

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

Application of Pacific Gas and Electric  
Company for Approval of its 2009 Rate Design  
Window Proposals for Dynamic Pricing and  
Recovery of Incremental Expenditures Required  
for Implementation (U 39 E)

Application 09-02-022  
(Filed February 27, 2009;  
Amended March 13, 2009)

**PETITION OF PACIFIC GAS AND ELECTRIC COMPANY FOR  
MODIFICATION OF DECISION 10-02-032**

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**I. INTRODUCTION**

Pursuant to Rule 16.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), Pacific Gas and Electric Company (PG&E or the Company) respectfully requests the Commission, through this Petition to Modify (Petition), to revise the Commission's Decision (D.) 10-02-032, the Peak Day Pricing (PDP) decision (the PDP Decision), with respect to (i) the timetable for certain default time-varying rates and (ii) the corresponding cost recovery mechanism.<sup>1/</sup> This Petition requests no increase in funding.

PG&E supports and is committed to the success of the Commission's goal of engaging customer participation to address long-term energy costs in California using metering technology and time-varying dynamic pricing rates. The modifications proposed in this Petition stem from PG&E's experiences to date with dynamic pricing and SmartMeter™ deployment.

Based on PG&E's lessons learned from its implementation of dynamic pricing with large business customers and rollout of the SmartMeter™ program, PG&E is proposing improvements that should foster positive customer experiences with dynamic pricing and thus should increase the success of dynamic pricing and the ability to achieve the State's energy goals. PG&E

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<sup>1/</sup> The PDP structure approved in D.10-02-032 includes both critical peak pricing (CPP) and time-of-use (TOU) pricing for non-residential and agricultural customers. For residential customers, PDP includes CPP, TOU, and inclining block rates.

believes the key to successful implementation involves customers' engagement in long-term, sustainable behavior change. This engagement begins with:

- 1) A customer's understanding of the benefits and capabilities of his/her SmartMeter™ device, followed by
- 2) The introduction of TOU rates to build awareness of energy costs at different times of the day, leading to
- 3) Participation in CPP to reinforce and develop behavior changes begun during the TOU period.

Consequently, PG&E believes that the following key extensions in the timeline are necessary to promote long-term, sustainable support and behavior change by its customers:

- For small- and medium-sized commercial and industrial (C&I) customers, PG&E proposes that these customers first default to mandatory TOU rates beginning on November 1, 2012 (rather than default to PDP on November 1, 2011, as currently required), and then default to PDP (including TOU) no earlier than March 1, 2014.
- For small- and medium-sized agricultural customers, PG&E proposes that these customers begin to default to mandatory TOU on March 1, 2013, rather than February 1, 2012, as currently required.
- For residential customers, PG&E proposes to eliminate the requirement to implement a new residential PDP rate on November 1, 2011, and, instead, to retain SmartRate™ as an option for residential customers until residential dynamic pricing options are considered again by the Commission.

Regarding PG&E's proposed cost recovery modifications, PG&E is *not* requesting an increase in authorized funding as part of this Petition. Rather, PG&E merely seeks certainty of recovery of the expense amounts already approved by the PDP Decision due to the close of the record in Phase 1 of PG&E's 2011 General Rate Case (GRC)<sup>2/</sup> and the pending GRC Phase I settlement currently before the Commission.<sup>3/</sup>

By granting this Petition on an expedited basis, with a final decision no later than the end of April 2011, the Commission will ensure that PG&E's dynamic pricing programs deliver

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<sup>2/</sup> A.09-12-020/I.10-07-027, Administrative Law Judge's Ruling Canceling Evidentiary Hearing and Submitting the Proceeding (November 17, 2010).

<sup>3/</sup> A.09-12-020/I.10-07-027, Motion of Pacific Gas and Electric Company et al. for Adoption of Settlement Agreement (October 15, 2010).

higher customer satisfaction and therefore more engaged participation than the current PDP Decision would allow.

## II. SUMMARY OF REQUESTED RELIEF

This Petition proposes to modify the PDP Decision in two primary ways. First, this Petition proposes to revise the timetable for implementation of certain default time-varying rates. Second, this Petition proposes to revise the corresponding cost recovery mechanism. Each of these proposals is described below. As Appendix A to this Petition, PG&E has included specific modifications to the Ordering Paragraphs (OPs) of the PDP Decision to effect these changes.

### A. Revisions to the Timetable.

Since the PDP Decision was issued nearly a year ago, PG&E has implemented opt-in PDP rates for agricultural and small and medium C&I customers and default PDP rates for large C&I customers, while continuing to offer opt-in SmartRate™ for residential customers. In addition, PG&E has installed nearly 4 million electric SmartMeter™ devices in its service area to date.<sup>4/</sup> PG&E has gained valuable knowledge and customer insight from these experiences, resulting in a revised vision for a successful path to achieve the Company's and the Commission's dynamic pricing goals. These insights, as well as PG&E's revised vision, are described in detail in Sections IV and V below.

In this Petition, PG&E proposes the following changes to the timetable set forth in the PDP Decision:

**1. Small and Medium C&I Customers.** These customers are currently scheduled to default to PDP, which includes mandatory TOU rates with CPP, on November 1, 2011.<sup>5/</sup> PG&E proposes that these customers first default to mandatory TOU beginning on November 1, 2012, and then default to PDP (including TOU) no earlier than March 1, 2014.<sup>6/</sup> PG&E also proposes to eliminate rolling default eligibility and move to fixed

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<sup>4/</sup> SmartMeter™ Annual Workshop report (December 6, 2010).

<sup>5/</sup> D.10-02-032, *mimeo*, p. 180, OP 3.

<sup>6/</sup> PG&E proposes March as a default date as it allows customers at least three full months to review their first year of data on TOU before making a decision on PDP.

semi-annual default dates of November 1 and March 1 for all customers not eligible for the initial default date.

**2. Small and Medium Agricultural Customers.** These customers are currently scheduled to default to mandatory TOU on February 1, 2012.<sup>7/</sup> PG&E proposes a 13-month extension, until March 1, 2013, to begin to default these customers to mandatory TOU. PG&E also proposes defaulting all agricultural customers not eligible for the initial default date once a year, on March 1, rather than on a rolling basis.

**3. Residential Customers.** These customers are currently scheduled to have PDP as an option on November 1, 2011. In addition, customers currently on residential SmartRate™ are scheduled to default to the new PDP rate on November 1, 2011.<sup>8/</sup> PG&E proposes to eliminate the requirement to implement a new residential PDP rate, and, instead, to retain SmartRate™ as an option for residential customers until the Commission completes its pending review of default residential dynamic pricing rates.<sup>9/</sup>

#### **B. Revisions to the Cost Recovery Mechanism.**

In OP 24 of the PDP Decision, the Commission established the following cost recovery mechanism:

PG&E's proposal to use the Dynamic Pricing Memorandum Account to record Peak Day Pricing costs and the Distribution Rate Adjustment Mechanism for recovery of the associated revenue requirement through 2010 is adopted. This cost recovery mechanism may be extended beyond 2010 to recover the revenue requirement associated with (1) any additional costs above the amount approved in this case after the additional costs are determined reasonable by the Commission, and (2) any costs that are authorized by this decision for 2010, but are actually incurred in 2011, provided it is shown that such costs are not included in Pacific Gas and Electric Company's 2011 general rate case authorization.

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<sup>7/</sup> D.10-02-032, *mimeo*, pp. 179-180, OP 2, as extended by the Executive Director on November 8, 2010.

<sup>8/</sup> D.10-02-032, *mimeo*, pp. 179-180, OP 2, as extended by the Executive Director on November 8, 2010.

<sup>9/</sup> The Commission may consider default residential CPP rates in the currently pending A.10-08-005 (Application for Default Residential Rate Programs).

In this Petition, PG&E proposes that this cost recovery mechanism be modified to address two issues. First, the language in the PDP Decision should be modified to accommodate the extension of implementation dates for non-residential PDP previously authorized by the CPUC and the additional extensions proposed by PG&E in this Petition. Second, the language should be modified to clarify that PDP costs authorized in D.10-02-032 should now be recoverable due to the close of the record in the GRC Phase 1 and the pending uncontested GRC Phase I settlement currently before the Commission.

Regarding the first issue, OP 24 currently addresses expenditures only through 2011. As is explained below in Section III, the Commission has already extended the timeline for transition of certain agricultural customers to TOU rates until 2012. Similarly, PG&E proposes in this Petition to extend the timeline for transition of other types of customers to TOU and CPP rates beyond 2011. Accordingly, the PDP Decision should be adjusted to remove the constraints on recovery of the amounts authorized in the PDP Decision based on spending such amounts prior to the end of 2011.

Regarding the second issue, the language in the latter portion of OP 24 – which appears to require a filing by PG&E to recover 2011 costs after such costs are incurred -- creates unfair exposure for PG&E since PG&E is required to implement these Commission-directed activities. When the PDP Decision was issued, the language in OP 24 was understandable, given the then-early stage of the GRC and the associated uncertainty regarding what level of PDP costs would be authorized in the GRC. Since then, this uncertainty has been substantively resolved, given the close of the record in the GRC and the uncontested GRC settlement filed on October 15, 2010 and currently pending before the Commission.

Therefore, given the removal of the prior uncertainty, PG&E requests that the Commission revise OP 24 to authorize recovery of PDP implementation costs expended in 2011 and beyond through the DPMA and DRAM up to the amount approved in D.10-02-032 in accordance with the description of those costs in this Petition and without further Commission review. PG&E requests that such actual costs be recoverable through the DPMA and DRAM to

the extent incurred through March 2014, which is the date that PG&E plans to implement default PDP for small and medium C&I customers.

As mentioned previously, PG&E emphasizes that it is *not* requesting an increase in authorized funding as part of this Petition. Rather, PG&E merely seeks certainty of recovery of the expense amounts already approved by the PDP Decision due to the current status of the GRC Phase 1.<sup>10/</sup>

### **III. REGULATORY BACKGROUND**

All dynamic pricing initiatives requested by PG&E in the 2009 Rate Design Window proceeding (A.09-02-022) originally were expected to have been initiated by February 1, 2011, consistent with the guidance in D.08-07-045. The near coincidence of the implementation of these initiatives and the effective date of the 2011 GRC Phase 1 (January 1, 2011) caused PG&E to segment its costs of dynamic pricing implementation in two requests. The first request was for activities through the end of 2010 and was made in the 2009 Rate Design Window Proceeding, which led to the PDP Decision. The second request was made for incremental funding in Phase 1 of the 2011 GRC to support implementation of dynamic pricing programs from 2011 through 2013.

#### **A. The 2009 Rate Design Window Proceeding.**

PG&E filed its 2009 Rate Design Window Application (A.09-02-022) on February 27, 2009, proposing a schedule for the C&I, agricultural and residential customer classes consistent with the guidance in D.08-07-045. On February 25, 2010, the Commission issued the PDP Decision, authorizing implementation costs and adopting a revised PDP schedule.

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<sup>10/</sup> Residential time-varying rate proposals for residential customers are pending in PG&E's 2010 Rate Design Window case, A.10-02-028, and in its application for default residential dynamic rates (Default Residential Rate Programs), A.10-08-005. PG&E also has a proposal for real-time pricing pending in A.10-03-014, phase 3. All three of these applications include requests for approval of dynamic pricing implementation costs and recovery of the associated revenue requirements. This Petition's request regarding amounts in D.10-02-032 and the 2011 GRC Phase 1 proceeding does not involve the costs requested in any of those three other applications.



Specifically, the PDP Decision adopted incremental expenditures used in determining authorized costs of \$123.6 million (including capital and expense) for the years 2008-2010 and cost recovery mechanisms for the expenditures to launch PDP.<sup>11/</sup> In addition to the funding authorized directly as a result of the PDP Decision, the Commission authorized PG&E to use \$3.98 million originally approved by D.06-07-027 for use in outreach to non-residential customers.<sup>12/</sup> In terms of expense funding, the PDP Decision authorized \$44.7 million in expense funding, including the \$3.98 million directed to come from amounts authorized in D.06-07-027.<sup>13/</sup>

Regarding timing, the PDP Decision delayed the start of the default of small and medium C&I customers from February 1, 2011, to November 1, 2011.<sup>14/</sup> As a result, activities that were expected to occur in 2010 to support a February 1, 2011 default of small and medium C&I customers would now occur in 2011. Accordingly, the Commission acknowledged that PG&E could record costs incurred in 2011 in the DPMA. OP 24 of the PDP Decision provides:

PG&E's proposal to use the Dynamic Pricing Memorandum Account to record Peak Day Pricing costs and the Distribution Rate Adjustment Mechanism for recovery of the associated revenue requirement through 2010 is adopted. This cost recovery mechanism may be extended beyond 2010 to recover the revenue requirement associated with (1) any additional costs above the amount approved in this case after the additional costs are determined reasonable by the Commission, and (2) any costs that are authorized by this decision for 2010, but are actually incurred in 2011, provided it is shown that such costs are not included in Pacific Gas and Electric Company's 2011 general rate case authorization.<sup>15/</sup>

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<sup>11/</sup> D.10-02-032, *mimeo*, p. 186, OP 23. The Commission approved PG&E's proposed ratemaking to record actual amounts spent to implement D.10-02-032's approved dynamic pricing programs in the DPMA, and transfer those amounts to the DRAM each month for recovery in rates. This authority was requested and granted through 2010 by the Commission. For amounts spent in 2011, PG&E would need to show such costs were not included in the 2011GRC authorization. D.10-02-032, *mimeo*, pp. 186-187, OP 24.

<sup>12/</sup> D.10-02-032, *mimeo*, pp. 69-70.

<sup>13/</sup> D.10-02-032, *mimeo*, p. 132.

<sup>14/</sup> D.10-02-032, *mimeo*, p. 180, OP 3.

<sup>15/</sup> D.10-02-032, *mimeo*, pp. 186-187, OP 24.

In compliance with OP 1, PG&E implemented Opt-In PDP rates for agricultural and small and medium C&I customers and defaulted large C&I customers to PDP on May 1, 2010. In addition, in compliance with OP 2, PG&E will begin to default eligible large agricultural customers to PDP in February 2011.

**B. The Executive Director Extensions.**

On October 26, 2010, PG&E requested extensions of time until November 1, 2011 to implement two provisions of OP 2 of the PDP Decision: (1) mandatory TOU for small and medium agricultural customers, and (2) optional PDP for residential customers, and extension of PG&E's residential SmartRate™ program. On November 2, 2010, the California Farm Bureau Federation filed in support of PG&E's request and asked for a longer extension for agricultural customers to February 1, 2012, on the following basis:

November 1 marks the end of harvest season for much of the Agricultural community in PG&E's service territory. That date is preceded by intense efforts to move crops from field to market in advance of rain, which can significantly impact the quality and quantity of a crop...During harvest season the approximately 50,000 account holders impacted by the switch to mandatory TOU rates would likely not be able to properly assess account information for their operations. Many Agricultural operations have multiple accounts, which may have different usage history indicating different rate choices, thereby complicating the review...Timing is an important consideration in implementing this program. As recognized by PG&E in its extension request, introduction of the program during the 2011 peak growing season would create similar barriers to an introduction during harvest.

On November 8, 2010, the Commission's Executive Director approved the following extensions of time to implement two provisions of OP 2: (1) defaulting small and medium agricultural customers to TOU rates was deferred to February 1, 2012; and (2) replacing residential SmartRate™ with optional residential PDP and defaulting residential SmartRate™ customers to PDP were deferred to November 1, 2011. The revised schedule for these initiatives delayed expenditures for the work to implement these initiatives. As a result, substantial amounts of the work and associated costs originally authorized for the 2008-2010 period covered

by the PDP Decision have been moved out to years after 2010, although recovery of the costs is still dependent on authorization under D.10-02-032.

**C. The 2011 GRC Phase 1.**

PG&E's request for incremental PDP funding in Phase 1 of the 2011 GRC consisted of three components: Customer Engagement, Customer Inquiry Assistance and Meter to Cash expense. In its application submitted in December 2009, PG&E originally forecast \$32.8 million for PDP-related activities in the 2011 test year based on the assumption that funding for PDP from the 2009 Rate Design Window proceeding would end in 2010.<sup>16/</sup> In May 2010, after the PDP Decision was issued in February 2010 (delaying the implementation of certain PDP activities into 2011), certain parties sought a reduction, among other things, in the GRC's PDP expenses to reflect the revised schedule. PG&E's June 2010 GRC Phase 1 rebuttal testimony reduced the incremental PDP activities forecast from \$32.8 million to \$20.7 million for the 2011 test year.<sup>17/</sup>

On October 15, 2010, PG&E and 16 other settling parties entered into a settlement resolving all issues presented in Phase 1 of the 2011 GRC, except for one ratemaking issue concerning electro-mechanical meters. The settlement provides for a reduction regarding PDP expenses. The settlement states, "The test year revenue requirement set forth in Section 3.1 [of the settlement] reduces GRC revenue requirement by \$10 million for peak day pricing expenses."<sup>18/</sup> In order to ensure that the costs reduced by the settlement were not be sought in another proceeding, the settlement also provided, "PG&E shall not request rate recovery of the peak day pricing activities for which expenses were requested in this GRC in another

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<sup>16/</sup> A.09-12-020/I.10-07-027, Exhibit PG&E-4, p. 2-6, line 23 (\$4.7 million for customer inquiry assistance), p. 4-25, line 19 (\$23.7 million for customer engagement), and p. 8-2, Table 8-1, line 4 (\$4.9 million for meter to cash).

<sup>17/</sup> A.09-12-020/I.10-07-027, Exhibit PG&E-18 v4, p. 34-6, line 17 (\$1.1 million for customer inquiry assistance), p. 36-7, line 21 (\$17.5 million for customer engagement), and p. 40-6, line 3 (\$2.1 million for meter to cash).

<sup>18/</sup> A.09-12-020/I.10-07-027, Motion of Pacific Gas and Electric Company et al. for Adoption of Settlement Agreement, Attachment 1, p. 1-10, Section 3.5.1(c) (October 15, 2010).

proceeding.”<sup>19/</sup> No party filed comments on, or in any way opposed, the settlement. On November 17, 2010, the record in Phase 1 of the GRC was closed.<sup>20/</sup> The settlement is pending before the Commission.

#### **IV. PG&E’S LESSONS LEARNED FROM DYNAMIC PRICING AND SMART METER™ IMPLEMENTATION EFFORTS TO DATE**

California’s investor-owned utilities (IOUs) are among the first utilities nationwide to embark on a wide-scale deployment of advanced metering technology. California IOUs also lead the nation in implementing an extensive, default-driven dynamic pricing program for their customers. These groundbreaking experiences have highlighted both a number of challenges as well as several opportunities to improve.

In order to maximize the effectiveness of the upcoming default processes for mass market customers,<sup>21/</sup> the Commission should consider the following lessons learned from PG&E’s recent experiences with SmartMeter™ deployment and large C&I customer PDP rollout, as well as research PG&E has conducted in preparation for mass market PDP implementation.

##### **A. Lesson One: Successful SmartMeter™ deployment and customer education on benefits, tools and pricing options is a critical first step to the success of the dynamic pricing program.**

**Supporting Data:** Many of the high bill complaints that customers attributed to their SmartMeter™ devices were not caused by the SmartMeter™ devices. Instead, the high bills were caused by rate increases and the effects of residential rate design -- along with additional weather-related usage -- that occurred contemporaneously with the installation of SmartMeter™ devices.<sup>22/</sup> The contemporaneous nature of these changes led to significant numbers of customer

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<sup>19/</sup> A.09-12-020/I.10-07-027, Motion of Pacific Gas and Electric Company et al. for Adoption of Settlement Agreement, Attachment 1, p. 1-10, Section 3.5.1(c) (October 15, 2010).

<sup>20/</sup> A.09-12-020/I.10-07-027, Administrative Law Judge’s Ruling Canceling Evidentiary Hearing and Submitting the Proceeding (November 17, 2010).

<sup>21/</sup> By “mass market,” PG&E refers to residential customers, as well as small and medium C&I customers, and small and medium agricultural customers.

<sup>22/</sup> Structure Consulting Group, LLC, PG&E Advanced Metering Assessment Report, Section 5.4.1 “High Bill Complaint Analysis Findings Summary.”

complaints, confusion, and dissatisfaction with the SmartMeter™ devices, including misplaced concern about the accuracy of the meters.

In contrast with the dissatisfaction encountered when mandatory rate changes coincided with the installation of the SmartMeter™ devices, when *voluntary* time-varying pricing (e.g., SmartRate™) has been introduced and presented as an option only available when accompanied by a SmartMeter™ device, customer satisfaction with the rate option has been high. According to a 2010 survey,<sup>23/</sup> 81% of SmartRate™ customers report being very satisfied with SmartRate™.

**Conclusion:** The introduction of new technology and new benefits require customer education. Different customers will necessarily absorb that education at different rates. This is the foundation for the “Diffusion of Innovations” principle<sup>24/</sup> - a theory that explains how and why customers adopt new technologies at different rates.

As noted above, PG&E has learned that SmartMeter™ device deployment requires significant and comprehensive education to help customers understand the benefits of SmartMeter™ devices and the new programs available which use them. For customers who are ready to absorb and adopt the new technology and the required behavior changes, *voluntary* time-varying rates offer positive choices to enhance customers’ experience with their SmartMeter™ devices.

However, given the amount and complexity of the technology and behavior changes resulting from SmartMeter™ devices and required by time-varying rates, PG&E believes completing SmartMeter™ device deployment is a critical first step that should be completed well before *defaulting* customers to time-varying rates. Importantly, PG&E anticipates less than 50 percent of small and medium C&I customers and about 85 percent of small and medium agricultural customers will have the 12 months of interval usage data required to understand the

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<sup>23/</sup> SmartRate™ Summer Pricing Plan Customer Experience Tracking Research (November 2010).

<sup>24/</sup> Rogers, Everett M., *Diffusion of Innovations*. Glencoe: Free Press (1962).

benefits of time-varying rates on the currently approved default dates. By Fall 2012, the number of mass market customers with 12 months of data is expected to reach more than 95 percent. The majority of these small and medium C&I customers and nearly half of small and medium agricultural customers are on a flat rate, not on a TOU rate, and therefore have little or no experience in managing their energy use in a time-differentiated rate scenario.

PG&E is taking numerous steps to communicate SmartMeter™ benefits to customers and ensure they understand the technology. In addition, PG&E is working to help customers build awareness of their energy use throughout each day. PG&E is continuing to provide customers with information about time-varying rates before, during and after installation. PG&E will also provide the opportunity to *voluntarily* enroll in time-varying rates such as SmartRate™ for residential customers and opt-in PDP for commercial customers as soon as they have an active SmartMeter™ device. PG&E intends to accelerate these forms of outreach to customers in the remaining areas of SmartMeter™ deployment in 2011. By waiting until Fall 2012 to start *defaulting* small and medium C&I customers to the mandatory TOU rate structure, and winter 2013 for agricultural customers, the Commission ensures a greater potential for success in achieving higher customer understanding and satisfaction with both SmartMeter™ devices and the default time-varying rates.

**B. Lesson Two: For mass market customers not currently on any form of time-varying rates, allocating time to carefully convey the additional context for the purpose and benefits of those rates is critical to ensure initial acceptance of a default program and its successful adoption.**

**Supporting Data:** Research shows that when customers first hear about the change to time-varying pricing, many feel they will be hurt by its introduction either because they assume that any rate structure change will translate automatically into a bill increase or because they cannot shift load.<sup>25/</sup> Many customers initially assume this change is driven by PG&E as a means to increase electric revenues. Furthermore, when customers first hear about the PDP rate, most

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<sup>25/</sup> PG&E PDP Education and Messaging Focus Groups: Small and Medium C&I and Small Agricultural, July, 2010.

do not immediately grasp that PDP reflects California’s statewide energy policy and that PG&E does not make money from executing this policy. The research also shows that many small and medium C&I and small agricultural customers feel they are being singled out, and are bearing the burden of the “rate increase.”

Other customers felt that because peak times were during business hours, they would not be able to adequately shift enough load to benefit from the new rates. This perception was confirmed in PG&E’s opt-out survey among large C&I customers, in which 54% reported opting out because they felt it would be too difficult for them to shift load during peak times. This was far and away the number one reason cited for choosing to opt out of the program.<sup>26/</sup>

The current proposals in front of the Commission from the other California IOUs do not align with the current timetable for PG&E to begin its mass market defaulting in November 2011. Southern California Edison Company (SCE) proposes in its Dynamic Pricing Application (A.10-09-002) to implement its dynamic pricing and mandatory TOU rates in October 2012. San Diego Gas and Electric Company (SDG&E) proposes to implement dynamic pricing for its customers prior to summer 2013 (A.10-07-009). Staggered start dates spanning over a year and a half reinforce the perception that the utilities – not the State – are the architects of, and serve to benefit from, these rates.

**Conclusion:** Customers need to understand the purpose of the dynamic pricing program and State policy to address the cost and environmental impacts of peak energy use for dynamic pricing to be successful. The first phase should begin with educating customers on the “what,” the “why,” and “who” of time-varying pricing. That is, customers need to be taught what dynamic pricing is, why it is necessary and mandatory (to achieve the State’s energy goals), who is requiring it (the State of California) and who it impacts (all of California). Given the complexity and novelty of the concept, this phase requires a great deal of outreach via multiple channels. It also requires time to execute thoroughly and properly. The initial awareness and

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<sup>26/</sup> PG&E Large C&I PDP Opt-Out Survey, October, 2010.

education phase is further challenged by the need to overcome some initial misconceptions and resistance. Only once customers understand the foundational drivers for implementing the default pricing rate will they be ready to focus on the specifics of TOU and PDP. The second phase will then focus on these specifics, i.e., how the customers will be personally impacted, and steps they can take to be successful on the plan of their choice.

Additionally, to overcome this initial hurdle with customers, PG&E believes that alignment of the timing for mass market customer rollout across the state is needed. If all of the IOUs are transitioning their customers on a similar timeframe, the customers will not feel singled out, will understand their peers are experiencing the same changes, and will be more likely to hear similar outreach messages from many locations across the State.<sup>27/</sup> In particular, many customers in the small and medium C&I class actually have service accounts in multiple IOU territories. This timing alignment significantly increases the opportunity for the IOUs to not only develop outreach messages optimized for their respective customers, but also to consider how the messages work together to reinforce each other and help customers better understand dynamic rates and their benefits. It also reduces the risk that customers will confuse or misunderstand the intent of dynamic pricing policy. This will, in turn, lead to greater acceptance of dynamic rates in general and facilitate the associated behavior changes that will lead to customer success on the rates, rather than premature opt-out.

**C. Lesson Three: PDP is a complicated rate, even for the most knowledgeable customers. In order to ensure acceptance and success, it needs to be fully explained and rolled out separately after TOU.**

**Supporting Data:** PG&E conducted focus group research in May 2010 with large C&I and large agricultural customers. This research revealed that Peak, Partial Peak and Off-Peak pricing may be familiar to such customers, but understanding the potential of participating in

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<sup>27/</sup> SCE proposes in its Dynamic Pricing Application (A.10-09-002) to implement its dynamic pricing and mandatory TOU rates in October 2012. SDG&E proposes to implement dynamic pricing for its customers prior to summer 2013 (A.10-07-009). PG&E commends the Commission for recognizing the need to address Dynamic Pricing activities across the state in the recent ALJ ruling setting a joint prehearing conference in PG&E's residential Peak Time Rebate (2010 RDW, A.10-02-028) and default residential rate programs (A.10-08-005) applications and SCE's A.10-09-002.



PDP is challenging even to these relatively sophisticated energy consumers, especially where the customers are to be defaulted to PDP.<sup>28/</sup>

PG&E conducted additional focus group research among small and medium C&I and small agricultural customers in the summer of 2010.<sup>29/</sup> It provided similar results. The difficulty of understanding default PDP is further underscored with these customers because most of them are currently on flat rates, and have no prior experience with TOU rates. The research found that the transition from a flat rate to default time-varying pricing such as TOU or PDP is complex, and requires a communications effort that has multiple phases and multiple touches over an extended period of time in order to build the level of understanding necessary for customers to confidently understand the impacts of the new default pricing schedule on their businesses.

**Conclusion:** A more deliberate transition pace for defaulting customers is required for the small and medium C&I customers whereby TOU and PDP are explained and rolled out through the following four sequential steps:

- TOU education and awareness;
- TOU rate understanding and bill impacts;
- PDP education and awareness; and
- PDP rate understanding and bill impacts.

To better assist smaller (<200kW) customers accept the transition to PDP rates, PG&E believes they should have at least one year of experience on TOU before beginning the default process to PDP (including TOU). A full year of experience on the TOU rate enables customers to see the impacts that their energy use and the time of day have on their total bills. A full year also allows time for customers to develop new patterns of use. This preparation is necessary before the customer is ready to evaluate his/her ability to layer on the additional behavioral and operational changes associated with PDP event days. At the end of these steps, a sizable portion

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<sup>28/</sup> PG&E PDP Education and Messaging Focus Groups, Large C&I and Large Agricultural, May, 2010.

<sup>29/</sup> PG&E PDP Education and Messaging Focus Groups, Small and Medium C&I and Small Agricultural, July, 2010.

of our customers should be able to see the benefits of their behavior changes in their monthly energy statement, which will be key to the success of the dynamic pricing program.

**D. Lesson Four: Rolling customer eligibility introduces logistical challenges and makes it harder to deploy messages that are relevant to all customers, while PG&E's proposed staging will support more effective messaging to larger groups of customers.**

**Supporting Data:** During 2010, PG&E managed outreach and education for more than 5,000 customer service agreements for large C&I customers who were eligible to default to PDP. Given rolling eligibility, the list of default-eligible accounts constantly evolved, including several accounts defaulting during the middle of the event season, which challenged PG&E's outreach efforts. In some cases, customers transitioned to the rate during a month with several PDP event days, leaving the customers with little or no time to prepare for the required behavior changes needed to benefit from the rate. PG&E was able to manage this situation given the limited size of the eligible large C&I customer audience (approximately 5,000 customer service agreements) and presence of assigned Account Managers for these customers. PG&E was thus able to deliver effective outreach and education as individual customers or accounts became eligible for PDP. Of course, the approach used for PDP outreach to large C&I customers is not scalable to the larger size of the small and medium sized C&I audience (nearly 500,000 service agreements) across PG&E's service area.

**Conclusion:** Rolling eligibility in the current PDP design does not enable the most effective and efficient outreach and education efforts. Rolling eligibility fragments awareness and education as the location and concentration of eligible customers changes monthly. As different customers roll onto the rate each and every month, PG&E must constantly build awareness and help customers understand impacts, rather than focusing and consolidating the outreach strategy. Customers have a much higher likelihood of understanding the rates and being able to enact the right behavior changes needed to benefit from the rate when the outreach messages are clear and focused with the proper amount of time to comprehend and act accordingly before event season begins. Furthermore, fixed transition dates outside of the PDP

event season would enable PG&E to combine key awareness activities and more efficiently implement them throughout the service area in a concentrated period of time, as well as avoiding the problem of defaulting customers onto the rate in the midst of PDP event days.

**V. PG&E'S REVISED PROPOSAL AND VISION, AND TIMETABLE MODIFICATIONS FOR SUCCESSFUL IMPLEMENTATION OF DYNAMIC PRICING**

Based on the key lessons learned from PG&E's experience with dynamic pricing to date, PG&E proposes a number of changes to the existing dynamic pricing program as described in the PDP Decision. As noted above, PG&E strongly supports the Commission's policy goals of customer engagement in addressing the long term cost of energy and is continuing and accelerating its outreach for voluntary programs such as SmartRate™, that help customers understand the concrete benefits of the SmartMeter™ devices before, during and after installation of the devices. The changes proposed in the Petition are consistent with PG&E's revised vision to create a more successful path to reach these goals in a way that delivers greater customer understanding, higher customer satisfaction and therefore more engaged participation. PG&E presents its vision here for the sake of completeness, though the Company does not seek a ruling on this vision at the present time except as required for the schedule and cost recovery changes discussed in Section II.

In PG&E's vision, customers' engagement in long-term, sustainable behavior change begins with deployment and understanding of their SmartMeter™ device. The next step is the introduction of TOU rates and the development of customers' awareness of energy costs at different times of the day. With the information available from the SmartMeter™ device and the awareness created by TOU rates, customer engagement with their energy use can increase and they can implement behavior changes that impact energy costs. The final step involves participating in CPP -- building on their understanding of TOU rates and the behavioral changes that resulted -- to partner with the State in achieving energy goals. This sequential transition to price-driven demand response is expected to increase customer acceptance of dynamic pricing and behavior change.

**A. PG&E's Revised Vision and Current Proposal – Non-Residential Customers.**

Based on the experiences gathered in the past several months, PG&E proposes a number of changes to the existing dynamic pricing program for non-residential customers. Specifically, PG&E proposes to begin defaulting small and medium C&I customers to TOU in November 2012 and to PDP in March 2014, with eligible groups following twice yearly in March and November. PG&E proposes to begin defaults for small and medium agricultural customers to TOU in March 2013 with eligible groups following once a year in March. These changes are driven by the SmartMeter™ deployment schedule, and alignment with the default schedules for SCE and SDG&E.<sup>30/</sup>

PG&E proposes to eliminate rolling default eligibility and move to a fixed-annual or twice-annual default date. For non-agricultural customer classes, PG&E proposes two default dates each year: November 1 and March 1. Customers not yet eligible for default on November 1 will default the following March 1, if eligible by that date. Due to the special seasonal needs of agricultural customers, PG&E proposes defaulting eligible large agricultural customers to PDP and eligible small and medium agricultural customers to mandatory TOU, once each year on March 1.<sup>31/</sup> For example, a large agricultural customer who becomes eligible to default to PDP after the initial February 1, 2011 default date will default to PDP on March 1, 2012. These set eligibility dates will maximize the effectiveness of PG&E's outreach, as well as avoid the problem of having customers default in the midst of the PDP event season.

**B. PG&E's Revised Vision – Residential Customers.**

PG&E supports time-varying rates for the residential class. However, the timeline for this transition must be consistent with the ability of the residential class as a whole to understand the nature of dynamic pricing, its purpose, and the behavior changes needed to succeed on such

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<sup>30/</sup> SCE proposes in its Dynamic Pricing Application (A.10-09-002) to implement its dynamic pricing and mandatory TOU rates in October 2012. SDG&E proposes to implement dynamic pricing for its customers prior to summer 2013 (A.10-07-009).

<sup>31/</sup> PG&E is not proposing to change the February 1, 2011 date for beginning default of large agricultural customers to PDP. However, PG&E proposes that subsequent default dates for agricultural customers move to March 1.

rates. Therefore, PG&E proposes to retain and promote SmartRate™ on a voluntary basis as part of the immediate benefits of SmartMeter™ deployment, and address proposals for default time-varying rates in the Peak Time Rebate (PTR) and Default Residential Rate Program applications (A. 10-02-028 and A. 10-08-008).

Currently, residential customers have complex rates which include steep inclining block rates or tiers. Residential customers also have both CPP and TOU options available separately or together. Both time-varying options, however, are offered only with tiered rates. As a result, tiered TOU rates (offered with or without CPP) are complex and can be difficult for customers to understand. Therefore, these rates are, and should continue to be, offered on a voluntary basis. However, any rate with both TOU periods and tiers will be difficult to explain and understand, making it extremely challenging to implement as a default rate for residential customers. The PDP rates for residential customers adopted by the Commission on an “opt-in” basis by the PDP Decision combine TOU and tiers with a CPP price signal. This option is far too complex to be used as a default rate for residential customers.<sup>32/</sup>

For these reasons, PG&E proposes to retain SmartRate™ which provides a simpler CPP option without TOU on a voluntary basis and as part of the immediate benefits available to customers with SmartMeter™ devices. (SmartRate™ also allows customers to choose the CPP option with TOU, on a voluntary basis, if they prefer.) PG&E believes that before default residential dynamic pricing is implemented, residential customers need to develop some history and experience with their SmartMeter™ devices, a clear understanding of their energy usage patterns as shown on revised monthly energy statements,<sup>33/</sup> and education on TOU and residential dynamic pricing.

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<sup>32/</sup> Issues involving default time-varying rates for residential customers are within the scope of PG&E’s 2010 Rate Design Window case, A.10-02-028, and the default residential pricing program application, A.10-08-005. Among those issues, questions about Senate Bill 695 and its provisions regarding the terms and timing for default time-varying residential rates are likely to be addressed.

<sup>33/</sup> PG&E has proposed in its 2011 GRC Phase 3 to include daily usage information graphs, including usage by TOU periods for customers on TOU rates, on its revised Customer Energy Statements to be implemented after completing the SmartMeter™ deployment.

**C. PG&E’s Proposed Timetable For PDP Implementation.**

Consistent with the revised vision for residential and non-residential customers described above, PG&E proposes the following revised timetable for PDP implementation. The table below recognizes that the appropriate schedule for residential customers will be the topic of the currently pending residential rate design cases for PTR and Default Residential Rate Programs as noted above.

<b>Table 1 Proposed Implementation Dates</b>			
<b>Customer Class</b>	<b>D.10-02-032 Rate</b>	<b>Currently Approved Date</b>	<b>Proposed First Date</b>
<b>Agricultural</b> customers: Small and Medium 80,000 customers, 50% on flat rates	Mandatory TOU	February 1 , 2012	March 1, 2013
<b>C&amp;I</b> customers: Small and Medium 490,000 customers, 90% on flat rates	Mandatory TOU	November 1, 2011	November 1, 2012
	Default PDP	November 1, 2011	March 1, 2014
<b>Residential</b> Customers 4.5 million customers, 98% on flat rates	Optional PDP	November 1, 2011	Retain SmartRate™ as time-varying option
	Default PDP for SmartRate Customers	November 1, 2011	Continue on SmartRate™

**VI. PG&E’S REQUESTED COST RECOVERY MODIFICATIONS**

PG&E has been authorized funding in the PDP Decision to implement PDP for non-residential customers and has additional PDP funding pending in the uncontested 2011 GRC Phase 1 settlement. In this Petition, PG&E asks for authority to recover in rates the funding granted in the PDP Decision which is expended after the 2008-2010 test period established by the 2009 Rate Design Window proceeding. PG&E is **not** requesting an increase in the overall funding authorized in D.10-02-032 or, for that matter, the 2011 GRC Phase 1 proceeding.

Under the schedule currently approved (as modified by the Executive Director) and under the schedule that PG&E presents in this Petition, PDP implementation costs extend through 2011 and beyond. To avoid uncertainty about PG&E’s right to recover such costs incurred in 2011, 2012, 2013, and 2014 (whether under the existing Commission-approved implementation

schedule or PG&E's revised proposal), PG&E requests that the Commission modify the PDP Decision to continue recovery of actual costs under the DPMA and DRAM processes up to the authorized amount, without further approvals, as described below.

The cost recovery methodology adopted in the PDP Decision authorizes costs only through 2011. Because the Commission has already extended the timeline for transition of certain agricultural customers to TOU rates until 2012 and because PG&E proposes in this Petition to extend the timeline for transition of other types of customers to TOU and CPP rates into 2014, the limitations in the PDP Decision to cost recovery only through 2011 should be modified. Accordingly, the PDP Decision should be adjusted to remove any constraints on recovery of the amounts authorized in the PDP Decision based on when the spending occurs.

Another change warranted to the cost recovery mechanism concerns the reference in OP 24 to the 2011 GRC. As mentioned previously, when the PDP Decision was issued, the language in OP 24 expressing uncertainty regarding what level of funding would be provided in the GRC was understandable, given the then-early stage of the GRC. Since then, the record in the GRC has closed and an uncontested GRC settlement has been filed on October 15, 2010 that addresses PDP funding levels. With the 2011 GRC Phase 1 record closed and the settlement now pending before the Commission, PG&E asks that the Commission acknowledge that the funding authorized by the PDP Decision may now be recovered in rates.

To reiterate, and consistent with the pending GRC settlement, PG&E is not herein requesting an increase in authorized funding, but rather certainty around recovery of the amounts already approved in the PDP Decision. If amounts in excess of the amounts authorized by the PDP Decision are recorded in the DPMA, those excess amounts will not be transferred to DRAM for recovery unless first found reasonable by the Commission.

## **VII. CONCLUSION**

PG&E supports and is committed to the success of the Commission's dynamic pricing program. PG&E's proposed improvements to the process will greatly increase the success of the implementation of dynamic pricing and the ability to achieve the State's energy goals.

In terms of timing, if the Commission does not issue a decision on this Petition by the end of April 2011, PG&E will need to begin work to implement the PDP Decision, including defaulting the small and medium C&I group in November 2011. Such work, and the associated costs, would indeed be wasteful if the Commission were later to agree with the timetable of events proposed by PG&E. Further, lack of a timely decision on this Petition would deny the certainty of funding to PG&E for work it has been ordered to do. PG&E does not believe that this was the Commission's intent and respectfully requests that clarity be provided as soon as possible.

Wherefore, for the reasons stated above, PG&E requests that the Commission modify D.10-02-032 as shown in Appendix A hereto.

Respectfully Submitted,

ANN H. KIM  
SHIRLEY A. WOO  
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By: \_\_\_\_\_ /s/  
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PACIFIC GAS AND ELECTRIC COMPANY

Dated: January 14, 2011



**Appendix A**  
**Proposed Modifications to Ordering Paragraphs of D.10-02-032**

2. The following rates shall be effective; ~~by February 1, 2011:~~

By February 1, 2011, f~~For~~ large agricultural customers that have access to at least 12 months of interval billing data, default Peak Day Pricing rates that include time-of -use rates during non-Peak Day Pricing periods. Such customers can choose to opt out to a time-of-use rate or other time-variant rate; ~~and-~~

By March 1, 2013, f~~For~~ small and medium agricultural customers that have access to at least 12 months of interval billing data, default time-or-use rates. Flat rates will no longer be available to these customers.; ~~and~~

~~For residential customers with advanced meters, optional Peak Day Pricing rates that include time of use rates, during non Peak Day Pricing periods. Prior to February 1, 2011, the current E-RSMART option available to residential customers shall remain in effect. On February 1, 2011, an E-RSMART customer shall be moved to the new residential Peak Day Pricing rates unless the customer opts to return to a non-time differentiated residential tiered rate.~~

3. The following rates shall be effective; ~~by November 1, 2011:~~

By November 1, 2012, for small and medium commercial and industrial customers that have access to at least 12 months of interval billing data, default time-of-use rates. Flat rates will no longer be available to these customers; and

By March 1, 2014, f~~For~~ small and medium commercial and industrial customers that have access to at least 12 months of interval billing data, default Peak Day Pricing rates that include time-of-use rates during non-Peak Day Pricing periods. Such customers can choose to opt out to a time-of-use rate or other time-variant rate. Flat rates shall no longer be available to these customers.

4. Peak Day Pricing rates, with the exception of that for Schedules A-10, and time-of-use rates, as specified in Exhibit 7, Tables 2-3 through 2-5, ~~and Table 2-6, Alternative 1~~ are adopted. The adopted Peak Day Pricing rate for Schedule A-10 is \$0.90 per kWh. PG&E shall be allowed to continue its E-RSMART critical peak pricing program for residential customers.

9. The ~~anticipated February 1, 2011~~ default process shall not begin until Pacific Gas and Electric Company's implementation processes meet the requirement that affected customers have access to 12 months of recorded interval billing data at least 45 days prior to their default date. Once 12 months of data is available for small and medium agricultural and commercial and industrial customers, each customer will be assigned the next available default date which is at least 60 days later. Small and medium agricultural customers will default once per year on March 1, and small and medium commercial and industrial customers will default twice per year on March 1 and November 1.

10. Pacific Gas and Electric Company's Alternative 1 residential Peak Day Pricing proposal is ~~denied~~ adopted. PG&E shall be allowed to continue its E-RSMART critical peak pricing program for residential customers.

14. Pacific Gas and Electric Company shall issue a request for proposals in ~~2012, 2011~~, in order to engage a third party to conduct an evaluation in ~~2013 2012~~ of the effectiveness of customer education and outreach efforts regarding time-of-use rates for ~~of~~ small and medium customers. Pacific Gas and Electric Company shall work with the Demand Response Evaluation and Measurement Committee, which will have input into the project design and scope of work for the request for proposals and also take part in scoring proposals and reviewing the final report.

18. Pacific Gas and Electric Company shall file a Tier 2 advice letter 30 days after it has completed its proposed incremental Customer Service On-line activities. Pacific Gas and Electric Company shall provide sufficient information for Energy Division staff to verify that the new Peak Day Pricing functionalities that Pacific Gas and Electric Company has implemented on its website appropriately suit ratepayer needs. The anticipated ~~February 1, 2011 and November 1, 2011~~ Peak Day Pricing default processes shall not begin until affected customers have had access to the verified Peak Day Pricing-related customer service on-line tools for at least 45 days.

21. To the extent that actual expenditures, except those related to the Customer Care and Billing Version 2.3 upgrade provided for in Ordering Paragraph ~~197~~, exceed the amounts authorized by this decision, Pacific Gas and Electric Company may request cost recovery in a separate after-the-fact reasonableness review application ~~to be filed by March 31, 2011~~ or included as part of the Customer Care and Billing Version 2.3 upgrade application authorized in Ordering Paragraph ~~198~~.

24. PG&E's proposal to use the Dynamic Pricing Memorandum Account to record Peak Day Pricing costs and the Distribution Rate Adjustment Mechanism for recovery of the ~~associated~~ revenue requirement associated with the amounts approved in this case through 2010 is adopted. This cost recovery mechanism may be extended beyond 2010 to recover the revenue requirement associated with (1) ~~any~~ additional costs above the amount approved in this case ~~after the~~, as such additional costs are determined reasonable by the Commission, and (2) any costs that are authorized by this decision, whether incurred during 2011, 2012, 2013 or through March 2014, without further review. ~~for 2010, but are actually incurred in 2011, provided it is shown that such costs are not included in Pacific Gas and Electric Company's 2011 general rate case authorization.~~

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

Application of Pacific Gas and Electric  
Company for Approval of its 2009 Rate Design  
Window Proposals for Dynamic Pricing and  
Recovery of Incremental Expenditures Required  
for Implementation (U 39 E)

Application 09-02-022  
(Filed February 27, 2009;  
Amended March 13, 2009)

**DECLARATION OF JODI L. STABLEIN  
IN SUPPORT OF PETITION OF PACIFIC GAS AND ELECTRIC COMPANY  
FOR MODIFICATION OF DECISION 10-02-032**

1. My name is Jodi L. Stablein, and my business address is Pacific Gas and Electric Company, 245 Market Street, San Francisco, California. I am Director of Customer Insight and Strategy. I am responsible for overseeing research studies and leveraging customer insight to define customer strategies tailored to enhance customer experience and customer engagement levels.
2. Pursuant to Rule 16.4(b) of the Commission's Rules of Practice and Procedure, I am supporting the allegations of new or changed facts contained in Section IV of the attached Petition to Modify.
3. I hereby swear under penalty of perjury that the information presented in Section IV of the attached Petition to Modify is true and correct.

/s/

\_\_\_\_\_  
Jodi L. Stablein



**THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA SERVICE LIST**

Last Updated: January 06, 2011

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