

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the
Commission's Own Motion to Address the
Issue of Customers' Electric and Natural Gas
Service Disconnection.

R.10-02-005
(Filed February 4, 2010)

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M)
OPENING COMMENTS ON PHASE II SCOPING MEMO
ISSUES**

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I. INTRODUCTION

Pursuant to Rule 6.2 of the Commissions Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) provides the following opening comments on this Phase II Order Instituting Rulemaking (OIR) 10-02-005. On August 26, 2010, Administrative Law Judge (ALJ) Bruce DeBerry requested each of the invested owned utilities (IOUs) to provide comments on three significant issues that were discussed but not adjudicated in Phase I of the proceeding. These practices relate to allowing customers to choose a monthly billing date, defining "sensitive customers," and providing exceptions to deposit rules for certain customers demonstrating continued fraud or bad check activities. The ALJ's Ruling significantly limited the issues to be addressed in Phase II and directed that other issues be reviewed and adjudicated in the IOU's next general rate cases.

In the response that follows, PG&E addresses each of the three issues identified by the ALJ's Ruling. The response also addresses very important cost implications and related issues which PG&E respectfully requests this Commission to evaluate and adjudicate in the course of this proceeding.

II. BACKGROUND

On February 5, 2010, the Commission issued an initial scoping memo requesting

comments on a variety of issues associated with utilities' disconnection practices. Initial comments were filed on March 12, 2010 and reply comments on April 2, 2010. The Proposed Decision was issued thereafter on June 17, 2010. Opening and reply comments on the draft decision were provided by the parties on July 7, 2010 and July 12, 2010. The final Phase I decision was issued on July 30, 2010, which resolved several issues, and reserved others for Phase II.

III. A MECHANISM FOR COST RECOVERY IS REQUIRED TO ENSURE THAT UTILITIES ARE MADE WHOLE FOR THE INCREMENTAL COSTS OF IMPLEMENTING DECISION DIRECTIVES

While the Phase I Decision clearly recognized the importance of costs in establishing or modifying existing practices and represented that cost recovery would be addressed in Phase II,^{1/} the cost issue was not identified as one of the issues in the ALJ's August 26, 2010 Ruling.

From PG&E's perspective, determining an appropriate mechanism and time frame for cost recovery should be within the scope of this proceeding as recognized in the Rulemaking.^{2/} Establishing new business practices without considering and adopting an appropriate cost recovery mechanism leaves the utilities and its customers in a particularly vulnerable and untenable position. A decision in Phase II of this Rulemaking should clearly establish parameters for recovery of those costs contained in the memorandum account which the Phase I proceeding directed the IOUs to establish.

PG&E proposes a preferred path for cost recovery. That path is through an advice letter

^{1/} "This decision does not address any additional significant costs or cost recovery associated with compliance with the customer service practices initiated in this decision, and recorded in memorandum accounts authorized by R.10-02-005. Although these costs will be addressed in the second phase of this proceeding, cost recovery will be determined in the next general rate case for each utility." (D.10-07-048, p.3-4).

^{2/} "As part of the proceeding, the Commission will determine the process for determining the categories and amounts of costs in the memorandum account that should be considered reasonable for recovery, as well as the appropriate methods for recovery." (R.10-02-005, Ordering Paragraph 3.c).

process. PG&E's preferred approach would involve a tier three advice letter filing. PG&E strongly urges the Commission to adopt this approach which would report out annual costs in the memorandum account and request recovery. This process would permit interested parties to provide appropriate input and would allow the Commission to render a timely Resolution on an annual basis and thus avoid shifting costs into future years that are significantly removed in time from the benefits realized by ratepayers.

The general rate case is not preferred and arguably not even an appropriate mechanism for cost recovery in this case. It is a long process that would substantially delay the recovery. For PG&E, the recovery of costs incurred in 2010 and 2011 would not be recovered until 2014. 2012 costs would not be available until after the 2014 general rate case litigation has commenced and may or may not be considered in that proceeding. If costs are incurred in 2013, they would not be recovered until 2017, but only then if PG&E moves from a four to a three year general rate case cycle.

For these reasons, it is extremely important to PG&E that the Commission approve cost recovery through the annual advice filing process which would provide for each of the following:

1. Permit PG&E to recover reasonable costs prudently incurred to comply with the measures directed or adopted by the Commission in the Phase I and Phase II proceedings of R.10-02-005.
2. Provide PG&E with the opportunity to recover the reasonable costs prudently incurred to R.10-02-005 and tracked within the memorandum account.
3. Allow PG&E to transfer the costs recorded in the memorandum account on an annual basis to the appropriate balancing account for recovery in rates, if available (i.e. For PG&E this would be the Distribution Revenue Adjustment

Mechanism-for electric and the Core Fixed Cost Account and Non Core Distribution Fixed Cost Account for gas). Recovery of these costs will be part of PG&E's annual revenue requirement and rate consolidation process (i.e. Annual Electric True-Up and Annual Gas True-up Advice Letter filings).

