Expert Report on Issues Affecting Small Businesses

Testimony of Michael Brown

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Table of Contents

PREPRARED EXPERT REPORT OF MICHAEL BROWN

Introduction

Pursuant to the procedural schedule set forth in the Assigned Commissioner's Scoping Memo and Ruling, dated January 22, 2013, I submit this intervener report and testimony on behalf of the Small Business Utility Advocates ("SBUA"). In this report, I address issues affecting the small business community within of Pacific Gas and Electric Company's (PG&E's) territory.

SBUA has an organizational mission to help small businesses by representing them as a community and protecting their utility and energy-related concerns. Of primary concern to SBUA in this proceeding is the financial health and welfare of small businesses, particularly those located in PG&E's service territory. Throughout California, small businesses have been struggling in recent years and those in PG&E's service territory are no exception. Rather than expanding and flourishing, the number of small businesses has decreased from 307,558 in 2007 to 280,601 in 2012.[1]

SBUA has retained my expertise because the small business community, historically, has been underrepresented in proceedings before the Public Commission Utility, general rate cases being no exception. SBUA is the only party in this proceeding focusing exclusively on the small business community as a whole. Small business interests diverge from residential ratepayers and large businesses on important issues including the justification and rational for rate increases, resource allocation, and on other energy matters. Additionally, SBUA has requested that I examine the interests of small renewable energy companies, which, for example, engage in energy generation and have unique concerns in rate cases.

Small Business Community

For purposes of this proceeding, the small businesses community consists of those businesses that individually do not have the resources to participate or intervene. What qualifies as a "small business" is not universally agreed upon. Different organizations use different

[1] *See* **Exhibit 1**.

standards. According to the United States Small Business Association (SBA) a small business is generally defined according to the type of business sector. For example, most retail industries are considered small businesses if their individual average annual receipts are $7.0 million or less; for general construction companies this number is $33.5 million; and for special trade construction companies this number is $14.0 million.[2] Additionally, the SBA generally classifies businesses as small if they employ 500 employees or less for the manufacturing, mining and other industries and 100 employees for the wholesale trade industries. *Ibid.* According to the State of California, small business are defined as a business with 100 or fewer employees and an average annual gross receipts of $14 million or less, over the last three tax years.[3] PG&E does not define small businesses per se but generally recognizes the need to serve the specific needs of small businesses. This report seeks to identify exactly how the revenue requirements in Phase I will affect small businesses in PG&E's service territory.

The needs of small businesses are critical to consider in this proceeding as they have a huge impact on California's economy. Small businesses are the economic backbone of the California economy. According to 2010 U.S. Census data, there are 673,221 businesses with less than 100 employees in California that, collectively, hire 4.5 million Californians and pay approximately $190 billion in annual payroll to employees California.[4] According to the SBA, there were 718,220 small businesses in California in 2006, employing a total of 7.2 million people.[5] For that and other reasons as discussed below, the California Public Utility Commission (Commission) and PG&E should pay special attention to the impacts this rate case will have (both positive and negative) to small businesses in PG&E's territory.

Summary of Expert Report and Recommendations

This testimony provides the following recommendations to the Commission:

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[2] *See* **Exhibit 2**.
[3] *See* **Exhibit 3**.
[4] *See* **Exhibit 4** created from U.S. Census data of businesses under 100 employees.
[5] *See* **Exhibit 5** excerpt from the California Air Resources Control Board (CARB) Report from the Brattle Group.

A. Ensure Adequate Services to Small Businesses

1. Asset Centralization Efforts

PG&E is requesting revenue to fund a number of Asset Centralization efforts. These initiatives – which include: 1) an asset management tool for public safety; and 2) the "Asset Data Analysis and Storage Project" for Asset Based Risk Analysis – require bolstering. While these efforts can be positive, new protections are required to ensure small businesses in remote areas receive adequate levels of service from PG&E. If adequate protections are not assured, the Commission should deny funding for these initiatives. I further recommend below that PG&E allocate additional revenue to provide service to small businesses which experience more outages than other customers; including as part of PG&E's "Customers Experiencing Multiple Interruptions Initiative."

2. Electric Transmission Interconnection for Small Business Electric Generators

PG&E is requesting a $500,000 increase for Major Work Category EW-Relocation related to electric transmission interconnection. The Commission should *either* approve this request with direction that PG&E spent at least $300,000 of this request on new generation interconnection *or* require PG&E to increase the funding for MWC EW-Relocation such that $300,000 is available to dedicate to new generation interconnection.

3. Customer Service for Small Businesses in PG&E's Service Territory

The Commission should approve PG&E's reques t to increase customer service for small commercial customers. However, in addition, PG&E should increase its efforts to identify which customers are small businesses. One way to do this is by asking customers if they chose to self-identify themselves as a small business. Many small businesses may have lower or higher energy usages that make them appear to be other than small commercial customers and therefore escape PG&E's attention as meriting assistance as small businesses.

4. Partnering with Small businesses to Provide Innovative Electricity and Natural Gas Products

Small businesses should be viewed as an asset by PG&E with opportunities for win-win collaborations. Where PG&E is seeking to enhance services and provide solutions to the many challenges in the energy industry, small businesses may provide assistance. To do so, small businesses must first recognize and understand the needs of the utility. Small businesses need additional information about PG&E's needs, a platform to send proposal to and coordinate with PG&E, and access to information about the facilities owned by PG&E. To facilitate this process, the Commission should require that PG&E allocate revenue in this rate case of at least $120,000 per year to fund a new staff position and point of contact to interface to the small business community. This position would communicate development opportunities at PG&E and provide reasonable access to both information and facilities. This access is necessary to leverage the power of small businesses to provide innovative products and solutions which can be used by electric and natural gas utilities.

5. Stability in Small Business Natural Gas Rates

Volatility in gas rates is a significant risk to small businesses that do not have the economies of scale to lock in consistent gas pricing. The Commission should require that PG&E allocate revenue in the amount of at least $120,000 for a new staff position at PG&E to explore ways of reducing natural gas rate volatility specifically for small commercial, industrial, and agricultural customers. PG&E also should create a one to three year fixed-price program for natural gas delivery to small business customers. This program will allow small businesses to avail themselves of a fixed $/therm rate. The purpose of this program would be to allow small businesses to accurately predict their natural gas expenses based on their anticipated level of activity and expected future natural gas rate. In the event PG&E is challenged to approve $120,000 for a new staff position, the Commission should require PG&E to eliminate or decrease staffing elsewhere to secure the requisite funding.

6. PG&E Economic Development Programs Directly Dealing with California Small Businesses

PG&E proposes to fund an equivalent of 12 full-time employees and $1.5 million for Economic Development Organization membership dues. The Commission should approve this request and the overall effect of these efforts is consistent with encouraging more small business opportunities in PG&E's service territory. However, I recommend certain restrictions and protections be added on the expenditure of the $1.5 million. Specifically, these funds should not be used by PG&E to fund, incentivize, or advocate for large business entities that would displace already existing small businesses within PG&E's service territory.

B. Enhance Contracting Opportunities for Small Businesses

1. Contracting Opportunities with PG&E for Small Business Electric Generators

Small business electric generators are of special importance to SBUA because they serve the dual purpose of providing opportunities for growth in the small business community and fostering the advancement of clean, alternative energy. PG&E requests two additional employees by 2014 to: (1) perform contract milestone compliance monitoring; (2) identify and resolve potential counterparty disputes; (3) structure contractual settlement terms and conditions during the negotiation process; and (4) support other departments as projects achieve commercial operation and require administration over their respective delivery terms. This request is justified and will improve PG&E's ability to award contracting opportunities for small electric generators. Because of the importance of small generators, this report recommends the Commission require PG&E to fund *one* additional full time position to support small electric generators in procuring electric supply contracts with PG&E.

2. Carbon Credits and Offsets

PG&E proposes to add an additional 12 employees to "develop and execute strategies to facilitate GHG [greenhouse gas] compliance for the natural gas sector." SBUA fully supports State efforts to reduce greenhouse gases and to promote alternative energy, and, by one means or another, supports measures to meet the State's GHG compliance requirements and even exceed the mandated reduction of GHG levels. Here, however, PG&E should first and foremost explore the services of small California businesses that specialize in the management of carbon credits and offsets rather than rely on and hire 12 full time PG&E employees for these tasks. PG&E should issue a request for proposal for this work and determine if it would be less expensive than hiring 12 additional full-time staff, or at least to reduce the need to hire a portion thereof. This report further recommends the Commission require PG&E to give small businesses preferential treatment in supplying or purchasing carbon credits and carbon offset credits to PG&E as small businesses have been disproportionately affected by the enactment of AB 32.

3. Request for PG&E to Fund a Position to Aid Small Businesses

PG&E proposes to create three additional full-time employees to provide dedicated resources and improved support in key opportunity areas for Supplier Diversity. Included in this proposal, PG&E proposes to create a position to help small businesses participate in PG&E's supply chain. The Commission should approve at least one such position to support small businesses in navigating the hurdles necessary to secure contracting opportunities at PG&E; however, a second such position is justified to extend support beyond exclusively serving small diverse businesses and encompass all small businesses. PG&E already has a group which tracks the health of its customer base (Economic Vitality team). This second position should coordinate with that group to provide statistics on the number of small business electric customers in its service territory with minimal effort. Lastly, I recommend the Commission request that this new position be tasked with coordinating with and provide support to the existing CPUC Small Business Program.

4. Funding for PG&E to Expand Its Supply Chain Sustainability Program

PG&E proposes to expand its Supply Chain Sustainability Program to make its supply chain more “green” and "socially responsible." SBUA supports these goals. The Commission, however, should direct PG&E to help small businesses with the Sustainability Program by 1) allowing small businesses to receive an expedited application and approval process for certification in bidding on work with PG&E, 2) creating a clear set of selection criterion for contracting opportunities with PG&E so small businesses will know whether it would be appropriate for them to compete for specific contracting opportunities with PG&E, and 3)use the status of being a small business in California as a favorable factor in selection for contracting opportunities with PG&E.

5. Health Care Costs

This report concludes that costs for small businesses doing business with PG&E will increase. Consequently, PG&E should allocate, and the Commission should approve, sufficient revenue to cover work which PG&E plans to contract out to small businesses.

