

March 18, 2003

**Advice 2357-E
(Pacific Gas and Electric Company ID U39 E)**

Public Utilities Commission of the State of California (CPUC)

**Subject: Advanced Metering Project – Pilot Program, Residential and
Small Commercial Customers – EXPEDITED APPROVAL
REQUESTED**

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariffs, for expedited approval. The affected tariff sheets are listed on the enclosed Attachment I.¹

Purpose

The purpose of this filing is to establish Preliminary Statement CS - *Advanced Metering and Demand Response Account* (AMDRA) in compliance with Decision (D.) 03-03-036, Ordering Paragraph (OP) 8. The purpose of this account is: "recording and recovering the incremental, one-time set up and on-going Operating and Maintenance (O&M) and Administrative and General (A&G) expenses incurred to develop and implement, or in reasonable anticipation of implementing, the demand response programs adopted in Phase I of this proceeding."² Further, PG&E proposes to revise Preliminary Statement CP – Energy Resource Recovery Account to record the incentive payments associated with Phase 1 demand response programs, pursuant to D 03-03-036, OP 10.

Background

In June 2002, the Commission issued Rulemaking (R.) 02-06-001. The purpose

¹ PG&E reserves all legal rights to challenge the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, PG&E reserves any additional legal rights to challenge the requirement to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.

² Decision 03-03-036, Ordering Paragraph (OP) 8

of the rulemaking is to provide a forum to establish comprehensive policies to: (1) develop demand flexibility as a resource to enhance electric system reliability; (2) reduce power purchase and individual consumer costs; and (3) protect the environment. The intended result is that customers will have a diverse array of options and choices through which they can make their demand-responsive resources available to the electric system.

The rulemaking is divided into multiple phases. In addition, there are three working groups – Working Group (WG) 1, composed of agency decision-makers; WG 2, composed of active parties interested in developing demand response programs for large customers (greater than 200 kilowatts); and WG 3, composed of active parties who are interested in developing demand response programs for small commercial and residential customers.

On December 10, 2002, WG 3 filed its report, “Proposed Pilot Projects and Market Research to Assess the Potential for Deployment of Dynamic Tariffs for Residential and Small Commercial Customers” (WG 3 Report).

WG 3 proposed a California statewide pricing pilot (SPP) to test demand response of small customers to dynamic rates. On March 13, 2003, the Commission issued D. 03-03-036 in which it adopted the SPP, with modifications.

The SPP as adopted by the Commission will continue through December 31, 2004, and will measure the impact of three specific time-varying rates on customer electric consumption and coincident peak demand: Time of Use (TOU) rates; fixed critical peak pricing (CPP) rates; and variable CPP rates.

There are significant costs, both fixed and variable, associated with implementing the SPP. The costs include assessing, acquiring, deploying, installing, operating and maintaining advanced metering technologies (including directly-related communications hardware, billing systems, and measurement data collection software enhancements), and all incremental costs of designing, implementing, and marketing the SPP. Out of necessity, starting soon after issuance of the WG 3 report, the investor owned utilities (IOUs) commenced preparatory work in several of these areas in anticipation of the Commission’s adoption of the SPP.

Preliminary Statements

Advanced Metering and Demand Response Account (AMDRA)

Ordering Paragraph 8 of D. 03-03-036 requires establishment of the AMDRA “for the purpose of recording and recovering the incremental, one-time set up and on-going Operating and Maintenance (O&M) and Administrative and General

(A&G) expenses incurred to develop and implement, or in reasonable anticipation of implementing, the demand response programs adopted in Phase 1 of this proceeding.” Ordering Paragraph 8 authorizes the following costs to be recorded in the AMDRA related to the SPP:

- “1. Market research prerequisite to SPP implementation;
2. Development of rate, information, and technology treatments for various SPP cells;
3. Sample design for various SPP cells;
4. Miscellaneous pilot design refinement and implementation activities;

The Commission also authorizes the costs of any “appreciation bonuses” paid to customers participating in the SPP to be recorded in the AMDRA (D. 03-03-036, footnote 22 and Finding Of Fact (FOF) 28.

Finally, OP 8 also authorizes cost recovery for: “Development of systems for billing and implementing tariffs and programs for large customers; and Miscellaneous large customer tariff refinement and implementation activities reasonably necessary to ensure timely implementation of large customers tariffs and programs approved in the Phase I decision.”

