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Witness	:	R. Levin E. Torres

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA REBUTTAL TESTIMONY ON THE ECONOMIC DEVELOPMENT RATE APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY

A.12-03-001

San Francisco, California
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Updated Responses to ACR Questions

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CHAPTER 1.

Rebuttal on Rate Design Issues

Robert Levin

I. INTRODUCTION

On August 24, 2012, seven parties, including DRA, filed testimony in response to PG&E's March 1, 2012, Economic Development Rate ("EDR") Application (A.12-03-001). Like DRA, the large majority of the intervenors identified significant flaws in PG&E's EDR proposals.

This rebuttal testimony responds primarily to the intervenor testimony of the Local Government Parties ("LGP"), which devoted 33 pages to a defense of PG&E's EDR proposals. DRA also addresses rate design proposals of the Alliance for Retail Energy Markets ("AReM"). DRA's rebuttal is divided into two chapters:

- Chapter 1: Rate design issues,
- Chapter 2: Screening and qualification of customers for EDR discounts.

DRA makes the following findings regarding LGP's testimony:

- A floor price is required by law and Commission precedent, and is absolutely essential for ratepayer protection. An additive floor price, based on the sum of nonbypassable rate components ("NBCs") and marginal costs, is essential to ensure that customers provide sufficient revenue to cover both marginal costs and NBCs.
- The benefit to ratepayers of an EDR program is correctly measured by contribution to margin ("CTM"). A positive CTM is required over the term of a discounted contract to comply with the ratepayer benefits test of P.U. Code Section 740.4(h). Positive CTM should be required of each EDR program (Standard and Enhanced, separately), and, ideally, of each EDR participant, over the life of the EDR contract.
- LGP's discussion of the benefits of attracting customers (Q&A 29)
    - Improperly conflates ratepayer benefits with local community benefits,
    - Ignores potential *costs* to local communities, and
    - Ignores the marginal cost to utility ratepayers of serving attracted or retained customers.

- It is not at all clear, as LGP alleges[1] but has not demonstrated, that EDR-related rate increases (e.g., in San Francisco and throughout the PG&E system) would be outweighed by benefits in terms of "investments, jobs, and revenues", (e.g., in Fresno). The creation or existence of "successful and attractive EDR options" is not sufficient to protect the interests of ratepayers generally.

- LGP's support of PG&E's proposal to allow negative distribution rates is problematic. PG&E's proposal is inconsistent with Commission policy and is, in fact, unlawful in those instances (e.g., for Direct Access customers) when insufficient revenue is being collected from customers to fully fund their NBC rate components.

- LGP's proposal (on p.16) to assess cost recovery requests "after the fact" is too late, and shows a lack of understanding of how utility cost are incurred and how utility rates are set. DRA, however, agrees with LGP's statement (on p.28) that "even a *de minimis* rate impact [from EDR discounts] must be just and reasonable."

- LGP has not demonstrated that a five-year 35% discount is necessary to attract or retain customers. If the Commission adopts PG&E's and LGP's proposed five-year program duration and five-year contract term, then the enhanced EDR programs should have a declining discount to limit ratepayer risk.

- If the Commission adopts a fixed percentage discount, as PG&E proposes, then it should either:

  (1) Limit the term of Enhanced EDR contracts to three years and terminate any remaining EDR contracts six months after a new EDR program is adopted for PG&E in the 2017 GRC or subsequent proceeding; or

  (2) Require that any new contracts signed after the effective date of the 2014 GRC Phase 2 proceeding have a positive CTM during the contract term using updated marginal costs adopted in that proceeding; and require that any EDR contracts remaining in effect beyond December 31, 2017 have a reduced discount, beginning on January 1, 2018, if needed, to ensure a positive CTM using the updated marginal costs adopted in the 2017 GRC Phase 2 proceeding.

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[1] LGP, August 24, 2012, p. 29.

- DRA agrees with LGP (and PG&E) that an after-the fact review and true-up of discount rates is burdensome and likely would be a disincentive to customers. While LGP discusses "a more effective monitoring and measuring of the success of the EDR incentives in any after-the-fact review," LGP fails to propose a mechanism to accomplish such a worthwhile, and indeed vital, objective.

With regard to AReM's recommendations,

- DRA agrees with AReM's proposal that, for bundled service customers, any EDR discounts should be reflected in both distribution and generation rate components, and prorated according to available "headroom."
- DRA, however, disagrees with AReM's proposal regarding Direct Access ("DA") customers because it would result in DA customers paying a lower distribution rate than similarly situated bundled service customers.

II. RESPONSES TO TESTIMONY OF LGP

A. The Need for Price Floors

LGP's testimony states[2]: "The whole floor price concept is unhelpful and should be rejected as such, not modified or mitigated." DRA couldn't disagree more, for the following three reasons:

(1) Discounts below marginal cost always involve cost shifting because such costs are incurred as an unavoidable consequence of the EDR participants' demand for energy. If EDR customers do not provide enough revenue to cover their marginal cost, then other customers, or possibly utility shareholders, must make up the difference. As a general principle, shifting costs from one group of utility customers to another group of customers, absent a clearly defined public purpose, violates Commission policy.

(2) The P.U. Code authorizes EDR discounts only to the extent of ratepayer benefits. However, ratepayers benefit from attracting new customers only when the revenue they provide to the utility exceeds the utility's incremental (or marginal) cost incurred to procure and deliver energy to the customer.

[2] LGP, August 24, 2012, p. 27.

(3) Where the possibility of competition exists, discounts below marginal cost, under some circumstances, could be regarded as predatory pricing, and could violate Federal law.[3]

For these three reasons, marginal cost is, and must remain, a necessary floor under EDR rates.

In addition, the Commission has clearly stated its interpretation that State law prohibits the discounting of NBCs.[4] For this reason, the sum of NBC rate components is, and must remain, a necessary floor under EDR rates. The only remaining question is whether the applicable price floor for EDR discounts must consist of the *sum* of marginal and NBCs.[5] D.07-09-016 unambiguously answers that question in the affirmative. DRA fully concurs, for the following reasons:

(1) Marginal generation and distribution costs are real, physical costs that must be incurred to procure and deliver energy;

(2) NBCs are costs that are entirely separate from marginal generation and distribution costs;

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[3] D.95-12-063 defines "*Predatory pricing [as] an illegal pricing strategy that a firm undertakes to drive current competitors out of the market and to prevent new entrants by selling a product below cost. (Fn. 9) It is a short-term strategy firms undertake to meet their long-term goal of sustaining market power. Firms that already have market power have also used the threat of predatory pricing as a strong barrier to entry. Certain circumstances are necessary for a firm to engage in or threaten predatory pricing. In particular, a firm must have the ability to withstand the short-term losses and to absorb the increased demand stimulated by the low predatory price. Furthermore, the firm must be able to profit from the venture by eventually earning sustainable monopoly profits. This generally requires that the market have strong barriers to entry, such as prohibitively high initial capital or other investment costs.*" Per Footnote 9 of this section, "*the practice [of predatory pricing] is illegal under the Clayton Act of 1914.*"
While the Commission's definition does not mention pricing below *marginal* cost, this is typically an important part of the definition, as the term is used by economists. According to "About.com Economics": *"In the United States there is no legal (statutory) definition of predatory pricing, but pricing below marginal cost (the Areeda-Turner test) has been used by the Supreme Court in 1993 as a criterion for pricing that is predatory."* (emphasis added).

[4] D.07-09-016, see, e.g., Conclusion of Law No.2.

[5] In its opening testimony (on pp.2-5 and 2-6) DRA discusses the separate application of price floors based on NBCs and marginal costs, and concludes that, from an economic perspective, revenue contributed toward NBCs can sometimes be considered as contribution to margin. This does not, however, obviate the need for an additive price floor, which is a legal requirement made necessary to ensure that the marginal cost and NBC price floors are satisfied jointly and simultaneously.

(3) Due to this separation, the same dollar of revenue cannot be used to simultaneously pay the marginal costs of generation and distribution, and the NBCs; and

(4) Utilities are legally prohibited from discounting NBCs, even to new or "at-risk" customers.

It follows logically, from these four points, that each customer must provide a revenue stream that exceeds the *sum* of marginal costs and NBCs. If not, since the marginal costs cannot be avoided while the customer is being served, there would be insufficient revenue from the customer to cover his/her share of NBCs, effectively granting an unlawful discount.

B. The Definition of Ratepayer Benefit in Public Utilities Code Section 740.4(h) Requires the EDR Program to Generate a Positive Contribution to Margin over the Contract Term

The LGP testimony, in addressing whether the proposed EDR will result in benefits to ratepayers as required by P.U. Code §740.4(h), states:

> *The proposed EDR, especially the enhanced option, will have tangible and measurable benefits if it attracts participants (hence my earlier emphasis on the need for such options to be attractive per se). The benefits will be measurable in direct terms and in multiplier terms. Direct terms include the value of real estate transactions, of additional and/or new manufacturing facilities, numbers of employees and – more forensically – in the maintenance of profitability that protects existing jobs and investments. In multiplier terms, there are methods to calculate the likely multiplier impact of a given investment and thereafter to compare the projected impacts with actuals.*[6]

[6] LGP, A12-03-001, August 24, 2012, p. 15, lines 20-27.

DRA does not agree with the above interpretation of Public Utilities Code ("P.U. Code") §740.4, which states that the Public Utilities Commission ("the Commission"):

> *"… shall allow rate recovery of expenses and rate discounts supporting economic development programs … to the extent the utility incurring or proposing to incur those expenses and rate discounts demonstrates that the ratepayers of the public utility will derive a benefit from those programs."*

The demonstration of benefits called for by this statute must be assessed from the point of view of the EDR program non-participants, that is, the utility ratepayers.

Contribution to margin ("CTM") refers to the excess of the revenue provided by the new or retained customer above the marginal cost of providing service to the customer. Existing ratepayers benefit from PG&E's acquisition of new customers, or retention of existing customers[7] from the EDR program, as long as the revenue provided by the new or retained customer is greater than the marginal cost of serving that customer. DRA believes that CTM is the best measure of ratepayer benefits for an EDR contract because it results in the tangible benefit of lower rates. PG&E appears to concur that CTM is an appropriate measure of ratepayer benefits:

> *To the extent that utilities can retain or attract sales at a rate that is lower than the tariffed rate, but higher than the marginal cost, helps to maintain or add to Contribution to Margin (CTM). This CTM can then be used to keep rates to customers lower than they would otherwise be. …. A program benefits ratepayers if the CTM is greater than zero.*[8]

The LGP assertion of what constitutes ratepayer benefits of the EDR program in order to satisfy the ratepayer benefit requirement of P.U. Code §740.4(h) is

[7] This is based on the assumption that retained customers receiving a discount are not "free-riders"; that is, they would have closed their operations in California, but for the discount. A free-rider who receives a discount imposes a cost on nonparticipating ratepayers even though that customer may still have a positive contribution to margin.