C. Increase Incentives for PG&E to Help the Small Business Community

1. PG&E's Short Term Incentive Plan and Other Employee Reward Programs

PG&E's STIP (Short Term Incentive Program) provides significant incentivizes for employees to achieve certain "Financial Performance," which I recommend instead be partly re-allocated to reward other performance metrics. Specifically, 5% of the ratepayer funded STIP allocation should be tied to PG&E's contribution to the small business community located in its service territory with criteria that ties the number of employee volunteer activities for small businesses and the financial health of small businesses in PG&E's service territory. To offset this 5% change, this report recommends that the ratepayer funded STIP reward for "Financial Performance" by decreased by 5%.

D. Deny Funding for Certain Advertising Costs

1. PG&E Advertising and Lobbying Activities

All PG&E "brand and reputation advertisements" should be funded by PG&E shareholders and not ratepayers. Likewise, future brand advertising not specific to a utility program or other utility purpose should be funded by PG&E shareholders and not ratepayers.

F. General Recommendations – Proposed Overall Revenue Increase by PG&E

My recommendation is that SBUA not oppose a modest increase in PG&E revenue due to anticipated inflation and anticipated investments for all categories of work. However, I reserve the right to further comment on the overall revenue requirement if and to the extent that the proposals in this report are contested for lack of funding or otherwise.

Detailed Recommendations on behalf of the Small Business Community

A. Ensure Adequate Services for Small Businesses

1. Asset Centralization Efforts

As part of its effort to improve reliability and public safety, PG&E is attempting to centralize its asset management. Asset management is understood to be the process by which PG&E makes decisions regarding the nature and location of improvements on its system. In PG&E-4 2-29 through 2-30 PG&E proposes to create an asset management tool for public safety as well as an Asset Data Analysis and Storage Project for Asset Based Risk Analysis. PG&E plans to use the tool to improve maintenance and replacement strategies and forecast asset condition, performance, and residual life over a longer time horizon. Small businesses will benefit from these improvements and generally support this effort. However, there is a potential that these new processes may adversely affect the service levels that remote small businesses receive.

Many small businesses are located in remote areas where the cost to PG&E of maintaining electric and natural gas interconnection is large in comparison with the usage of the small business. This section of the report analyzes the effects that PG&E's asset centralization efforts may have on remote small business customers, and recommends measures to alleviate any negative impacts.

PG&E has made some improvements in terms of both reliability and alerting small businesses about outages. For example, PG&E has created an online outage map accessible via the internet, and assuming the customer has the ability to access the internet, it is a helpful tool.[6] Some increased investment in distribution and infrastructure is needed to improve reliability for small businesses; and this report supports additional funding for this purpose. Additionally, PG&E has made some progress in terms of improving the System Average Interruption Duration

[6] *See* interactive website at www.pge.com/mybusiness/customerservice/outages.

Index (SAIDI) score.[7] However, PG&E still must make significant improvements in terms of reliability of service for small businesses. As part of this effort, PG&E is planning initiatives to improve service reliability and is rewarding its employees for attaining achievements in this area. For example, as part of PG&E's proposed STIP, it will reward Customer Focus Measurements including SAIDI score improvements as will be discussed in the STIP section of this report.

Small businesses located in remote areas demand a relatively high cost of transmission and distribution service (in terms of both gas and electric service) relative to other customers. PG&E's asset management centralization effort must include adequate protections for remote small business customers such that they will still receive adequate levels of electric and natural gas service from PG&E. The concern of these small businesses is that they may not receive the same level of preventative maintenance as customers in crowded cities. Though the overall effort of PG&E may increase, a new system may re-prioritize work such that some remote customers do not receive adequate levels of service. The level of service to these remote areas must be reasonably adequate to serve small business needs.

Related to this concern is PG&E's funding request in (PG&E-4) 5-7. PG&E requests funding to employ personnel to prioritize electric distribution facility repairs. These employees will likely enact PG&E's overall plans to improve the safety and reliability of its system. These employees should be directed to assure adequate levels of service for remote small businesses.

SBUA requested that PG&E specify whether the proposed safety asset management tool prioritize upgrades to the system based on the size of a business or the number of customers who are served. PG&E responded that:

> "the proposed asset management tool for public safety assesses the impact of PG&E’s assets on the safety of the public to help guide upgrades, replacements and operating and maintenance practices PG&E implements for its facilities. The tool will not use customer size as an input to this analysis because this does not impact PG&E’s asset performance relative to public safety risk. The tool is designed to aid PG&E’s decision making for all

[7] *See* **Exhibit 25**.

of its electric distribution assets in all areas of its service area. PG&E facilities serving small agricultural businesses and small remote businesses will receive adequate attention because facilities serving these areas will be evaluated for public safety risk mitigations as will all other facilities in PG&E's service area."[8]

Though PG&E clarified that the size of the entities served will not affect its decisions, this response provides few details of how this asset centralization effort will affect remote small businesses. PG&E is attempting to concentrate on safety to prioritize asset upgrades and maintenance. However, it is reasonable to assume that PG&E does not base all its asset upgrade and maintenance decisions solely on safety considerations. PG&E is also likely to use efficient resource management principles in its asset upgrade efforts.

If PG&E uses an asset management tool which solely bases upgrade and maintenance decisions on safety, then the effect on remote small business is uncertain. Such a tool would likely take into account that above ground electric distribution facilities, common to the service of remote customers, would be more dangerous to the public and thus would be replaced relative to many other PG&E assets which serve less remote customers. However, if PG&E factors in the proximity of the population to electric facilities, it is possible PG&E would devote far less resources to upgrading the assets serving remote customers. Therefore, based on the information to date provided by PG&E, the exact impact of such an effort would have on remote small business customers is impossible to fully understand.

The Commission should condition funding for PG&E Electric Distribution asset management initiatives – including funding for 1) an asset management tool for public safety; and 2) the "Asset Data Analysis and Storage Project" for Asset Based Risk Analysis – on the inclusion of adequate protections for remote small business customers such that these customers will still receive adequate levels of service from PG&E. Specifically, I recommend that the Commission require PG&E to allocate funding to provide increased services to small businesses which experience a significant amount of electrical outages. In Exhibit (PG&E-4) pp.15-12,

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8 *See* **Exhibit 26** GRC2104-PG-I DR SBUA 003-Q04.

PG&E proposes to fund the continued work on the Customers Experiencing Multiple Interruptions Initiative. This effort involved performing work to prevent customers from experiencing 12 or more sustained outages over a 12-month period. As some remote small businesses will likely benefit from work, the Commission should continue to fund this initiative. However, the Commission should require that PG&E analyze and identify the additional funding necessary for PG&E to provide specific services dedicated to small businesses which experience more outages than other customers; including enhanced funding for the "Customers Experiencing Multiple Interruptions Initiative."[9]

2. Electric Transmission Interconnection for Small Business Electric Generators

A major hurdle for small electric generation businesses is interconnecting to PG&E's electric grid. This process is known as generation interconnection. This issue is relevant to this proceeding because small businesses must have sufficient resources to connect to PG&E owned electric distribution and electric transmission facilities. This interconnection process is typically long in duration, potentially very costly, and is thus a major impediment to new small business generation projects in PG&E's service area.

PG&E should continue to allow small businesses the opportunity to create new electric generation projects in PG&E's service territory. One major benefit of incentivizing the development of small electric generators is that these projects provide California with diverse sources of electricity. Small business generators in California are very diverse as a result of the California's diverse natural resources. This is important to all PG&E's customers because if one source of generation becomes very costly, then other sources of generation can be used to mitigate the effects of this increase in costs. For example, if natural gas becomes costly in the future, then other sources of generation can mitigate this increase in natural gas costs. The generation sources which small business generators use include biogas, biomass, wind, solar, geothermal, hydroelectric, and other types of generation.

[9] *See* PG&E-4 15-12.

A second major benefit to California is that small business generation companies have the potential to innovate and offer new types of generation capacity. This innovation is necessary to continue to provide California with additional renewable electric generation and carbon reduction.

A third major benefit to California is that these projects provide diverse sources of electricity. Should the state suffer from the outage of a few major facilities such as the nuclear power plants, these other generation sources can be used to pick up the lost generation from such facilities.

As PG&E states in its request, PG&E Generation Interconnection Services (GIS) is the single point of contact for managing the electric interconnection process for CPUC and Federal Energy Regulatory Commission (FERC) jurisdictional customer generation projects connected at PG&E's distribution service level.[10] GIS covers activities from receipt of the interconnection inquiry through the in-service date of the new generation facility and continues through associated billing, settlements and refunds. The projects may include Net Energy Metering Service (NEM), both Standard and Expanded; NEM bio-digesters, wind, solar, fuel cell, net energy metering-multiple tariff, other distributed generation interconnections, and applications supporting the new market entrants of the Feed-In Tariff and Small Generation Interconnection Procedures.

PG&E's GIS Department works with the cust omer generator/applicant and coordinates, manages and partners with other PG&E organizations, including Engineering, Service Planning, Project Management, System Protection, System Operations, Tariffs, Distribution and Transmission Planning, Law, Metering, Mapping, Billing, Account Services, and Self-Generation Incentive Program, for timely interconnection of distribution retail and wholesale generation development projects pursuant to CPUC-approved Electric Tariff Rule 21 and the FERC-approved Wholesale Distribution Tariff.[11]

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[10] *See* Exhibit (PG&E-4) generally.
[11] *See* Exhibit (PG&E - 4), pp. 9-15.

This expert testimony seeks to only intervene on the issue of transmission interconnection services by PG&E. The concern of SBUA is that small electric generators, who are more likely than larger electric generators to qualify as small businesses, receive adequate opportunity and resources to connect to PG&E's electric grid. There are over 130 small generation companies that provide energy to PG&E who have 10MW or less of electricity capacity.[12]

PG&E has requested funding to better serve small business electric generators. PG&E recognizes that superior customer service is needed for new generation interconnection customers given the rising number of customers and project developers seeking to interconnect new generators within PG&E's service territory. In addition to tracking service requests, PG&E intends to extend tool functionality to new generation interconnection customers as part of its overall objective to extend online functionalities to all PG&E customers and improve the electric and gas service planning customer experience.[13]

The time necessary to interconnect, the accuracy of the cost needed to interconnect, and the amount of engineering support given by PG&E are important factors small business generators evaluate in whether to pursue new generation projects in PG&E's service territory. Small business generators typically evaluate the economics of their project and then contact PG&E for interconnection services. The estimate of the interconnection costs is a major factor in the viability of small generation projects. Also, if the interconnection process takes too long this affects the ability of small generators to complete their projects and comply with the terms of their electric supply contracts. Therefore, PG&E must have sufficient staff to process the interconnection requests of small generators in a timely fashion and provide accurate estimates of these interconnection costs.

PG&E is requesting a $500,000 increase for Major Work Category EW-Relocation specific to new generation interconnection.[14] The Commission should *either* approve this request and direct PG&E to spend at least $300,000 of this request on new generation interconnection *or*

[12] PG&E supplemental response to SBUA discovery request # 001-Q02 (providing otherwise confidential information).
[13] See (PG&E-4) pg. 2-41.
[14] *See* PG&E-4 9-14.

require PG&E to increase the funding for MWC EW-Relocation such that $300,000 is available to dedicate to new generation interconnection. Additionally, the Commission should direct PG&E to grant adequate consideration to interconnection request by small electric generation companies.

3. Customer Service for Small Businesses in PG&E's Service Territory

PG&E is requesting additional customer service resources to meet "increased demand" to solve small business problems. This report posits that one way to address this problem is by reducing this increase in demand for customer services by the small business community in the first instance.

The reasons for the increase in demand for customer service by small businesses have a common thread. Many small business customers do not understand the value of smart meters, they do not know how to accurately predict or verify their energy bills, they would like explanations of their bills and how they can lower their bills by manipulating usage or changing their energy plans, they want to know if performing less work and using less energy would increase their profits, and they want to find out whether it is cost-effective to install energy saving devices. The inevitable result is that small businesses are contacting PG&E to figure out how to predict energy usage and decrease their costs. Due to the current situation and the shear cost of energy, the small business community would appreciate extra support and explanation of energy matters from PG&E.

A significant problem inherent in PG&E's current rate structure is that small businesses have difficulty in determining what their electric and natural gas bills are likely to be. Also since energy prices in California are already high and increasing, small businesses need information on cost effective solutions to alter their energy usage to improve their profits.

PG&E has a number of initiatives that relate to customer service for small businesses. PG&E recognizes that with SmartMeter™ technology in place and the continued pursuit of California energy policy through implementation of additional time-varying rates, there is a need to continually build greater customer awareness of rate options, energy tools, and resources while providing a higher level of direct support so customers can better understand, monitor and manage their energy costs. PG&E further states it will continue to increase engagement with Small and Medium Business (SMB) customers.[15] PG&E contends that it must increase coverage and service to the underserved group of SMB customers while addressing the fundamental service needs of Large Commercial Industrial (LCI) & Agricultural (Ag) customers by providing basic customer service based on historical customer service levels.[16] PG&E also intends to provide improved customer services required to meet the needs of LCI & Ag and SMB customers. [17] This report supports PG&E's request with one adjustment. In order for PG&E to better perform this task, PG&E should make an effort to identify customers as small businesses if they chose to self-identify themselves as a small business. PG&E should make further efforts to customize solutions and responses to small business problems.

4. Partnering with Small businesses to provide innovative Electricity and Natural Gas Products

PG&E is a large supplier of electricity and natural gas in California. In recent years many energy opportunities have been created for which small businesses can provide innovative solutions. For example, smart meter technology has created opportunities for small businesses to provide software solutions to electric and natural gas customers to optimize their energy usage. Increased usage of renewable electric generation has created opportunities for companies to provide new types of generation and innovative solutions for energy storage. Increased usage of motor vehicles using electricity and natural gas may provide infrastructure and software development opportunities for small businesses. The passage of the California law known as AB 32 has provided small businesses with an opportunity to find innovative methods of reducing carbon emissions. Higher energy prices have created opportunities for small companies to help customers reduce energy consumption. New innovations may create additional opportunities. Should California small businesses be successful in providing solutions to these opportunities, these businesses would likely create additional jobs in California.

[15] *See* Exhibit (PG&E-5) pp. 7-15.
[16] *See* Exhibit (PG&E-5) pp. 7-3.
[17] *See* Exhibit (PG&E-5) ppl 7-1.

PG&E, and regulated utility companies in general, would be well served to tap the abilities of small business to provide innovative solutions for their business. Within PG&E's service territory is Silicon Valley, which is known as a world leader in providing innovative break-through solutions. That is not to say PG&E is not an innovative company. PG&E is a private company and has some financial incentives to innovate and provide new products to customers. For example, PG&E proposes to expand delivery of Non Tariff Products and Services to small businesses to develop new products for customers.[18] The Commission should require that PG&E further incentivize small businesses to innovate and provide products and services to customers.

PG&E's entire customer base would be well-served to allow small companies to partner with PG&E in providing innovative solutions to energy problems in California. This report recommends that PG&E further their partnerships with California businesses, particular small and innovative companies, in providing these solutions. Where PG&E is unable to provide solutions to these opportunities, small businesses may fill in the gaps. In order for small businesses to provide these solutions, small businesses will need information, coordination with PG&E, and access to facilities owned by PG&E. To provide this access and support, the Commission should require PG&E to allocate revenue in the amount of at least $120,000 per year to create a new staff position and single point of contact, funded by ratepayers, to interface with the small business community. This position should be tasked with communicating development opportunities at PG&E to small businesses and providing them with reasonable access to both information and facilities.

Creating access for small businesses is necessary for these businesses to provide innovative products and solutions which can be used by electric and natural gas utilities. For example, if companies need access to PG&E facilities to test solutions or to integrate their solutions into PG&E's systems, businesses should have a single point of contact to work with PG&E in this capacity. PG&E already has involvement with many small companies in working with solutions. However, companies with new ideas would benefit by having a single point of contact with PG&E to work on new solutions and products.

[18] *See* Exhibit (PG&E-5) pp. 7-10.

5. *Stability in Small Business Natural Gas Rates*

Small businesses benefit from low and stable rates for natural gas delivery. For many businesses, energy costs are a significant expense, and small businesses are faced with ongoing challenges to balance annual budgets and manage expenditures. I recommend small businesses should be able, on an annual basis and three year forward basis, to accurately predict their natural gas expenses based on their anticipated level of activity and expected future natural gas rates. In the past 15 years natural gas delivery rates have been unpredictable for small businesses. The primary components of the natural gas rates charged to small businesses are: 1) the cost of purchasing natural gas as a commodity, and 2) the storage and delivery of that gas to a small business. Providing a comprehensive solution to this problem is difficult because components of natural gas rates are contained in separate Commission Proceedings.

There are a large number of proceedings that impact natural gas service price volatility for small businesses. For example, the Gas Accord Settlements, various Pipeline Safety Plan proceedings, GTS Rate Case, ERRA, Gas Transmission (GT) System Class Location, Cost of Capital, and other various proceedings. Even were SBUA to intervene in all subsequent natural gas cases, the issue of natural gas price volatility for small businesses may still not be adequately addressed. As one of the largest natural gas suppliers in the United States, PG&E possesses the infrastructure and expertise to provide more stable natural gas pricing for small business customers. Although natural gas service is addressed in other proceedings as well, it is inevitably tied to revenue requirements and therefore is appropriate to raise here in the GRC Phases I.

Small business customers have seen dramatic shifts in the price of natural gas as a commodity over the last 15 years.[19] Currently the commodity price for natural gas is low.

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[19] *See* **Exhibit 9** at www.aga.org/our-issues/issuesummaries/Pages/PriceVolatility.aspx. Statement by American Gas Association: "For roughly 15 years, from 1985 until 2000, natural gas prices at the wholesale level were very stable, fluctuating around $2.00 per million Btu (MMBtu). In fact, when inflation is considered these prices actually fell in real terms. Since the winter of 2000–01, however, price fluctuations have been dramatic. Wholesale prices reached $10.00 per MMBtu in the winter of 2000–01, retreated to the $2.00 level the following winter, but approached the $10.00 level again in the winter of 2002–03. In 2005, prices rose throughout the summer, spiked sharply to about $15 MMBtu in response to the damage caused by multiple hurricane landings and an early cold winter. Prices, however, have fluctuated in the $4 to $6 range for most of 2006, with ample supplies available in

However, the cost of delivering that gas by PG&E is rapidly rising. Increases in gas delivery costs were proposed by PG&E and approved by the Commission for infrastructure and safety improvements to PG&E's natural gas transmission and distribution systems.[20] These improvements will be paid for with increased utility rates. This report supports PG&E in its efforts to improve the safety of its natural gas delivery facilities. Whether the costs expended for these safety improvements was reasonable is not the subject of GRC Phase I as these proceedings have been substantially concluded.[21] However, small businesses need PG&E natural gas rates to be less volatile than they have been in recent years.

The Commission itself is tasked with finding ways to reduce natural gas costs for Utility customers.[22] However, stability in natural gas rates should also be a priority of the Commission. In recent years natural gas rates delivery rates for small businesses have increased substantially. This increase is primarily in response to PG&E's request for natural gas pipeline

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storage. Natural gas prices declined sharply in 2008, and are below $4.00 in early 2009 in response to increased supplies and reduced economic activity.

Volatility at the wholesale level ultimately results in volatility at the retail level. A lack of predictability makes it very difficult for homeowners and businesses to budget and pay for their natural gas service. It also has negative impacts on gas utilities, resulting in unhappy customers, less demand for their service and greater uncollectible accounts. Natural gas utilities do not profit from volatile prices—payments for natural gas ultimately flow back to the producer of the gas, utilities earn a regulated return for shipping the gas. Gas utilities can, and do, ease some of the volatility faced by their customers through practices such as levelized billing, fixed price contracting and hedging of their gas supply portfolio."

[20] *See* **Exhibit 10** at www.pge.com/regulation/GasPipelineSafetyOIR/Pleadings/PGE/2011/GasPipelineSafetyOIR_Plea_PGE_20110907_217089Atch01_217090.pdf.

[21] *See* **Exhibit 11** at http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M040/K531/40531580.PDF; PRESS RELEASE Docket #: R.11-02-019 "SAN FRANCISCO, December 20, 2012 - "The California Public Utilities Commission (CPUC) today approved Pacific Gas and Electric Company's 2012-2014 Pipeline Safety Implementation Plan.

[22] *See* **Exhibit 12** at www.cpuc.ca.gov/NR/rdonlyres/A1561B40-16DE-4601-97AE-4E70F37E090D/0/SB695CPUCreport.pdf (Public Utilities Code Section 748 Report to the Governor and Legislature on Actions to Reduce Utility Cost and Rate Increases prepared May 2010, page 6): "In the coming year, the Commission expects to maintain natural gas utility rates at reasonable levels in the following manner: provide incentives to utilities to keep natural gas procurement costs low, allow expeditious approval of a diverse and reasonably-priced portfolio of interstate pipeline capacity, provide core customers with adequate amounts of natural gas storage capacity, and allow utilities to engage in efficient natural gas hedging practices."

improvements.[23] PG&E possesses large natural gas transportation and procurement abilities. As a major supplier of natural gas to the State of California, PG&E has a responsibility to secure stable natural gas rates for its small business customers.[24]

Small businesses are generally dependent on PG&E to provide low and stable rates for natural gas delivery. This is because small businesses have little opportunity to control the major cost components of natural gas delivery or easily provide themselves with stable and cost-effective alternatives. Small businesses do have the option to contract with natural gas aggregators to fix their natural gas commodity costs and simply pay natural gas transportation costs and other fees.[25] Typically, small businesses would use an aggregation service to either stabilize or lower their natural gas commodity cost. However, acting in groups with gas aggregators carries its own risks and rewards for small businesses and the actual cost savings are not likely to be significant unless the business purchases large amounts of gas. Also, there are few large companies which provide this service and most small business owners lack the time and expertise to research these companies and negotiate contracts to lower their costs.[26] This is because small businesses typically lack the expertise or desire to manage their own physical

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[23] *See* PG&E's Phase I rate filing (PG&E -1) 2-2: "Although the San Bruno accident involved gas transmission facilities that are not the subject of this rate case, the impact of that tragedy has profoundly changed the Company and the ways we are approaching the entire business, from our structure and staffing to our planning, programs, procedures and use of technology."

[24] *See* **Exhibit 12** at www.cpuc.ca.gov/NR/rdonlyres/A1561B40-16DE-4601-97AE-4E70F37E090D/0/SB695CPUCreport.pdf - Public Utilities Code Section 748 Report to the Governor and Legislature on Actions to Reduce Utility Cost and Rate Increases prepared May 2010, page 11
"PG&E procures natural gas for direct consumption by a large portion of residential and small business customers (commonly referred to as core procurement gas customers) and to supply PG&E-owned as well as third-party owned electric generation facilities which supply electricity to PG&E's bundled electric customers. To minimize costs of natural gas procurement and to meet reliability targets, PG&E purchases from various supply sources and also negotiates long-term contracts on a variety of transportation and storage systems. PG&E also employs financial hedging instruments to maintain cost stability and to limit the impact of spikes in natural gas prices on customer bills.

PG&E supports the implementation of initiatives that provide PG&E and its customers with expanded access to diverse supply regions for natural gas, such as the long-term transportation contracts on the proposed Ruby Pipeline. These transportation contracts, which were approved by the CPUC in 2008 and executed by the company in 2009, will provide PG&E customers with direct access to natural gas from the Rockies region beginning in 2011. PG&E also supports continued State energy policies and initiatives to expand and evaluate new options for natural gas supply, transportation and storage in order to effectively manage the costs of procuring natural gas for PG&E's customers."

[25] *See* **Exhibit 13** at www.pge.com/tariffs/tm2/pdf/GAS_SCHEDS_G-CT.pdf.
[26] *See* **Exhibit 14**, *supra.*(example of a natural gas aggregator advertisement).

natural gas purchases. Furthermore, PG&E employs the staff and owns the necessary infrastructure to properly manage natural gas commodity purchases. There are few aggregators or small businesses that can compete with the size and expertise of PG&E in terms of natural gas commodity purchasing. Therefore, many small businesses in PG&E's service territory are generally dependent on PG&E to provide low and stable natural gas commodity rates.

As for gas delivery, if a small business chooses to use natural gas in PG&E's service territory, they have no option other than PG&E for delivery and transportation.

PG&E has made some efforts to provide more predictable bills for small business customers. PG&E does provide a balanced payment plan to smooth out some of the volatility of natural gas costs for small business customers.[27] *However, this program doesn't do enough to keep natural gas rates stable and predictable for small businesses.*

This report recommends that PG&E create a one to three year fixed-price program for natural gas delivery to small business customers. Such a program will allow small businesses to benefit from a fixed $/therm rates for a three year time frame. The purpose of this program would be to allow small businesses to accurately predict their natural gas expenses based on their anticipated level of activity and expected future natural gas rate. This report recommends that the Commission require PG&E to approve $120,00 for a new staff position at PG&E to explore ways of reducing natural gas rate volatility specifically for small commercial, industrial, and agricultural customers. In the event funding for this position is otherwise unavailable, PG&E should be required to eliminate or decrease staffing elsewhere to secure the requisite funding.

A model for this program would be the U.S. postal service. The U.S. Postal service has created the "forever" stamp whereby costs to the customers are fixed no matter what the delivery

[27] *See* **Exhibit 26.** In response to an SBUA discovery request, PG&E stated that it offers a Balanced Payment Plan program to customers on gas GNR1 and electric A-1 and A-6 rate schedules. The Balanced Payment Plan program is designed to minimize the variations in monthly bills. Under the Balanced Payment Plan, the monthly bill amount is generally one-twelfth of the annual bill as estimated by PG&E, based on the customer's historical billings for the most recent year at the time of the calculation. Customers on GNR1, A-1 or A-6 rate schedules are typically small business customers.

rates are in the future.[28] This report recommends the study and implementation of the equivalent of a one to three year "forever" stamp for natural gas rates for small businesses. Implementing this program will eliminate PG&E's ability to pass on unlimited cost increases to small business customers in a short time-frame and will incentivize PG&E leadership to limit sudden cost increases.

6. PG&E Economic Development Programs Directly Dealing with California Small Businesses

PG&E proposes to participate in economic development programs,[29] and SBUA is concerned about the interests of small businesses on this issue. The current economic reality in California is that local governments who used to fund economic development projects are now looking for other sources of funding. This is partially because redevelopment funds have been cut and city finances are not as robust as they were before the current economic recession. These local governments are seeking to use PG&E as a replacement source of funding for these activities. The connection between PG&E and local organizations and local government is obvious because electric and water utilities are consulted in new development projects and business relocations. Also local governments are sometimes hesitant to raise new taxes to fund development projects. Thus PG&E is likely being requested by local governments to more actively participate in such activities. This situation and the needs associated with this situation are accurately depicted in PG&E's request.

PG&E states that: "To make California a more attractive place for businesses, the Customer Care organization partners with local governments on economic development and with businesses to help provide cost-effective energy solutions."[30] PG&E participates in meetings with local governments to bring small businesses into California. One major concern that small businesses have in moving to California is the cost of energy. To offset this disadvantage, local governments and Economic Development Organizations (EDO) may offer various incentives to these businesses; usually in the form of tax credits. However, EDOs may potentially offer discounts on electric and natural gas interconnection or even help paying energy costs. PG&E

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[28] *See* **Exhibit 15** at http://about.usps.com/news/fact-sheets/forever-stamp-facts.htm.
[29] *See* Exhibit (PG&E-5) pp. 7-17.
[30] *See* Exhibit (PG&E-5) pp. 1-3.

further asserts that local government and economic development organizations increasingly request PG&E to provide greater economic development support to promote local job creation and keep businesses within California due to ever-tightening public sector budgets and troubling economic conditions in impacted regions of PG&E's service area. PG&E also expresses its intention to increase its engagement with small and medium business customers. PG&E plans to take on an expanded role with economic development programs at the local and state level to help drive job creation in some of California's most economically depressed communities.[31]

To meet these demands of local government, PG&E proposes some specific measures. PG&E states Economic development project services assist customers by: (1) estimating costs and responding to customer inquiries associated with new utility services; (2) determining the service reliability and delivery options within a desired area; and (3) presenting other authorized PG&E Demand-Side Management incentives that will help lower the cost of expanding, relocating or continuing a business within PG&E's area.[32] PG&E proposes the Commission allow PG&E to fund an equivalent of 12 full-time employees and $1.5 million for EDO membership dues.

Local governments are requesting PG&E to be more actively participate in development projects, and PG&E should be responsive to these requests. This report encourages PG&E to help small businesses stay in California and supports PG&E's request as it believes the overall effect of PG&E's efforts will lead to more small business opportunities in PG&E's service territory. But I recommend certain restrictions and protections be added on the expenditure of the above-referenced $1.5 million. These funds should not be used by PG&E to fund, incentivize, or advocate for large business entities that could or threaten to displace already existing small businesses within PG&E's service territory. Specifically this report recommends PG&E not advocate for relocations of large businesses which would displace already existing small businesses within PG&E's service territory. If PG&E is able to use ratepayer money to benefit large businesses over small businesses in its own service territory, PG&E will have too

[31] *See* Exhibit (PG&E-5) pp. 1-21.
[32] *See* Exhibit (PG&E-5) pp. 7-19.

much influence in the community. Allowing these actions have the potential to make PG&E a feared entity in the small business community.

Also PG&E must work with small businesses in the same manner it works with large businesses. PG&E must act in a non-discriminatory fashion if it is to become more active in project development. Therefore, the Commission should direct PG&E to fund relocations of small businesses as well as large businesses in its service territory in a non-discriminatory fashion.

B. Enhance Contracting Opportunities for Small Businesses

1. Contracting Opportunities with PG&E for Small Business Electric Generators

SBUA supports opportunities for small electric generators in California. There are major hurdles for small business electric generators in PG&E's service territory. The first hurdle for a small electric generator is to find a buyer for the electricity it produces. As PG&E is a major purchaser of renewable energy, many generation companies now have an opportunity to sell electric generation to PG&E. PG&E proposes to continue to execute contracts under established CPUC-tariffed programs that provide a simple mechanism for small renewable generators to sell power and contribute towards helping meet California's renewable energy goals, such as through Feed-In Tariffs (FIT), and the Renewable Auction Mechanism (RAM). These programs allow PG&E to offer to purchase electricity from small electric generators. Where a new facility needs to be constructed, PG&E typically offers to buy electricity from the company once the project is constructed.

The second major hurdle for small business generators is that they face significant obstacles licensing and constructing their projects. Often PG&E has a timeframe in which these projects need to become operational and supply electricity to PG&E. Small businesses have fewer resources to navigate the complex regulatory and procedural processes necessary to get a generation project approved for construction than larger businesses. Small businesses also typically have problems with cost overruns. The net result is that PG&E may see these small business generators as unreliable suppliers and developers of electric generation.

PG&E has requested additional funding to address problems with small business generators. PG&E states that, "To meet this increased workload, two additional employees will be required by 2014 to: (1) perform contract milestone compliance monitoring; (2) identify and resolve potential counterparty disputes; (3) structure contractual settlement terms and conditions during the negotiation process; and (4) support other departments as projects achieve commercial operation and require administration over their respective delivery terms."[33] PG&E demands extensive contractual requirements from its small (and large) electric generators. In general PG&E is seeking additional funding to support electric generators in developing their projects and manage the contracts that PG&E has in place.

This report supports PG&E's request as it will improve PG&E's ability to award contracting opportunities for small electric generators. However, small business generators should not be subject to an overly complex contracting and negotiation process. Many of these small generation companies simply do not have a large enough economy of scale to absorb these high transactional costs. And the more unnecessarily burdened by these costs, the less likely small business renewable energy companies will be able to successfully participate. Because of the importance of small generators, this report recommends the Commission require PG&E to fund *one* additional full time position to support small electric generators in procuring electric supply contracts with PG&E.

2. *Carbon Credits and Offsets*

SBUA fully supports State efforts to reduce greenhouse gases and to promote alternative energy, and, by one means or another, supports measures for PG&E to meet the State's GHG compliance requirements and even exceed the mandated reduction of GHG levels. However,

[33] *See* (PG&E-6) pg. 5-9 and 5-10

PG&E should be mindful in how it implements carbon credits and offsets to ensure it maximizes opportunities for and minimizes any adverse impacts to small businesses.

Broadly speaking, California's implementation of AB 32, "California Global Warming Solutions Act" creates both opportunities but also challenges for the California small business community. In June 2009, Professors Sanjay B. Varshney and Dennis H. Tootelian (both of California State University, Sacramento) estimated that the cost to each small business of implementing AB 32 would average $49,691.[34] Nonetheless, CARB's conclusions are that California Small Businesses in the aggregate are not likely to be adversely affected by AB 32. CARB concluded the new GHG trading scheme which creates higher electricity and natural gas bills for all California customers would actually create jobs in California. According to CARB) staff, "the primary impacts on small business would come from changes in the price of energy".[35] It further concluded AB 32 is unlikely to have a significant adverse or disproportionate effect on California's small businesses. It stated "impacts on small businesses are less than those on the economy as a whole because small businesses are concentrated in sectors that primarily see only the indirect costs of AB 32. But in some sectors, such as wholesale trade and information, small businesses may expect to see an increase in employment and output as consumers invest in more efficient appliances and improve the energy efficiency of their homes." CARB further concluded that small business accounts for a smaller share of employment in energy-intensive sectors such as utilities (24 percent) and thus AB 32 would not harm small businesses in general. But this also means that AB 32 may disproportionately affect small businesses operating in energy-intensive sectors such as utilities.[36] Small businesses, including small electric generators who emit large amounts of Greenhouse Gases, will be disproportionately affected by AB 32. Small, energy intensive industries are likely to be greatly affected because they will have difficulty in passing on new costs.

PG&E expects to pass on the costs of AB 32 through to customers in rates through PG&E's Energy Resource Revenue Account (ERRA).[37] PG&E additionally advocates

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[34] *See* **Exhibit 16**.

[35] See **Exhibit 18:** Updated Economic Analysis of California's Climate Change Scoping Plan Staff Report to the Air Resources Board, prepared March 24, 2010, pg. 69.

[36] See **Exhibit 18 -** pg. 73 of ARB report.

[37] *See* Exhibit (PG&E-6) pp. 5-11.

returning all of the revenue from Carbon Allowances to customers.[38] These statements seem at odds with one another. However, one anticipated outcome of a free-allocation methodology based on benchmarks is that facilities that are more efficient than the benchmark may receive more allowances then they need to cover their compliance obligation. These cleaner facilities will be able to sell these excess allowances and generate a profit. Thus PG&E may have a surplus of Allowances in the early years, and then have to purchase Allowances and Offsets as restrictions on GHG emissions become more severe. However, all of these costs will be passed on to its customers, including small businesses. Thus, while PG&E can simply get more money through rates, small businesses have tougher challenges. The Commission should require that PG&E act to help mitigate this disproportionate regulatory impact on small businesses.

According to a Report entitled "Economic Opportunities for Small Business Under AB 32" created on October 18, 2010[39] there are opportunities for small businesses in California. The following new opportunities are likely to exist: increased demand for energy efficiency goods and services; enhanced consumer awareness of and interest in "green" products and services; more resources in the hands of consumers as a result of lower overall spending on energy; and increased investment in clean energy production and other technologies. Small businesses in California should have the opportunity to receive information from PG&E and possibly coordinate with PG&E in providing products and solutions relevant to this opportunity.

Of particular interest to adversely affected small businesses are opportunities small businesses may have in supplying PG&E and other entities with carbon offsets, or in managing carbon compliance. In (PG&E-6) 5-10 through 5-13 PG&E details its plans to implement its program to comply with California's AB 32 cap and trade regulations. PG&E proposes to add an additional 12 employees to "develop and execute strategies to facilitate GHG compliance for the natural gas sector." Here, the Commission should require that PG&E should first and foremost explore the services of small California businesses that specialize in the management of carbon credits and offsets rather than flatly rely on and hire 12 full time PG&E employees for these tasks. PG&E should issue a request for proposal for this work and determine if it would be less

[38] *See* **Exhibit 17** .
[39] *See* **Exhibit 19** at www.smallbusinessmajority.org/energy/pdfs/SBM-AB32-Report_101810.pdf

expensive than hiring 12 additional full-time staff, or at least to reduce the need to hire a portion thereof. This report further recommends the Commission require PG&E to give small businesses preferential treatment in supplying or purchasing carbon credits and carbon offset credits to PG&E as small businesses, especially in energy intensive sectors such as manufacturing or electric generation, are disproportionately affected by AB 32.

3. Request for PG&E to Fund a Position to Aid Small Businesses

PG&E proposes to create three additional full-time employees to provide dedicated resources and improved support in key opportunity areas for Supplier Diversity. Included in this proposal, PG&E proposes to create a position to help small businesses be included in PG&E's supply chain. PG&E proposes to create a position to support small businesses.[40]

This report finds that the creation of such a position would be especially useful to small businesses. PG&E has few programs specifically targeted at including small businesses in its supply chain, with the exception of small business which also qualify as diverse suppliers. PG&E proposes to add three full-time employees to improve support in key opportunity areas for Supplier Diversity. This increased need is justified due to the complexity and effort that small businesses are required to devote to filling out forms and meeting regulatory requirements necessary to secure contracting work with PG&E. Small businesses, including diverse small businesses, share many of these hurdles in attempting to perform work or supply goods to PG&E. For example, obtaining work at PG&E may require that a small business build a relationship with PG&E, prepare bids, become aware of contracting opportunities, submit forms, submit certifications, submit qualifications, and negotiate contract terms. Small businesses generally have fewer resources than larger businesses to secure contracting work at PG&E. Therefore, this report recommends that the CPUC allow PG&E to secure additional support in helping small businesses navigate the hurdles necessary to secure contracting work with PG&E.

[40] *See* Exhibit (PG&E-7) pp. 5-16 through 5-17: "One full-time employee dedicated to supporting and evaluating the inclusion of small businesses in PG&E's supply chain. The new position will help build strong strategic relationships within the community, identify potential contracting opportunities for small businesses within PG&E LOBs, and research and collaborate on the technical assistance support needed for that constituency group. Responsibilities will include: ensuring small businesses are included in contract bids across PG&E's LOBs (30 percent), researching small business capabilities in an effort to match them with potential projects or prime suppliers (30 percent), supporting the small business community through business matchmaking, panel discussions, presentations, and other outreach activity (20 percent), and measuring the economic development and job creation of working with small businesses (20 percent). "

This report further recommends that PG&E allocate sufficient funds to for a new staff position that extends support beyond exclusively serving small diverse businesses and instead encompass all small businesses.

This new position should track the progress PG&E makes in including small businesses in its supply chain. PG&E already has a group which tracks the health of its customer base. This new position should coordinate with that group to provide statistics on the number of small business electric customers in its service territory with minimal effort. [41] PG&E can provide some information on the number of small business natural gas customers in its service territory with minimal effort.[42] Since the vast majority of small businesses which are located in PG&E's service area are also electric customers of PG&E, this information would be helpful in determining the health of small businesses in PG&E's service territory.[43] Lastly, this position should be tasked with providing coordination with the CPUC Small Business Program.[44] These actions would help the public track the progress of small businesses in PG&E's service territory and determine their level of integration into PG&E's supply chain.

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[41] *See* **Exhibit 26** (PG&E may annually publish the number of small business electric customers in its service territory). According to PG&E, based on Rule 1 definitions in PG&E's Tariff Book found at www.pge.com/tariffs/, PG&E defines a small business customer as follows: A non-residential Customer who: (1) has a maximum billing demand of 20 kW, or less, per meter during the most recent 12 month period, or (2) has an annual usage of 40,000 kWh, or less, during the most recent 12 month period, or (3) meets the definition of a "micro-business" under California Government Code 14837. This definition does not include non-residential Customers who are on a fixed usage or unmetered usage rate schedule.

[42] *See* **Exhibit 26** (PG&E may annually publish the number of small business natural gas customers in its service territory). According to PG&E a non-residential Customer with annual gas usage of 10,000 therms, or less, per meter during the most recent 12 month period, or who meets the definition of a "micro-business" under California Government Code 14837. This definition does not include non-residential Customers who are on a fixed usage or unmetered usage rate schedule.

[43] Other small business identification criterion could also be used. PG&E generally uses a non-residential customer's annual energy usage or rate schedule to identify or classify a customer's size. Customer Energy Solutions, Exhibit (PG&E-5) Chapter 7 generally defines a customer as small commercial or industrial (CI) if annual electric usage is less than 40,000 kWh or annual gas usage is less than 10,000 therms. A customer is generally defined as small agricultural (Ag) based on their rate schedule (e.g. AG-1A).

[44] *See* **Exhibit 20**.

4. Funding for PG&E to Expand Its Supply Chain Sustainability Program

PG&E appears to have a broad supplier diversity program already in place. PG&E states in Exhibit (PG&E-7) 5-2, that sourcing's expenses are forecasted to increase by $6.4 million in 2014 compared to 2011, for a total forecast of $13.1 million. PG&E further states that the key drivers for this forecast include increases for: Supply Chain Sustainability ($0.6 million), Supplier Diversity Program ($0.7 million), Supplier Diversity Technical Assistance Program (TAP) ($1.0 million), labor and cost escalations ($0.8 million), and IT initiatives ($3.3 million). (As other interveners adequately represent diverse small businesses, this report will not analyze the efficacy or level of funding for supplier diversity initiatives.)

SBUA has particular interest in the Supply Chain Sustainability Program. PG&E proposes to expand its Supply Chain Sustainability Program to make its supply chain more "green." PG&E is also expanding its sustainability initiative to encompass other key elements of a socially responsible supply chain.[45] SBUA strongly supports the policy goals stated by PG&E. The Commission, however, should direct PG&E to help small businesses to compete in this program.

Small businesses face several challenges competing for work with PG&E under the Sustainability Program. The first potential adverse effect is that instituting such a program may increase the administrative burden of small businesses in competing for PG&E's business. For example, if small businesses must incur costs and expend energy to obtain PG&E certifications (such as verifying the small business uses no products not supported by the Sustainability Program), this could adversely affect the ability of small business to compete for business with

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[45] PG&E states in Exhibit (PG&E-7) pp. 5-10 that the Supply Chain Sustainability Program consists of a Green Supply Chain initiative. Working in collaboration with suppliers, academia and other utilities, PG&E is taking a systematic, long-term approach of driving continuous improvement in its supply chain for the purpose of supporting the Company's goal of environmental leadership in its operations. PG&E plans to expand this program. PG&E states that it plans to expand this program in Exhibit (PG&E-7) 5-11 to include three additional employees. PG&E plans to have these employees heighten awareness of issues such as conflict minerals, slave labor and working conditions in its extended supply chain. Additionally PG&E proposes to use these additional workers to: Measure and manage supply chain environmental impacts, conduct informed procurement decision-making by supply chain staff, increase transparency on performance goals, and identify greenhouse gas (GHG) and cost reduction opportunities.

PG&E. The second potential adverse effect is that the new sustainability criterion itself could exclude small businesses from some competitive solicitations. By expanding this program, PG&E is stating that it will use additional criterion in selecting which businesses it will do business with. Implementation of this program would create confusion as to how a small business can be successful in soliciting providing goods and services to PG&E's supply chain.

To address these concerns, this report makes the following recommendations: First, this report recommends that small businesses receive an expedited application and approval process for certification in bidding on work with PG&E. Second , this report recommends that PG&E create a clear set of selection criterion for contracting opportunities with PG&E so small businesses will know whether it would be appropriate for them to compete for specific contracting opportunities with PG&E. The Commission should also direct PG&E to include that the status of being a small business in California as a favorable factor in selection for contracting opportunities with PG&E.

5. Health Care Costs

Small businesses have an interest in what PG&E believes health care costs are likely to be in California in the 2014-2016 time frame. An active topic in the small business community is the impact of the Affordable Health Care Act on health care costs for small business employees. SBUA has chosen to briefly intervene on this issue to inform the Commission on the effects of the Affordable Health Care Act on the small business community currently doing business with PG&E. This report concludes additional funding will be needed for PG&E to continue to integrate small businesses affected by this legislation into its supply chain.

As many small businesses are aware, the Affordable Health Care Act is set to create new challenges for businesses in California in the 2013-2015 time frame. In general, employers with 50 or more full-time employees must provide health insurance.[46] Employers with less than 50 employees do not have a penalty for not providing health insurance, but will receive tax incentives to do so. PG&E employs well over 50 employees and provides health insurance to all

[46] *See* **Exhibit 23 -** "The Three Things Small Businesses should know about the Affordable Health Care Act"; http://www.smallbusinesscalifornia.org/SBA%20Launches%20Affordable%20Care%20Act%20Web%20Page%20&%20Blog.pdf.

of its full-time employees. Less certain are the actual costs which will be incurred by small business and the overall impact on worker productivity.

The labor costs for small businesses providing goods and services to PG&E are likely to increase, and thus sufficient funding must by made available to PG&E to cover these costs. The costs are likely to affect PG&E costs in two ways. PG&E employs 1.) a contingent workforce (sometimes employed by small businesses) and 2.) small businesses to perform some necessary services or supply goods. Both of these concerns, will very likely have increased labor costs as a result of this legislation and its implementation. The Commission should note that small businesses cannot simply request increased revenues to meet the demands of the Affordable Health Care Act. This report concludes that costs for small businesses doing business with PG&E will increase. Consequently, the Commission must increase rates sufficient to cover work which PG&E plans to contract out to small businesses.

Labor cost increases for some small businesses are likely to be substantially similar to PG&E's increased labor costs. PG&E proposes to escalate medical benefits costs by 8.4% in 2015 and 8.2% in 2016. DRA recommends that the medical benefits costs be escalated by 6.4% in 2015 and 6.3% in 2016. DRA's recommendation is consistent with PG&E's proposed medical escalation rates of 5.4% for 2012, 6.4% for 2013, and 5.4% for 2014.[47] Both of these estimates exceed expected levels of inflation during this period. These increased costs reflect the likelihood that insurance companies will pass on new costs to employers. Since PG&E and DRA are forecasting such a large increase in medical benefits, it is reasonable to assume small businesses will similarly incur increased labor costs as a result of increased health care costs.

[47] *See* DRA Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2014 - Pg. 26 & 27.

C. Increase Incentives for PG&E Staff to Help the Small Businesses Community.

1. PG&E's Short Term Incentive Plan and other employee reward programs

DRA generally opposes funding for aspects of the "Financial Performance Metrics" portion of PG&E's Short Term Incentive Plan (STIP).[48] As far as Financial Performance, ratepayers only benefit from having PG&E spend less than it is allocated while still performing the necessary levels of work required. DRA does not want ratepayers to rewarding customers for "Earnings from Operations." Generally, "Earnings from Operations" is an incentive appropriate for PG&E shareholders and not necessarily PG&E ratepayers. This report agrees with DRA's position and requests that if ratepayers are to fund the STIP, it must be for actions which benefit ratepayers. Instead this report recommends that a portion of the Financial Performance Metric be replaced by a different category as will be discussed below.

PG&E states in (PG&E-8) 5-2 that STIP is a program established each calendar year (Plan Year) by the Compensation Committee of the PG&E Corporation Board of Directors (Compensation Committee). The program provides eligible employees the opportunity to earn annual cash payments based on their individual performance and the Company's achievement of specified performance goals measured over the Plan Year. STIP is an incentive-based compensation component of employee salary. As such, the goals which PG&E chooses reward have the potential to motivate and affect employee behavior. PG&E shows in (PG&E 8) 5-4 (Table 5-1) that payments will be based on: Public Safety (24%), Employee Safety (16%), "Customer Focus Measurements" 30%, and Financial Performance Metrics 30%. PG&E has chosen to strongly reward public safety and employee safety. PG&E has also chosen to reward customer focus metrics such as customer satisfaction including PG&E's SAIDI score improvement[49] and progress in mapping PG&E assets. Lastly PG&E rewards employees, essentially, for controlling spending and good financial stewardship.

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[48] *See* DRA testimony16 HR Expenses pp. 9-14.
[49] *See* www.cpuc.ca.gov/PUC/energy/ElectricSR/Reliability/annualreports/2011.htm.

SBUA has chosen to intervene on this issue as it has the potential to change the culture at PG&E to benefit small businesses. Small businesses would prefer low-cost, reliable, and safe electric and natural gas service from PG&E. PG&E's goals are generally in line with what small businesses would prefer. However, PG&E should further incentivize employees to aid the financial and social welfare of their communities. This report recommends that a portion of the STIP program allocated to "Financial Performance" should be reallocated to other incentives. PG&E has over 20,000 employees, many of whom have contact with the customers in PG&E's service territory. 5% of the ratepayer funded STIP allocation should be tied to PG&E's contribution to its community. Potential additional measures which should be included are the number of employee volunteer activities and the financial health of businesses, including small businesses, in its service territory. Doing so would provide PG&E employees to have a true stake in the economic and social welfare of the communities in which they serve.

PG&E and other interveners may oppose this recommendation on the basis that PG&E employees should not be rewarded based on metrics outside of their sphere of influence. For example if the economy in California is doing poorly, PG&E employees should not lose their STIP allocation. Conversely, if California's economy is improving, PG&E should not necessarily be awarded their STIP allocation if they did not contribute to California's success. However, PG&E is currently rewarding its employees based on the success of PG&E in making money and staying under budget. This does not incentivize PG&E employees to contribute to the welfare of small businesses in PG&E's service territory. Small businesses would be better served if PG&E employees were incentivized to provide better service to small businesses, provide lower rates so businesses can grow, and volunteer in their communities. If PG&E employees do these things, it will contribute slightly to the overall welfare of the small business community and they will be indirectly rewarded.

The Commission should reward PG&E em ployees for being good members of the community in which they serve. Therefore, ratepayer funded STIP reward for "Financial Performance" should be decreased by 5%. Having a healthy economy in California benefits PG&E ratepayers. Having low rates and good levels of electric and natural gas service are crucial to the success of small businesses in California. Since the bonus is paid by ratepayers, the

Commission should also consider provide some oversight of the STIP allocation or take a more active role in awarding the STIP money.

