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Division of Water and Audits, Third Floor  
Attention: Rami Kahlon  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

**Subject:** Comments on Draft Resolution W-4854--Authorizing San Jose Water Company, California Water Service Company, California American Water Company, And Golden State Water Company (Water IOUs) To Establish New And Separate Memorandum Accounts To Track The Costs Associated With The Research, Development & Demonstration Of Six Pressure-Reducing Valve Modernization Projects

Dear Mr. Kahlon:

Southern California Edison Company (SCE), Pacific Gas & Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) (Joint Energy IOUs) appreciate the opportunity to comment on Draft Resolution W-4854 (Draft Resolution), which approves establishment of memorandum accounts to track the costs associated with six research, development and demonstration (RD&D) Pressure-Reducing Valve (PRV) modernization projects. The Draft Resolution approves with modifications the following Advice Letters (ALs):

- AL 418 filed on July 16, 2010 by San Jose Water Company
- AL 1409-W filed on July 15, 2010 by Golden State Water Company
- AL-853 filed on July 14, 2010 by California-American Water Company
- AL-1997 filed on July 16, 2010 by California Water Service Company

The Joint Energy IOUs support the Draft Resolution with modifications to limit the role of the Joint Energy IOUs with respect to the Water Utilities RD&D projects, and to correct other factual errors as discussed below. The Joint Energy IOUs provide in Attachment 1 their recommended revisions to the Draft Resolution's proposed findings and ordering paragraphs. As requested by Division of Water and Audits staff, the Joint Energy IOUs also include a mark-up copy of the Draft Resolution as Attachment 2.

## **I. THE JOINT ENERGY IOUS SHOULD NOT BE ORDERED TO ASSUME AN ACTIVE ROLE IN THE WATER IOUS' RD&D PROJECT BEYOND THEIR PROVISION OF THE APPLICABLE TARIFFS.**

The Draft Resolution disposes of four ALs filed by the Water IOUs seeking permission to “establish memorandum accounts to track the costs associated with six research, development and demonstration (RD&D) Pressure-Reducing Valve (PRV) modernization projects.” (Draft Resolution, P.1.) Specifically, the Draft Resolution authorizes the establishment of such memorandum accounts and authorizes the Water IOUs to collect the costs of their respective RD&D projects from their ratepayers subject to their prudent administration of the projects. (Draft Resolution, Ordering Paragraphs 1 and 2.)

The Joint Energy IOUs agree that, to the extent that the Water IOUs wish to pursue these projects, the funding should come from their ratepayers (and not the customers of the Energy IOUs, as the Water IOUs initially proposed). However, the Joint Energy IOUs believe that it is inappropriate for the Draft Resolution to order the Joint Energy IOUs to assume an active role in the RD&D projects, and specifically to participate in the project design and EM&V of these projects. The request to conduct these projects and for establishment of the memorandum accounts was made solely by the Water IOUs, not as a joint AL or application with the Joint Energy IOUs. Rather, the Joint Energy IOUs' participation in the disposition of the Water IOUs' ALs was driven primarily by the Water IOUs' initial request to include these projects within the scope of an energy efficiency program, in which the Draft Resolution has correctly determined they do not belong.

The Joint Energy IOUs support the Water IOUs' RD&D efforts and participation through the appropriate utility tariffs and/or wholesale energy procurement mechanisms. Beyond providing those options to the Water IOUs, the Joint Energy IOUs have not proposed, assumed, nor should they be ordered, to “work with the Division of Water and Audits (DWA) Staff to finalize project site details, develop project scope and select a single engineering and design firm” for the Water IOUs' RD&D projects, nor is it appropriate to order the Joint Energy IOUs “to work with DWA Staff to develop evaluation, measurement and verification (EM&V) protocol and select an EM&V consultant.” (Draft Resolution, Ordering Paragraphs 3 and 4.) It is appropriate for the Water IOUs to implement the RD&D programs for which they alone have requested permission to conduct.

## **II. REFERENCES TO POLICIES RELATED TO THE OPERATIONAL ENERGY EFFICIENCY PROGRAM (OEEP) AS JUSTIFICATION FOR THE WATER IOUS' PROPOSED GENERATION PROJECTS SHOULD BE REMOVED FROM THE DRAFT RESOLUTION.**

While the Draft Resolution points to numerous policies of the California Public Utilities Commission and the State of California that are served by the Water

IOUs' proposed generation projects, the Draft Resolution clearly acknowledges that these are not Energy Efficiency projects and that policies related to the OEEP do not apply. (Draft Resolution, p.11-12; Finding and Conclusion No. 20). As pointed out in the Joint Energy IOUs' protest, acknowledged in the Water IOUs' Joint Response thereto, and confirmed in the Draft Resolution, these RD&D projects are generation projects, which are fundamentally different than energy efficiency projects. Because there is broad consensus among the parties that these are, in fact, generation projects, it is inappropriate to attempt to justify authorizing them to proceed using references to, or otherwise based upon inapplicable energy efficiency policies.

