

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**ENERGY DIVISION**

**ITEM # 37 I.D.# 6952**  
**RESOLUTION G-3405**  
**September 20, 2007**

**R E S O L U T I O N**

**Resolution G-3405. Pacific Gas and Electric Company (PG&E) requests expedited approval of its 10/20 Plus Winter Gas Savings Program (10/20 Plus) for residential and commercial customers. PG&E's request is approved with modifications.**

By Advice Letter (AL) 2850-G, filed on July 16, 2007.

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**SUMMARY**

**PG&E's proposal to offer its residential and commercial customers a gas bill rebate for reducing their natural gas usage during January and February 2008 is approved, as modified. Major elements of this resolution are summarized below.**

1. PG&E's 10/20 Plus program provides residential and commercial gas customers with a gas bill rebate (up to a 20 percent maximum) if they reduce their gas consumption during January and February 2008 as compared to a three year average computed over the same monthly period.
2. The rebate is based on the aggregate January and February 2008 gas bills of a qualifying customer.
3. This resolution approves PG&E's request as modified because it should promote the conservation of natural gas and provide qualifying residential and commercial customers with an opportunity to reduce their 2007-08 winter gas bills.
4. The Utility Reform Network's (TURN) protest is approved, in part. PG&E shall design its 10/20 Plus radio and television advertisements so that it does not

create a perception that the utility is funding the program.<sup>1</sup> The utility shall submit a report evaluating the effectiveness of the program.

5. PG&E shall include in its marketing materials information about how customers can safely and responsibly reduce their natural gas usage.

## **BACKGROUND**

**Energy conservation is an important public policy priority of the Commission.**

In the 2003 Energy Action Plan (EAP), the Commission and other state energy agencies made a commitment to pursue steps to optimize conservation and energy efficiency.<sup>2</sup> These actions are seen as a way to ensure that Californians will enjoy adequate, reliable and reasonably priced electric and natural gas supplies. Environmental benefits, particularly reduced greenhouse gas (GHG) emissions, will also result from the reduced use of natural gas through conservation. The Commission has worked aggressively to achieve these objectives including adopting PG&E gas bill rebate programs in the past.

**The Commission has approved similar programs proposed by PG&E.**

For the past two winters, the Commission has approved PG&E gas bill rebate programs similar to the one proposed in AL 2850-G.<sup>3</sup> The basic concept of these programs is to provide residential and commercial customers with a financial incentive to conserve natural gas during heavy demand winter months when natural gas prices are high. Rebates are issued in the form of a bill credit and given to customers reducing their consumption in comparison to a past monthly period. PG&E recovers the amount of the rebates and other program costs from all customers eligible to participate in the program. These programs were authorized because the Commission found that they should encourage

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<sup>1</sup> These marketing channels are referred to as "non-print media" in this resolution.

<sup>2</sup> These goals were reiterated in the 2005 Energy Action Plan II.

<sup>3</sup> Resolution G-3384 approved the 2005-06 winter program. Resolution G-3392 approved the 2006-07 winter program.

conservation and provide customers with an opportunity to lower their winter gas bills.

**PG&E is seeking expedited approval of a gas bill rebate program to encourage the conservation of natural gas by its residential and commercial customers during January and February 2008.**

In AL 2850-G, PG&E is requesting approval of its 10/20 Plus program for the upcoming winter. PG&E seeks expedited approval of its proposal so it can begin marketing the program in advance of the winter.

The program is basically the same as last winter's. Residential and commercial customers would receive a gas bill rebate if they use cumulatively less natural gas during January and February 2008 in comparison to a three year average of past usage over the same two month period. The maximum rebate is 20 percent which is earned by achieving a 10 percent or more reduction in natural gas usage. Customers who conserve less than 10 percent receive a rebate commensurate with their natural gas savings (e.g., a 9 percent reduction in natural gas usage is rewarded by a 9 percent rebate). The rebate is applied to the combined total of a qualifying customer's January and February 2008 gas bills.

There are two substantive changes under PG&E's proposal compared to earlier Gas 10/20 programs. First, the utility proposes that their master-meter customers allocate gas bill rebates to tenants based on the number of sub-metered tenants that reside in the facility (e.g., if there are 10 sub-metered tenants, each would receive 1/10<sup>th</sup> of the total rebate). Last winter the allocations were done according to natural gas usage. The other change is a modification to the procedure used to account for the impact of weather on natural gas usage.<sup>4</sup>

PG&E anticipates that \$64 million in rebates will be issued.<sup>5</sup> The utility is also requesting \$5 million for marketing and implementation costs. This is the same

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<sup>4</sup> An adjustment mechanism is used to moderate the effect of weather on consumption and to determine the level of conservation that is considered under the program. PG&E proposes to eliminate the trigger used to determine when the adjustment mechanism would be applied.