[8] PG&E, A.12-03-001, March 1, 2012, p. 3-2.

contrary to the Commission's interpretation of the statute, as expressed in its prior EDR decisions. In Decision 05-09-018, the Commission listed the following as a Finding of Fact:

> *The implementation of successful economic development projects would benefit ratepayers directly by increasing the revenues available to contribute to the utilities' fixed costs of doing business, thus lowering rates to other customers.*[9]

Thus, the LGP incorrectly listed the following as ratepayer benefits of the EDR program:

> *… the value of real estate transactions, of additional and/or new manufacturing facilities, numbers of employees and – more forensically – in the maintenance of profitability that protects existing jobs and investments.*[10]

These may indeed be benefits to the local community, but they are not, in themselves, ratepayer benefits. According to the Commission, the benefits to ratepayers of the EDR should be measured by the increase in revenues available to contribute to the PG&E's fixed costs of doing business, which would result in lower rates for all of PG&E's ratepayers.

C. The Ratemaking Process in Effect at the Commission Fully Captures in Impact of EDR Discounts on Rates.

The LGP testimony, in addressing the fact that the proposed EDR program must meet the ratepayer benefit test in P.U. Code §740.4(h), states:

> *"Again, although I am not a lawyer, nonetheless it seems to me the non-specific benefits "test" referred to in the Public Utilities Code only arises if PG&E seeks recovery of costs in rates. As I understand it, the Commission generally makes rate-recovery approvals after-the-fact. Wouldn't that be the same here, (that is assuming PG&E*

[9] D.05-09-018, p. 26, FOF #2 (emphasis added).

[10] LGP Testimony, A.12-03-001, p. 15, lines 22-25.

> *even needs to recover any expenditure and the incentive is not 'self-funding')? The Public Utilities Code test should, therefore, be no barrier to approval of the EDR options PG&E proposes. Let the measurements – and any cost recovery requests – be assessed at the appropriate time, i.e. after-the-fact." (LGP Testimony, A12-03-001, p. 16, lines 14-21).*

The above statement from the LGP testimony is incorrect and shows lack of understanding of how utility costs are incurred and how utility rates are set. Under PG&E's and LGP's Enhanced EDR proposal, the Enhanced EDR program very likely will result in an undercollection of revenue. In past EDR proceedings, the large majority of EDR customers have been retention customers, rather than attraction or expansion customers. DRA believes that this pattern is likely to continue into the future.[11] For retention customers, there is no change in PG&E's marginal costs, but there is a revenue shortfall due to the discount.

Under PG&E's EDR proposals, all of the revenue shortfall would be captured in the distribution revenue component of PG&E's rates[12]. PG&E does not need to explicitly seek recovery of costs (of EDR-related revenue shortfalls) in rates, as LGP appears to allege. The revenue shortfall resulting from EDR discounts automatically would be allocated and recovered from PG&E's Distribution Revenue Adjustment Mechanism ("DRAM") account[13] in annual rate adjustments in the Commission's normal ratemaking process. These undercollections automatically are allocated to all

[11] No evidence has been presented to suggest that attraction or expansion customers will comprise a larger percentage of EDR customers than they have in the past.

[12] PG&E proposes to discount only the distribution component of its rates. See, PG&E, March 1, 2012, p. 3-2.

[13] The undercollections are allocated to all ratepayers based on the ratemaking principles adopted in the most recent GRC Phase 2. The recovery of rate undercollections from the EDR program from the DRAM would result in an especially harmful impact to residential customers, who typically bear a larger percentage of distribution costs than the residential share of electric system costs as a whole. Note that DRA's proposal, which also discounts the generation rate, would result in some of the revenue shortfall being captured in the Energy Resources Recovery Account ("ERRA").

ratepayers when the balances in all balancing accounts are amortized to all ratepayers in PG&E's Annual Electric True-up advice letter.

It should be noted that the DRAM is a mechanism that tracks authorized General Rate Case ("GRC") costs that are set on a forecast basis. This forecast is updated on a three-year general rate case cycle. Contrary to LGP's perception, the GRC costs are not set or reviewed "after-the-fact." Moreover, the Commission, with limited exceptions,[14] sets rates based on forecasts of utility costs. The Commission also may allow an "after-the-fact" recovery of overruns to previously authorized costs with a showing of reasonableness. But this is not true of GRC costs.

Retention customers receiving an EDR discount (some of whom, despite the best efforts of PG&E, may be free- riders) are especially problematic for nonparticipating ratepayers, who face rate increases to compensate for undercollections from EDR customers. For retention customers, marginal costs are unchanged but the CTM decreases by exactly the amount of the discount. Even if the CTM remains positive after the EDR discount, ratepayers are harmed relative to the status quo prior to the EDR, when the EDR retention customers were paying the full rate.

DRA recognizes that, if retention customers were truly going to leave California but for the EDR discount, ratepayers are better off retaining some of the CTM from these customers rather than by having them leave the State and thereby provide no CTM. However this does not apply when discounts are provided to free-riders. This highlights the need for stringent eligibility requirements for the EDR program to ensure that the discount only is being given to customers who would not do business in California, but for the discount.

[14] Occasionally, the Commission authorizes utilities in advance to track specific costs in a memorandum account for future recovery subject to reasonableness review.

D. LGP's Discussion of the Benefits of Attracting Customers (Q&A 29) Improperly Conflates Ratepayer Benefits with Local Community Benefits

LGP tees up the ACR's question:

> *Will the proposed EDR result in benefits to ratepayers as required by Public Utilities Code section 740.4(h)? If so, what are those benefits, and how can those benefits be measured?*

LGP states in response:[15]

> *While not an expert on law – or the specifics of the Public Utilities Code – it is not unusual for me to assess legal conditions when making recommendations to potential investors. Also, I do not see specifics in terms of the benefits that are mentioned in the code section, as to type, scale or timing of such benefit. In that light, as a non-lawyer I would feel comfortable advising investors that as a location/incentive matter some benefit must flow to ratepayers. In my position I am able to calculate a range of benefits to a local community of a given investment.*
>
> *… The benefits will be measurable in direct terms and in multiplier terms. Direct terms include the value of real estate transactions, of additional and/or new manufacturing facilities, numbers of employees and – more forensically – in the maintenance of profitability that protects existing jobs and investments.*

LGP's discussion of the benefits to a local community, and the consequent multiplier effects, ignores two important facts. First, the Commission has a long history of relying only on a positive CTM as the determining factor in assessing benefits to ratepayers. Second, LGP speaks of "benefits to a local community" but, in neglecting to consider offsetting costs, has not established that local communities would in fact benefit on a net basis. LGP discusses benefits, but is silent on costs. DRA generally supports measures that would boost the economic health of

[15] LGP, Q&A 29, p. 15.

California's local communities. However, it is unclear whether the local communities discussed by LGP would actually benefit from the Enhanced EDR program when costs to the community are considered. For any attraction customers, there may be environmental costs of providing land and access to facilities, including possibly the development of green fields.

More typically, most EDR customers will be retention customers. In such situations, rates paid by the local community ratepayers will rise to offset the revenue shortfalls resulting from the EDR discounts. Thus, the typical local community electric customer may, or may not, benefit from EDR discounts in his or her community. LGP does not address the relative size of these multiplier effects and the EDR rate effect. It does not discuss how the benefits and costs are distributed to individual ratepayers in the community. If discounts are so deep that they cause a negative CTM, there is a great risk that even the local communities hosting EDR customers will not benefit, on a net basis.

Finally, as discussed above, PG&E's Enhanced EDR proposal could raise rates to *all* nonparticipating PG&E ratepayers. DRA questions the propriety of raising rates, for example, in San Francisco in exchange for dubious benefits to local communities, say, in the Central Valley.

E. Positive CTM Should be Required of Each EDR Program (Standard and Enhanced, separately), and, Ideally, of Each EDR Participant, Over the Life of the EDR

LGP tees up the ACR's question:

> *Should contribution to margin be required of each participant, or of the program generally?*

LGP responds "*Neither*," in Answer 49. It then refers to its earlier responses, which, as shown above, fail to refute DRA's position that a positive CTM is a necessary condition to demonstrate ratepayer benefits.

LGP doesn't answer the ACR's question. As a general principle, DRA believes that each participant should be required to demonstrate a positive CTM, on an ex ante (forecast) basis. Ideally, such a demonstration would be on a customer-specific basis, relative to the marginal costs associated with the customer's actual location. While such an approach has been followed in some previous Commission proceedings which authorized discounts,[16] DRA recognizes that it would be burdensome to require a full, customer-specific marginal cost analysis for each EDR applicant, and accepts PG&E's use of separately averaged distribution marginal costs for constrained and unconstrained areas as a reasonable proxy for a customer-specific CTM calculation. With this provision, customers logically can be divided into "cells" by rate schedule, distribution constraint status, and bundled/DA/CCA status, and each cell would have an applicable marginal cost floor and be required to have positive CTM.

As for whether it is sufficient for the program generally to have a positive CTM, DRA believes that each EDR program must stand on its own in passing the ratepayer benefits test. For example, a positive CTM from a "Standard" EDR program should not be combined with, and mask, a negative CTM from an "Enhanced" EDR program. In this case, the Enhanced EDR program would not, on its own, be beneficial to ratepayers and should not be offered or approved by the Commission. This is the approach taken by DRA in its EDR proposal.

F. The Commission Must Modify PG&E's Enhanced EDR Proposal In Order To Prevent Negative CTM

LGP states:

> *The proposed EDR, especially the enhanced option, will have tangible and measurable benefits if it attracts participants.* [17]

On the contrary, DRA has established that ratepayers may not benefit from an EDR contract if CTM is negative over the contract term. This impact on ratepayers will be

[16] For example, the Expedited Application Docket proceedings which followed D.92-11-052.

[17] LGP, p. 15.

true in the case of many potential Enhanced EDR contracts in PG&E's EDR proposal.[18]

Both PG&E's and DRA's CTM calculations were performed under the assumption that marginal costs will remain constant, for five years in DRA's analysis,[19] and for 10 years in PG&E's analysis.[20] However, as DRA pointed out in its opening testimony: "… *marginal cost can change during the five-year contract term.*"[21] This is a particularly likely and problematic possibility for marginal energy costs, which depend heavily on the wholesale cost of natural gas. Both natural gas prices, and marginal energy costs, are now at multi-year low values, and some credible forecasts indicate that the current low prices may not be sustainable.[22] In fact, some analysts, such as the California Energy Commission ("CEC") staff, have forecasted that natural gas prices will increase over the next few years. An excerpt from the CEC Staff report is attached to this rebuttal testimony as Appendix A. Moreover, historical gas prices have been quite volatile, with variations from about $2.5/MMBtu to over $12.5/MMBtu, as shown in Appendix B.

The potential for marginal energy costs to increase over time imposes a risk of negative CTM. PG&E has proposed a five-year fixed-term for EDR contracts, with a five-year shelf-life for the tariff itself, while removing most of the ratepayer protections in the current EDR program. Therefore a contract signed in 2017 would

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[18] Instances of negative CTM are shown in Table 2-1, p.2-2 of DRA's August 24, 2012 direct testimony.

[19] *Id.*

[20] PG&E, Table 3-1, p. 3-3, March 1, 2012.

[21] DRA, August 24, p. 2-2.

