

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4210
December 18, 2008

R E S O L U T I O N

Resolution E-4210. Pacific Gas and Electric Company [PG&E] requests establishment of electric Preliminary Statement Part EX – Dynamic Pricing Memorandum Account [DPMA-E] to record the incremental expenditures required to implement specific dynamic pricing rates.

By Advice Letter [AL] 3335-E, filed on September 3, 2008.

SUMMARY

A memorandum account to track incremental expenditures related to the implementation of dynamic pricing rates is approved.

This Resolution authorizes PG&E to open a memorandum account to record the incremental expenditures necessary for the implementation of specific dynamic pricing rates as ordered in D.08-07-045. The incremental expenditures for dynamic pricing rate implementation could also include expenditures necessary to modify PG&E's AMI or SmartMeter deployment plan for the purpose of implementing dynamic pricing in compliance with the Commission's timetable for such rates.

PG&E is required to provide the Division of Ratepayer Advocates [DRA] with monthly reports on the incremental expenditure entries to DPMA-E.

BACKGROUND

The Implementation of Dynamic Pricing is a Key Policy Objective of the Commission.

The Commission articulated a comprehensive demand response policy in its 2003 Vision Statement.¹ In that statement, the Commission stated that electric customers should have the ability to increase the value derived from their electricity expenditures by choosing to adjust usage in response to price signals as customers are equipped with advanced meters as a result of the Commission's AMI decisions.

Since then the Commission has issued decisions implementing its policy to make dynamic pricing available for all customers. In D.08-07-045 the Commission adopted dynamic pricing rate design principles and an implementation timetable specifying when PG&E is required to propose and offer dynamic pricing rates that include Critical Peak Pricing [CPP] and Real-time Pricing [RTP].

In the proceeding, PG&E claimed that there would be incremental costs to implement dynamic pricing on the timetable ordered by the Commission. Some of these costs are associated with modifications to PG&E's deployment plans for its AMI (SmartMeter) system². Other costs are associated with required changes to PG&E's information technology systems, billing changes and customer outreach and education. PG&E requested authority to accumulate these costs in a balancing account for recovery as part of its Annual Energy True-Up rate change³.

In D.08-07-045 the Commission determined that there will be reasonable incremental costs required to implement dynamic pricing rates but declined to approve a balancing account as requested by PG&E, noting that it was premature to determine the necessary level of incremental expenditures for system changes and customer outreach and education. The Commission determined that PG&E should seek cost recovery of incremental costs through formal applications and

¹ "California Demand Response: A Vision for the Future (2002-2007)," referred to here as the 2003 Vision Statement, was attached to D.03-06-032 as Attachment A.

² D.08-07-045 pgs 15-17.

³ D.08-07-045, pg. 81.

in the meantime record the incremental expenditures in a memorandum account.⁴

Ordering Paragraph [OP] 4 of D.08-07-045 states:

Prior to a Commission decision in A.07-12-009, PG&E may record incremental costs required to modify the AMI deployment plan in a memorandum account and seek recovery in A.07-12-009.

A.07-12-009 is the PG&E Application asking for authority to increase revenue requirements to recover the costs of upgrading its SmartMeter program.

OP 15 of that same Decision reads:

PG&E is authorized to record incremental expenditures required to implement specific dynamic pricing rates in a memorandum account and shall seek recovery of any such expenditures in the related rate design proceeding.

In compliance with OPs 4 and 15 of D.08-07-045, PG&E submitted AL 3335-E requesting authority to establish a new Dynamic Pricing Memorandum Account [DPMA-E] on its Electric Preliminary Statements to allow it to record the incremental expenditures required to implement specific dynamic pricing rates.

NOTICE

PG&E mailed copies of AL 3335-E to parties listed in the advice letter in accordance with General Order 96A. Notice of AL 3335-E appeared on the Commission's Daily Calendar.

⁴ D.08-07-045 pg. 82

PROTESTS

Division of Ratepayer Advocates [DRA] on September 23, 2008 timely protested AL 3335-E. PG&E responded to the protest of DRA on September 30, 2008. DRA filed a reply to PG&E's response on October 21, 2008.