<sup>5</sup> In a data request response to the Energy Division, PG&E based the value of the rebates on the assumption that the reduced consumption will be 85 million therms.

amount for marketing and implementation activities authorized for the prior program. Recovery of the rebates and other costs would be from PG&E's residential and commercial customers. These are the customers that are eligible to earn a rebate. Unspent amounts for marketing and implementation will be returned to ratepayers.

## **NOTICE**

Notice of AL 2850-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

## **PROTESTS**

TURN filed a protest on August 6, 2007. TURN states that it continues to support PG&E's program, but has two requests. First, TURN asks that PG&E include in its marketing a notice that the program is funded by utility customers. Suggested language for the notice is provided. Second, PG&E should evaluate the results of the program to determine its impact on conservation and to uncover any problems.

PG&E filed its reply on August 8, 2007. The utility does not endorse TURN's recommendations. PG&E believes that including a message in its radio ads unrelated to conservation and the rebate incentive will obscure the focus of the ads and may cause confusion. Also, the utility maintains that its advertisements should remain customer friendly without discussing rate design details. PG&E says that imposing a reporting requirement is unnecessary because it has provided TURN and the Energy Division (ED) with requested performance data in the past and will continue to do so.

## **DISCUSSION**

**The 10/20 Plus program should encourage natural gas conservation and provide eligible customers with an opportunity to lower winter gas bills. PG&E's proposal is approved, as modified.**

It is instructive to review the prior performance of these programs. PG&E reports that during each program a significant number of customers reduced their natural gas usage and qualified for a rebate. For the 2005-06 winter, PG&E reported that 20 percent of its eligible customers earned a gas bill rebate with an average decline in usage of 28 percent. For the 2006-07 winter, PG&E reported that 44 percent of its eligible customers earned a gas bill rebate with an average decline in usage of 19 percent.

Although other factors may be involved to produce these results, it is likely that there was a positive customer response to the programs contributing to the reductions in usage. This is because customers should readily understand that conserving natural gas to get a rebate will help minimize expenses. First, their gas bills will be lower because less natural gas is consumed. Second, attaining a rebate can further supplement these savings.<sup>6</sup> This is because recovery of the rebates by PG&E is spread over all eligible customers. Such a transfer payment is similar to the utility's core baseline allowance rate structure, as PG&E explains.<sup>7</sup> Baseline rates are also designed to promote conservation.

Furthermore, the program has the potential for additional far-reaching benefits. Lowering demand in response to the 10/20 Plus program may enable PG&E to avoid buying natural gas from high priced marginal supplies. This would lower costs for all core customers. Also, natural gas conservation resulting from the program will further reduce GHG emissions and lead to other environmental gains.<sup>8</sup>

Because of these reasons, we approve PG&E's request to implement the 10/20 Plus program for the upcoming winter, as modified below.

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<sup>6</sup> How much a customer saves depends upon the rebate they earned and the proportion of program rebates and costs collected by PG&E from the customer.

<sup>7</sup> See PG&E's reply to TURN's protest, p. 2.

<sup>8</sup> In response to an Energy Division data request, PG&E estimated that approximately 497,590 tons of greenhouse gases will be avoided due to the expected reduced consumption of 85 million therms.

**PG&E's alternative method for allocating rebates to sub-metered tenants is not adopted. The utility shall instruct their master-meter customers to allocate rebates according to the procedure used for last winter's program.**

For last winter's program, master-metered customers were instructed by PG&E to allocate rebates to their sub-metered tenants based on the proportion of natural gas each used in relation to overall facility consumption. This was done pursuant to Public Utilities (P.U.) Code section 739.5(b).

In Resolution G-3392, we authorized the above procedure but expressed concern that using natural gas consumption to allocate the rebates seemed counter to the goal of conservation (i.e., more natural gas use results in a larger share of the rebate). However, there were no other options under consideration at the time. To address this, the Commission requested that the utility consider alternative allocation methods that were consistent with the statute if it sought to renew the program.<sup>9</sup>

PG&E responded to our request and proposes another procedure master-meter customers can use to allocate rebates. Rather than base the allocation on natural gas usage, rebates would be distributed according to the number of sub-metered tenants residing in the facility. In this way, the rebate for the mater-metered facility would be shared equally by sub-metered tenants.

We appreciate PG&E's effort to craft a more equitable rebate allocation method. However, we find that its proposal does not comply with P.U. Code section 739.5(b).<sup>10</sup> This statute governs the way master-meter customers distribute rebates to their tenants.

In specific, the statute provides that:

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<sup>9</sup> See Resolution G-3392, pp. 9-10.

<sup>10</sup> D. 04-11-033 discusses P. U. Code section 739.5(b) and the allocation of rebates by master-metered customers on an alternative basis but it is not applicable to this situation (D. 04-11-033, p. 25).