[22] PG&E's March 1, 2014 workpapers supporting the CTM calculations in its direct testimony (Table 3-1, p. 3-3) assume a lower "indexed" value of the marginal energy cost in years 2-10 of its recommended 10-year analysis period than the "settlement" value PG&E uses in year 1. The drop in PG&E's marginal costs from year 1 to year 2, shown in Table 2-4 of DRA's opening testimony (p. 2-8), is entirely due to PG&E's use of a lower forecast natural gas price to adjust the marginal energy cost. The lower marginal energy cost value in years 2-10 is indexed to a forecast of natural gas.

extend into 2022. PG&E's EDR proposals contain no mechanism to ensure that discounted rates remain reasonable given possible future changes in the marginal cost.

In its direct testimony, DRA proposed that discounts decline over the five-year term. This would significantly mitigate the negative CTM risk from changing marginal costs. To the extent that risk still exists, DRA proposes that shareholders absorb any negative CTM remaining after 10 years. If the Commission chooses not to adopt DRA's proposed five-year declining discount, then it must take other steps to mitigate the risk of negative CTM. Such steps could include either of the following:

(1) Limit the term of Enhanced EDR contracts to three years and terminate any remaining EDR contracts six months after a new EDR program is adopted for PG&E in the 2017 GRC or subsequent proceeding; or

(2) Require that any new contracts signed after the effective date of the 2014 GRC Phase 2 proceeding have a positive CTM during the contract term using updated marginal costs adopted in that proceeding; and require that any EDR contracts remaining in effect beyond December 31, 2017 have a reduced discount, beginning on January 1, 2018, if needed, to ensure a positive CTM using the updated marginal costs adopted in the 2017 GRC Phase 2 proceeding.

G. Negative Distribution Rates Would Be Contrary to Commission Policy and, In Some Instances, Unlawful

In Question and Answer 25, (on p. 12), LGP tees up the ACR's question:

> *Is PG&E's proposal to allow a negative distribution rate consistent with the Commission's existing policy?*

LGP's witness responds, in part, as follows:

> *I am not expert in current Commission policy. However, given the overwhelming need for an effective EDR program, and other jobs incentives in areas of the state with cripplingly high unemployment, I will offer the opinion that existing policy should not be permitted to limit the prospects of approving an effective EDR option.*[23]

[23] LGP, Q&A 25, p. 12.

Nowhere in the two full paragraphs of LGP's response, nor elsewhere in LGP's testimony, does LGP address the substance of the ACR's question. In contrast, DRA's opening testimony discusses the policy concerns on negative distribution rates at some length. DRA's opening testimony on this issue can be summarized in the following three propositions:

- For direct access ("DA") and community choice aggregation ("CCA") customers, a negative distribution rate is equivalent to discounting one or more NBCs, and is, per D.07-09-016, unlawful.
- For competitive neutrality, bundled service customers should pay the same distribution rates as similarly situated DA and CCA customers.
- Taken together, these propositions imply that distribution rates should not be negative for *any* customer.[24]

III. RESPONSES TO TESTIMONY OF AReM

A. AReM's proposal, to prorate EDR Discounts for bundled service customers over both generation and distribution in proportion to "headroom," makes sense and should be adopted.

AReM's testimony states[25]:

> *For bundled customers, the EDR discount should be taken from both the distribution and generation rates, on a pro-rata basis based upon the headroom in each rate (where headroom = rate – marginal cost). The total EDR discount should not exceed the available headroom.*

DRA concurs with AReM that discounts to bundled service customers should be taken from both the generation and distribution rate components. While AReM's proposal differs from DRA's initial proposal for setting discounted rates for bundled service customers, DRA actually prefers this specific proposal of AReM to its own initial proposal.[26]

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[24] DRA, August 24, 2012, pp. 2-11, 2-12.

[25] AReM, August 24, 2012, p. 3.

[26] DRA proposed to first discount the distribution rate down to the constrained area marginal cost, then take any additional discounts in the generation rate component. DRA now believes that AReM's
(continued on next page)

B. AReM's Proposal For EDR Discounts to Direct Access and CCA Customers Would Unduly Discriminate Against Bundled Service Customers, And Therefore Should Not Be Adopted.

AReM's testimony states[27]:

> *For DA customers, the EDR discount should be the lesser of the same discount that the customer would have received had it been on bundled service or an amount that does not create a negative contribution to margin (i.e., EDR discount does not exceed distribution rate headroom).*

DRA interprets this quotation to as saying that the DA or CCA customer should receive the lesser of the *total* discount (i.e., generation *and* distribution) given to bundled customers and the DA or CCA customer's distribution headroom. If so, there is a significant flaw in AReM's proposal, which can best be illustrated by a simple numerical example shown in Tables 1-1 and 1-2:

Table 1-1. Bundled Service Customer Example (cents/kWh)

	Generation	Distribution	Total
Full Tariff	5	5	10
Marginal cost floor	2	2	4
Headroom	3	3	6
Discount	2	2	4
Final Rate	3	3	6

(continued from previous page)
proration approach achieves a better balance between the distribution and generation functions. Both functions would contribute to margin under AReM's proposal.

[27] AReM, August 24, 2012, p. 3.

Table 1-2. DA or CCA Customer Example (cents/kWh)

	Generation	Distribution (AReM proposal)	Distribution (DRA proposal)
Full Tariff	N/A	5	5
Marginal cost floor	N/A	2	2
Headroom	N/A	3	3
Discount	N/A	3	2
Final Rate	N/A	2	3

DRA objects to AReM's second proposal because DA and CCA customers would pay a lower rate for distribution services than similarly situated bundled service customers. In Table 1-1, bundled service customers receive a total discount of 4 cents/kWh, 2 cents/kWh each for generation and distribution. These discounts represent two-thirds of the available 3 cent headroom in each function.

Under AReM's DA/CCA pricing proposal, DA customers would receive a discount equal to the lesser of the 4 cents/kWh discount it would have received as a bundled service customer, or the 3 cents/kWh of available distribution headroom, as the highlighting in the above table indicates. In other words, a DA or CCA customer would receive a 3 cent distribution discount, down to its distribution marginal cost, while a similarly situated bundled service customer would only receive a 2 cent discount to its distribution rates.

DRA recommends that the Commission reject this proposal on the grounds that it violates competitive neutrality with respect to pricing of distribution services.[28]

[28] DRA's August 24, 2012 direct testimony discusses this issue at pp. 2-11 and 2-12.

CHAPTER 2.

Rebuttal on Screening and Qualifications of Customers Receiving the EDR Discounts

Elise Torres

I. INTRODUCTION

This rebuttal testimony responds to the intervenor testimony of the Local Government Parties ("LGP"). Specifically, DRA finds that:

- LGP's testimony incorrectly dismisses the existence of free-riders and the adverse effect they could have on the EDR program. (Q&A 45)
- LGP has not demonstrated that the 200 MW participation cap for the EDR program should be removed. (Q&A 38)
- LGP has not demonstrated that limiting participation in the EDR program to applicants that can demonstrate that electricity makes up a threshold percentage of operating costs is an unnecessary requirement. (Q&A 41)
- LGP's assertion that the Customer Affidavit will be detrimental to the EDR program and lacks value is unfounded. (Q&A 20 & 42)
- LGP has not demonstrated that PG&E's shareholders will not benefit from the discount, and that PG&E shareholders should not fund any of the EDR. (Q&A 53)

In general, a program that provides the largest discount to date must include adequate ratepayer safeguards in order to comply with provisions of P.U. Code §740.4(h).

II. LGP Testimony Significantly Downplayed and Incorrectly Assessed the Need for the EDR Program to have a Defined Screening Process for EDR Program Applicants and Specific Eligibility Restrictions

A. LGP Testimony Relied on Unfounded Assertions to Determine that Free-Ridership is not a Concern for the EDR Program

In response to the question, "what provisions of an EDR are necessary to guard against free-riders?", the LGP stated:

Protection against the possibility of free-riders may be understandable in circumstances where there is a track record of free-riders or where a program is so new that there is no experience to rely on as a guide. For the EDR, in its various forms, there is now an extensive history of over two decades to assess. In all that time, including for the earliest EDR offers, which had fewest restrictions and were the best subscribed iterations of EDR, for all of that time, not one example of a free-rider has emerged. (LGP Testimony, A12-03-001, p.25, lines 21-26)

Free ridership cannot be affirmatively established nor affirmatively denied for any given customer. The LGP testimony incorrectly assumes that, because there has not been a documented case, that there have not been any free-riders in the EDR program at all. PG&E has "less than one FTE" (full time employee) involved in EDR program administration, which includes application review and compliance.[29] This suggests that PG&E's ability to screen for and identify free-riders is very limited. CalBIS conducts an initial review of applications but has no compliance authority once an EDR contract is issued.[30] Therefore, though the limited staff at PG&E has not collected conclusive evidence of free-ridership in the EDR program, this does not necessarily mean that there have not been any.

Given the assertion that free ridership is unlikely for the EDR program, DRA finds it surprising that PG&E also is proposing to eliminate any penalties for a customer found to have participated in the program as a free-rider. Under the liquated damages provision of the past EDR programs, a free-rider would be forced to repay the discount savings plus interest for cases of early termination of an EDR contract (excepting business closure or reduction of load without relocation).[31] PG&E

[29] PG&E Response to DRA Data Request #3, Question 4.

[30] If an application later is found to have provided PG&E and CalBIS false information, CalBIS does not have the authority seek remedies. Only PG&E's "less than one FTE" would be able to enforce the liquidated damages provisions of the contract. It is unlikely that this one person would either have the time to investigate and discover such a problem or seek damages.

[31] This liquidated damages provision for cases of early termination has been included in the last three EDR Decisions. (Decision 05-09-018, Decision 07-09-016, Decision 10-06-015).

proposes to remove this powerful free-rider deterrent for the new EDR program. PG&E has also proposed to remove CalBIS review of EDR customer applications, which would leave the review and fact checking of all EDR applications to PG&E's staff. PG&E also recommends removal of the affidavit provision that limits participation in the EDR program to customers for whom electricity costs are at least 5% of operating costs. The relaxation of these eligibility and screening requirements potentially could allow any existing customers, who otherwise would not qualify, to apply for EDR as free-riders and receive the benefits of a discounted electricity rate which other ratepayers will have to fund.

It also is important to remember that the proposed EDR program differs greatly from the past EDR programs. Under PG&E's current proposal, a much larger discount (35% compared to 12%) potentially is available. These proposed discounts are coupled with limited eligibility and oversight measures, no price floor, and provisions which guarantee the full discount will be available to the participant for five years. For these reasons, the proposed program will be significantly more attractive to potential free-riders than the past programs.

The LGP testimony makes reference to "the earliest EDR offers, which had fewest restrictions and were the best subscribed iterations of EDR." This reference is inaccurate and downplays the threat of free-riders. Contrary to LGP's perceptions, the earliest EDR program was available only in enterprise zones and was limited to eight customers. The first EDR program offered a discount for three years and the rate was set so that the discounted rate "would equal or exceed PG&E's marginal cost of service."[32] The currently proposed EDR program differs greatly from this first EDR program. As proposed by PG&E, it is the most attractive EDR program to potential free-riders to date, and thus it poses more risk to non-participating ratepayers than any prior EDR program.[33] This is why the eligibility and screening requirements

[32] D 89-12-057, p. 342.