Accordingly, PG&E proposes the attached new Preliminary Statement CS – *Advanced Metering and Demand Response Account (AMDRA)*.

Energy Resource Recovery Account

Incentive payments associated with Phase 1 demand response programs will be recorded in the Energy Resource Recovery Account (ERRA). The attached Preliminary Statement Part CP – ERRA is revised to include the demand response program incentives paid to customers, pursuant to D. 03-03-036, OP 10.

Related Cost Recovery Topics

Capital Costs

Decision 03-03-036 approves cost recovery for capital additions. Under OP 9 of D. 03-03-036, the Commission approves such capital additions as authorized additions to utility plant and the associated annual revenue requirement, including return on and of the capital addition, is authorized to be included in PG&E’s total revenue requirement charged to customers. PG&E will include this revenue requirement in the annual advice letter filing on AMDRA.

Annual Amortization

Each year's recorded O&M and A&G costs would be recovered in the subsequent year via an annual advice letter filing, which effectively adds these costs to the IOUs' annual revenue requirement, using adopted cost allocation and rate design parameters (D. 03-03-036, Section IV.C). PG&E intends to consolidate annual adjustments to its revenue requirement resulting from the AMDRA and associated approved capital additions with annual changes to revenue requirements resulting from other proceedings such as the General Rate Case, the Attrition Rate Adjustment Mechanism, and/or the Revenue Allocation Proceeding (RAP) or its successor proceeding.

Revenue Shortfalls

Revenue shortfalls associated with demand response programs (e.g., due to load shifting or load reduction) are reflected in the Transition Revenue Account (TRA).

AMDRA Cap

Decision 03-03-036 states (OP 12): "The total collective amount recorded in the procurement-related cost accounts in connection with the programs authorized in this decision shall not exceed \$12 million exclusive of revenue shortfalls." This \$12 million cost cap covers SPP related costs incurred by all three respondent IOUs. Part of the \$12 million comprises \$1 million for the pilot proposed by Invensys (OP 2), and \$1 million for additional control technology for Track A (OP 3).

PG&E's share of the remaining \$10 million is \$3.603 million³. Because the details of the \$2 million targeted for the deployment of enhanced technologies have not yet been fully explored those costs have not yet been divided among the IOUs.

Decision 03-03-036 also orders the use of the AMDRA for costs of demand response programs adopted in the advanced metering OIR for large customers (OP 8). Since the initial \$12 million cost cap applies to costs associated with the SPP only, PG&E will file a revision to AMDRA after the Commission issues its Phase 1 decision adopting programs for large customers (i.e., WG 2).

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other rate schedule or rule.

³ PG&E's share is based upon three allocation methods. First, for costs that had a basis in size of utility, the split is 45% PG&E, 45% SCE, and 10% SDG&E. Second, for costs that had a basis in the work effort required by utility the split is 40% PG&E, 40% SCE, and 20% SDG&E. Third, for costs that are meter volume-based, the costs were determined by multiplying the costs filed in the WG3 report by the number of meter points (956 for PG&E out of 2,575 total).

Protests

Anyone wishing to protest this filing may do so by sending a letter by **March 28, 2003**, which is **10** days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

Decision 03-03-036 states that the projected cost for the SPP is for calendar year 2003 (FOF 28). The decision states the SPP will continue through calendar year 2004 rather than calendar year 2003 as originally proposed (COL 17). The decision also defines a procedure for adjusting the SPP \$12 million cap to cover costs for calendar year 2004 (OP 13). Given this framework, PG&E will record in the AMDRA all SPP development and implementation costs incurred since the beginning of calendar year 2003, namely, **January 1, 2003**.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list, and the service list parties for R. 02-06-001. Address changes should be directed to Sandra Ciach at (415) 973-7572. Advice letter filings can

also be accessed electronically at:

http://www.pge.com/customer_services/business/tariffs/

Vice President - Regulatory Relations

Attachments

cc: Service List R. 02-06-001



PRELIMINARY STATEMENT

CS. ADVANCED METERING AND DEMAND RESPONSE ACCOUNT (AMDRA)

(N)

