

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
ENERGY DIVISION  
ITEM# 34 I.D.# 7561  
RESOLUTION E-4163  
May 15, 2008

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

Resolution E-4163. Pacific Gas and Electric proposes modifications to the Business Energy Coalition (BEC) Program, Schedule E- BEC

By Advice Letter 3213-E. Filed on February 22, 2008.

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**SUMMARY**

This Resolution approves certain modifications to the BEC Program. In summary it:

- Approves PG&E's proposed modifications to the BEC's incentive structure, with one exception: PG&E is directed to adjust the capacity payment to reflect the delivered capacity averaged over the season.
- Approves a 3 in 10 baseline method for Zone 2 BEC participants.
- Rejects PG&E's proposed two-tiered baseline for Zone 1 BEC participants and directs PG&E to implement the 3 in 10 baseline method for Zone 1 participants.
- Authorizes PG&E to allow BEC program participants in Zone 1 and Zone 2 the option of a morning of adjustment 3 in 10 baseline method.

**BACKGROUND**

The Business Energy Coalition (BEC) program is a demand response program in which participants are organized into a cooperative that is committed to a certain amount of load reduction when called either on a day-ahead basis or to meet short term emergencies. Currently BEC participants receive a maximum capacity payment of up to \$75 per kW-year<sup>1</sup> for the amount of load they commit for

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<sup>1</sup> A 'program year' is limited to the five months of operation: June, July, August, September and October

reduction. Of the \$75 per kW-year capacity payment, one-third of that payment is subject to reductions if the participants fail to reduce their committed load to the group's established Firm Service Level<sup>2</sup>. The remaining two-thirds of the payment (\$50 per kW-yr) is paid irrespective of how the participants perform. The program is in operation for five months of the year: June, July, August, September and October.

In November 2007, PG&E made known to Energy Division staff an evaluation of the BEC program for years 2005 and 2006. In brief, the evaluation, (the Itron Report)<sup>3</sup> had two recommendations: (1) replace the program's current baseline method with a representative 10-Day baseline methodology. The Itron Report found that program's current baseline method relies on the participants' peak demand which thereby exaggerated the amount of load reduction credited to participants, and thus the program<sup>4</sup>. (2) Pro-rate the annual capacity payment so that program participants are paid only for the months in which they are enrolled. The current scheme credits participants for all months of the program, irrespective of when they enroll.

Upon receipt of the Itron Report, the Commission orally directed Energy Division staff at its December 20, 2007 business meeting to provide PG&E guidance to resolve the deficiencies found in the BEC program before summer 2008. In January 2008, Energy Division staff advised PG&E to file an advice letter that incorporates the recommendations in the Itron Report and to modify

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<sup>2</sup> According to the Itron Report however, PG&E is still in the process of imposing reductions for inadequate performance in 2005 and 2006.

<sup>3</sup> 2005/2006 PG&E Business Energy Coalition Evaluation, Itron Inc., Available at [http://www.calmac.org/publications/PDF\\_FINAL\\_2005\\_2006\\_PGE\\_BEC\\_Evaluation.pdf](http://www.calmac.org/publications/PDF_FINAL_2005_2006_PGE_BEC_Evaluation.pdf)

<sup>4</sup> The Itron Report found that in 2005 the average load reduction accredited to the BEC program and incentives paid to participants was equal to 10 megawatts, yet the estimated impact or actual average load reduction was 1.9 megawatts. In 2006 the average load reduction accredited to the BEC program and incentives paid to participants was equal to 15 megawatts, yet the estimated impact or actual average load reduction was 2.5 megawatts..

the incentive structure of the program to ensure that incentive payments are better correlated to program participation and performance. PG&E subsequently filed AL 3213-E proposing several changes to the BEC program.

**PG&E proposes to revise the incentive structure so that a greater portion of the incentive is tied to performance. Additionally PG&E proposes to prorate the incentives.**

PG&E proposes to split the \$75 per kW-year incentive payment into three equal parts:

*Part 1: - Capacity Incentive:* a fixed maximum incentive of \$25/kW- yr, which is measured by the greatest delivered capacity on any event day of the season, up to the participant's maximum enrolled Committed Load Reduction (CLR). This capacity payment will be reduced by \$5/kW for each month that the participant is not ready and available to curtail. For example, a customer who is not ready and available to curtail by June 1, can at best receive only \$20 per kW-yr. for this portion of the incentive payment.