[33] DRA's August 24, 2012 testimony extensively discusses risks to nonparticipating ratepayers

(continued on next page)

from the past programs should be retained and strengthened, not lessened, as PG&E proposes.

B. The LGP Argument that the EDR Program should not have a Participation Cap Incorrectly Applies Past Program Results to the Proposed Program

In response to the question, "should the Commission remove the 200 MW participation cap in currently requires as an element of PG&E's current EDR?", the LGP testimony states:

> *Yes. It seems somewhat pointless to insist on stating the maximum passenger load for a bus that has no passengers.*
> (LGP Testimony, A12-03-001, p.22, lines 3-4)

The LGP incorrectly assume that, because the current EDR program has low enrollment, the proposed program will as well. The proposed program is offering a substantially greater discount than the past program and relaxed eligibility requirements. The LGP testimony discusses how the past program was insufficient to attract customers[34] and how the proposed program will be more attractive to potential customers.[35] This highlights how important a cap is for the new EDR program. The cap will limit the risk to nonparticipating ratepayers and help ensure that the EDR program is reserved for those customers who really need the discount in order to continue operations or to locate in California.

According to PG&E's most recent customer data, the utility currently has 3,820 customers on commercial or industrial rate schedules with a load of at least 200 kW.[36] Furthermore, as of March, 2012, PG&E had 815 customers who could be eligible for the enhanced EDR program based on size and location alone, which

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(continued from previous page)
associated with PG&E's EDR proposals (see, e.g., p. 1-4). These risks are of two types: the risk of negative CTM, and the risk of free-riders. Both factors could cause nonparticipating ratepayers to bear increased costs.

[34] LGP Testimony, A.12-03-001, p. 31, lines 14-20.

[35] LGP Testimony, A.12-03-001, p. 10, lines 18-28.

[36] TURN Data Request 2, Question 1.

emphasizes the need to limit participation.[37] All of these customers could potentially participate in the EDR program as well as new customers relocating to California. If a substantial number of existing customers sign up for the EDR program, it could subject nonparticipating ratepayers to excessive risks associated with the potential for free-riders as well as negative CTM.[38] Without a cap, all 815 of PG&E's existing large usage customers in the 22 economically distressed counties potentially could participate in the Enhanced EDR program as well as new customers relocating to California. Such an outcome would create an unquantifiable but large risk to PG&E's ratepayers. Therefore, participation in the EDR program must be capped in order to limit the risk to nonparticipating ratepayers.

C. The LGP Testimony Ignores Past Commission Precedent and Incorrectly Assumes that the Requirement that Electricity Costs Constitute at least 5% of a Customers Operating Costs is Arbitrary

In response to the question, "should potential EDR customers be required to demonstrate that electricity makes up a threshold percentage of operating costs in order to qualify for the EDR discount?", the LGP testimony states:

> *No. As I stated earlier, I see no point to this restriction, other than to reduce the potential number of EDR participants. The fact that there is no obvious number – such as the 5% used in past-approved EDR programs – confirms for me that this is an unwarranted restriction that lacks any basis. Besides, as I noted, it would require an enormous degree of intrusion into the detailed operation of the business to verify that, again, the incentive aspect would instead become a business burden*. (LGP Testimony, A.12-03-001, p. 24, lines 13-18)

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[37] PG&E Response to TURN Data Request 2, Question 1.b. In March, 2012, there were 815 PG&E customers in the Enhanced-EDR eligible counties taking service on the commercial and industrial rate schedules with a load of at least 200 kW.

[38] As discussed in Chapter 1 of this Rebuttal Testimony, pp. 1-12 through 1-14, contracts signed under PG&E's proposed EDR programs could extend into 2022, but there is no mechanism to update discounts to reflect changes to marginal costs over time. This creates a significant risk for negative CTM. A cap is necessary, among other remedies discussed in Chapter 1, to limit this risk.

First, while the LGP may see "no point" to this restriction, it serves as a valuable tool to prevent free-ridership and to limit participation in the EDR program. The Commission adopted a 5% threshold in prior EDR proceedings.[39] This requirement helps to ensure that participation in the EDR program is limited to those for whom it will have a meaningful impact. Also, the requirement protects the integrity of the EDR program by making it available only to businesses for which energy is a material cost.

Second, the assertion in the LGP testimony that "this is an unwarranted restriction that lacks any basis" is simply not true. The 5% threshold is the result of settlement negotiations that took place for the 2005-2010 EDR program application. It represents a threshold that a range of parties representing different interests eventually agreed was fair and reasonable. The fact that the settling parties in Decision 10-09-015, which extended the 2005-2010 EDR program until December 31, 2012, decided to retain this requirement further affirms the requirement's utility as well as the reasonableness of the 5% threshold. DRA would prefer to use a higher percentage threshold, but decided that it would be advantageous to use a percentage that enjoyed broad support and that had a precedent spanning at least two EDR cases.

Third, the LGP statement, that this requirement "would require an enormous degree of intrusion into the detailed operation of the business," is unfounded and is an exaggeration. The type of businesses that the LGP claims this program would attract, such as food processors and manufacturers, are energy intensive businesses that surely track their energy usage carefully and know how much their average monthly electricity bill is. For attraction customers, the 5% threshold would only be required to be an estimate. Also, any customer specific information PG&E receives as a result of the EDR program is confidential data that is subject to the protections of P.U. Code §583. Furthermore, for these types of businesses, 5% is a very low threshold, especially considering that it excludes the cost of raw materials. Participation in the

[39] D 05-09-018, p. 23; D 10-06-015, p. 7.

EDR program must be limited in order to protect nonparticipating ratepayers. This requirement serves a valuable purpose by ensuring that the program is only available to those customers for whom it will have a meaningful impact.

D. LGP's Assertion that the Customer Affidavit Lacks Value and Will be Detrimental to the EDR Program is Unfounded

When discussing the utility of the Customer Affidavit in its testimony, the LGP stated:

> *I have addressed that matter in detail above (see answer No. 20). The best approach as an economic incentive is for the affidavit to be a potential means of verification, one of several. It may even become the means of choice, if it proves to be faster than, say, municipal review. But it is not a selling point if executing "under penalty of perjury" it is an obligation. Additionally the "but for" test, as I already noted, should reference the EDR and other incentives, etc. in the way PG&E proposes. It is unrealistic to assume that the EDR alone determines a significant investment decision, and – from their comments - neither the intervenors in this proceeding nor PG&E believe that is the case. Therefore to make that the object of a sworn statement, will drive parties away from the incentive, and therefore from California.*
> (LGP Testimony, A 12-03-001, p.24, lines 23-28, p. 25, lines 1-4)

The LGP statement that the affidavit "is not a selling point if executing under penalty of perjury it is an obligation" is correct. The affidavit is not intended to be a selling point; the discounted electricity rate is the selling point of the EDR program. The affidavit is a screening mechanism that is implemented to ensure that the program conforms to its stated mandate, "to be available to businesses… that are locating, retaining or expanding major business facilities with at least 200 kW of load and that are also actively pursuing out-of-state location options for that load or would otherwise cease operations."[40] The affidavit is a necessary element of the EDR

[40] PG&E Application12-03-001, p. 6.

program because it helps ensure that program participants are in fact actively considering out-of-state location options or considering ceasing operations.

The LGP testimony also states that the affidavit "will drive parties away from the incentive, and therefore from California." Why would signing a "sworn statement" drive a customer away from a substantial cost savings if the customer is telling the truth? The LGP's testimony attacks the affidavit on the basis that it is a customer obligation, but customers should be obligated to meet the eligibility requirements of the EDR program in order to receive the benefits of the program. Past EDR programs have required the customer affidavit, which suggests that the Commission also recognizes the utility of the requirement. In light of the significant discount EDR customers would receive potentially at the expense of nonparticipating ratepayers, signing an affidavit is not overly burdensome and is a necessary requirement to ensure the EDR program serves its stated purpose.

E. The LGP has Not Demonstrated that Shareholder Funding of the EDR is a Disproportionate Response, and the Assertion that PG&E's Shareholders will not benefit from the Discount is Incorrect

One question in the Assigned Commissioner's Ruling ("ACR") asks whether there should be a provision that requires shareholders to bear the cost of the EDR rate differential if an ex-post review of the program reveals that it has not resulted in benefits to ratepayers. The LGP testimony responds as follows:

> *Moreover, implicit in the question is an assumption that the utility, specifically the utility shareholder body, has gained something from the EDR. I do not know if that would be correct and without showing it to be true, the question seems premature if not inappropriate. I am not certain what losses may even be at issue in this possible 'outcome'. If the EDR options fail, because no one took them up or qualified, there would be no discounts and no costs.* (LGP Testimony, A 12-03-001, p.30, lines 15-20)

PG&E designed its proposed EDR program to generate a positive CTM over 10 years, but it cannot guarantee that customers will continue to take PG&E service for the full 10 year period. Even if they do, the customer might sign up for a second term under the enhanced EDR program and marginal costs may increase, preventing a positive CTM from materializing over 10 years. PG&E should be required to stand behind its testimony, and if an ex-post review of the program reveals that it has not generated a positive CTM after 10 years, PG&E shareholders should be required to fund the recovery of that negative CTM.

The LGP testimony incorrectly characterized the losses nonparticipating ratepayers will have to bear. The LGP states "if the EDR options fail, because no one took them up or qualified, there would be no discounts and no costs". DRA assumes that few eligible customers would pass up a 35% discount. Nevertheless, this statement ignores other possible failures of the EDR program. For example, participating Enhanced EDR customers whose operations are located in constrained District Planning Areas will cause the program to generate a negative CTM over the five-year contract period.[41] If they then leave the State or go bankrupt, other ratepayers will be forced to cover the cost of the negative CTM.

PG&E shareholders will benefit from the EDR program because it will attract new customers to PG&E and help retain current customers. This is certainly one of the reasons why PG&E submitted this application. The Commission also has recognized that utility shareholders accrue benefits from EDR programs in past Decisions. In Decision 07-09-016, the Commission acknowledged the shareholder benefits of retaining EDR customers as both a finding of fact and a conclusion of law.[42] In Resolution E-3654, the Commission discussed the specific benefits PG&E derives from the EDR program, "PG&E gains strategic competitive advantages by attracting new customers and locking in sales over the long term due to the nature of

[41] See A.12-03-001, DRA Testimony, p. 2-2. Table 2-1.

[42] D.07-09-016, p. 8 & 9.

the Schedule ED contract."[43] Therefore, the LGP's assertion that PG&E shareholders will not gain anything from the EDR program is incorrect.

Market analysts consider revenues and sales when evaluating the financial health of companies.[44] PG&E seems to be concerned and takes action in situations where it perceives the potential for losing some of its customer base. As explained in DRA's opening testimony, threats to PG&E's customer base come from municipalization, annexation of portions of PG&E's service area by another utility, the formation of Community Choice Aggregators ("CCAs") – as well as the loss of the industrial and commercial customers that are the subject of this proceeding. PG&E has consistently responded to these types of threats and has worked to maintain its customer base.[45] Thus one can conclude that it is in PG&E's long-term interest in continuing to do so.