### **III. BECAUSE THE DRAFT RESOLUTION DOES NOT ORDER THE WATER IOUS TO REFILE THEIR ADVICE LETTERS, THE DRAFT RESOLUTION SHOULD CLARIFY LANGUAGE REGARDING THE SCOPE OF THE WATER UTILITIES' INITIAL REQUEST.**

The Draft Resolution states that the Joint Energy IOUs' concerns about improperly designating these projects as energy efficiency are unfounded because "the Water Utilities do not argue that the proposed projects are OEEP projects." (Draft Resolution, p.11) This statement is factually incorrect. The Water IOUs did initially request that these project expenses would be tracked along with OEEP program expenses. (See, e.g., San Jose Water Company (U-168-W)(SJWC) Advice Letter No. (AL) 419 stating "SJWC additionally proposes to track all reasonable construction and associated costs (the return of and return on such assets) to the Operational Energy Efficiency Memorandum Account previously authorized by the Commission in D.10-04-030.")

While the Joint Energy IOUs support the ultimate disposition of these ALs as generation projects—not energy efficiency—the discussion of the parties' positions and how such a disposition was reached in the Draft Resolution is incorrect. In their Sur-Reply, the Joint Energy IOUs requested refiling of the original ALs to reflect the Water Utilities' acknowledgment that these were properly characterized as generation projects, as stated in their Joint Reply to the Joint Energy Utilities' protest. Because the Draft Resolution did not require refiling of the ALs to address this apparent misunderstanding regarding the scope of the initial request, the Draft Resolution should clarify its discussion to avoid any future misunderstandings of the same kind.

### **IV. STATEMENTS REGARDING THE POTENTIAL REDUCTION OF PEAK LOAD AND AVOIDED TRANSMISSION AND DISTRIBUTION COSTS AS A RESULT OF THE RD&D PROJECTS ARE UNSUPPORTED AND SHOULD BE REMOVED FROM THE DRAFT RESOLUTION.**

The Draft Resolution claims that "because maximum water demand, thereby maximum water flowing through the FCVs, occurs at the same time as peak power demand, results in maximum power recovery from the proposed FCVs

would coincide with peak power demand.” (Draft Resolution, p.2.). The Draft Resolution provides no support for this statement. In contrast, when calculating the potential load generated by these RD&D projects, the Draft Resolution assumes that many of the sites will constantly be operating at a 100% capacity factor. (See Draft Resolution, p.3). While 100% capacity factor ensures some peak production, there is no evidence of peak water flow (usage) coincident with peak power demand. In fact, the available evidence suggests otherwise: maximum water flows occur bimodally in the morning at around 9 AM and at 9 PM in the evening.<sup>1</sup> The evidence suggests FCVs will not offset the Energy Utilities’ needs to construct new peaking projects in the future. While the theoretical potential exists to avoid transmission and distribution energy losses through local generation, there is no support for the conclusion that the projects will avoid those costs. (See *Id.*) Because there is no factual support for these claims in the record, these conclusions should be removed from the Draft Resolution.

## V. CONCLUSION

The Joint Energy IOUs support the ultimate disposition presented in Draft Resolution W-4854—(1) that these projects are not energy efficiency, but should be pursued as generation projects; (2) that project costs should be tracked in separate, individual memorandum accounts outside of energy efficiency and the OEEP; and (3) that the Water IOUs should seek recovery of program expenses from water ratepayers and not from the Energy IOUs’ customers or energy efficiency budget. The Joint Energy IOUs’ recommend that the Commission adopt the Draft Resolution with the modifications included in Attachments 1 and 2 herein.

Sincerely,



cc: Dave-Isaiah Larsen, DRA  
Danilo Sanchez, DRA  
Mikhail Haramati, CPUC  
Service List A.07-01-024  
Service List R.09-11-014

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<sup>1</sup> [http://www.fypower.org/pdf/CA\\_WaterSupply\\_Electricity.pdf](http://www.fypower.org/pdf/CA_WaterSupply_Electricity.pdf), pg 33 and ff