*Part 2: - Individual Performance Incentive:* a new individual performance incentive of \$25/kW-yr. The individual performance incentive will also be reduced by \$5/kW for each month that the participant is not ready and unavailable to curtail. The incentive is further reduced on a prorated basis for each hour that a customer does not meet or exceed the required Committed Load Reduction.

*Part 3: - Group Performance Incentive:* a group performance incentive of \$25/kW. Like the other two parts, the group performance incentive will be decreased individually by \$5/kW per month that the participant is not available to curtail. The group performance incentive will be further reduced on a prorated basis of each hour that the group does not remain at or below the Group Firm Service Level.

Finally PG&E proposes a 'three strikes' policy whereby any BEC participant with 50% or lower performance over the course of three consecutive DR events will forfeit any payments for the season.

**PG&E proposes two BEC baseline methodologies: a two-part temperature sensitive baseline for certain participants and a representative 10-day baseline for others.**

PG&E proposes to divide BEC participants into two groups: customers within San Francisco, South San Francisco, Daly City and Half Moon Bay will make up Zone 1 while customers located outside of these four cities will make up Zone 2. The Customer Specific Energy Baseline (CSEB) for Zone 1 will include a high temperature (CSEB<sub>HIGH</sub>) and a mild temperature (CSEB<sub>MILD</sub>). The high temperature baseline (CSEB<sub>HIGH</sub>) will be the hourly average demand of the three highest temperature (above 78 degrees) similar<sup>5</sup> days in the previous 12 months prior to June 1, 2008. The mild temperature baseline (CSEB<sub>MILD</sub>) will be the hourly average peak demand of the three most recent similar temperature days between 75 and 78 degrees prior to June 1, 2008. The forecasted temperature for San Francisco will determine whether a high (above 78 degrees) or mild (at or below 78 degrees) baseline will be used to measure the participant's performance.

The CSEB for participants in Zone 2 will be based on the three highest energy usage days in the past 10 similar days. This is the baseline method used by all other California IOU price-responsive demand response programs.

**NOTICE**

Notice of AL 3213-E was made by publication in the Commission's Daily Calendar. Pacific Gas and Electric states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-B.

**PROTESTS**

The Division of Ratepayer Advocates (DRA) protested Advice Letter 3213-E on March 13, 2008.

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<sup>5</sup> PG&E uses the word "similar" to mean that PG&E would use weekdays for the baseline calculation if the event occurred on weekday, after determining if the event day is a CSEB<sub>HIGH</sub> or CSEB<sub>MILD</sub> day based on its ambient temperature.

Also on March 13, 2008, EnerNoc, Inc., Comverge, Inc. and EnergyConnect, Inc. filed a response as Joint Parties to Advice Letter 3213-E.

PG&E filed a response to the protests on March 20, 2008.

## **DISCUSSION**

### **DRA protests PG&E's proposed baseline modifications for Zone 1 BEC participants.**

DRA states that the current BEC baseline methodology grossly overestimates a program participant's load in absence of a curtailment event and thus should be discarded. Currently that baseline is set by calculating a two-year average peak demand for each month (May to October), and then selecting the maximum of these six monthly two-year average values. The Itron Report recommended this baseline method be replaced by a "Representative Day Method" otherwise known as a 10 day adjusted baseline methodology. Currently all other IOU price-responsive demand response programs use a version of the 10 day adjusted "Representative Day Method". This method, also known as the '3 in 10' baseline methodology, utilizes the 3 highest usage days out of the last ten to create a customer specific baseline.

DRA notes that PG&E agrees with the recommendation of the Itron Report since it proposes to use a 3 in 10 representative day baseline methodology for those BEC program participants located in Zone 2. DRA is opposed to PG&E's proposal for 'high' and 'mild' temperature baselines for participants in Zone 1. DRA argues that the proposed "high" baseline is essentially an imitation of the current baseline. The "mild" baseline methodology, DRA argues, lacks sufficient creditability, proper testing or vetting, or support to conclude that it is superior to a representative baseline methodology. DRA also notes that the proposed "mild" baseline does not specify how far back historical customer usage information will be used to create the baseline.