1. PURPOSE: The purpose of the Advanced Metering and Demand Response Account (AMDRA) is to record and recovery the incremental, one-time set-up and ongoing Operating and Maintenance (O&M) and Administrative and General (A&G) expenses incurred to develop and implement, or in reasonable anticipation of implementing (i.e., all development and implementation costs incurred after January 1, 2003), the demand response programs adopted in Phase I of the Advanced Metering, Demand Response, and Dynamic Pricing Proceeding, pursuant to Ordering Paragraph 8 of Decision 03-03-036.
2. APPLICABILITY: The AMDRA applies to all customer classes, except for those specifically excluded by the Commission.
3. REVISIONS: The revision dates applicable to the AMDRA shall be upon approval of the annual advice filing referenced below or as otherwise ordered by the Commission.
4. RATES: The current AMDRA does not have a rate component.
5. ACCOUNTING PROCEDURE: PG&E shall maintain the AMDRA by making entries to this account at the end of each month as follows:
 - a. A debit entry equal to the UDC's incremental one-time "set up" and ongoing O&M and A&G expenses incurred to develop and implement, or incurred in reasonable anticipation of implementing, the following programs being developed in R.02-06-001: (1) the statewide pricing pilot (SPP) for small customers (under 200 kW), and (2) demand response tariffs and programs for large customers (greater than 200 kW), including:
 1. Market research prerequisite to SPP implementation;
 2. Development of rate, information, and technology treatments for various SPP cells;
 3. Sample design for various SPP cells;
 4. Miscellaneous pilot design refinement and implementation activities;
 5. Development of systems for billing and implementing tariffs and programs for large customers; and
 6. Miscellaneous large customer tariff refinement and implementation activities reasonably necessary to ensure timely implementation of large customer tariffs and programs approved in the Phase 1 decision.
 - b. A debit entry equal to the interest on the average of the balance at the beginning of the month and the balance after the above entry at a rate equal to one-twelfth the interest rate on three-month Commercial paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor.

PG&E shall file an annual advice letter, which shall include a summary of the entries to this account and a proposal for the disposition of the debit balance in the account.

(N)

(Continued)



PRELIMINARY STATEMENT
(Continued)

CP. ENERGY RESOURCE RECOVERY ACCOUNT (ERRA) (Cont'd.)

5. ACCOUNTING PROCEDURES: (Cont'd.)

- e) A debit entry equal to the sum for the month of the product of: (1) the Millions of British Thermal Units (MMBtu) of natural gas burned daily for all purposes at PG&E's fossil plants; and (2) that day's weighted-average cost of gas on a Utility Electric Generation (UEG) portfolio basis (\$/MMBtu);
- f) A debit entry equal to the sum for the month of the product of: (1) the barrels of distillate and heavy fuel oil burned daily for all purposes at the fossil plants; and (2) that day's weighted-average cost of distillate or fuel oil per barrel on a "last-in-first-out" (LIFO) basis;
- g) A debit entry equal to the hydroelectric fuel expenses. The fuel expenses include water purchase costs for the hydroelectric plants;
- h) A debit entry equal to fuel expenses for the Diablo Canyon Nuclear Power Plant;
- i) A debit entry equal to costs associated with QF obligations at or below the market benchmark defined in Decision 02-11-022;
- j) A debit entry equal to bilateral contract obligations;
- k) A debit entry equal to hedging contract obligations;
- l) A debit entry equal to renewable contract obligations;
- m) A debit or credit entry equal to costs associated with irrigation district contracts and other purchase power obligations, including capacity contract obligations at or below the market benchmark as defined in Decision 02-11-022;
- n) A debit entry equal to spot market purchases;
- o) A debit entry equal to system tolling or capacity contract obligations;
- p) A debit or credit entry equal to pre-payments and credit and collateral payments, including all associated fees, for procurement purchase and, if applicable, reimbursements or pre-payments, credit and collateral payments;
- q) A debit entry equal to incentive payments authorized in the Phase 1 decision of the Advanced Metering, Demand Response, and Dynamic Pricing Proceeding pursuant to Decision 03-03-036; (N)
|
(N)
- r) A debit entry equal to any other power costs associated with procurement; and (T)
- s) A monthly entry equal to interest on the average balance in the account at the beginning of the month and the balance after the above entries, at a rate equal to one-twelfth of the rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15 or its successor. (T)

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