4. Allow PG&E to recover the costs recorded in the memorandum account established in R.10-02-005 through a periodic Tier 3 Advice Letter filing.

This decision should also allow each of the other IOUs a similar recovery mechanism.

In the alternative, if the Phase I decision process is adopted and recovery is considered in each of the IOU's general rate cases, the extent of and form of review should be established in this proceeding so as to guide the Commission in the subsequent general rate case reasonableness review. Without such clear direction, when there is an adjudication of the memorandum account expenses in the utilities' next general rate cases, there will be no guarantee of a clear and consistent standard of review. The standard of review should be based on whether the costs are reasonable and prudently incurred and PG&E requests that such language be incorporated in the language of the final decision of Phase II of this proceeding.

IV. RESPONSES TO ITEMS IDENTIFIED IN ADMINISTRATIVE LAW JUDGES'S RULING

PG&E provides the following responses to the specific items identified in the ALJ's August 26 Phase II Ruling.

A. Sensitive Customer Classification Should Protect Those Truly in Need (Medical Baseline and Life Support Customers) and Not Be Expanded to Include Some Amorphous and Unrelated Class.

The ALJ's Ruling requested the utilities to address the issue of defining sensitive customers. In Phase I of this proceeding, each of the IOUs provided a definition of the scope of the sensitive customer classification presently being utilized. Other parties provided comments

concerning why the sensitive customer classification should be expanded beyond the existing parameters. Below, PG&E explains in more detail the ambit of its sensitive customer classification, the safeguards provided to such customers and an additional explanation as to why this sensitive customer classification must have precise parameters that are sufficiently narrow to permit the IOUs to continue to provide safeguards to those customers truly in need.

PG&E defines sensitive customers as customers that have a life support or medical baseline status. To obtain such status, a customer must obtain a signature on a pre-printed form from a licensed physician or other health care provider certifying as to the customer's condition. Each of the utilities have processes in place to protect customers who have taken steps to have themselves identified as life support or critical care i.e., where service termination could be life-threatening.

As the Phase I decision explains, PG&E provides medical baseline and life support customers with an outbound call, including an opportunity to speak with a CSR, a phone attempt, a certified letter notifying the customer of the date of service disconnection, and a phone attempt and/or letter from the Customer Relations Department for a final pay plan. PG&E also provides an in-field visit prior to disconnection of such customers.^{3/}

The Commission must provide a clear definition of sensitive customers, specifically those customers requiring a field visit before disconnection. Costs of field visits are doubled by including medical baseline customers within the protected class, i.e., the class of customers requiring field visits before disconnection. Including within the group of protected customers those with a medical baseline status increases the number of customers receiving field visits and other additional communication from 75,036 to 146,178. Even a modest expansion of the list

^{3/} D.10-07-048, p 20-21.

would have very significant cost implications. However, some of the parties have not proposed modest increases but have instead proposed definitions with such amorphous parameters as to prevent an accurate assessment of the likely impact on the entire billing process. Suggestions from the non-IOU participants have included expanding the definition of sensitive customers to all households with disabled individuals identified in the low income program,^{4/} all individuals who speak English as a second language,^{5/} all customers age 62 and older^{6/} and the list goes on.

The cost of a field visit in the past has been estimated at \$66.50. If the additional steps identified above or other steps were taken before disconnection for an even larger number of customers, those costs per visit would necessarily increase, in some cases significantly. For example, if additional action is taken in the field, with representatives' time billed at approximately \$80 per hour, the addition of even fifteen minutes per visit adds \$20 to the cost of the field call.

One of the benefits of the SmartMeter™ technology is the increased efficiency associated with the remote disconnect and reconnect switching capacity. All of the protections and processes that PG&E has in place to protect sensitive customers are applicable to customers both before and after SmartMeter™ installation; but the SmartMeter™ technology's remote connect/disconnect capability enables significant cost savings. The unnecessary expansion of the definition of sensitive customer, as well as the added processes, would significantly increase costs and erode SmartMeter™ benefits.

This Commission has previously stated that it seeks no cost and low cost measures to

^{4/} DisabRA's Opening Comments, July 7, 2010, p. 9.

^{5/} Greenlining Opening Comments, July 7, 2010, p. 8-9.

^{6/} DRA's Opening Comments, July 7, 2010, p. 8.

assist customers. Adding to the sensitive customer category those customers that are not within the scope of the life support and medical baseline classification is problematic and potentially extremely costly for the IOUs and the ratepayers.