### **The Joint Parties suggest additional modifications to the BEC program incentives and protest PG&E's proposed baseline for Zone 1 BEC participants.**

Although the Joint Parties commend PG&E for its proposed modifications to the BEC program incentive structure, they seek further modification of the program. Joint Parties argue that BEC program performance would improve if PG&E prorated the incentives for performance in the same manner as used in the

Capacity Bidding Program and the Aggregator Managed Portfolio (AMP) contracts PG&E has signed with commercial aggregators<sup>6</sup>. Joint Parties also argue that the PG&E's modifications to the baseline methodology for Zone 1 participants will still overestimate load curtailments and is still a unique, novel formula not used anywhere else. The Joint Parties state that the 3 in 10 methodology is more accurate than a 3 in 365 methodology as proposed by PG&E. The Joint Parties recommend that the baseline for BEC Zone 1 participants be replaced with the 3 in 10 representative day baseline methodology claiming that this change will make the baseline more accurate.

**PG&E argues that its proposed incentive structure adequately ties participant performance to payment and its proposed two-tier baseline for Zone 1 is necessary for temperature-sensitive customers.**

PG&E argues that DRA's suggestion that PG&E should use a 3 in 10 baseline for Zone 1 be denied. PG&E argues that the proposed two tier baseline for Zone 1 is a significant "departure" from the current baseline methodology. PG&E further argues that the new baseline methodology would result in significantly lower measured load reduction than is provided under the current baseline. PG&E states that the 3 in 10 baseline methodology does not accurately represent temperature-sensitive load. In response to DRA's argument that PG&E has not demonstrated that the proposed Zone 1 baseline is preferable, PG&E states that it is appropriate to pilot a temperature-based day matching method because it may be more reflective of the load available for potential reduction on a given curtailment day.

In response to the Joint Parties' recommendation that the incentive structure be modified, PG&E argues that such modifications are unnecessary because PG&E has proposed a reallocation of incentive payments from fixed incentives to performance incentives. Furthermore PG&E has proposed a three strikes policy which would eliminate payments to any BEC participant with 50% or lower performance over the course of three consecutive events.

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<sup>6</sup> In the AMP, the entire amount of the aggregator's capacity payment is subject to performance on an hourly basis. If the aggregator performs at less than 50%, not only is the capacity payment forfeited for that month, but the aggregator must also pay a penalty.

In response to the Joint Parties argument that the Zone 1 baseline be changed to 3 in 10 baseline method, PG&E argues that the proposed BEC baseline methodology does not average the highest peak demand days because highest demand does not always correlate with highest temperature days. PG&E states that the proposed BEC baseline takes the three hottest temperature days from the prior year in order because high temperatures occur infrequently in San Francisco and the other cities in Zone 1.

**PG&E's proposed modifications to the BEC incentive payment structure are inline with Commission directive that the program be better structured to tie participant performance to the incentive payments.**

One of the main recommendations outlined by the Itron Report was that BEC incentives be pro-rated. PG&E proposes an incentive proration based on the date a customer is ready and able to curtail. We approve of PG&E's pro-ration proposal as it will prevent future participants from receiving credit for events irrespective of when they enroll in the program. We also approve of PG&E's proposal to implement a three strikes policy whereby any participant that performs at 50% or below of their firm service level for three consecutive events will forfeit any payments for the program season.

PG&E's other major modification, to split the incentive payment into three equal parts, two of which are subject to further proration based on hourly event performance, is an improvement over the current design of the program in that a greater amount of the incentive is tied to customer performance. As noted earlier, the current program pays participants \$50 per kW-year for nominated load regardless of performance.

We approve of the proposed capacity incentive structure with one modification. Under the proposed capacity incentive payment structure, participants will receive a maximum capacity incentive payment of \$25 per kW-year based on the maximum capacity delivered for any *one event of the season* (emphasis added). Under PG&E's proposal, a participant need only deliver its full commitment once during the event year to receive the \$25 per kW capacity payment. To illustrate, a participant who nominates 1 MW of capacity need only deliver that full commitment of 1 MW once during the event year to receive a full payment of \$25,000 (1000 kW \* \$25 = \$25,000). This capacity payment structure does not provide sufficient motivation for participants to perform well.

To illustrate the Commission's concern, assume the same 1 MW participant was called for four events during the event year. During the first event the participant delivered its full commitment of 1 MW but on the subsequent three events delivered only 800 kW. The current capacity payment structure would ensure that the participant would be paid the full \$25,000 regardless of the participant's performance shortfall in the subsequent events. We therefore direct PG&E to modify the capacity payment so that participants are paid based on the season's averaged delivered capacity. If the participant's capacity nomination for the program event year is 1MW but only delivers a seasonal average of 800kW, then their yearly capacity payment should reflect that amount. This approach alleviates overpayment inherent in the proposed system where the participant would only have to reach their full capacity nomination just once during the program season.