III. LGP Testimony does not Adequately Assess the Proposed EDR Program from the Perspective of Nonparticipating Ratepayers

A. LGP's Determination that 12% and 35% are the Appropriate Discount Rates Lacks an Evidentiary Basis and Fails to Consider the Nonparticipating Ratepayer Perspective

In response to the question, "are the proposed 12% and 35% EDR discount rates the most appropriate discount rates?", the LGP stated:

> *While no number is perfect, 35% for the full 5 years is a substantial enough number to a) catch the attention of site selectors, b) offset the negative headline rates in any head to head comparison of location costs and c) equate to meaningful savings that can be cost-assessed over the five years and realized as a valuable plus in the decision making process….I believe that any lower discount would fail the three elements I outline above and make the incentive much less effective.* (LGP Testimony,

[43] Resolution E-3654, p. 6.

[44] See A.12-03-001, DRA Testimony, p. 3-10, lines 14-22.

[45] A.12-03-001, DRA Testimony, p. 3-12, lines 1-8.

A.12-03-001, p. 21, lines 4-8, & lines 15-17)

DRA agrees with the above statement from the LGP testimony that a 35% discount for five years will (a) catch the attention of site selectors, (b) offset the negative headline rates in any head to head comparison of location costs and (c) equate to meaningful savings that can be cost-assessed over the five years. But the LGP testimony provides no justification for why the 35% discount is necessary, nor does it consider that a lower or a declining discount might achieve similar results. LGP merely gives examples of unrelated, non-economic development, state laws that use 35% as a benchmark.[46]

Regarding the 12% standard EDR option, which would be available for five years, the LGP testimony states, "I can see this being effective in areas that have fewer economic challenges."[47] LGP defined "economic challenges" earlier in its discussion of the enhanced EDR, when it said that counties with high unemployment face the challenge of the "herd mentality" of business investors that are attracted to the stronger economic areas. This is the only justification the LGP testimony gives for why a discount that is almost triple the size of the standard EDR discount is necessary. From a nonparticipating ratepayer perspective, it is hard to see the justification for a 35% discount that exposes ratepayers to the risk of a rate increase, when the 12% discount, or DRA's average 22% discount, also might be effective.

DRA wants to encourage job creation and economic development in economically depressed counties, but not at the expense of the ratepayers in those

[46] The LGP testimony references the California Land Conservation Act of 1965 when discussing the appropriateness of the 35% discount. This Act has nothing to do with economic development as can be seen from the following explanation of the Act, "The California Land Conservation Act of 1965--commonly referred to as the Williamson Act--enables local governments to enter into contracts with private landowners for the purpose of restricting specific parcels of land to agricultural or related open space use. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value. Local governments receive an annual subvention of forgone property tax revenues from the state via the Open Space Subvention Act of 1971." (California Department of Conservation, http://www.conservation.ca.gov/dlrp/lca/Pages/Index.aspx).

[47] LGP Testimony, A.12-03-001, p. 21, lines 26-27.

areas for whom a rate increase could be harmful. This is why DRA is advocating for an enhanced EDR program that offers a declining discount.

B. LGP's Assertion that Successful and Attractive EDR Options will ensure that Rates Remain Just and Reasonable for Non-EDR Participants Fails to Account for the Risks the EDR Programs Pose to Nonparticipating Ratepayers

The ACR also asks what the Commission must do in order to ensure that rates remain just and reasonable for non-EDR participants. The LGP testimony responds by stating:

> *Only if the proposed EDR options were to become successful, might there be an issue of the justness and reasonableness of those rates. Success would be measured in qualified participants staying in, expanding in or moving to California, i.e. the creation of new jobs or saving jobs. At that point even non-participants would likely see the EDR options as positive and as both just and reasonable. Moreover, that very success would, in PG&E's calculations, already have paid for any discounts. Prior to any success, the program essentially will not generate cost burdens, for any party. Therefore, to protect the interests of ratepayers generally, the Commission simply need only ensure successful and attractive EDR options.* (LGP Testimony, A 12-03-001, p.28, lines 21-28, p.29, line 1)

First, LGP is incorrect in asserting that, "Only if the proposed EDR options were to become successful, might there be an issue of the justness and reasonableness of those rates." According to P.U. Code §451, "*any* charges demanded or received by any public utility… shall be just and reasonable" (emphasis added). PG&E's proposed EDR program could be unsuccessful and have low participation and yet still generate a negative CTM. Under this example, the costs of a program that did not generate any new jobs would be allocated to ratepayers and it would violate the mandate that *all* charges be "just and reasonable."[48]

[48] DRA's proposal, while it minimizes the danger of negative CTM, does not guarantee that there will
(continued on next page)

The LGP testimony also states that "to protect the interests of ratepayers generally, the Commission simply need only ensure successful and attractive EDR options." However, one could imagine a situation where this would not prove true for the enhanced EDR program. The EDR program could be successful and attract a considerable number of retention customers, but marginal costs could increase over time. Under this scenario, the EDR program could generate a negative CTM, resulting in unjust and unreasonable rate increases to nonparticipating ratepayers. The problem with the EDR program, as proposed, is that it leaves too much to chance. The Commission should not approve an EDR program that subjects ratepayers to considerable risk that their rates will increase, regardless of the success of the EDR program in attracting or retaining load in California. An EDR program, which does contain adequate safeguards to protect against rate increases, would result in ratepayers paying charges that are not just and reasonable, in violation of P.U. Code §451.

(continued from previous page)
be no negative CTM. DRA has recommended, for the program to remain legal, that shareholders absorb any negative CTM remaining after 10 years.

APPENDIX A: Excerpts From The California Energy Commission Draft Staff Report: 2011 Natural Gas Market Assessment: Outlook, September, 2011

"*Natural gas is a heavily traded commodities market characterized by inherent volatility. Over just the last decade, natural gas prices spiked several times*."[49]

Figure ES-3 (shown below), from the 2011 CEC Natural Gas Market Assessment[50] report, provides historical gas prices from 2005 through 2011 and the CEC's reference case price forecast, together with three additional "change case" forecasts. According to this figure, Henry Hub daily spot market natural gas prices were above $6 per MMBtu prior to 2009, and then collapsed to below $4 in 2009 through 2011. However, in all 4 CEC forecasts, prices are expected to return to the $6 level or above, by 2013. According to the CEC:

> *The Reference Case results suggest that the combination of recession-driven weak demand and abundant domestic supply has driven current wholesale market prices significantly below the … highs of a few years ago. These conditions are projected to be temporary as:*
>
> - *Future demand increases with economic recovery and diminishing opportunities on the production side*
> - *Prices rise as production marches up the marginal cost supply curve,*
> - *Even with returning demand, prices could plateau at about $6.00/MMbtu (2010$).*[51]

The CEC expects the current low natural gas prices to be temporary:

> *The spot purchase price of natural gas at the Louisiana trading hub called Henry Hub is a nationally important market price benchmark. Currently, natural gas prices at Henry Hub are in the low $4/MMBTU range (in 2010$). Current spot prices of natural gas reflect a large supply from shale natural gas and a slow economy. Much of the natural gas production is occurring on leased land where many gas developers must drill for gas soon or lose their*

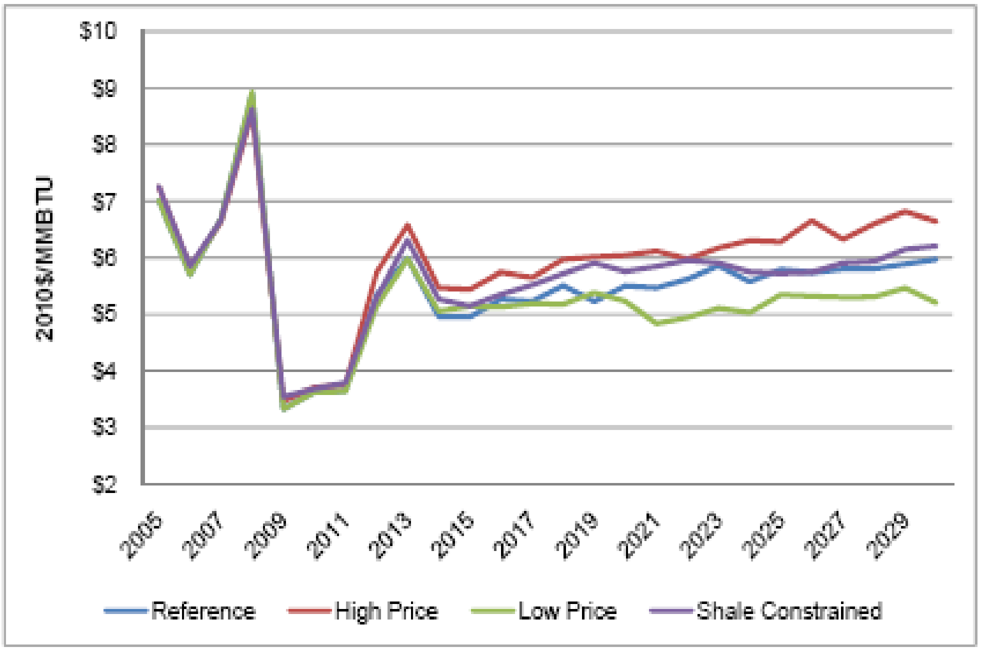
[49] Report No. CEC-200-2011-012-SD, p.4.

[50] *Id*., p. 8.

[51] *Id*., p. 6.

lease. Since demand is low due to the recession, the resulting temporary oversupply situation pushes current market prices down.[52]

Figure ES-3: Henry Hub Daily Spot Market Natural Gas Prices Across Cases Designed to Move Gas Prices