B. The Primary Focus Should be on Providing Customers' Choice on When to Pay a Bill Within the Monthly Cycle and Not Solely on the Monthly Meter Reading or Billing Date.

The ALJ's Ruling requested the utilities to address the issue of allowing customers to choose a monthly billing date. PG&E is not opposed to providing customers this flexibility provided that the levels of requests remain within the capacity of PG&E's operations group. PG&E presently accommodates a customer's request for a different monthly billing date, subject to capacity constraints in the measurement, billing and collection process. PG&E's primary concern about accommodating customer requested monthly billing dates is that it has limited capacity to accommodate these requests. PG&E processes an average of 260,000 bills per day, with a maximum capacity of approximately 300,000 bills per day - any significant shifting of metering or billing periods to a particular day could cause PG&E and ultimately its customers to incur additional costs to handle the additional billing volume for a specific day. If the capacity were exceeded, PG&E has estimated that its annual cost would increase by a minimum of \$627,000.^{7/}

While PG&E is amenable to customers selecting a billing date provided that it does not exceed PG&E's daily capacity, it's important to understand that a customer need not change their billing date to obtain flexibility with respect to timing of the payments. PG&E's collection process does not commence until 42 days after the bill is issued. Therefore, a customer may pay the bill any day within the monthly cycle and still be well within the 42 day time frame

^{7/} This information was provided in PG&E's April 28, 2010 response to the April 16, 2010 Assigned ALJ's Ruling requesting certain costs information.

referenced above. Therefore, no additional change in the billing date is needed.

C. CARE and FERA Customers Involved in Fraud, Bad Checks or Bankruptcy Should be Subject to Deposits

The ALJ's Ruling requested the utilities to address the issue of providing exceptions to deposit rules for certain customers demonstrating continued fraud or bad check activities. By way of background, in the Phase I decision, the Commission found that reestablishment of credit deposits can be resumed for most residential customers but that CARE and FERA customers shall generally continue to be exempt from slow pay and service reestablishment credit deposits.^{8/} PG&E is generally supportive of this policy except where there are instances of customer fraud that should be the basis for assessing deposits upon all customers, continued delivery of bad checks or where bankruptcy filing has occurred. If a customer engages in deliberate behavior to "game the system" and prevent the utility from obtaining compensation for services provided, then this customer should not be rewarded for such conduct and should generally be subject to deposit.

PG&E addresses approximately 9,000 fraud cases annually. The financial impact of these fraudulent activities is estimated to be over \$3M a year. This behavior should be discouraged through the imposition of deposits following demonstrated customer fraud.

In addition, PG&E experiences a significant level of bad check activity. Specifically, in 2009, PG&E had approximately 11,000 customers who provided PG&E with 3 or more bad check payments representing \$21.5M. These "repeat offenders" typically are attempting to circumvent the collection process and avoid paying for the services rendered and thereby pose a high risk for bad debt expense.

Lastly, PG&E assesses post petition deposits on customers who have filed for bankruptcy

^{8/} D.10-07-048, p. 14

which is an action permitted under 11 U.S.C. §366. That Federal Bankruptcy Code Provision specifically permits the utility to recover a deposit to secure post petition losses. PG&E, in 2009, processed 3,165 residential customer bankruptcies. The post petition deposits assessed on the associated accounts represent \$268K.

PG&E request that the Commission provide an exception to the OIR deposit rules for each of the fraud, bad check activities and bankruptcy scenarios noted above.

V. CONCLUSION

PG&E respectfully request that this Commission and all interested parties acknowledge the importance of cost recovery and that a clear and equitable mechanism for such recovery should be further elucidated. Also critical to this Phase II process is a narrowly tailored and precise definition of sensitive customers. In order to provide significant additional outreach to this customer class, it is important that the class not be overly broad and that the process not tax available resources so as to undermine the utility's ability to deliver high level service to all other customers. Finally individuals who engage in fraudulent behavior or engage in a pattern or practice of writing bad checks or have filed for bankruptcy should be required to pay a deposit associated with the utility's risk exposure from such conduct.

Respectfully submitted,
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By: _____ /s/
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September 15, 2010

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is 77 Beale Street, San Francisco, California 94105.

On September 15, 2010, I served a true copy of:

**PACIFIC GAS AND ELECTRIC COMPANY'S OPENING COMMENTS ON
PHASE II SCOPING MEMO ISSUES**

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service lists for R. 10-02-005 with an e-mail address.

[XX] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service lists for R. 10-02-005 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 15th day of September, 2010, at San Francisco, California.

/s/
MARTIE L. WAY