**The proposed changes to the BEC Zone 1 baseline are rejected. Zone 1 and Zone 2 participants may adopt either a standard 3 in 10 baseline or a 3 in 10 baseline with a morning-of adjustment.**

PG&E proposes several baseline revisions to the BEC program. PG&E proposes two customer zones. Zones 1 will include all program participants in San Francisco, South San Francisco, Daly City and Half Moon Bay. Zone 2 participants include all other participants not situated in the Zone 1. PG&E proposes to apply the standard 3 in 10 baseline methodology for Zone 2 program participants. PG&E proposes a two-tiered baseline for Zone 1 participants. Each Zone 1 participant will have a "high" and "mild" baseline. The proposed "high" baseline, Customer Specific Energy Baseline High (CSEB<sub>HIGH</sub>), would be based on the customer's hourly average demand of the three highest temperature (above 78 degrees) similar days in the previous 12 months prior to June 1, 2008. The "mild" baseline, Customer Specific Energy Baseline Mild (CSEB<sub>MILD</sub>), is based on the customer's average hourly load from the three most recent similar days with temperatures between 75 and 78 degrees as of June 1, 2008.

PG&E's rationale for the two tiered baseline proposal for Zone 1 participants is to address participants who have temperature sensitive load. However PG&E's Zone 1 baseline proposal suffers from several flaws which are further outlined below and therefore we do not approve it. We are sensitive to BEC participants who have temperature-sensitive loads, and encourage PG&E to use a 3 in 10 baseline with a 'morning-of' adjustment for such customers. The 3 in 10 morning-of adjustment essentially works like a standard 3 in 10 baseline, but allows an adjustment to the baseline (up or down) based on the customer's usage

the morning of the event. Recent studies of the morning-of adjustment method have found that it can more accurately establish the customer's true baseline.<sup>7</sup> In a data request sent to PG&E on March 6<sup>th</sup> 2008, Energy Division requested PG&E supply studies or other documentation that directly support the proposed Zone 1 baseline methodology. PG&E was unable to supply one example of a two-tiered baseline currently in use anywhere in the country. While PG&E did send some documentation on baseline methodology, Energy Division was unable to find direct support for the two-tiered baseline methodology proposed by PG&E. In fact, an Institute of Electrical and Electronics Engineers, Inc. (IEEE) study provided by PG&E assessed three baselines all of which were based on a 10 day rolling average representative baseline similar to the current 3 in 10 baseline standard used for most of California's demand response programs.<sup>8</sup>

Energy Division requested PG&E to apply the 3 in 10 baseline, the 3 in 10 baseline with the morning adjustment, and PG&E's two-tiered baseline proposals to 2007 BEC events as a means of comparing how these baselines calculate the participant's load drops that occurred on those events. PG&E's data demonstrate that the proposed Zone 1 baseline methodology can misrepresent participant curtailment. PG&E's data shows that the proposed Zone 1 baseline method could actually penalize BEC participants despite excellent performance.

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<sup>7</sup> *Estimating DR Load Impacts: Evaluation of baseline load models for commercial buildings in California Preliminary Results*, Katie Coughlin, Lawrence Berkeley National Laboratory (July 9, 2007) and *Estimating Demand Response Load Impacts: Evaluation of Baseline Load Models for Non-Residential Buildings in California*, Lawrence Berkeley National Laboratory (January 2008)

<sup>8</sup> *A New Temperature- Load Adjustment Baseline Method for Measuring Demand Savings*, By Siri Varadan, Institute of Electrical and Electronics Engineers, Inc. (2002).

**Table One:**<sup>9</sup>

Baseline	Event Date	kW Reductions from Peak or Baseline					
		Curtailment Hours					
		14:00	15:00	16:00	17:00	18:00	19:00
BEC Baseline 3 in 10 3 in 10 Morning Of CSEB Mild	7/5/2007		34,564	34,814	36,200	45,203	65,970
			6,820	6,392	5,238	5,396	5,254
			7,798	7,312	6,419	6,187	4,858
			7,686	6,102	4,133	3,516	2,399
BEC Baseline 3 in 10 3 in 10 Morning Of CSEB Mild	8/29/2007	25,981	27,924	29,380	32,042	42,844	
		3,137	4,996	6,033	8,038	16,489	
		9,752	9,629	9,524	8,761	8,022	
		-3,314	-1,195	-1,727	-2,643	-2,601	
BEC Baseline 3 in 10 3 in 10 Morning Of CSEB Hot	8/30/2007	28,342	28,512	29,461	31,319	43,216	
		5,368	5,550	6,136	7,350	16,618	
		14,698	15,812	16,402	16,345	13,421	
		13,111	12,537	12,008	10,690	9,312	
BEC Baseline 3 in 10 3 in 10 Morning Of CSEB Mild	8/31/2007	37,323	38,406	39,551	42,390	52,701	
		14,728	15,669	16,502	18,729	26,342	
		12,885	13,830	14,513	14,368	13,017	
		7,837	9,189	8,330	7,583	7,126	