The following is a summary of the major issues raised by the DRA and their rebuttals by PG&E.

DRA contends that incremental costs should be defined by the Commission through this advice letter process and establish cost-effectiveness as a standard for review.

DRA states that PG&E's proposed Preliminary Statement entries for DPMA-E includes cost of activities that have been previously authorized by the Commission and are currently being performed by existing PG&E personnel and therefore not incremental.

DRA does not object to PG&E establishing the DPMA-E, but requests that the Commission require PG&E to report the monthly debit entries made to DPMA-E in PG&E's monthly report titled "SmartMeter Project Executive Steering Committee Summary". DRA seeks these reports in order to ensure that all expenditures recorded in DPMA-E are incremental *and* cost-effective on an ex-ante basis. DRA contends that these reports will be needed to determine if the expenditures are reasonable and justified *before* PG&E seeks their recovery in a Commission proceeding and before a significant amount of money is spent. DRA believes that the Commission needs to carefully track these expenditures as they are being made, and to order PG&E to terminate them if they are not cost effective.

DRA also recommends that the resolution addressing PG&E's advice letter should define what qualifies as an incremental cost, and establish cost-effectiveness as the criterion for cost recovery. DRA argues that determining these issues in the resolution, which would occur prior to the formal cost recovery process, is appropriate given the significant amount of money PG&E expects to spend. DRA also cites the fact that the determination of incremental costs and their cost-effectiveness is a highly controversial issue in PG&E's SmartMeter Upgrade application (A.07-12-009).

PG&E objects to a demonstration of cost-effectiveness as a test for recovery.

PG&E responds to the above by stating that DRA's concerns are premature in that the DPMA-E proposed by AL 3335-E is merely a vehicle to record costs and that the costs will only be approved for recovery after PG&E makes an evidentiary showing that the costs are indeed incremental. PG&E states that it has no intention to seek double recovery of its costs.

PG&E moreover asserts that the costs to be incurred and recorded in DPMA-E are in response to D.08-07-045 and as directed by the Commission. PG&E believes that it must incur these costs to be in compliance with that decision. The test for recovery of these costs is therefore one of reasonableness and not cost-effectiveness, which would be applicable to discretionary costs.

PG&E states that the monthly steering committee reports speak to different issues and would be an ineffective and awkward substitute for the examination of these costs that DRA seeks. The issues that are addressed in that monthly report are:

- Project status;
- Progress against baseline schedule
- Actual Project spending vs. forecast, and
- Risk-based contingency allowance draw-down status.

PG&E expresses readiness to provide DRA, upon request, with reports regarding the entries to the DPMA-E.

DISCUSSION

Summary of DRA's Concerns.

Ordering Paragraph 4 of D.08-07-045 authorized PG&E to record the incremental costs required to modify the AMI deployment plan in a memorandum account and seek recovery in A.07-12-009. Ordering Paragraph 15 of the same decision also authorized PG&E to record incremental expenditures required to implement specific dynamic pricing rates in a memorandum account and seek recovery in a related rate design proceeding.

DRA's concern is to ensure that the debit entries, as they are being made in those accounts, represent expenditures that are *incremental* and *cost-effective*. With

respect to cost-effectiveness, DRA argues that PG&E must demonstrate that its incremental expenditures to implement dynamic pricing following the Commission's timetable will produce enough benefits to cover the costs. To facilitate this effort, DRA recommends that PG&E provide more information regarding incremental costs on a monthly basis.

DRA further recommends that the resolution establish two things: standards for incremental costs and that cost-effectiveness be the criterion for cost recovery. DRA believes these issues should be determined by the Commission before PG&E spends money and applies for recovery of the amounts in DPMA-E in a future proceeding.

DRA's request to define incremental costs and establish cost-effectiveness as the criteria for cost recovery are beyond the scope of this resolution.

