PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I. D. #5204

ENERGY DIVISION **RESOLUTION E-3964**

January 12, 2006

R E S O L U T I O N

Resolution E-3964. This Resolution approves Pacific Gas and Electric's (PG&E) request to transfer $18.4 million from its Advanced Metering and Demand Response Account (AMDRA) to its Distribution Revenue Adjustment Mechanism (DRAM) to recover through distribution rates the October 2004 through July 2005 expenditures for the implementation and operation of the demand response programs, Advance Metering Infrastructure project development costs, and the continuation of the Statewide Pricing Pilot and Automated Demand Response System in Rulemaking 02-06-001.

By Advice Letter (AL) 2701-E filed on August 18, 2005.

SUMMARY

This Resolution approves PG&E's request to recover through distribution rates $18.4 million for the October 2004 through July 2005 expenditures associated with Commission authorized demand response programs, Advance Metering Infrastructure (AMI) project development, and the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS) in Rulemaking (R.) 02-06-001.

PG&E's Advice Letter 2701-E was not protested.

BACKGROUND

In June 2002, the Commission instituted Rulemaking (R.) 02-06-001[1] to provide the forum to formulate comprehensive policies to develop demand response as a resource to enhance electric system reliability, reduce power purchase and individual costs, and protect the environment.

1. Order Instituting Rulemaking on policies and practices for advanced metering, demand response, and dynamic pricing.

PG&E, in this Advice Letter requests cost recovery of $18.4 million, for expenditures incurred during the October 2004 through July 2005 time period, for the implementation and operation of the demand response programs, Advance Metering Infrastructure project development, and the continuation of the Statewide Pricing Pilot, and Automated Demand Response System in R.02-06-001

PG&E requests authority to transfer $18.4 million from its Advanced Metering and Demand Response Account (AMDRA[2]) to its Distribution Revenue Adjustment Mechanism (DRAM) for rate recovery through distribution rates. The following is a breakdown of these expenditures: 1) $7.8 million for the implementation and operation of the demand response programs authorized in D.03-06-032 and D.05-01-056; 2) $1.73 million for the on-going operational costs and associated research for the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS) pilot program authorized in D.03-03-036, D.04-01-012, and the October 29, 2004 and April 18, 2005 Assigned Commissioner Rulings(ACRs); 3) $8.7 million for AMI project development activities (preparation of the business case analysis, development and analysis of the Request For Proposals (RFPs) for the AMI system(s) selection, contract negotiations, and expenditures incurred in the preparation of the AMI application filings) directed by the July 21, 2004 ACR[3]; and 4) $200,740 for interest on the account. A more detailed description of these expenditures is provided in the discussion section of this Resolution.

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2. D. 03-03-036, ordering paragraph 8, authorized the creation of the Advanced Metering and Demand Response Accounts (AMDRAs) for the purpose of recording and recovering costs associated with the development and implementation of demand response programs approved in R. 02-06-001.

3. The July 21, 2004 Assigned Commission Ruling (ACR) directed the IOUs to file a preliminary AMI business case analysis by October 15, 2004, and a formal application by December 15, 2004 which needed to include a final analysis and a proposed AMI deployment strategy.

NOTICE

Notice of AL 2701-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of their AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

PG&E's Advice Letter 2701-E was not protested.

DISCUSSION

Energy Division recommends approval of PG&E's $7.8 million cost recovery request for the implementation of Commission authorized demand response programs

Table 1 below provides a list and cost breakdown of PG&E's $7.8 million for the implementation and operation of the demand response programs authorized in D.03-06-032 and D.05-01-056.

Table 1

DEMAND RESPONSE PROGRAMS FOR LARGE CUSTOMERS	OCTOBER 2004 THROUGH JULY 2005 EXPENDITURES ($000)
CRITICAL PEAK PRICING	$627
DEMAND BIDDING PROGRAM	$117
DEMAND RESERVES PARTNERSHIP	$272
INTERVAL METERS	$236
E-SAVE	$66
POWER DOWN	$1,586
CUSTOMER MARKET RESEARCH	$471
FLEX YOUR POWER NOW	$82
INTEGRATED DEMAND SIDE MANAGEMENT	$27
CALIFORNIA 20/20 PROGRAM	$2,627
INTERACT PAYMENTS	$339
DEMAND RESPONSE DATABASE	$1.6
CALIFORNIA POWER AUTHORITY DRP	$0.93
CALIFORNIA POWER AUTHORITY STATEWIDE	$0.31
BUSINESS ENERGY COALITION	$960
GENERAL EDUCATION	$284
A/C CYCLING ANALYSIS	$28
TOTAL	**$7,757**

In D.03-06-032 the Commission approved the 2003 and 2004 demand response programs with a spending cap of $33 million to implement and operate a statewide Critical Peak Pricing (CPP) tariff, an Hourly Pricing Option (HPO), Demand Bidding

Program (DBP) and the Demand Reserves Program (DRP) for large customers. The Commission also granted PG&E the authority to use their AMDRA account to record, for future cost recovery, the demand response program expenditures.[4]

In D.05-01-056 the Commission approved an additional $4.4 million for the summer 2005 day-ahead notification demand response programs designed to provide peak demand reduction by day-ahead high temperature, price, or demand level forecasts. Funding was authorized for the Demand Bidding Program, California Power Authority (CPA) Demand Reserves Partnership Program, CPA managerial agreement, and the Business Energy Partnership Pilot Program. The Commission also approved the following program funding: 1) $1.2 million for PG&E's reliability programs designed to provide immediate load reduction capability, 2) $4.6 million for technology and technical assistance programs to automate customers' response, 3) $8.0 million for educational programs to educate customers about their ability to reduce their bills by shifting their load to the off-peak period, and 4) $69 million for implementation and operation of the 20/20 rebate program for residential and commercial customers.

Energy Division has reviewed the demand response program expenditures, listed in Table 1, and has verified that the expenditures were incurred for the implementation and operation of the demand response programs authorized in D.03-06-032 and D.05-01-056. Energy Division therefore recommends approval of PG&E's cost recovery request.

Energy Division recommends approval of PG&E's $8.7 million cost recovery request for the AMI project development activities

4. D.03-06-032, ordering paragraph 22.

Table 2 provides a list and a cost breakdown of PG&E's $8.7 million for the AMI project activities.

Table 2

AMI PROJECT EXPENDITURES	OCTOBER 2004 THROUGH JULY 2005 EXPENDITURES ($000)
BUSINESS CASE DEVELOPMENT	$4,167
AMI APPLICATIONS	$1,154
RFP DEVELOPMENT AND ANALYSIS	$2,448
CONTRACT NEGOTIATIONS & ADMINISTRATION	$877
PROJECT MANAGEMENT	$55
TOTAL	**$8,701**

As the table indicates, PG&E incurred $4.17 million to develop its business case, which PG&E was directed to perform by the July 21, 2004 Assigned Commissioner Ruling (ACR). These expenditures are primarily for the external consultants PG&E hired and internal personnel it used to do the business case analysis which included developing a computer evaluation model for its business case analysis and AMI application filings. The model was used to analyze the complete life cycle costs, the operating and demand response benefits resulting from the various AMI deployment strategies and scenarios hat were required by the July 21, 2004 ACR[5], from design and planning through the last meter-module vintage in its final expected year of service.

The AMI business case development expenditures also included consultant costs associated with the technical evaluation of the integration of the AMI system(s) with PG&E's existing systems (i.e. Customer Care and Billing System), updated, and planned systems. The technical consultant that was hired by PG&E was responsible for evaluating and scoping out the most cost effective solution to achieve the required AMI functionality, goals and objectives of AMI from a customer care and billing perspective.

PG&E, also requests cost recovery of $1.15 million for the incremental costs associated with the preparation of their AMI Project applications required by the July 21, 2004

5. The July 21, 2004 ACR provided a proposed AMI business case analysis framework (attachment A) which each utility was asked to use for their analysis.

ACR[6]. The expenditures include incremental labor costs for preparing testimony, consultant costs of expert witnesses and internal personnel. The expert witnesses developed testimony, work papers, and participated in the overall review of the AMI application(s) and supporting testimony. Expert witnesses also prepared and reviewed discovery responses.

PG&E, also requests cost recovery of $2.45 million for external technical expertise, and internal personnel it used for the RFP development and evaluation process for the AMI system(s) selection. Development of the RFP included drafting detailed schedules for five functional areas: 1)the AMI system, the hardware and software necessary to read the meters and transmit the relevant data; 2)the AMI interface system(s), the system that stores the meter data and allows for interface with other PG&E systems; 3)installation services, the installation of meters and telecommunication equipment, and associated systems that would be provided by the installation vendor to exchange meter data with PG&E's internal systems; 4)project management/integration, the management of the AMI project, including integration with PG&E's systems and business processes; and 5)load control, the necessary equipment to allow the utility to control specific customer facilities.

The RFP evaluation included developing the evaluation guidelines and review process, and documenting the RFP assessments. PG&E sought external professional advice on issues associated with the conduct of the competitive bidding process. The RFP evaluation also entailed assessing product capabilities and costs (i.e. evaluating the AMI interface system proposals and project management and system integration proposals.)

PG&E also requests $877,000 for expenditures associated with contract negotiations and administration with preferred suppliers that included the following activities: 1) performing due diligence on suppliers and their technologies, including worldwide patent reviews; 2) reviewing licensing documentation associated with vendors' proprietary communications networks; 3) documenting the specific functional

6. On March 15, 2005, PG&E filed its AMI pre-deployment application (A.) 05-03-016 wit an updated business case analysis. On June 16, 2005 PG&E filed it AMI application (A.) 05-06-028 to request approval of their preferred full AMI deployment strategy, Critical Peak Pricing (CPP) ratemaking proposals for residential and small commercial customers, and proposed rate recovery mechanism.

requirements of each supplier's technology and negotiating product warranties based on the functionality requirements and expected failure rates; and 4)conducting all-supplier working sessions to review and refine suppliers' scope of work and technical requirements to ensure alignment of requirements across all supplier contracts.

Energy Division has reviewed PG&E's AMI project development expenditures for the activities listed in table 2 above and has verified that the expenditures are for project activities that were directed by the July 21, 2004 ACR, and therefore recommends granting PG&E's cost recovery request.

Energy Division recommends approval of PG&E's $1.73 million cost recovery request for the continuation of the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS) Pilot

The Commission in D. 03-03-036 approved the implementation of the Statewide Pricing Pilot (SPP), a statewide pricing research project designed to measure the potential demand response of a representative sample of approximately 2,500 residential and small commercial customers placed on experimental time-of-use (TOU) and critical peak pricing (CPP) tariffs, information, and/or technology treatments. The Commission also approved the Automated Demand Response System (ADRS) pilot to measure the incremental load response that could be achieved by residential customers with an automated energy management home system. A budget of $12 million was authorized for the implementation and operation of the SPP and ADRS.

In D.04-01-012 the Commission approved an additional $7.2 million to continue the SPP and ADRS through 2004. Two subsequent ACRs followed, the October 29, 2004 ACR directed the utilities to continue the SPP experimental tariffs and programs through the end of 2006 with an annual budget of $862,000, and the April 18, 2005 ACR authorized the use of $2.95 million in carryover funds for continuing these programs and associated research.

Energy Division has reviewed and verified that PG&E's $1.73 million are for expenditures incurred for the SPP and ADRS and recommends granting PG&E's cost recovery request.

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) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period has been reduced in accordance with Rule 77.7(g). In this case, PG&E the only party to AL 2701-E has agreed to a reduced comment period in order for the Draft Resolution to be considered at the next Commission meeting.

FINDINGS

1. On August 18, 2004, PG&E filed Advice Letter 2701-E requesting authority to transfer $18.4 million from its AMDRA to its DRAM to recover through distribution rates the October 2004 through July 2005 expenditures for the implementation and operation of the demand response programs, AMI project development costs, and the continuation of the SPP and ADRS in R.02-06-001.
2. PG&E requests cost recovery of $7.8 million for the implementation and operation of the demand response programs authorized in D.03-06-032 and D.05-01-056.
3. Energy Division has reviewed and verified that PG&E's $7.8 million are for the demand response programs authorized by Commission and recommends approval of these expenditures.
4. PG&E requests cost recovery of $8.7 million for AMI project development activities, the preparation of the business case analysis, development and analysis of the Request For Proposals (RFPs) for the AMI system(s) selection, contract negotiations, and expenditures for the preparation of the AMI application filings.
5. Energy Division has reviewed and verified that PG&E's $8.7 million in AMI project development costs are for project activities directed by the July 21, 2004 ACR and recommends approval of these expenditures.
6. PG&E requests cost recovery of $1.73 million for the on-going operational costs and associated research for the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS) pilot in compliance with D.03-03-036 and D.04-01-012, and the October 29, 2004 and April 18, 2005 ACRs.
7. Energy Division has reviewed and verified that PG&E's $1.73 million are for the SPP and ADRS and recommends approval of these expenditures.

8. This resolution grants PG&E's request to transfer the October 2004 through July 2005 AMDRA balance of $18.4 million to its DRAM for rate recovery.

THEREFORE IT IS ORDERED THAT:

1. PG&E is authorized to transfer the October 2004 through July 2005 AMDRA balance of $18.4 million to its DRAM for rate recovery.
2. This Advice Letter shall become effective immediately.

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 January 12, 2006, the following Commissioners voting favorably thereon:

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STEVE LARSON
Executive Director

I. D. #5204
December 21, 2005 RESOLUTION E-3964
Commission Meeting January 12, 2006

TO: PARTIES TO PACIFIC GAS & ELECTRIC (PG&E) ADVICE LETTER 2701-E

Enclosed is draft Resolution Number E-3964 of the Energy Division, which is scheduled for consideration at the January 12, 2006 Commission meeting. The Commission may vote on this Resolution at that time or it may postpone a vote until a later meeting. When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

In accordance with Rule 77.7(g), the 30-day comment period has been reduced. PG&E, the only party to Advice Letter 2701-E has agreed to shorten comment period. Comments on the draft Resolution are due by January 5, 2006. Comments shall be served on parties, as outlined below.

1) An original and two copies, along with a certificate of service to:

Jerry Royer and Moises Chavez
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

2) Parties to PG&E's AL 2701-E

3) All Commissioners

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution.

Late submitted comments will not be considered.

An accompanying declaration under penalty of perjury shall be submitted setting forth all the reasons for the late submission.

Please contact Moises Chavez of the Energy Division at 415-703-1851 if you have questions or need assistance.

Sincerely,

Sean Gallagher
Director
Energy Division

Enclosure: Service List
Certificate of Service

CERTIFICATE OF SERVICE

I certify that I have by electronic mail this day served a true copy of Draft Resolution E-3964 on all parties in these filings or their attorneys as shown on the attached list.

Dated December 21, 2005 at San Francisco, California.

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Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Advice Letter 2701-E Service List

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