As illustrated in Table One above, applying the 3 in 10 baseline with a morning-of adjustment to an August 29, 2007 BEC event day, the hourly average group curtailment was roughly 9 MW. Yet if the proposed Zone 1 CSEB<sub>MILD</sub> (as PG&E classified this event day as mild event day) is applied, the average hourly curtailment is calculated as -2.3 MW. In other words, the CSEB<sub>MILD</sub> baseline would lead PG&E to conclude that the BEC participants used on average 2.3 MWs **above** their CSEB<sub>MILD</sub> baseline level that day, resulting in a performance proration penalty being applied when the group should have earned an incentive payment (if a 3 in 10 morning-of adjustment had been used).

PG&E's proposed CSEB<sub>HIGH</sub> baseline methodology, which sets the baseline at the hourly average demand of the three highest temperature similar days in the previous 12 months prior to June 1, 2008, does not address the concerns or recommendations of the Itron Report. Creating a baseline methodology that uses the average of the participants' highest energy usage on days when the ambient temperature was above 78 degrees does little to mitigate the problems identified by the Itron Report. Itron Report noted that using a peak demand method to set

<sup>9</sup> Data Response of PG&E March 17, 2008. Answer 1 to Question 1 in Advice Letter Proceeding 3213-E.

a baseline level , “grossly over estimates peak load reduction.” Nor is the proposed CSEB<sub>HIGH</sub> a representative day method consistent with the recommendations of the Itron Report. We therefore find that the proposed CSEB<sub>HIGH</sub> methodology does not adequately address the baseline problems noted in the Itron Report. Furthermore the CSEB<sub>HIGH</sub> methodology is little more than retooling of the current baseline methodology which is the most significant problem outlined in the Itron Report.

The Commission recognizes PG&E’s need to allow the BEC program to accommodate participants who have temperature sensitive load. The Commission therefore directs PG&E to allow customers to choose between a 3 in 10 baseline with a morning-of adjustment or a standard 3 in10 baseline for all program participants. This modification is prudent for several reasons. First PG&E’s own data shows that BEC program participants will be more fairly treated if a 3 in 10 morning-of adjustment methodology is applied for temperature sensitive load. Second each study cited and supplied to the Commission by PG&E suggests that a representative day methodology that incorporates a temperature sensitive adjustment is the most accurate tool to calculate load curtailment by those customers that are temperature sensitive. As noted earlier, Lawrence Berkeley National Laboratory conducted a study in 2007 which found that the standard demand response baseline (3 in 10 without an adjustment) could be significantly improved by incorporating a morning adjustment factor for temperature sensitive buildings. Finally the 3 in 10 morning-of adjustment is a version of a representative day method recommended by the Itron Report which is consistent with Energy Division’s recommendation that the BEC program be modified in accordance to the Itron Report findings.

The Commission recognizes PG&E’s argument that gaming potential does exist with 3 in 10 morning of adjustment baseline methodology. In its data response to Energy Division, PG&E cited a KEMA-XENERGY report which noted potential gaming of a morning-of adjustment period. That study found that if the hours prior to the event period are used as apart of the reference value for customer settlement, and this is known by the customer, a customer might intentionally increase energy use in the hours leading up to the event period in order to increase its reference value in order to obtain a higher payment. To limit gaming potential of the morning-of adjustment factor, PG&E shall incorporate the participant’s four hours of energy use prior to an event as part of the morning-of adjustment factor. This modification will deter participants from

intentionally increasing their loads to as a way of gaming the baseline. Furthermore a limit on the adjustment will be set to  $\pm 20\%$  from what the baseline would be without the morning-of adjustment.

