DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

I.D. #6557
RESOLUTION E-4079
May 3, 2007

R E S O L U T I O N

Resolution E-4079. Pacific Gas and Electric (PG&E) is authorized to revise the Electric Schedule E-BEC, also known as Business Energy Coalition (BEC).

By Advice Letter (AL) 2980-E Filed on February 8, 2007.

SUMMARY

This Resolution approves in part PG&E's request to revise its electric rate schedule, E-BEC also known as Business Energy Coalition (BEC):

- PG&E's proposed revision to allow expansion of the BEC program beyond the originally targeted hard-to-reach customers in sectors such as office, hospitality and high-tech is not approved.

- PG&E's other proposed revisions to the BEC program are approved as these revisions will enable greater customer participation by modifying the triggering process to eliminate current inflexibilities, providing earlier notification, certainty and preparation time to participants and simplifying the incentive payment process.

PG&E's baseline methodology for the BEC program was established in prior proceedings and modifying it is not within the proper scope of this resolution.

PG&E's notification deadline of 12 p.m. for the day-ahead program is proper and should not be changed.

BACKGROUND

PG&E's Business Energy Coalition (BEC) program, approved by the Commission in D. 05-01-056 is a pilot demand response program based on a customer-utility partnership approach, specifically targeting hard-to-reach bundled-service customers, Direct Access customers, and wholesale customers in sectors such as office, hospitality and high-tech. D. 06-11-049 authorized PG&E to file an advice letter for the purpose of modifying the program for the purpose of increasing its demand response capability for the summer of 2007.

PG&E filed AL 2980-E in response to D.06-11-049.

The BEC program compensates participants with an incentive payment based on their committed load reduction.

The BEC program is open to customers with a minimum average monthly demand of 200 kilowatts (kW), who can reduce their demand by a minimum of 200 kW. Currently the program operates a notification time ranging from day-ahead to a minimum of an hour-ahead between the hours of 12 noon and 8 p.m. Participants may be required to curtail demand when any of the follow events occur:

- The California Independent System Operator (CAISO) declares that electric service area known as NP15 spinning reserve level is below seven percent (7%).
- A Stage 2 emergency is issued by the CAISO.
- The CAISO forecasted system load meets or exceeds 43,000 MW.
- The forecasted or actual temperature in San Francisco exceeds 78 degrees Fahrenheit.
- The CAISO or PG&E declares a localized system emergency.

Currently program participants receive an incentive payment of $50 per kW-year based on their committed load reduction and the payment is made in two installments, 50% in October and remainder the following January.

Non-performance penalties are assessed on group load curtailment levels, not on individual participant levels. In other words incentive payments can be reduced if the curtailment group fails to meet an established firm service level. Thus participants must work together to ensure optimal performance to receive the optimal incentive payment.

PG&E proposes to revise the E-BEC electric schedule with intention of increasing operational flexibility and attracting more participation.

By submission of AL 2980-E, PG&E requests Commission approval for several revisions to the BEC program that it believes will result in additional demand response MWs. The proposed revisions are:

(1) Expand the availability of the program to PG&E's entire electric service territory, (currently the program is only available within the City and County of San Francisco and surrounding Bay Area counties).
(2) Expand the eligibility of the BEC program to sectors beyond the current office, hospitality, and high-tech.
(3) Expand the BEC program to Optional Binding Mandatory Curtailment (Schedule E-POBMC and E-OBMC) customers.
(4) Eliminate one to the programs triggers tied to San Francisco, as the proposed territory will be expanded.
(5) Insert a "soft trigger" to allow the program to only be called as needed rather than require adherence to an inflexible criteria.
(6) Provide notification of the BEC event by 12 noon for day-ahead events in order to give customers more certainty and time to prepare for reducing load.
(7) Modify incentive payment to once per year to simplify process.
(8) Correct various typographical errors and improve clarity.

PG&E does not request additional funding for the revisions proposed.

PG&E states that additional money will not be needed to fund the revisions proposed for the program.

NOTICE

Notice of AL 2890-E 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

PG&E's Advice Letter 2980-E was protested by Energy Curtailment Specialists, Inc. ("ECS") on February 26, 2007. ECS objects to the baseline methodology for the BEC program. ECS also argues that the BEC program is more advantageous allowing three hours more advanced notice to program participants then the notice given in PG&E's Capacity Bidding Program.

PG&E responded to the protest of ECS on March 9, 2007.

DISCUSSION

ECS argues that the baseline used in the BEC program provides more favorable opportunity then the baseline used in the Capacity Bidding Program (CBP). Energy Division concludes that the issue of a proper baseline is outside the scope of this resolution.

ECS states that, as compared to baseline used in the CBP program, the BEC program calculates committed load reduction and evaluation based on the difference between the sum of each participant's two year peak demand and the sum of each participant's firm service level creating a more favorable measurement of curtailment based on past performance. The CBP program uses a customer specific baseline whereby energy reduction is measured against the hourly average based on the three highest energy usage days of the immediate past 10 similar days. The three highest energy days are those days with the highest total kilowatt hour usages between 11 a.m and 7 p.m.