The issue of what qualifies as an incremental cost is indeed a key issue in PG&E's SmartMeter Upgrade application. The determination of benefits in comparison to costs is also a key issue of contention in that proceeding. While we recognize why these issues are important to DRA, we decline DRA's request that we define incremental costs in this resolution. We also decline to establish cost-effectiveness as the criterion for determining cost recovery in this resolution. There is no record in the advice letter process to make such determinations. These issues can be addressed more appropriately within a formal proceeding where DRA can examine and question the costs PG&E seeks to recover, and to make its case that PG&E must demonstrate cost-effectiveness in order to recover the costs. As noted in D.08-07-045, PG&E can recover the costs in the memorandum account only through a rate design proceeding or its SmartMeter Upgrade application, both being formal proceedings.⁵

PG&E should provide DRA with detailed information about its memorandum account entries

⁵ PG&E has informed Energy Division and DRA that it intends to recover the incremental costs in its next Rate Design Window which it will file no later than February 28, 2009. PG&E informed the ALJ assigned to its SmartMeter Upgrade application (A.07-12-009) that it will not seek recovery of incremental costs in that proceeding, assuming that the requested upgrade is approved.

DRA requests additional oversight of the debit entries and their corresponding benefits in the new DPMA-E and recommends that PG&E be required to augment the monthly PG&E SmartMeter Project Executive Steering Committee Summary Reports with detailed descriptions of all debit entries into the new DPMA-E and to show anticipated benefits associated with all these debit entries.

In a meeting on October 30, 2008, with PG&E, DRA agreed to receive PG&E monthly reports describing the entries made in DPMA-E, instead of augmenting the monthly SmartMeter Reports mentioned above. While PG&E has already agreed, in its reply to DRA protest, to provide the information upon request by DRA, we direct PG&E to provide DRA monthly reports on its entries. We encourage DRA to clarify to PG&E the specific information it needs.

PG&E's request to establish a memorandum account to record incremental costs associated with the implementation of dynamic pricing should be approved.

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.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

DRA filed comments on December 2, 2008 reiterating its intention to maintain a close watch on PG&E's monthly reports from an incremental as well as cost effectiveness viewpoint. DRA is not recommending changes to the draft resolution; its comments detail the information it wants PG&E to provide in the monthly reports.

PG&E filed comments on December 3, 2008 suggesting a clarification in the draft resolution by providing an effective date of September 3, 2008 for the DPMA-E, the requested effective date of its compliance AL 3335-E. On December 8, 2008,

DRA responded that it will not object to PG&E's request that the DPMA-E become effective as of September 3, 2008.

FINDINGS

1. In D.08-07-045, dated July 31, 2008, the Commission adopted dynamic pricing rate design guidance and an implementation timetable specifying when PG&E is required to propose and offer dynamic pricing rates that will include Critical Peak Pricing and Real-time Pricing.
2. PG&E filed AL 3335-E on September 3, 2008 in compliance with Ordering Paragraphs 4 and 15 of D.08-07-045 requesting approval of memorandum account DPMA-E to record the incremental expenditures required to implement specific dynamic pricing rates and the incremental costs required to modify the AMI deployment plan.
3. DRA submitted a timely letter of protest on September 23, 2008 and an additional letter on October 21, 2008
4. PG&E responded to DRA's protest letter in a timely manner on September 30, 2008.
5. DRA filed comments on December 2, 2008 reiterating its intention to maintain a close watch on PG&E's monthly reports and detailing the information it wants PG&E to provide in the monthly reports.
6. PG&E filed comments on December 3, 2008 asking for an effective date of September 3, 2008 for the DPMA-E, the requested effective date of its compliance AL 3335-E. DRA, on December 8, 2008, responded that it will not object to PG&E's request.
7. PG&E should provide monthly reports to DRA on the entries made into DPMA-E, as requested by DRA.
8. AL 3335-E should be approved with an effective date of September 3, 2008 for the DPMA-E.

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company's [PG&E] proposed memorandum account, DPMA-E, is hereby approved.
2. The effective date of the DPMA-E is September 3, 2008.
3. PG&E is ordered to provide the Division of Ratepayer Advocates [DRA] with monthly reports on entries made in the DPMA-E, as requested by DRA.
4. 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 December 18, 2008; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON
PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners