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Energy Division Tariff Unit
California Public Utilities Commission
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102

Subject: Pacific Gas and Electric Company's Reply to Division of Ratepayer Advocates' Protest to Advice Letter 4164-E on the Resubmitted Cost Effectiveness Analyses of the Capacity Bidding Program and Demand Bidding Program in Compliance With Decision 12-04-045

Dear Energy Division Tariff Unit:

Pacific Gas and Electric Company (PG&E) hereby replies to the protest of Division of Ratepayer Advocates (DRA) to PG&E's Advice Letter 4164-E

1) The Capacity Bidding Program (CBP) and Demand Bidding Program (DBP) are cost effective and consistent with the California Public Utilities Commission's (Commission's) directive in Decision (D.) 12-04-045.

PG&E submitted the revised cost effectiveness analysis of its CBP and DBP programs in Advice Letter (AL) 4061-E, which included the detailed changes of the inputs compared with the analysis previously provided[1] and the qualitative benefits[2] of the two programs as directed by the Commission on page 44 of D.12-04-045[3] and in the Energy Division's (ED) Guidance on Cost Effectiveness dated May 11, 2012 ("Guidance"). However, ED rejected AL 4061-E because the total resource cost (TRC) benefit-cost ratio for both programs did not achieve a 0.9 result.

In compliance with Ordering Paragraph (OP) 44 and OP 50 of D.12-04-045 and in response to the ED's rejection of AL 4061-E, PG&E resubmitted the cost-effectiveness analyses for its CBP and DBP in AL 4164-E. In addition to the proposed program changes in AL 4061-E, PG&E proposed an additional benefit increase for CBP and cost reduction for DBP, thus achieving a 0.9 TRC for both programs.

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[1] Table 2 of AL 4061-E.
[2] AL 4061-E, pages 8-10.
[3] Decision Adopting Demand Response Activities and Budgets for 2012 through 2014, April 19, 2012.

The Division of Ratepayer Advocates (DRA) found the proposed design change for CBP[4] and the proposed reduction in AutoDR budget for DBP[5] consistent with the Commission's directive in D.12-04-045. As such, PG&E requests the Commission to approve both programs with the proposed program design and budget changes outlined in AL 4164-E quickly in order to have a successful 2013 demand response (DR) season which begins on May 1, less than four months away. Customers, aggregators, and PG&E need the next four months to prepare for implementation of new program changes, e.g., local dispatch. In addition, continued delay provides a distraction that only reduces the chances for increased amounts of reliable DR.

DRA outlines other issues that PG&E addresses below.

2) DRA's issue with the AutoDR budget reduction for DBP is without merit because the Commission had ordered that PG&E and SCE "shall either decrease the overall budget requested or increase the relative benefits for each program approved in this decision to make their programs cost-effective."[6]

PG&E requests the Commission reject DRA's protest of PG&E's resubmitted cost-effectiveness analysis for DBP based on DRA's unfair characterization—Section D, p. 4—of PG&E's and SCE's proposed changes to their respective DBP budgets as an, "arbitrary and ad-hoc allocation without a proper process in which all parties can participate and the Commission can make an informed decision on this issue." DRA's protest on this issue is entirely without merit because the Commission had previously directed PG&E and SCE to "either decrease the overall budget requested or increase the relative benefits for each program approved in this decision to make their programs cost-effective" in OP 26 of D.12-04-045.

In addition, unlike the Commission's order to improve the cost effectiveness of the Base Interruptible Program (BIP)[7], in which it directly identifies the budget reduction needed from the local DR marketing, education, and outreach (ME&O) budget allocation, the Commission does not specify from which the budget reductions may be taken in order to achieve a cost-effective DBP. After reducing the DBP program budget[8], PG&E identified that the allocation from AutoDR is the only other place from where a reduced budget for DBP can occur to achieve a cost-effective program while still properly operating DBP.

Furthermore, DRA errs in proposing to increase the cost effectiveness of DBP by removing non-performers. The load impacts used in the cost effectiveness analysis (i.e., the program benefits) are derived by first analyzing the performance of each customer who participated in each event.

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[4] DRA's protest to AL 4164-E submitted on January 2, 2013, page 3.

[5] *Id.* (In Section B, where DRA discusses the DBP, it inadvertently refers to CBP when discussing PG&E's proposed AutoDR reduction to improve the cost effectiveness of DBP.)

[6] D.12-04-045, Ordering Paragraph 26, Decision Adopting Demand Response Activities and Budgets for 2012 through 2014, April 19, 2012.

[7] D.12-04-045, OP 33.

[8] AL 4061-E and AL 4164-E.

The forecast is then developed based upon the performance of participating customers and projections of how many customers will participate in future events. Non-participating customers have no effect on the load impact forecast. Thus, removing the non-performers will not improve the benefits of the program for the purpose of cost effectiveness analysis in AL 4164-E. Furthermore, removing those customers from the program would completely disengage customers who may otherwise choose to engage and participate in the future thereby increasing the benefits.

3) The Commission should reject DRA's recommendation to create a "'stand-alone' DBP program for DBP customers who do not dual-participate, until the Commission establishes a uniform policy on cost-effectiveness evaluation of dual-participating programs" because it is both unnecessary and unsupported by the record.

DRA's protest interjects a heretofore unmentioned recommendation to create a '"stand-alone" DBP program—limited to DBP customers who do not dual-participate—until the Commission establishes a uniform policy on cost-effectiveness evaluation of dual-participating programs'—Section D, p. 4. This suggestion is both unnecessary and unsupported by the record. These items are being addressed in the separate cost effectiveness proceeding and while PG&E supports the expedited resolution of the cost effectiveness process, addressing these issues in this AL 4164-E process will unnecessarily delay the approval and operations of the CBP and DBP programs for 2013.

4) PG&E has complied with ED's November 15, 2012 letter rejecting AL 4061-E to the best of its understanding. Nevertheless, PG&E will provide current cost-effectiveness results for all DR programs.

DRA is incorrect in its assertion—Section E, p. 5—that PG&E has not complied with ED's November 15, 2012 letter rejecting Advice Letter 4061-E.[9] PG&E has complied to the best of its understanding. ED's letter states the following.

> PG&E should file a new Advice Letter for the Capacity Bidding Program and Demand Bidding Program that complies with the Commission's directive that these programs meet a Total Resource Cost Test (TRC) value of 0.9. To the extent that PG&E employs cost re-allocations onto other demand response programs, PG&E should also include in its filing the resulting cost-effectiveness impacts on those programs.

Because ED's letter was in reference to AL 4061-E, PG&E compared the indirect cost allocations in AL 4164-E to AL 4061-E. Because the changes were *de minimus*, the cost-effectiveness results for DR programs other than CBP and DBP were not included because they were unnecessary and non-responsive. DRA, however, apparently wants the comparison of indirect cost allocations to be made against PG&E's 2012-14 DR Application instead of

[9] November 15, 2012 letter from Edward Randolph to Brian Cherry regarding disposition of Advice Letter 4061-E.

AL 4061-E. Because the allocations of indirect costs obviously changed with the Commission's decision on PG&E's application, DRA believes PG&E should post the current cost-effectiveness results for all DR programs.

Although PG&E disagrees with DRA's interpretation of ED's November 15, 2012 letter, PG&E is voluntarily posting its current cost-effectiveness results for all its DR programs as detailed in Section 6 below. In each of AL 4061-E, AL 4164-E, and the AMP RFO Application, PG&E has provided a table showing how the indirect cost allocations changed compared to PG&E's 2012-14 DR Application.[10]

PG&E asks the Commission to reject DRA's recommendation for a suspension of AL 4164-E as moot.

PG&E's DR Reporting Template is available on PG&E's website. To access the spreadsheet, please:

1) Go to: http://apps.pge.com/regulation/
2) Click on "Search for Public Case Documents"
3) Select {Demand Response 2012-2014} from the dropdown menu
4) Select today's date {01/10/13} to narrow the search criteria
5) Click Search

Parties may request copies of the referenced Demand Response reporting templates by sending their request to:

Redacted
Rate Case Coordinator
77 Beale St., Mail Code B9A
P.O. Box 770000
San Francisco, CA 94177
Redacted

[10] As required by ED's May 11, 2012 guidance on resubmitting cost effectiveness analyses.

5) PG&E submitted the non-energy and non-monetary benefits of CBP and DBP following the Commission's request to include such qualitative benefits and expects flexibility in the Commission's cost effectiveness analysis of DR programs.[11,12]

DRA's recommendation to reject PG&E's request that non-energy and non-monetary benefits be considered in evaluating CBP and DBP—Section F, p. 5—is without merit. The ED stated in page 2 of its Guidance[13] that:

> 7. […] We expect that these compliance filings will provide qualitative descriptions of any relevant environmental, market, or non-energy benefits, or any other non-quantified data, for each Demand Response program.

As such, PG&E is complying with the ED's request to provide the qualitative benefits and expects flexibility in utilizing these non-energy and non-monetary benefits in their analysis.

6) PG&E goes above and beyond what is required from the ED's rejection letter of AL 4061-E by providing the current cost effectiveness results of all DR programs. However, the Commission should not re-litigate other DR programs that have already been approved.

PG&E complied with all the orders from D. 12-04-045 (e.g., eliminated programs, reduced the budget, removed allocations from specific programs, etc.) and reflected all of these changes in the cost effectiveness analysis. Obviously, this materially changed the cost allocations originally in the DR Application compared to all subsequent analyses provided by PG&E. For example, a decreased program budget for CBP and DBP resulted in a lower allocation for these programs when compared to other programs, e.g., BIP, since the cost effectiveness methodology and protocols dictate that portfolio support costs, e.g., ME&O, evaluation, measurement, and verification (EM&V), Operations, and AutoDR, should be allocated to programs according to program budget. In addition, while the Commission did not explicitly order PG&E to change its A-factor calculation for cost effectiveness, PG&E decided to apply a more rigorous calculation by including dispatch limitations embedded in each DR program's tariff. Finally, in compliance with the Guidance, PG&E used the 2012 load impacts and showed for comparison the 2011 load impacts, which were used in the DR Application.

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[11] D. 12-04-045, p. 43…"Protocols state that "flexibility in the application of these protocols may be necessary to fully reflect the attributes of some DR programs. We conclude that our approach on how we use the protocols allows us to be flexible in our approach to analyzing cost effectiveness for DR programs. However, a large part of our approach is informed by the fact that certain qualitative information was not provided in the Applications."

[12] Energy Division's Guidance on Cost Effectiveness ("Guidance") dated May 11, 2012.

[13] *Id.*

Table 1
DR Program Total Resource Cost Test Benefit-Cost Ratios
Changes Compared to 2012-14 DR Application

Total Resource Cost Test	Scoping Memo Testimony in 2012-14 DR Application	Changes following D.12-04-045 implemented for AL-4061-E	Additional Changes implemented for AMP RFO Application	Further Changes implemented for AL-4164-E	Change in TRC B/C ratio from 2012-14 DR Application
AMP 2012	0.49	0.67	0.67	0.67	improved
AMP 2013-14	n.a.	1.11	0.94	0.94	n.a.
BIP	0.90	0.81	0.81	0.81	decreased
CBP	0.91	0.79	0.79	0.91	no change
DBP	0.38	0.78	0.78	0.90	improved
SmartAC	0.63	0.86	0.86	0.86	improved
PLS	0.69	0.37	0.86	0.81	improved
Portfolio	0.63	0.69	0.75	0.73	improved

Relative to the original 2012-14 DR Application, all TRC benefit-cost ratios either improved or stayed the same except for BIP.[14] AMP, CBP and DBP have TRC benefit-cost ratios of at least 0.9. Otherwise, the TRC benefit-cost ratios remain below 0.9, albeit higher than they were in the original 2012-14 DR Application. And in the case of PLS, the Commission has recognized that the TRC may not be the appropriate benefit-cost ratio test to evaluate the cost effectiveness of the program.[15]

It is not in the interest of customers or ratepayers for the Commission to re-litigate programs that have already been approved in D. 12-04-045. The Commission, PG&E, and other stakeholders recognize that there are deficiencies in the cost effectiveness methodology and that the application of this deficient methodology for the 2012-14 DR program cycle is a short-term fix until such time that the deficiencies in the DR cost-effectiveness protocols are resolved.[16] Re-litigating the approved DR programs will only add to the uncertainty in customers' minds about DR and discourage new players from entering the California market at a time when both the California Independent System Operator (CAISO) and the Commission are looking for increased third-party participation.

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[14] Several factors contributed to this decrease as detailed in Attachment 1. The primary reason was a change that PG&E made in its calculation of the A-factor. Taking into account PG&E's BIP tariff limitation on dispatch of four hours maximum per day, the A-factor decreased below where it had been in the original analysis. Details of the changes in costs and benefits over time are shown in Attachment 2 and explained in Attachment 3.

[15] D.12-04-045, page 148…"Using the TRC test results would indicate that the programs are not cost effective, and should not be approved. However, we recognize that TRC as calculated by the utilities is perhaps not the most appropriate metric to evaluate the cost-effectiveness of PLS, because there is a large capital investment on the part of the customer which is not captured accurately in the TRC."

[16] D. 12-04-045, FOF 10 and 13, OP 7.

On January 8, 2013, the ED suspended AL 4164-E for up to 120 days beginning January 14 because the AL requires staff review. PG&E respectfully requests the Commission to lift the suspension and approve the CBP and DBP programs expeditiously in order to successfully implement the programs for the remainder of the program cycle. As described above, PG&E, aggregators, and customers need to start preparing now for the May 1st operating season, which is less than four months away, to implement new program changes, e.g., local dispatch. Furthermore, PG&E requests that the issues with the cost effectiveness methodology be addressed promptly in order to support preparation of the upcoming 2015-17 DR Program and Budget application to be filed one year from now.[17]

Sincerely,

Brian Cherry /sl

Vice President - Regulatory Relations

cc: Edward Randolph, Director – Energy Division
Michael Campbell, DRA
Sudheer Gokhale, DRA

[17] D.12-04-045, OP 85.

Attachment 1

BIP cost-effectiveness analysis changes between DR application and AL 4061/4164

	TRC Benefits	TRC Costs	Ratio
Scoping Memo BIP baseline	$ 58,646,213	$ 65,414,709	0.90
Changed base year from 2011 to 2012	$ 4,498,165	$ 5,017,308	
Changed A-Factor from 58% to 53% (includes change to 180 hours and SCE method)	$ (5,663,833)	$ -	
Changed assumed incentive level from 9 to 8.50	$ -	$ (2,631,283)	
Changed load impacts from 2011 to 2012	$ (4,566,252)	$ (5,327,224)	
Reallocation of ME&O costs	$ -	$ (174,384)	
Reallocation of EM&V	$ -	$ (52,000)	
Reallocation of Notifications/Operations	$ -	$ 3,026,969	
Reallocation of AutoDR	$ -	$ (749,975)	
Miscellaneous Moved TI back into portfolio CE analysis and excluded from portfolio CE analysis: 1) Integrated Programs, 2) Technology Incentives, and 3) Statewide marketing.	$ (311,727)	$ 306,989	
Subtotal of changes	$ (6,043,647)	$ (583,599)	
Advice Letter 4061-E	$ 52,602,566	$ 64,831,109	0.81
AMP MW increase gave it bigger share of allocation	$ -	$ (182,165)	
Advice Letter 4164-E	$ 52,602,566	$ 64,648,945	0.81