In its response, PG&E agrees that there are differences between the baselines used in the BEC and CBP programs. PG&E states that the individual baselines for BEC and CBP were previously approved by the Commission in Advice Letters 2681-E and 2839-E-A. PG&E states that the proper forum regarding the issue of how baselines are measured in demand response programs is best left for consideration in the Commission's *Order Instituting Rulemaking Regarding Policies and Protocols for Demand Response Load Impact Estimates, Cost Effectiveness Methodologies, Megawatt Goals and Alignment with California Independent System Operator Market Design Protocols,* Rulemaking 07-01-041.

The issue of baseline energy calculation is relevant since it has an impact on the effectiveness of the program, and the Commission's Energy Action Plan favors demand response programs that are cost-effective. However Energy Division believes that this resolution is not the proper forum for parties to debate the fairness of baseline calculation methodologies for the following reasons:

- The calculation of a baseline for the BEC program was approved in Advice Letter 2681-E
- The calculation of a baseline for the CBP program was approved in Advice Letter 2839-E-A.
- The Commission is currently exploring baseline methodology in Rulemaking 07-01-041.
- CBP and BEC are two different programs which target different customers with different energy needs. The two programs have different settlement procedures, different incentive structures and different operating rules. To surmise that the one program has an advantage over the other strictly based on baseline calculation ignores the other differences between the programs. For example the BEC currently pays an incentive of $50 per kW per year and it can be triggered at any time of the year, while the CBP pays incentives ranging from $3.71 per kW to $24.81 per kW on monthly basis depending on amount of MWs committed, and can only be triggered between May and October. The issue of proper baselines is inherently complex since the customer's specific load pattern also has an effect as to whether a baseline is advantageous or not. Therefore this issue deserves an evaluation much more comprehensive than what can be provided via this resolution.

ECS protests PG&E's proposed 12 p.m. notification time under the revised BEC program. Energy Division finds that the 12 pm notification time is reasonable.

ECS states that a 12 noon notification time for day-ahead events under the proposed revisions to the BEC program places participants in PG&E's CBP program at a disadvantage since that program has a 3:00 p.m. day-ahead notification time.

In its Reply, PG&E states that it does not oppose changing the BEC notification deadline to 3 p.m. for the day-ahead program in order to make the program notification times parallel.

The Energy Division has assessed ECS' concern regarding notification time and has found no merit to shifting the notification time to 3 p.m. ECS wants the BEC to be similar to the CPB so that there is no competitive advantage for the BEC over the CPB. Energy Division is not convinced that the two programs need to have the same notification time since it is not readily apparent that having a difference in notification time creates a grossly unfair advantage for one program over the other, or hinders the Commission's overall policy for demand response.

Energy Division finds that all proposed revisions to the BEC program are reasonable with the exception of expansion beyond the hard-to-reach customer sector.

The BEC program was originally created to reach bundled-service customers, Direct Access customers, and wholesale customers in hard-to-reach sectors such as office, hospitality and high-tech. Energy Division believes that the BEC program should remain focused solely on hard-to-reach customers so that the MWs from these customers can be obtained. PG&E proposes to expand the program to customers who are not in the hard-to-reach sectors. This new approach may not necessarily add more MWs to PG&E's portfolio since such customers could be willing to enroll in any of PG&E's other DR programs, of which there are several. Energy Division believes that the BEC serves a specific purpose of targeting the hard-to-reach customers, and that purpose should remain intact. Otherwise, the BEC begins to compete with PG&E's other DR programs, which may not result in additional DR being enrolled. For these reasons, Energy Division recommends that PG&E's BEC program continue to be limited to the hard-to-reach sectors, currently defined as office, high-tech and hospitality.

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 or 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.

FINDINGS

1. The BEC program is a demand-side load management program intended to engage businesses to participate in a demand response program based on an innovative customer-utility partnership approach approved by the Commission in D.05-01-056.

2. The Business Energy Coalition and Capacity Bidding Program are two different programs created for different customer types.

3. This resolution is not the proper forum for parties to debate the baseline calculation for PG&E's BEC's program because (1) BEC baseline calculation has already been adopted previously by the Commission, (2) there is another Commission process to address baseline methodology, and (3) the issue of baseline methodology is inherently complex and deserves an evaluation much more comprehensive than what can be provided via this resolution.

4. PG&E's proposed 12 p.m. notification for the BEC program is proper given the nature of the program.

5. The Commission finds it reasonable to expand the availability of the BEC program outside the City and County of San Francisco in order to successfully reach the goal of 50 MW set out in D. 06-11-049.

6. The Commission finds it reasonable to expand the availability of the BEC program to participant in the Optional Binding Mandatory Curtailment (Schedule E-POBMC and E-OBMC) customers.

7. The Commission finds it reasonable to insert a soft trigger to allow the BEC program to be called as needed.

8. The Commission finds it reasonable to modify the BEC incentive payment to once per year.

9. The Commission finds it reasonable to eliminate the BEC trigger tied to the San Francisco service area because the BEC program participant area is to be expanded beyond the City and County of San Francisco.

10. The Commission does not find it reasonable to expand the program beyond the currently defined hard-to-reach sectors of office, hospitality and high-tech.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E to revise Electric Schedule E-BEC – Business Energy Coalition to modify the BEC program as requested in Advice Letter AL 2980-E is approved except for its proposal to expand the program beyond the hard-to-reach business sectors of office, high-tech and hospitality.

2. PG&E shall file a supplemental advice letter that complies with this resolution within 5 days of the effective date 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 3, 2007; the following Commissioners voting favorably thereon:

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STEVE LARSON
Executive Director