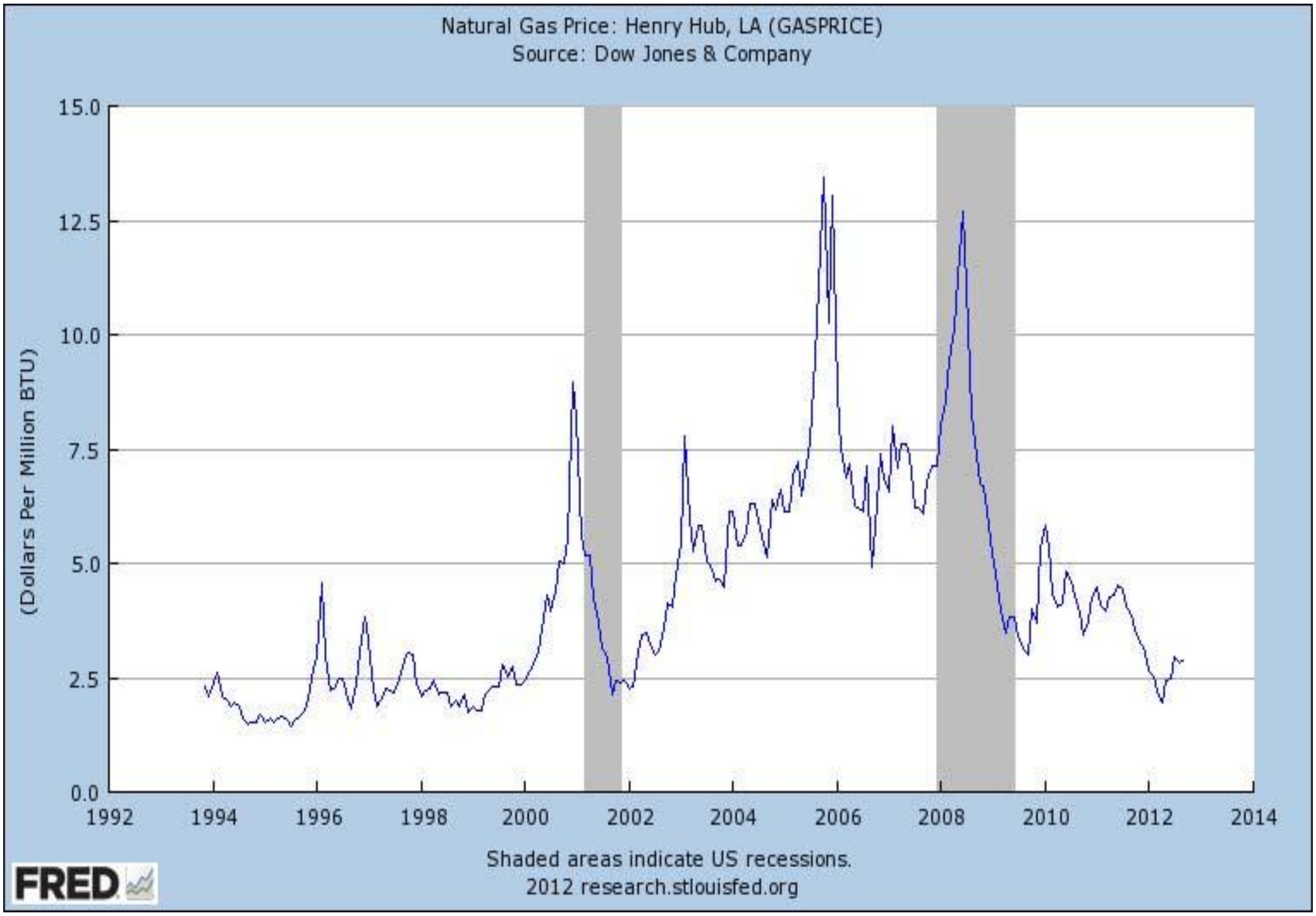


Source: California Energy Commission Staff Draft Analysis.

[52] *Id*., p. 42.

APPENDIX B: Chart of Historical Natural Gas Prices, 1994-2012

The following graph is from the Federal Reserve Bank, St. Louis, Economic Research Group (FRED):



http://research.stlouisfed.org/fred2/series/GASPRICE/

It shows the volatility of natural gas prices, which are a major determinant of PG&E's marginal energy cost. These prices, recently as low as $2.50 per million Btu, were nearly 5 times as high ($12.50 per million Btu), within the last five years.

APPENDIX C: Data Request Response

PACIFIC GAS AND ELECTRIC COMPANY

Economic Development Rate 2013-2017

Application 12-03-001

Data Response

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<tr><td>Date Sent:</td><td>August 2, 2012</td><td>Requesting Party:</td><td>DRA</td></tr>
<tr><td>PG&E Witness:</td><td>Jeff Adolph</td><td>Requester:</td><td>Bob Levin</td></tr>
</table>

QUESTION 4

How many employees does PG&E currently have administering the EDR program? How many of these employees conduct the application review process? Which department at PG&E administers the EDR Program? Does the same department conduct business outreach or other similar activities?

ANSWER 4

Currently, there is less than one FTE involved in EDR program administration activities such as the application review process, contract implementation and compliance reporting given the low level of activity as well as the fact that CalBIS conducts its own review. The Service Analysis department is responsible for the overall management and oversight of PG&E's EDR program. This department does not conduct PG&E's business outreach activities.

Appendix D:

August 7, 2012 Scoping Memo & Assigned Commissioner's Ruling: Questions and Responses

Updated and Re-filed November 2, 2012 in Response to ALJ Clark's October 26, 2012 Ruling

Appendix D: August 7 Scoping Memo & Assigned Commissioner's Ruling: Questions and Responses

Question	DRA Response
1) Will the proposed EDR Option attract, retain and encourage expansion of companies and reduce unemployment in PG&E's service territory?	Potentially yes, with some caveats. The EDR program, if structured and administered correctly and with appropriate non-participating ratepayer safeguards, could offer the necessary benefits to elicit growth in the state's economy, and to create and retain employment opportunities. However there are indications that unemployment has decreased sharply in California, especially in 2012, and in particular in the most economically distressed counties (Fresno, Kern, and San Joaquin) in PG&E's service area. For example, while Statewide unemployment has decreased by 2.7% from 12.4% in 2010 to 9.7%, unemployment in the 22 economically distressed counties identified by PG&E decreased by an average of 4.8%[1] over the same period, based on the attached reports by the California Employment Development Department ("EDD"). Further, based on these reports, there were, as of September 2012, more persons employed in total in Fresno, Kern, and San Joaquin counties than in the pre-recession year of 2007.

[1] The unweighted average of the unemployment rates for the 22 counties listed in PG&E's Table 2-1 of its March 1, 2012 testimony decreased from 17.2% in 2010 to 12.4% in September, 2012, see Attachment 1. County level EDD employment reports for the years 2007-2011 and September, 2012 are attached (Attachments 2-7), along with a summary that focuses on the 3 counties (Fresno, Kern, and San Joaquin) that comprise about 75% of the eligible businesses in PG&E's proposed 22 county Enhanced EDR area, see Attachment 1.

2) Should the Commission continue to require that the EDR maintain the floor price program component that was established in 2005 and modified in 2007?	Yes, with some modification. A floor price is a necessary component of an EDR program; it should be required in order to reasonably ensure that the benefits of EDR to non-participating ratepayers outweigh the risks. The current EDR floor price consists of the sum of nonbypassable charges ("NBCs") and marginal costs ("MCs"). As a temporary measure, DRA proposes that a modified additive price floor be substituted for the current additive floor price. DRA's floor price proposal is explained in its rebuttal testimony, Chapter 1, pp. 1-3 to 1.5. In its direct testimony, DRA proposed a 3-part floor price including the modified additive pricing floor. DRA continues to believe that discounted rates must exceed the sum of non-bypassable charges in each year, and that discounted rates must provide a positive CTM (in present value) over the contract term. For simplicity, DRA now characterizes its floor price proposal as a modified version of the floor price methodology adopted in D.07-09-016. DRA's floor price proposal differs from that adopted in D.07-09-016 in 2 respects: (1) The marginal generation capacity cost is assumed to be zero in recognition of the short-term nature of the EDR discounts, and the lack of short-term need for new generation capacity; and (2) Rather than require the floor to be met in each year, DRA proposes that it be sufficient to meet the floor in present value over the contract term. This would allow larger discounts in the early years of a multi-year EDR contract, assuming that the discount would decrease over the contract term.
3) Is PG&E's proposal to allow a negative distribution rate consistent with the Commission's existing policy?	No. For Direct Access ("DA") and Community Choice Aggregation ("CCA") customers, all rate components with the sole exception of Distribution are nonbypassable and/or nondiscountable. For such customers, a negative distribution rate would be equivalent to discounting one or more nondiscountable rate components, since the total rate would produce insufficient revenue to fully fund all nondiscountable rate components. Therefore the distribution rate cannot be negative for DA and CCA customers. Competitive neutrality requires that distribution rates be the same for similarly situated bundled service and DA/CCA customers. Therefore, negative distribution rates also cannot be allowed for bundled service customers either. See DRA direct testimony Ch. 2, pp. 2-11, 2-12, and DRA rebuttal, Ch. 1, pp. 1-14 and 1-15.

4) Does the proposed EDR result in discounts to Non-Bypassable Charges if it results in negative distribution rates for some customers?	Yes. See DRA's response to Question 3 and DRA's rebuttal on p.1-15.
5) Is the proposed EDR competitively neutral with respect to Community Choice Aggregators, Energy Service Providers and Irrigation Districts (IDs)? If not, in what respects is the proposed EDR not competitively neutral and how may competitive neutrality be achieved?	No. PG&E's proposed EDR is not competitively neutral with respect to DA and CCA customers relative to bundled services. In some cases, bundled service customers would pay substantially lower bills for distribution service than would similarly situated DA and CCA customers. DRA proposes to achieve competitive neutrality for distribution service by imposing a marginal cost floor on distribution rates, and supporting AReM's proposal to prorate EDR discounts for bundled service customers to generation and distribution in proportion to available headroom (defined as the difference between the full tariff rate component and the component marginal cost). Under DRA's EDR proposal, neither bundled service customers nor DA/ CCA customers' distribution rate could be discounted below a marginal cost floor. DRA differs from AReM, however, in that DRA would not allow Direct Access or CCA customers to pay a lower rate for distribution than similarly situated bundled service customers. These DRA proposals would remove unequal treatment of distribution rates (a service received in common by bundled service, DA, and CCA customers) as a potential obstacle to competitive neutrality. DRA's and AReM's proposals are discussed in DRA's rebuttal at pp. 1-15 to 1-17. DRA's proposal does allow PG&E to discount generation rates for bundled service customers, but not below the five-year net present value of marginal generation cost. Such a discount cannot be applied to DA/CCA customers: A utility cannot discount a service that it does not provide.

6) Does the proposed EDR (either standard or enhanced) favor large businesses and thereby inadvertently exclude small and medium sized businesses? Should there be a percentage quota established across business category types who enroll in the EDR?	The U.S. Small Business Administration defines "small business" as having fewer than 500 employees.[2] In contrast, eligibility for PG&E's proposed EDR programs is limited to customers with peak electric loads of 200 kW or more. Since there is no direct correlation between number of employees and peak electric demand, some small, but energy intensive businesses may qualify for EDR. However, it is likely that many small and medium businesses are being excluded from EDR.
7) Will the proposed EDR result in benefits to ratepayers as required by Public Utilities Code section 740.4(h)? If so, what are those benefits, and how can those benefits be measured?	PG&E's proposed EDR may or may not result in benefits to ratepayers as required by Public Utilities Code section 740.4(h). Net benefits to ratepayers equate to the contribution to margin ("CTM") from attracted or retained "at risk" customers, less the revenue shortfall due to discounts provided to "free riders". Net benefits may also be enhanced to the extent of utility shareholder contributions to the cost of discounts or to offset any negative CTM. However, PG&E proposes no shareholder participation. PG&E's proposed 35% Enhanced EDR Option discount, combined with its proposed elimination of the current EDR floor price and the easing of some current eligibility requirements, greatly increases both the risk of negative CTM, and the risk of free riders, relative to the current EDR program. While PG&E has calculated that its proposals will produce a positive CTM over 10 years in all cases, the 5-year CTM is negative for some of its proposed Enhanced EDR Option cases. This poses the risk of negative CTM if customers leave shortly after, or even before, the expiration of their 5-year EDR contracts. The risk of negative CTM also is increased, relative to the current EDR, by PG&E's proposed discontinuance of an annual "true-up" of customer bills for changes in the marginal cost. In summary, the increased risk of negative CTM, together with increased risk of free riders, renders questionable any conclusion that PG&E's proposed EDR will result in net benefits to ratepayers. See, DRA direct testimony pp 1-3 to 1-5; DRA rebuttal testimony pp. 1-5 to 1-7

[2] See Attachment 8, SBA report.