**PG&E's comments on the Draft Resolution request that the morning of adjustment be made available to all program participants, and the Zone 1 participants retain a two tiered load reduction commitment.**

In its comments on the Draft Resolution PG&E requests that program participants in Zone 1 and Zone 2 have the option of being measured by the standard 3 in 10 baseline method or the morning-of adjusted 3 in 10 baseline method. The Commission understands that temperature sensitive load exists throughout PG&E's territory. Program participants whose load can be more accurately measured by using a morning-of adjustment factor should have that option. The Commission has reviewed several studies, as noted above, that show the benefits of using a morning-of adjustment factor. We therefore direct PG&E to offer program participants the use of either the standard 3 in 10 or the morning-of adjustment factor regardless of where those participants are physically located. However once a participant elects to use either baseline, that participant may not switch for the duration of the program season. Therefore the Business Energy Coalition must be careful to explain the benefits and drawbacks of the two baseline methodologies to their program participants.

In its comments on the Draft Resolution PG&E also requested the Commission consider the option of allowing participants to have a two-tiered load reduction commitment, based on temperature conditions of a curtailment event. While the concept of a two tiered commitment level may have merit, PG&E offers no explanation as to how a two tiered commitment level would affect the design and operation of the program, particularly the program's incentive structure. Without an explanation of these details, we are unable to do a proper evaluation and hence PG&E's proposal for a two-tiered commitment reduction is therefore denied.

## **COMMENTS**

Public Utilities Code section 311(g)(1) provides that 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.

On May 5, 2008 PG&E filed comments on the Draft Resolution.

## **FINDINGS**

1. PG&E's proposed modification of the BEC program incentive structure to incorporate a three part incentive payment structure consisting of a capacity payment, and individual performance payment and a group performance payment are reasonable.
2. The Commission finds PG&E's proposal to prorate incentive payments based on the date of availability to be reasonable.
3. The Commission finds PG&E's proposal to prorate the individual incentive payment and the group performance payment based on hourly customer performance during an event to be reasonable.
4. The Commission finds PG&E's proposed three strikes policy is reasonable.
5. The Commission finds that PG&E must modify the proposed BEC capacity incentive payment to ensure that participant's average contribution over the season is used as the basis payment.
6. The Commission finds PG&E's proposed modification to the BEC baseline methodology for a Zone 2 baseline methodology, utilizing a standard 3 in 10 baseline to be reasonable.
7. The Commission does not find PG&E's proposal for a for Zone 1 baseline to be reasonable.
8. The Commission finds that the proposed CSEB<sub>HIGH</sub> baseline does not address the problems outlined by the Itron Report.
9. The Commission finds that the proposed CSEB<sub>MILD</sub> baseline is not reasonable and may significantly miscalculate participant performance.
10. The Commission finds it reasonable for the PG&E to incorporate a morning-of adjustment to the standard 3 in 10 baseline for those BEC customers whose load is temperature sensitive.
11. The Commission finds it reasonable to allow BEC program participants to choose between a standard 3 in 10 baseline or a 3 in 10 with a morning-of adjustment baseline.
12. The Commission finds that once a customer elects to use one baseline, that customer may not switch until the following program year.
13. The Commission finds that the using the participant's four hours of energy use prior to an event as part of the morning-of adjustment factor and limiting

the adjustment to  $\pm 20\%$  from what the baseline would be without the morning adjustment, are reasonable means to reduce potential gaming.

14. The Commission finds that PG&E's proposal to use a two tiered commitment level for participants in Zone 1 lacks proper support and should be rejected.

**THEREFORE IT IS ORDERED THAT:**

1. PG&E's proposed modifications to the BEC's incentive structure are approved, with one exception: PG&E is directed to adjust the capacity payment to reflect the delivered capacity averaged over the season.
2. PG&E's proposed Zone 2 baseline modification to the BEC program is approved.
3. PG&E's proposed Zone 1 baseline modification to the BEC program is denied. PG&E shall implement a 3 in 10 baseline methodology for Zone 1, and provide all BEC participants the option for a morning-of adjustment to address temperature sensitive load.
4. To limit gaming potential of the morning adjustment factor, PG&E shall incorporate the participant's four hours of energy use prior to an event as part of the morning-of adjustment factor. Furthermore a limit on the adjustment will be set to  $\pm 20\%$  from what the baseline would be without the morning adjustment.
5. PG&E shall file a supplemental advice letter with the tariff modifications that comply with this resolution within 10 days of this resolution.

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 May 15, 2008; the following Commissioners voting favorably thereon:

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Paul Clanon  
Executive Director