PG&E already has the capability calculating its impact on the economy in its service area. PG&E has an economic vitality program, so no additional positions should be created to calculate the economic improvement portion of this proposed STIP allocation of 5%. PG&E states that the "Economic Vitality" team focuses on the following programs and initiatives: (1) measuring, communicating, and benchmarking the economic impacts of PG&E's core business on the communities it serves; (2) establishing goals for PG&E to enhance the percentage of annual spend directed toward small and minority-owned businesses in local communities where the Company does work and invests in infrastructure; (3) reporting on enterprise-wide economic impact metrics and initiatives through an annual Corporate Responsibility and Sustainability Report; (4) leading a Companywide team to assess and enhance economic development offerings for customers and further integrate policies and programs into PG&E's business strategies that support economic growth in our service area; and (5) working with external stakeholders to develop, track, and benchmark key Companywide economic impact performance metrics, obtain feedback, and identify emerging issues, risks, and best practices.[50]

Since PG&E is already tracking economic metrics in its service area, why not reward employees for their contribution to help grow California businesses and the economy? Since PG&E already has this capability, no additional funds should be necessary to fund this initiative. This report recommends that calculation of this metric be assigned to existing employees working on the Economic Vitality team.

Separate from the STIP issue is the issue of non-cash rewards that PG&E gives to its employees. DRA recommends that the non-cash rewards program of PG&E be eliminated altogether.[51] DRA further concludes that rewards and recognition program provides no benefit to ratepayers and are not necessary to utility operations. I recommend a neutral position on non-cash rewards as it does not see the program as a major issue to small businesses in this proceeding.

[50] *See* Exhibit (PG&E-9) pg. 9-10.
[51] *See DRA expert testimony* DRA-1 Executive Summary pg. 12

D. Deny Funding for Certain Advertising Costs.

1. PG&E advertising and lobbying activities

Small businesses would like to see PG&E act as a friendly and helpful utility rather than a corporate entity. Small businesses as well as all ratepayers appreciate PG&E's charitable activities as well as its positive involvement in business and utility coordination groups. This report recommends that the Commission continue to ratepayer funding for such activities.

However, PG&E operates as a business as we ll as a Utility. PG&E has a substantial public relations and lobbying presence which acts to further the interests of PG&E as a profit making entity. Such lobbying and advertising can lead to contradictory positions which make PG&E look more like a corporate entity than a helpful utility. One need only look to PG&E's "Currents" website for examples of PG&E trying to influence public opinion in contradictory ways. In a web article dated August 3, 2010 PG&E published an article, seeking to document information about global subsidies to the fossil fuel industry in comparison to subsidies offered by governments to the renewable energy sector. The article starts out by saying BP took government tax incentives such as "a $32 billion write-off for cleanup costs–saving $10 billion on its tax bill and incurring the wrath of many members of Congress who are now moving to amend the tax laws."[52] The San Bruno Pipeline explosion occurred one month later on September 9, 2010, and now PG&E is publishing articles with a different message. Fast forward to May 6, 2013 and the new CEO of PG&E published an article, "PG&E 'Deeply Concerned' about Proposed San Bruno Fines".[53] Should PG&E be issued a fine, it is likely PG&E would try to write-off the expenses, and this action would likely be in the interest of both PG&E ratepayers and shareholders. This report makes no judgment about the merits of any CPUC penalties involving San Bruno. The point here is that PG&E is a very sophisticated company which may use advertising and lobbying money to further its own self-interest. PG&E shouldn't use ratepayer money to fund this type of public relations and lobbying.

[52] *See* **Exhibit 21**.
[53] *See* **Exhibit 22**.

As another possible example of inappropriate use of ratepayer money, DRA sent requests to PG&E[54] to identify $10M in advertising PG&E did after the San Bruno Gas Explosion. To the extent PG&E has put public safety and thus its PG&E corporate brand at risk, PG&E shareholder funds should be used to repair its corporate brand. It is inappropriate for ratepayers to subsidize PG&E brand advertising. One reason PG&E's use of ratepayer funding is inappropriate is that spending large amounts of money on advertising influences local media and its coverage of PG&E. Also PG&E as a corporate entity must be held publicly and financially responsible for its decisions. If PG&E acts against the public interest or small businesses interests, PG&E shareholders should bear the consequences of PG&E's decisions. That is the best way to motivate leaders at PG&E to act in the public interest. Most small businesses would rather that their rates go toward PG&E providing service rather than acting as an active for-profit corporate entity.

That is not to say other types of useful advertising such advertisements for new PG&E programs which customers can take advantage of may be appropriate. The Commission should deny PG&E the right to use ratepayer funding for future brand advertising not specific to a utility program or other utility purpose. Should PG&E ever advertise or lobby against the interest of small business PG&E shareholders should pay the cost of such advertising. I have searched for instances of PG&E lobbying against small business interest and did not find a direct example. Therefore, specific recommendations on this topic are unnecessary as PG&E does not appear to be acting inappropriately in this regard.

F. General Recommendations – Proposed Overall Revenue Increase by PG&E

My recommendation is that SBUA not oppose a modest increase in PG&E revenue due to anticipated inflation and anticipated investments for all categories of work. However, I reserve the right to further comment on the overall revenue requirement if and to the extent that the proposals in this report are contested for lack of funding or otherwise.

[54] *See* Appendix 3 & 4 DRA-1 Executive Summary

1. Overall Revenue Request

SBUA does not wish to duplicate efforts by ot her interveners. Therefore, rather than provide a comprehensive analysis of electric rate increase proposals, this report will provide a brief analysis of issues especially relevant to the small business community.

a. Electric Distribution Revenue Request

PG&E is requesting a 2014 electric distribution revenue requirement of $4,355,000,000. This amount reflects PG&E's forecast to own, operate and maintain the electric distribution system, including the portion of the transmission system that provides service directly to end-use customers and to interconnect generation resources. This represents a $587,000,000 increase relative to currently authorized electric distribution revenues for 2014.[55] The reasons stated for the electric revenue increase include technology upgrades, system automation, labor force increases, and other increases. According to DRA's testimony, PG&E's 2014 Present Revenues with Current Rate of Return for Electric Distribution is $3,650,000,000[56]. PG&E is requesting $4,355,000,000 in revenues for 2014, $4,589,000 in revenues for 2015, and $4,835,000,000 in revenues for 2015.[57]

The substantial rate increases requested for electric distribution is unwarranted. First, PG&E forecasts a substantial increase in customer growth in California.[58] As shown in (PG&E-4) Figure 9-1, PG&E expects a drastic increase in new residential connects. It is unlikely that this level of customer growth will take place given current economic conditions in California. SBUA did not receive discovery responses from PG&E which affirm that this estimate is well-supported. At this time the estimates look overly optimistic and potentially unsupported. Second, taken as a whole, PG&E's electric distribution & transmission systems remain substantially the same as in previous years. Notable recent changes are that new Smart Meters have been installed and must be supported, greater levels of new types of interconnection makes electric distribution more difficult, and changing electric uses may make electric delivery more

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[55] Exhibit (PG&E-1) pp. 5-1.

[56] *See* Table 1-2, page 3, DRA Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2014 Executive Summary.

[57] *See* Table 1-5 , page 6, DRA Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2014 Executive Summary.

[58] *See* Exhibit (PG&E-4) Figure 1-2.

difficult. However, the costs for Smart-Meters are substantially supported by decisions approved by the Commission in separate proceedings. There is not substantial value to small businesses in allowing such a large increase in revenues for electric distribution. Therefore, the Commission should approve only a modest increase to PG&E revenues to support PG&E electric distribution & transmission.

b. Electric Generation Revenue Request

PG&E requests a 2014 generation revenue requirement of $1.946 billion to own, operate and maintain its fossil, hydroelectric, and nuclear generating facilities, and a portion of its photovoltaic (PV) facilities, as well as to purchase electricity for its bundled service electric customers. This represents a $209 million increase to currently authorized generation revenues for 2014.[59] Some of this increase is warranted as PG&E has installed new generation facilities. PG&E must pay for the operating costs associated with 1,400 MW of three new natural gas-fired conventional power plants, as well as PG&E's new Vaca Dixon PV facility and three fuel cell facilities installed in the Bay Area.[60] PG&E requests money to comply with additional regulatory requirements for Nuclear Generation and Hydroelectric Generation. This report supports rate increases necessary to support PG&E's newly constructed electric generation facilities and declines to opine on the funding issues concerning Diablo Nuclear Power Plant.

2. *Electric Rate Increase*

PG&E does not define small businesses per se but generally recognizes the need to serve the specific needs of small businesses. This report seeks to identify exactly how electric rate increases are likely to affect these small businesses in PG&E's service territory and consequently the Phase I justification of revenue. In an effort to identify electric rates which affect small businesses, SBUA requested that PG&E specify which rate categories small businesses are most likely to use. PG&E responded that the following schedules would be most applicable: Schedule A-1: general service seasonal; Schedule A-1 TOU: general service TOU; Schedule A-6[61]:

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[59] *See* Exhibit (PG&E-1) 5-1 through 5-3.
[60] *See* Exhibit (PG&E-6) pg. 1-25.

[61] *See* www.pge.com/tariffs/rateinfo.shtml; ELECTRIC SCHEDULE A-6 SMALL GENERAL TIME-OF-USE SERVICE (less than 499 kw) This time-of-use schedule applies to single-phase and polyphase alternating-current service (for a description of these terms, see Section D of Rule 2*). This schedule is not available to residential or

general service TOU Schedule A-15: and direct current service Schedule TC-1: traffic control. It is SBUA's understanding that the following rate schedules may also be applicable to small businesses in PG&E's service territory: Electric Schedule A-10[62], Electric Schedule E-19[63], Electric Schedule E-20[64], and Electric Schedule AG-4[65]. Additionally, some small businesses in their infancy may be paying residential electric rates.

In an effort to generalize the usage of small businesses in PG&E's service territory, SBUA requested that PG&E provide an estimate of the average electric usage of a small business in PG&E's service territory. PG&E's estimate was that the average electric usage of a small business in PG&E's service territory was 19,000 kWh per year. This usage is an average and the actual usage of small businesses may vary considerably. PG&E has very complicated rate schedules which apply to many small businesses. Because of this complexity it is very difficult

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agricultural service for which a residential or agricultural schedule is applicable, except for single-phase and polyphase service in common areas in a multifamily complex.