Attachment 2

DR Program Total Resource Cost Test Benefit-Cost Ratios

Detailed Changes Compared to 2012-14 DR Application

Total Resource Cost Test	Scoping Memo Testimony in 2012-14 DR Application			Changes following D.12-04-045 implemented for AL-4061-E			Additional Changes implemented for AMP RFO Application			Further Changes implemented for AL-4164-E			
DR Programs	**Benefit ($ mill.)**	**Cost ($ mil.)**	**B/C Ratio**	**Benefit ($ mill.)**	**Cost ($ mill.)**	**B/C Ratio**	**Benefit ($ mill.)**	**Cost ($ mill.)**	**B/C Ratio**	**Benefit ($ mill.)**	**Cost ($ mill.)**	**B/C Ratio**	**Change in B/C ratio from DR Appl.**
AMP 2012	$ 9	$ 19	0.49	$ 1	$ (4)	0.67	$ -	$ 0	0.67	$ -	$ -	0.67	improved
AMP 13-14	n.a.	n.a.	n.a.	$ 25	$ 23	1.11	$ 9	$ 14	0.94	$ -	$ -	0.94	n.a.
BIP	$ 59	$ 65	0.90	$ (6)	$ (1)	0.81	$ -	$ (0)	0.81	$ -	$ -	0.81	decrease
CBP	$ 17	$ 19	0.91	$ (10)	$ (10)	0.79	$ -	$ (0)	0.79	$ 1	$ -	0.91	same
DBP	$ 7	$ 19	0.38	$ (2)	$ (13)	0.78	$ -	$ (0)	0.78	$ -	$ (1)	0.90	improved
SmartAC	$ 19	$ 29	0.63	$ 1	$ (6)	0.86	$ -	$ (0)	0.86	$ -	$ -	0.86	improved
PLS	$ 13	$ 19	0.69	$ (9)	$ (9)	0.37	$ 66	$ 71	0.86	$ (40)	$ (44)	0.81	improved
Misc.	n.a.	$ 34	n.a.	n.a.	$ (6)	n.a.	n.a.	$ -	n.a.	n.a.	$ -	n.a.	n.a.
Portfolio	$ 124	$ 198	0.63	$ (0)	$ (19)	0.69	$ 75	$ 85	0.75	$ (39)	$ (45)	0.73	improved
Not in CE	n.a.	$ 19	n.a.	n.a.	$ 8	n.a.	n.a.	$ (0)	n.a.	n.a.	$ -	n.a.	n.a.

Attachment 3

Main Drivers of Changes Compared to 2012-14 DR Application

of DR Program Total Resource Cost Test Benefit-Cost Ratios

DR Programs	Benefits	Costs
AMP 2012	Benefits increased $1 million due to a change to 2012 load impacts.	Costs decreased $4 million by eliminating the ME&O and AutoDR cost allocations and reducing the EM&V and notifications/operations cost allocations offset by an increase in forecast capacity incentive payments.
AMP 2013-14	This category was not included in the 2012-14 DR Application.	
BIP	Benefits were reduced $6 million due to a change in A-factor calculation and change to 2012 load impacts	Costs were reduced $0.6 million. A higher allocation of notifications/operations costs was offset by a reduced forecast for the capacity incentive to be paid.
CBP	Benefits were reduced $10 million due to a change in A-factor calculation and change to 2012 load impacts. Benefits were increased $1 million by relaxing dispatch constraint from 24 to 30 hours per month.	Costs were reduced $10 million by eliminating ME&O cost allocation and reducing EM&V, notifications/operations and AutoDR allocations.
DBP	Benefits decreased $2 million due to a change in A-factor calculation offset by an increase in 2012 load impacts.	Costs decreased $14 million due to decreases in ME&O, notifications/operations and AutoDR cost allocations.
SmartAC	Benefits increased $1 million due to a change to 2012 load impacts offset by a change in A-factor calculation.	Costs decreased $6 million due to a reduced ME&O cost allocation.
PLS	Benefits increased $16 due to the CE analysis being done over 20 years instead of 3 years; offset by a change in A-factor calculation.	Costs increased $18 million due to higher forecast capacity incentive payments.
Miscellaneous	n.a.	Costs were reduced $6 million by removing integrated costs.
Not incl. in CE	n.a.	Costs were increased $8 million by adding integrated costs with higher allocations of ME&O and AutoDR costs and lower allocation of notifications/operations costs to dynamic pricing.