8) Does the Commission have authority, broader than that provided in section 740.4(h), to undertake programs to foster and encourage economic development?	The Commission's economic development authority is broader than §740.4(h). PUC §740.4(a) specifies the Commission's authority to authorize the utilities to engage in programs to encourage economic development. Section 740.4(c) enumerates a broad list of economic development activities included under the Commission's purview. These activities include community marketing and development, technical assistance to support technology transfer, market research, site inventories, industrial and commercial expansion and relocation assistance, business retention and recruitment, and management assistance. PUC §740.4 gives the Commission the authority to approve and regulate PG&E's proposed EDR program.
9) Must the proposed EDR schedule of rates generate a positive contribution to margin in order to comply with section 740.4(h), or are there other benefits that will suffice to demonstrate compliance with this statutory requirement?	Yes. The EDR program must generate a positive contribution to margin over the 5-year term of the EDR contract on an ex ante basis in order to comply with PUC §740.4(h). DRA recognizes that the EDR program could benefit ratepayers in other indirect ways. These indirect benefits are not sufficient to satisfy the ratepayer benefit requirement in PUC §740.4(h). Indirect benefits cannot substitute for the requirement of a positive ex ante contribution to margin over the 5-year term of the EDR contract. See, DRA direct testimony pp 1-3 to 1-5; DRA rebuttal testimony pp. 1-5 to 1-7
10) Are there discriminatory impacts in offering the enhanced EDR in counties with unemployment levels at 125% or more above the state average? Should customers outside those geographic areas bear the costs of the deeper discount? Should the economic development needs of counties with higher unemployment obtain an advantage over economic development needs of other counties?	DRA has not prepared a response to this question.

11) Should the Commission deny PG&E the ability to offer an EDR discount in the areas where it competes with Merced ID and Modesto ID and already has the statutory ability to offer discounts?	DRA has not prepared a response to this question.
12) Do the geographic distinctions in the proposed EDR comport with laws prohibiting rates that grant preferences or advantages to some customers and that prejudice and disadvantage others?	DRA has not prepared a response to this question.
13) Does California Environmental Quality Act require the Commission to review the environmental impact of any EDR agreements that PG&E proposes to execute?	DRA has not prepared a response to this question.
14) What provisions of an EDR are necessary in order to avoid conflicts with the existing legislative framework relative to competition between PG&E and Modesto ID and PG&E and Merced ID?	DRA has not prepared a response to this question.

15) Are the proposed 12% and 35% EDR discount rates the most appropriate discount rates?	No. DRA has no objection to the 12% Standard EDR Option discount, but has determined that the PG&E's proposed 35% Enhanced EDR Option discount would result in a negative CTM in some cases, over the proposed five-year contract term. See, DRA direct testimony p.2-2. DRA has proposed a five-year discount schedule, beginning at 35% but declining year by year, such that the five-year CTM is positive in all cases. See, DRA direct testimony p.2-13 and DRA rebuttal, Ch. 2, pp. 2-10 and 2-11.
16) Should the Commission remove the 200 MW participation cap it currently requires as an element of PG&E's current EDR?	No. The Commission should retain the 200 MW participation cap in order to limit the risk to non-participating ratepayers. See DRA direct testimony p.3-7 and DRA rebuttal, p. 2-4, 2-5.
17) Should the Commission modify the EDR participation verification requirements by eliminating the current requirement that the Office of California Business Investment Services conduct an independent evaluation of a customer's eligibility for Economic Development Rates?	No. The Commission should retain the requirement that the Office of California Business Investment Services (CalBIS) conduct an independent evaluation of a customer's eligibility for the EDR program. CalBIS has the necessary expertise to evaluate EDR applications and to determine if customers meet the program's minimum qualifications. Third party oversight is a vital tool to discourage free riders from obtaining EDR discounts. CalBIS is the appropriate third party to conduct review of EDR applications because it is an expert in economic development. CalBIS is aware of the economic development programs other states offer and therefore can quickly and effectively evaluate EDR applicants' discussion of other locations they are considering. See DRA direct testimony Ch. 3, pp. 3-5 and 3-6.

18) Should the Commission establish a requirement that all EDR Agreements must contain a provision that requires cost-effective conservation or other equivalent demand-side management and load reduction discussions between PG&E and the applicant? Should any post discussion actions be required?	Yes. The Commission should require PG&E to conduct an energy audit of EDR program applicants and discuss cost effective conservation and demand side management programs with applicants. The Commission also should consider requiring EDR customers to implement cost effective energy efficiency and demand side management measures with a two-year payback period. See DRA direct testimony Ch. 3, pp. 3-7 and 3-8.
19) Should potential EDR customers be required to demonstrate that electricity makes up a threshold percentage of operating costs in order to qualify for the EDR discount?	Yes. The Commission should require EDR customers to demonstrate that electricity makes up at least 5% of their operating costs in order to qualify for the EDR discount. The Commission should require the customer affidavit to include a provision that electricity costs constitute at least 5% of the customer's operating expenses. This requirement helps to ensure that participation in the EDR program is limited to those for whom it will have a meaningful impact. Also, the requirement protects the integrity of the EDR program by making it available only to businesses for which energy is a material cost. The 5% requirement is a very low threshold, especially considering that it excludes the cost of raw materials. Given the large amount of retention customers who could potentially be eligible for this program, participation in the EDR program must be limited in order to protect nonparticipating ratepayers. The Commission adopted a 5% threshold in prior EDR proceedings, Decision 05-09-018 and Decision 10-06-015. The 5% threshold is the result of settlement negotiations that took place for the 2005-2010 EDR program application. It represents a threshold that a range of parties representing different interests eventually agreed was fair and reasonable. The fact that the settling parties in Decision 10-09-015, which extended the 2005-2010 EDR program until December 31, 2012, decided to retain this requirement and the Commission approved it, further affirms the requirement's utility as well as the reasonableness of the 5% threshold. This requirement should be retained because it serves an important purpose; limiting EDR eligibility to businesses that need it the most and past Commission precedent supports it. See DRA direct testimony Ch. 3, p. 3-3, and DRA rebuttal, Ch. 2, pp. 2-5 and 2-6.

20) Is there value in the current requirement that the "Customer Affidavit" be signed "under penalty of perjury" in attesting that but for this rate, the business would not expand, stay in, or come to California?	Yes. The Customer Affidavit is the primary tool in the EDR programs that discourages free-riders from participating in the EDR program. The customer affidavit has been an element of the past two EDR programs.[3] The affidavit ensures that the program achieves its stated mandate, "to be available to businesses… that are locating, retaining or expanding major business facilities with at least 200 kW of load and that are also actively pursuing out-of-state location options for that load or would otherwise cease operations."[4] The affidavit is an important screening mechanism of the EDR program because it confirms that program participants are in fact actively considering out-of-state location options or considering ceasing operations. According to the Commission, the affidavit serves a key function, "it requires the applicant, under penalty of law, to assert that were it not for the Agreement it would have failed to expand, relocate or add its load in the State of California."[5] The affidavit requirement should be retained because it protects the integrity of the EDR program and the Commission has affirmed its value. See DRA direct testimony Ch. 3, p. 3-2, and DRA rebuttal, Ch. 2, pp. 2-7 and 2-8.
21) Should the enhanced EDR option be for a more limited or a different term than the standard EDR option?	Yes, unless either (1) DRA's declining discount proposal is adopted, or (2) new marginal costs adopted in the 2014 and 2017 GRCs are reflected in discounts as proposed in DRA's rebuttal at p.1-2 and p.1-14. If neither of these provisions is adopted, then Enhanced EDR contract terms should be limited to three years, as described in DRA's rebuttal testimony, pp. 1-12 through 1-14.
22) Should there be a limit on the number of times that a customer's EDR participation may be extended for another term?	Yes. The Commission should allow customers with a standard EDR contract to reapply once for a second term, provided that they continue to meet the eligibility requirements and sign another customer affidavit and contract. This proposal will maintain ratepayer risk at an acceptable level. Customers should under no circumstances be allowed two consecutive terms under an Enhanced EDR program. See DRA direct testimony Ch. 3, pp. 3-3 and 3-4.

[3] D 05-09-018, p.24; D 10-06-015, p.14.

[4] PG&E Application12-03-001, P.6.

[5] D 05-09-018, p. 16.

23) What provisions of an EDR are necessary to guard against free-riders?	The following provisions are necessary to guard against free-riders: (1) the customer affidavit signed under penalty of perjury, (2) limiting EDR program participation to customers for whom electricity costs constitute at least 5% of their operating expenses, (3) the CalBIS review and approval of applications; (4) inclusion of a non-assignability clause in EDR contracts, and (5) inclusion of liquidated damages clauses covering premature termination of EDR customer contracts as well as misrepresentation or fraud. See DRA direct testimony Ch. 3, pp. 3-3 and 3-4.
24) Which elements of the current floor price (e.g. generation marginal costs) have decreased the headroom available for discounting rates? Would modifying the terms of discounting floor price elements (e.g. indexing the price of natural gas to generation rate discounts) significantly increase the headroom available for discounting rates?	The headroom for EDR discounts can be affected by changes in the marginal cost of energy (MEC), which, in turn, is sensitive to fluctuations in the market price of natural gas. In the current EDR program, increases in MEC have caused the EDR price floor to increase. In the current program, the marginal cost floor is enforced annually and retroactively, in some cases causing customers to be back-billed for previous discounts received. DRA does not object to PG&E's proposal to index its forecast of MEC to the price of natural gas. Assuming forecasts are unbiased, indexing should, as a general rule, neither increase nor decrease the amount of headroom available for discounts. In the particular case of PG&E's application, natural gas prices have declined relative to those assumed in PG&E's 2011 GRC Phase 2 Settlement, and PG&E's indexing proposal would increase the headroom for discounting. DRA's proposed marginal cost and modified additive price floors use a weighted average of PG&E's indexed MEC value and the Settlement MEC. DRA recommends that EDR contracts reflect changes to marginal costs when they are updated in the 2014 and 2017 GRCs, as explained in DRA's rebuttal, pp. 1-12 to 1-14. See also DRA's response to Q. 21.
25) Does the existence of a price floor act as a disincentive to business participation in the EDR program?	No. The existence of a price floor should not, *per se*, act as a disincentive to business participation in the EDR program. Of course, the *level* of the floor will constrain the amount of discount available, and may, in some cases, act as a disincentive to business participation in the EDR program. Of greater concern than the existence of a price floor is the manner in which it is applied. The currently required after-the-fact annual review and true up is probably a disincentive to business participation in the EDR program, because it introduces considerable uncertainty in customers' final costs for energy.