“Every master-meter customer ... who... receives **any rebate**... shall distribute to, or credit to the account of, each current user served by the master-meter customer that portion of the rebate which **the amount of gas** or electricity, or both, **consumed by the user** during the last billing period bears to the total amount furnished by the corporation to the master-meter customer during that period.” (P.U. Code section 739.5(b) emphasis added)

A plain reading of the statute shows that natural gas usage must be taken into account in the allocation of the 10/20 Plus rebates. Dividing the rebate up by the number of sub-metered tenants as proposed would not meet this condition. In contrast, last winter’s program used natural gas consumption as the factor for distributing the rebates.

Furthermore, there are shortcomings with the proposal from a policy perspective. While it has the advantage of decoupling the allocation of the rebates with natural gas consumption, it has problems similar to the method adopted for last winter. Under the proposal, tenants that did not conserve natural gas will receive a share of the rebate. Additionally, tenants conserving the most natural gas will not get a commensurate proportion of the rebate. Ideally, the rebate allocation method should reward the level of conservation each tenant achieved. Since the statute does not provide for this, it appears that legislation would be needed to allow the use of a more equitable procedure.

Because the alternative method is not consistent with P.U. Code section 739.5(b), we direct PG&E to instruct their master-meter customers to use the same allocation process approved for last winter’s program in Resolution G-3392. The utility shall also provide its master-metered customers with sample calculations to illustrate the allocation procedure, as it intends to do.

Furthermore, PG&E shall prepare a notice clearly explaining how the tenants of master-metered facilities can earn a gas bill rebate. This notice shall be provided to the utility’s master-metered customers with the suggestion that copies are to be furnished to their tenants or that it is prominently displayed in a common area of the master-metered facility. This directive is consistent with the program the Commission approved in Resolution G-3392 for last winter.

**PG&E's non-print media is to be developed to minimize or eliminate the possibility that the utility may earn undeserved goodwill. The utility shall also submit a report describing the program's results.**

TURN supports PG&E's gas bill rebate programs, but has two recommendations. First, it requests that marketing materials disclose that customers fund the

program, particularly radio ads. It suggests that a short trailer stating that "this program is funded by PG&E customers" would be useful. TURN mentions that the utility derives goodwill from the marketing campaign which is proper for developing and implementing the program. Second, it wants PG&E to conduct an evaluation of the program to help assess the program's effectiveness and identify any problems or misuse. TURN indicates that additional steps beyond this study may be necessary, but does not elaborate further.

PG&E replies that the purpose of its radio ads is to encourage conservation and explain to customers how they can get a rebate. Including a disclaimer about funding in these relatively short ads would blunt this message and possibly cause confusion. The utility also says its marketing should be customer friendly without going into rate design details. PG&E maintains that the reporting requirement is unnecessary because it has provided information about these programs to ED and TURN upon request and is willing to continue to do so.

On the subject of marketing, our review shows that PG&E is not opposed to disclosing that the program is funded by customers. In the AL, the utility says it will include this information in its print media as it did last winter.<sup>11</sup> This should partially satisfy TURN's concern. The remaining issue is whether such a disclosure should be incorporated into PG&E's non-print media or other measure taken.

We agree with PG&E that including a statement in its non-print media about customer funding may create misunderstandings about the program and dilute the message about conservation. For example, customers may think that they must enroll in the 10/20 Plus program or that there is an opportunity to opt out. The ads are too short in duration for the utility to rectify such misconceptions.

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<sup>11</sup> PG&E AL 2850-G, footnote #8 on p. 4

However, we share TURN's concern about the utility gaining undeserved goodwill from its marketing effort.

To resolve this situation, we instruct PG&E to develop and present its non-print media advertisements so it does not create the perception that the utility is funding the program. Meeting this standard will require PG&E to design its ads to focus on conservation and program elements in a neutral, fact-based way. Additionally, PG&E can mention in its ads that the 10/20 Plus program is being conducted with Commission oversight. It is also acceptable to include information about customer funding of the program in its website and reference the website in its advertisements.<sup>12</sup>

Furthermore, PG&E shall include in all its marketing materials information about how customers can safely and responsibly reduce their natural gas usage. We seek to avoid a situation where customers may compromise their health in order to achieve a rebate.<sup>13</sup>

On the subject of reporting, we acknowledge that PG&E has been forthcoming with information in the past and is to be credited for its efforts. Statistics have been provided by the utility indicating that the programs are beneficial to customers. TURN has requested that further analysis be undertaken by PG&E to more precisely determine the program's effectiveness and to uncover any problems. PG&E objects to a reporting requirement as being unnecessary and will continue to respond to data requests.

