.

I. INTRODUCTION

The Commission has expressed its strong support for the implementation of dynamic pricing for all customers, subject to statutory constraints. Dynamic pricing is an essential part of the Commission's demand response efforts, which play such a prominent role in the State's Loading Order. CLECA has been supportive of the Commission's dynamic pricing initiative, with the proviso that it should apply to all customers, not just the largest ones, and that it should be utilized for customers as soon as they have the necessary metering capability in place. The purpose of dynamic pricing is to send accurate and timely price signals to customers, signals which reflect the variation in costs of serving them by time of day, day of the week and season. Such timely price signals will permit customers to decide whether they want these additional costs to be incurred on their behalf and whether they wish to change their usage patterns in ways which will lower those costs. The only way to do this is enable customers to see prices that reflect these cost differentials and to enable customers to respond, in a timely way, to the signals.

Much of the justification for the AMI program rests firmly on the anticipated benefits of implementing dynamic pricing. Much of the alleged benefit of Smart Grid expenditures is based on the expectation that customers, with more information on pricing and more technology that allows them to respond readily to prices, will adjust their usage patterns and both reduce overall system costs and facilitate integration of intermittent renewable resources like wind and solar. Thus, dynamic pricing is also central to both the Commission's renewable policy objectives and to its ongoing effort to manage the ongoing increases in the cost of electricity.

The delay in the implementation of dynamic pricing proposed by TURN and DRA works against the Commission's objectives. It will delay the availability of dynamic pricing options that will meet the Commission's overall objectives and continue in their stead a pseudo dynamic pricing tool called "peak time rebate" or ("PTR"). We do not deny that PTR has been associated with peak load reductions. However, PTR is a poor substitute for real dynamic pricing. It does not tell customers when power is more expensive. Instead, it gives them a rebate if they use less power during event periods (which are assumed to be high cost periods) and it has no impact on them if they choose *not to change* their behavior.

Under PTR, customers can continue to utilize electricity as they have under flat rate pricing without any impact on their bills and, presumably, on their behavior. PTR rebates are paid for by other customers in the same class. Since the level of the rebate is likely to be higher than the cost of power during these high cost periods, the dollar amount of the rebates will not be directly offset by lower costs, resulting in a net subsidy to customers receiving rebates. Because PTR uses a baseline methodology, where CPP does not, these other customers also pay rebates for usage changes related to factors other than a response to an event period (structural benefits). This is demonstrably inferior to having customers pay more during high cost periods to reflect the fact of higher costs. PTR does not communicate directly the high prices during high cost periods (i.e. cause and effect), it allows for the existence of structural benefiters, it creates no downside for customer inaction during high cost periods, and it results in a lack of equitable treatment for customers subject to PTR and those without this option, i.e. all other customers.

What PTR does provide is a means of avoiding the charging of small customers the actual costs of power in high cost periods in a way that could actually increase their bills. It explicitly attempts to "insulate" customers from these fundamental pricing effects, in direct contradiction to the Commission's goals in pricing. PTR is fundamentally discriminatory in that it treats these smaller customers differently than larger customers are treated, and it protects them from the very price signals that it is the Commission's intention to provide. This outcome is particularly perverse given, as noted below, that the residential class has demonstrated its ability to be the most price-responsive of all the customer classes. There is fundamentally something wrong with the concept of PTR and with the TURN and DRA Petition for Modification which would enshrine PTR for years as the sole dynamic pricing option for residential customers in California. The Commission is really asked in this docket to decide if it is serious about the use of dynamic pricing to advance its demand response and Loading Order goals.

II. RESPONSE TO PETITION TO MODIFY

The Petition for Modification argues that residential customers will be confused if a CPP rate is offered at the same time that PG&E is offering a PTR option. Since PTR implementation is delayed until 2011, the petitioners argue that CPP should be deferred and offered later, on the grounds that PTR and CPP are "largely duplicative and the simultaneous release of both will result in customer confusion". CLECA strongly disagrees with the contention that these two programs are largely duplicative. These rate options, both of which are designed to motivate customers to reduce electricity demand during certain time periods (referred to as events), utilize very different approaches and have different economic impact on both participating and non-participating customers. Under PTR, customers are paid for reductions in usage from a calculated baseline during an event. Under CPP (or PDP), customers pay very high rates for usage during these event periods.