[62] *See* www.pge.com/tariffs/rateinfo.shtml: ELECTRIC SCHEDULE A-10 MEDIUM GENERAL DEMAND-METERED SERVICE (less than 499 kw) Schedule A-10 is a demand metered rate schedule for general service customers. Schedule A-10 applies to single-phase and polyphase alternating-current service (for a description of these terms, see Section D of Rule 2*). This schedule is not available to residential oragricultural service for which a residential or agricultural schedule is applicable, except for single-phase and polyphase service in common areas in a multifamily complex (see Common-Area Accounts section). Under Rate Schedule A-10, there is a limit on the demand (the number of kilowatts (kW)) the customer may require from the PG&E system. If the customer's demand exceeds 499 kW for three consecutive months, the customer's account will be transferred to Schedule E-19 or E-20.

[63] *See* www.pge.com/tariffs/rateinfo.shtml: ELECTRIC SCHEDULE E-19 MEDIUM GENERAL DEMAND-METERED TOU SERVICE (499 kw - 999 kw). PG&E proposes to change the rate from 13.892 cents/kwh to 14.730 cents/kwh, which is an increase of 6%. A customer must take service under Schedule E-19 if: (1) the customer's load does not meet the Schedule E-20 requirements, but, (2) the customer's maximum billing demand (as defined below) has exceeded 499 kilowatts for at least three consecutive months during the most recent 12-month period (referred to as Schedule E-19). If 70 percent or more of the customer's energy use is for agricultural end-uses, the customer will be served under an agricultural schedule. Schedule E-19 is not applicable to customers for whom residential service would apply, except for single-phase and polyphase service in common areas in a multifamily complex (see Common-Area Accounts section).

[64] *See* www.pge.com/tariffs/rateinfo.shtml: ELECTRIC SCHEDULE E-20 SERVICE TO CUSTOMERS WITH MAXIMUM DEMANDS of 1000 KILOWATTS or MORE (Above 999 kw) PG&E proposes to change the rate from 11.517 cents/kwh to 12.119 cents/kwh, which is an increase of 5.2%. A customer is eligible for service under Schedule E-20 if the customer's maximum demand (as defined below) has exceeded 999 kilowatts for at least three consecutive months during the most recent 12-month period. If 70 percent or more of the customer's energy use is for agricultural end-uses, the customer will be served under an agricultural schedule.

[65] *See* www.pge.com/tariffs/tm2/pdf/ELEC_SCHEDS_AG-4.pdf: A customer will be served under this schedule if 70% or more of the annual energy use on the meter is for agricultural end-uses. A customer is eligible for default when 1) it has at least twelve (12) billing months of hourly usage data available, and 2) it has measured demands equal to or exceeding 200 kW for three (3) consecutive months during the past 12 months.

for most small businesses to determine what their electric rates are likely to be in a given month. Part of this complexity is due to "time-of-use" rates whereby electric usage is charged different rates at different times of the day. From a policy perspective "time-of-use" rates are preferable as they incentivize businesses to reduce electric usage in time of high demand. However, the complexity of the billing is a source of frustration for the small business community.

PG&E itself describes the current electric rate structure as "broken"[66]. Further complicating the matter is that some communities have decided to use Community Choice Aggregation within PG&E's service territory. Based on examining these rates against typical small business usage, the electric rate increases PG&E proposes will not affect small businesses in a uniform manner. However, there are a few issues common to all small businesses relevant to GRC Phase I. Steady and predictable electricity rates are important for the success of small businesses as they must manage their budgets. Most small businesses desire low electricity pricing, predictable bills, and reliable electric service.

One concern for small businesses is that differences in electric rates not be unduly burdensome on the small business community. In general, smaller entities are charged larger electric usage rates relative to larger entities. The likely reason for this is that the cost to PG&E of interconnecting customers is better offset by customers with large electric usage. However, this discrepancy in price must not be unduly harmful to small businesses. The necessity for a price discrepancy must be justified and balanced against the needs of small businesses to compete with larger businesses. Large businesses already enjoy many benefits of the economies of scale independent of electric rates.

3. Natural Gas Rate Increase

One concern of small businesses in PG&E's service territory is that differences in natural gas rates not be unduly burdensome on small businesses relative to larger businesses. Smaller businesses are likely to use smaller amounts of natural gas. This report recommends the Commission deny natural gas rate changes which would put small businesses at a competitive disadvantage with larger businesses in PG&E's service area. PG&E proposes to increase the

[66] *See* **Exhibit** 7.

Small Commercial (Non-CARE) rate for bundled natural gas service from $0.966/therm to $1.079/therm[67]. This represents an increase of 11.7% for Small Commercial customers. By comparison, PG&E proposes to increase the Large Commercial (Non-CARE) rate for bundled natural gas service from $0.751/therm to $0.794/therm. This represents an increase of 5.7%. If the proposed rate increase is approved, small commercial customers will pay $0.285/therm more than larger commercial customers. For illustrative purposes 0.285/therm is 26.4% of the new G-NR1 rate, which is a significant percentage.

This report also seeks to identify exactly how natural gas delivery rate changes are likely to affect these small businesses in PG&E's service territory. Because small businesses in California are so diverse, it is difficult to represent the needs and interests of all small businesses. In an effort to identify natural rates which affect small businesses, SBUA requested PG&E to provide the average natural gas use of a small business in PG&E's service territory. PG&E stated that a small business on Rate Schedule G-NR1 is estimated to use an average of 287 therms per month.[68] SBUA also requested that PG&E provide the average price paid for natural gas in therms/month for a small business in PG&E's service territory. PG&E responded that a small business on Rate Schedule G-NR1 is estimated to pay an average of $1.079 per therm.[69] SBUA requested that PG&E provide an approximation of the number of small businesses which are provided natural gas delivery in PG&E's service territory. PG&E responded that there are an estimated 199,689 bundled small business G-NR1 customers in PG&E's territory. These responses are helpful in understanding how small business natural gas delivery needs are met by PG&E. However, small businesses vary in the rate schedules that they are charged, and the quantity of natural gas that these businesses use.

Similarly, PG&E proposes to increase the Natural Gas delivery Core Retail - Transportation only price for small commercial customers from $0.436/therm to $0.549/therm an increase of 25.8%. By comparison, the proposed increase for the Natural gas delivery Core Retail - Transportation only price for large commercial is from $0.261/therm to $0.305/therm.

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[67] *See* Exhiit (PG&E-10) TABLE 7-2 (7-7).

[68] *See* the workpapers supporting Exhibit (PG&E-10), Chapter 7, WP 7-16, line 27, column E.

[69] *See* the workpapers supporting Exhibit (PG&E-10), Chapter 7, WP 7-16, line 26, column E.

This represents an increase of 16.5%. If the proposed rate increase is approved, small commercial customers will pay $0.244/therm more than large commercial customers. For illustrative purposes $0.244/therm is 44% of the new Natural Gas deliver Core Retail - Transportation only price for small commercial customers, which is a very high percentage.

The likely reason for this discrepancy in rates is that PG&E must recover the costs of interconnecting customers to PG&E natural gas delivery and maintaining that connection. PG&E is better able to recover the cost of interconnection of a large commercial entity because the cost of interconnection is better offset by revenue from purchases of large quantities of natural gas. Taken as a whole, small businesses may be more expensive to PG&E because the costs of gas connection and service is better offset by larger natural gas usage by larger businesses. However, this unequal increase must be justified, explained, and balanced against the need to assist small businesses which are the engine of growth in California. This report sought to determine whether the rate discrepancy was justified.

Under PG&E's Small Commercial Rate G-NR1: the total revenue in 2011 was $526,415,000, PG&E's 2012 natural gas sales forecast was $792,357,000, and PG&E's illustrative estimate of 2012 distribution-level functions are $240,750,000. [70]

Under PG&E's Large Commercial Rate G-NR2: the total revenue in 2011 was $32,578,000, PG&E's 2012 natural gas sales forecast was $74,543,000, and PG&E's illustrative estimate of 2012 distribution-level functions are $7,778,000.[71]

This means that PG&E distribution functions for small commercial are 30.38% of the average annual sales whereas they are 10.4% for large commercial customers. As the distribution-level function numbers in PG&E's testimony are just illustrative, this report sought to verify the costs of gas interconnection for small and large businesses. In order to better inform the Commission, SBUA has requested to see the average cost of interconnection for small

[70] *See* **Exhibit 8.**
[71] *See* PG&E's Application Tables 16-1 and 16-2.

commercial customers; however, PG&E did not provide a relevant response as of the date of completion of this report.

The Commission should not allow PG&E to create natural gas rates which provide an advantage for large businesses over small businesses. Therefore, this report recommends parity between the increase in natural gas delivery rates for small business customers and large business customers.

APPENDIX 1 - STATEMENT OF QUALIFICATIONS

Michael Brown has worked in the electric and natural gas utility industry for more than 7 years and is an expert in his field. He has worked for both private and public utilities in California with roles as program manager, supervisor of electricity resources, and project analyst. I am currently a consultant and expert at Cleantech Law Partners, P.C., and in that capacity submit my expertise on behalf of Small Business Utility Advocates.

Mr. Brown acted as a supervisor of resources for the acquisition of electric power generation, electric distribution, electric transmission, and natural gas purchasing (commodity transactions) and has worked in project management for the maintenance, construction, and licensing of electric power plants. His day-to-day experiences include: natural gas purchasing and creating resource plans for electric utilities; managing construction and licensing projects related to electric generation and transmission assets; and negotiating and participating in utility agreements and energy projects. Mr. Brown has previously supervised advocacy actions on matters before the commission in the role of supervisor of electric resources. He also has submitted several patents in the field of energy and is a published contributor in the area of legal analysis of weather modification programs for the purpose of electric power generation.

Prior to working in the electric and natural gas utility sector, Mr. Brown worked for small businesses to help them design products and new inventions, primarily in PG&E's territory and in Silicon Valley. Thus, in addition to his utility expertise, Mr. Brown provides experience as an innovator and startup entrepreneur in the small business community.

Mr. Brown has a J.D. from University of San Francisco School of Law and a B.S. in Industrial Engineering from California Polytechnic University of San Luis Obispo. His credentials also include: APICS CPIM-Detailed Scheduling and Planning certification 11/22/03; APICS CPIM-Basics of Supply Chain Management Certification 3/15/03; Project Management Mastery (PMI institute 5/29/08); Engineer-In-Training (119825) 6/04.