We agree with TURN that a more comprehensive study of these programs should be conducted. A thorough analysis of the program after three consecutive winters could yield definitive conclusions about the program's influence on consumer behavior and other impacts. This study will also help to determine if program changes are needed in the future. To do this review, it is likely that the ad hoc method of issuing data requests which PG&E espouses is

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<sup>12</sup> PG&E maintained a 10/20 Plus webpage when the program was in effect during past winters and ED expects the utility will do so under the current program.

<sup>13</sup> For example, a customer may set the thermostat on their natural gas heater to a dangerously low level in an attempt to qualify for a rebate.

not the best approach. Establishing a reporting requirement now before the program starts has advantages. Information might be easier to gather, or can only be obtained, while the program is in effect on a real-time basis.<sup>14</sup>

TURN has identified analysis and data that could be useful in this endeavor. There may be other worthwhile topics such as program impacts on low income customers.<sup>15</sup> Rather than define the exact scope and data requirements of the study in this resolution, we will instruct PG&E to confer with ED, TURN and the Division of Ratepayer Advocates and try to determine these issues on a collaborative basis.<sup>16</sup> To begin, a meeting shall be arranged by ED within 30 days of the effective date of this resolution. Additional meetings may be set by ED if necessary. PG&E is to submit the report pursuant to ED instructions.

PG&E indicates that additional funding may be necessary to conduct the study. However, we expect that it will consist mostly if not entirely of data generated internally by PG&E which should be readily available. This is based on TURN's protest and PG&E's position that the study can be done through routine data requests. Thus, the \$5 million program budget approved in this resolution is sufficient to cover any expenses related to the study.

**PG&E's requested tariff changes are approved.**

In its comments to the draft resolution, PG&E requests several changes to its balancing accounts to streamline its accounting procedures regarding the marketing and implementation budget. We find the requested changes appropriate and are adopted.

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<sup>14</sup> For example, it may be necessary to conduct focus groups to assess customer reactions to the program while it is in effect.

<sup>15</sup> In its review of PG&E's proposal, ED inquired about some aspects of the program and its effect on low income customers.

<sup>16</sup> We expect that these participants can mutually agree on the reporting and analytical issues. If this is not the case, ED has the authority to decide these matters unilaterally. This reporting requirement does not foreclose the prerogative of ED and others to issue data requests to the utility about the program.

**Future requests by PG&E to renew the 10/20 Plus program may be approved by ED.**

The Commission has gained sufficient familiarity with these programs that we believe it is appropriate that future requests for renewal submitted by advice letter be delegated to ED for disposition unless protested. The report described above will assist ED in this task.

**COMMENTS**

Public Utilities Code section 311(g)(1) provides that the draft of this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding. The parties to this resolution agreed to reduce the comment period.

PG&E filed comments on the draft resolution on September 14, 2007. The utility asks that the Commission not require the disclosure about customer funding in its 10/20 Plus radio and television advertisements. This information may confuse customers to the detriment of the program. PG&E also agrees that a comprehensive study would be useful, but speculates that there may be a need for additional funding. Finally, PG&E requests approval of revised tariff language addressing the return of unspent program funding to ratepayers.

The draft resolution was modified to address PG&E's concerns raised in its comments.

**FINDINGS**

1. PG&E filed AL 2850-G requesting expedited approval of its 10/20 Plus program.
2. PG&E's proposed program should promote the conservation of natural gas and provide its residential and commercial customers with an opportunity to reduce their winter gas bills.
3. It is proper for Energy Division to approve future requests by PG&E to implement similar programs submitted by advice letter.

4. PG&E should provide its master-metered customers information about how rebates should be allocated to sub-metered tenants, and a notice explaining how sub-metered tenants can earn a gas bill rebate.
5. PG&E should focus its non-print media advertisements on conservation and program elements in a neutral, fact based manner.
6. PG&E's print media and website will disclose that customers fund the program.
7. PG&E should prepare a report on the gas bill rebate programs as discussed herein.
8. TURN's protest should be granted, in part.
9. PG&E should provide information in its marketing materials about how customers can safely and responsibly reduce their natural gas usage.

**THEREFORE IT IS ORDERED THAT:**

1. PG&E Advice Letter 2850-G is approved, as modified.
2. PG&E shall provide its master-metered customers information about how rebates should be allocated to sub-metered tenants.
3. PG&E shall provide its master-metered customers a notice explaining how sub-metered tenants can earn a gas bill rebate.
4. PG&E shall design its 10/20 Plus radio and television advertisements so it does not create the perception that the utility is funding the program. The advertisements are to focus on conservation and program elements in a neutral, fact-based way.
5. PG&E shall prepare a report on the gas bill rebate programs as discussed herein.
6. PG&E shall include in its marketing materials information about how customers can safely and responsibly reduce their natural gas.
7. The Energy Division is delegated the authority to approve similar requests by PG&E submitted by advice letter.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 20, 2007; the following Commissioners voting favorably thereon:

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Paul Clanon  
Executive Director