We have listed above the major drawbacks of PTR and have provided reasons why it is inferior to other dynamic pricing options such as CPP. All other customers classes will face default (not voluntary) CPP rates once they have Smart Meters. Only residential customers have the luxury of waiting until 2014, under D. 08-07-045. In the meantime, only residential customers have the luxury of being paid for load reductions and not facing significant bill increases if they use power during event periods. We find it interesting that the Petitioners refer to the ability of residential customers to ignore voluntary CPP, yet offer it up as an interim step between PTR and default CPP. "As long as CPP is voluntary, customers are free to ignore it in favor of either doing nothing, or reducing usage attempting to gain PTR rebates. Once default CPP is implemented, doing nothing can be very costly to customers." (Petition, at p. 12.) Surely that "risk of doing nothing" is the entire point of default dynamic pricing, and we must assume that the Commission has not ordered its implementation simply for it to be ignored.

The Petition states that “once competing CPP and PTR options become available, customers will be faced with the formidable task of deciding which is better for them.” (Petition, at p. 14.) CLECA notes that larger customers do not have the PTR option at all, and must decide whether to accept default CPP or return to time of use rates, which rate form already contains a strong incentive to reduce usage during summer on-peak periods, periods which are far longer and more frequent that CPP events.

CLECA believes that there is a fundamental equity issue here. While we understand that dynamic pricing rate options should be delayed until customers have the appropriate metering and a year of meter data, the Petition for Modification would delay voluntary CPP until 2013 and default CPP until “no sooner than 2016”, which is 4-5 years after it will apply to other customers, and 4-5 years after the full installation of smart meters at all residential customer premises. This very different treatment for residential customers cannot be justified on customer education grounds.

This is particularly ironic since numerous studies have demonstrated that residential customers have a lower value of service than business customers and have historically demonstrated very significant responses to CPP-type rate designs. The Statewide Pricing Pilot demonstrated an average reduction in peak-period usage by residential customers of over 13% and up to 27% with enabling technology.[1] Residential customers in Illinois have saved on average 20% over 2007-2009 with real time pricing under the Power Smart Pricing option.[2] While studies show that residential customers can save money through PTR, there is a fundamental inequity in having residential customers see only an upside through dynamic pricing (other than subsidizing themselves and other PTR beneficiaries, and we should make it very

[1] “Impact Evaluation of the California Statewide Pricing Pilot: Final Report” Charles River Associates March 16, 2005 pages 6 and 11

[2] See http://www.powersmartpricing.org/how-it-works/

clear that other customer classes should not subsidize PTR rebates) while customers on CPP can see either higher or lower rates depending on their ability to respond to CPP event pricing.

Likewise, Illinois Power's website shows that customers can save 20% on their bills through real time pricing. Yet, the Petition would deny residential customers even voluntary RTP for another 6 years.

The Petition states that discovery responses "led DRA to conclude that PG&E's customer outreach needs improvement". This education issue is not limited to residential customers. Customer education issues related to dynamic pricing are extremely important.[3] The solution may be to have someone other than the utilities do the educating. However, CLECA does not support the notion that the customer education issue should or can justify the delay of residential rate changes while the utilities plunge ahead with changes for larger customers, most of whose usage is significantly less flexible than residential use.

The Petition also cites high implementation costs for residential CPP and PTR. These include customer outreach and education as well as costs for IT, program operations, and measurement and evaluation. Yes, we agree. PG&E's proposed costs for all of these items are very high -- we suspect too high. The solution, however, is not to delay program implementation but rather for the Commission to decide if third parties could do the customer outreach and education or implement the billing system changes better and more cost-effectively.

III. CONCLUSION

The Commission is committed to demand response and dynamic pricing is a critically important tool in its arsenal for the promotion of demand response. TURN and DRA are quite happy to see dynamic pricing applied to "other" customers but would have the Commission delay its implementation for residential customers for an unnecessary and inappropriate period of

[3] For issues related to SDG&E's roll-out of default CPP, see "Final Report California Statewide Process Evaluation of Selected Demand Response Programs, Process Evaluation of PG&E, SCE and SDG&E's Critical Peak Pricing and Base Interruptible Programs" KEMA, Inc. April 7, 2010

time. That delay will frustrate the Commission's demand response efforts, will make it more difficult to achieve GHG goals and will make more difficult the integration of new renewable generation. The Petition should be denied.

Dated: April 28, 2010

Respectfully submitted,

/S/

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CLECA/070/PLEADING/RESPONSE TO TURN-DRA PET MOD D.08-07-045 4.28.10FINAL

CERTIFICATE OF SERVICE

I, the undersigned, declare that I am employed in the County of Contra Costa, California, that I am over the age of eighteen years and not a party to the within action. My business address is 67 Carr Drive, Moraga, California 94556.

On April 28, 2010, I electronically served a true copy of the document described as **RESPONSE OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION TO THE PETITION FOR MODIFICATION OF THE DIVISION OF RATEPAYER ADVOCATES AND THE UTILITY REFORM NETWORK OF D. 08-07-045** attached hereto on the accompanying service list:

Executed on April 28, 2010, at Moraga, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

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