26) Should the Commission eliminate the currently required after-the-fact annual review and true up that ensures that the discounted rates charged remained above the floor price?	Yes, for reasons stated in DRA's response to Question 25.
27) Should contribution to margin be required of each participant, or of the program generally?	A positive contribution to margin (CTM) should be required of each participant over the term of its EDR contract, on an ex ante (forecast) basis only. For the proposed five-year contract term, each contract must show a positive five-year net present value of CTM, on a forecast basis. As a general principle, DRA believes that each participant should be required to demonstrate a positive CTM, on an ex ante (forecast) basis. Ideally, such a demonstration would be on a customer-specific basis, relative to the marginal costs associated with the customer's actual location. While such an approach has been followed in some previous Commission proceedings which authorized discounts,[6] DRA recognizes that it would be burdensome to require a full, customer-specific marginal cost analysis for each EDR applicant, and accepts PG&E's use of separately averaged distribution marginal costs for constrained and unconstrained areas as a reasonable proxy for a customer-specific CTM calculation. See, DRA rebuttal, p.1-11 and 1-12. DRA believes that each EDR program must stand on its own in passing the ratepayer benefits test. For example, a positive CTM from a "Standard" EDR program should not be combined with, and mask, a negative CTM from an "Enhanced" EDR program. See, DRA rebuttal p.1-12. Finally, the Utility should be required to track EDR aggregate portfolio CTM on an ex post basis, and shareholders should be responsible for 100% of any negative CTM cumulated through year 10 (i.e., 2022). See DRA direct testimony Ch. 3, p. 3-15 and 3-16.

[6] For example, the Expedited Application Docket proceedings which followed D.92-11-052

28) Should contribution to margin be calculated annually, or over some other time period?	PG&E should be required to calculate, track, and report CTM annually by contract and for the EDR portfolio, both on an ex ante and an ex post basis. See DRA's response to Question 27.
29) What must the Commission do in order to ensure that rates remain just and reasonable rates for non-EDR participants?	First and foremost, the Commission must continue to set a floor price on EDR rates, which includes the sum of marginal costs and nonbypassable charges, to ensure that nonbypassable costs are fully funded and that the marginal costs of serving EDR customers are not shifted to nonparticipating ratepayers. Second, the Commission must reject PG&E's proposal to allow negative distribution rates. PG&E's proposed negative distribution rates would, in some cases, discount nondiscountable rate components, violate competitive neutrality, and would be contrary to sound public policy. Third, the Commission should tighten the current EDR programs safeguards against free riders, rather than relaxing those safeguards as PG&E proposes. Fourth, if the Commission chooses to allow a fixed discount percentage for Enhanced EDR as proposed by PG&E, then it must either (1) shorten the contract term to three years, or require PG&E to reflect newly adopted 2014 GRC and 2017 GRC marginal costs as described in DRA's rebuttal at p.1-14. Finally, the Commission should require PG&E's shareholders, if they wish to voluntarily offer EDR discounts at ratepayer expense, to assume the risk of the 10-year net present value of the CTM turning negative. Otherwise, there is risk that ratepayers will not benefit from the EDR program, contrary to the requirements of P.U. Code Section 740.4 (h).
30) Should PG&E shareholders bear some of the costs of any rate increases to non-EDR program participants that occur because of the rate reductions given to EDR program participants?	Yes. The Commission should require shareholders to bear 25% of the cost of the EDR discounts, assuming that a floor price is retained substantially as proposed by DRA. If the floor price is removed, as PG&E proposes, then shareholders should bear 50% of the cost of the EDR discounts in light of the substantially greater risk to ratepayers from absence of a floor price. The Commission does have the discretion to allocate all or some portion of the cost of voluntary EDR discounts to shareholders. See DRA direct testimony Ch. 3, p. 3-14 and 3-15

31) Should there be a provision that requires shareholders to bear the cost of the EDR rate differential if an *ex-post* review of the program reveals that it has not resulted in benefits to ratepayers?	Yes. The Commission should require shareholders to bear 100% of the cost of the EDR rate differential if an ex-post review of the EDR program reveals that it has not resulted in a positive CTM after 10 years. DRA believes that such a requirement follows from the ratepayer benefit condition of P.U. Code 740.4 (h). PG&E designed its proposed EDR program to generate a positive CTM over 10 years, but it cannot guarantee that customers will continue to take PG&E service for the full 10 year period. Further, PG&E's rebuttal testimony states that the program can be evaluated in Phase 2 of the 2017 GRC and that customers participating in the EDR program should not be precluded from qualifying for any subsequent EDR program.[7] This means that EDR customers could receive a substantial EDR discount for more than 5 years. Also, under PG&E's proposal, the EDR program will be open to new participants until December 31, 2017, which means that new contracts can be signed until that point and then will be effective for the following 5 years.[8] Marginal costs could rise dramatically over the next 10 years, which could result in EDR customers generating a negative CTM; therefore, it is necessary to protect ratepayers from this risk. PG&E should be required to stand behind its testimony, and if an ex-post review of the program reveals that it has not generated a positive CTM after 10 years, PG&E shareholders should be required to fund the recovery of that negative CTM. See DRA direct testimony Ch. 3, pp. 3-15 and 3-16 and DRA rebuttal, Ch. 2, pp. 2-8 and 2-9.

[7] PG&E rebuttal testimony, Chapter 2, p. 2-9.

[8] PG&E rebuttal testimony, Chapter 2, p. 2-9, FN 6.

32) To what extent have previously authorized EDR programs accomplished these objectives?	The recent past EDR programs contained substantial ratepayer benefit assurances because they enforced strict price floors that guaranteed the EDR program would generate a positive CTM. The past EDR programs did not document secondary ratepayer benefits. No job reporting or economic analysis was required for the past programs. Decision 05-09-018 required annual reports to the Commission listing all EDR applicants, the contents of the CalBIS review for these applicants, and the utilities' final selection of EDR candidates. In addition, Decision 10-06-015 required the reports to include a flow chart describing the Utilities' EDR screening and enrollment processes, and for new EDR customers, the amount paid to the utility above the floor price and the discount provided relative to the customer's Otherwise Applicable Tariff. See DRA direct testimony Ch. 3, p. 3-6. The EDR annual reports provide some indication of the EDR program's success, the number of applicants, the number of EDR contracts signed, and what type of customers (attraction, expansion, and retention) signed EDR program contracts. The reporting requirements listed in Decision 10-06-015 provide information about ratepayer benefits because they include the amount paid above the floor price, which is indicative of a positive CTM the customer contributed.
33) Should the EDR include a requirement that each participant provide a good faith ex ante projection of the number of jobs the discounted rate will produce, and an accurate ex-post assessment of what jobs were actually created?	No and Yes. The Commission should not require EDR participants to provide a good faith ex ante projection of the number of jobs that discounted rate will produce. But the customer should be required to provide such data to PG&E one year after the customer has begun service under the Enhanced EDR program. The customer should provide the number of California jobs created or retained due to the applicant maintaining, locating, or expanding their operations within California, as well as occupational classifications for these jobs and an average of the pay and benefits for these jobs. PG&E should be required to include this employment data in its annual EDR reports.

List of Attachments

1. PG&E Table 2-1 Extended California Unemployment Rates By County (%) and Employment by County (Fresno, Kern & San Joaquin Only)
2. REPORT 400 C Monthly Labor Force Data for Counties Annual Average 2007 – Revised
3. REPORT 400 C Monthly Labor Force Data for Counties Annual Average 2008 – Revised
4. REPORT 400 C Monthly Labor Force Data for Counties Annual Average 2009 – Revised
5. REPORT 400 C Monthly Labor Force Data for Counties Annual Average 2010 – Revised
6. REPORT 400 C Monthly Labor Force Data for Counties Annual Average 2011 – Revised
7. REPORT 400 C Monthly Labor Force Data for Counties September 2012 – Preliminary
8. SBA: Small Business Profile

PG&E Table 2-1 Extended
California Unemployment Rates By County (%)
(Source: California Empoyment Development Department)

	2010	2011	Sept. 2012
Colusa	20.4	20.4	14
Sutter	19.8	18.9	14
Yuba	19.1	18.2	11.3
Merced	18.9	18.3	14.5
Trinity	18.7	17.8	13.1
Lake	18.1	16.7	13.4
San Benito	17.6	15.7	9.7
Siskiyou	17.6	16.6	12.5
Stanislaus	17.4	16.8	13.5
San Joaquin	17.3	16.8	13.4
Fresno	16.8	16.5	13.1
Plumas	16.8	15.9	12.1
Tulare	16.8	16.6	14.1
Kings	16.5	16.1	12.8
Glenn	16.3	15.8	12.4
Shasta	16	14.7	11.6
Kern	15.9	14.9	12
Sierra	15.8	14.3	9.9
Tehama	15.8	15	12.5
Alpine	15.7	15.1	8.6
Calaveras	15.6	14.6	11.9
Madera	15.6	15.3	11.6
22 Cty Avg.	**17.2**	**16.4**	**12.4**
3 Cty Avg. (Fresno, Kern, San Joaquin)	**16.7**	**16.1**	**12.8**
Statewide	**12.4**	**11.7**	**9.7**

PG&E Table 2-1 Extended
Employment by County

	2007	2008	2009	2010	2011	2012 (Septembei
Fresno	**383,400**	**385,100**	**369,400**	**366,000**	**368,900**	**389,100**
Kern	**317,400**	**324,500**	**311,000**	**314,100**	**325,100**	**337,900**
San Joaquin	**265,700**	**262,800**	**252,700**	**248,900**	**247,400**	**260,900**
3-county employment	**966,500**	**972,400**	**933,100**	**929,000**	**941,400**	**987,900**

State of California
April 20, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http://www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
Annual Average 2007 - Revised
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**17,921,000**	**16,960,700**	**960,300**	**5.4%**
ALAMEDA	10	746,300	711,200	35,100	4.7%
ALPINE	39	490	460	40	7.9%
AMADOR	25	17,730	16,700	1,030	5.8%
BUTTE	32	101,400	94,600	6,800	6.7%
CALAVERAS	31	20,760	19,420	1,330	6.4%
COLUSA	57	10,230	9,030	1,200	11.8%
CONTRA COSTA	10	515,100	490,900	24,100	4.7%
DEL NORTE	36	11,050	10,210	830	7.5%
EL DORADO	19	90,500	85,800	4,700	5.2%
FRESNO	48	419,200	383,400	35,900	8.6%
GLENN	51	11,990	10,940	1,060	8.8%
HUMBOLDT	26	59,400	55,900	3,500	5.9%
IMPERIAL	58	66,100	54,100	11,900	18.1%
INYO	16	8,900	8,460	440	4.9%
KERN	43	345,700	317,400	28,300	8.2%
KINGS	49	57,400	52,400	5,000	8.7%
LAKE	45	24,080	22,040	2,030	8.5%
LASSEN	43	12,460	11,440	1,020	8.2%
LOS ANGELES	18	4,872,500	4,625,600	246,900	5.1%
MADERA	36	63,500	58,700	4,800	7.5%
MARIN	1	132,100	127,300	4,800	3.7%
MARIPOSA	28	9,080	8,530	550	6.0%
MENDOCINO	22	43,180	40,800	2,370	5.5%
MERCED	55	100,000	89,900	10,100	10.1%
MODOC	41	3,900	3,590	310	8.0%
MONO	13	8,150	7,750	390	4.8%
MONTEREY	33	205,800	191,100	14,700	7.1%
NAPA	4	73,300	70,400	3,000	4.0%
NEVADA	13	50,200	47,790	2,410	4.8%
ORANGE	3	1,608,600	1,546,000	62,600	3.9%
PLACER	13	172,700	164,500	8,200	4.8%
PLUMAS	45	9,960	9,110	850	8.5%
RIVERSIDE	28	903,400	848,900	54,500	6.0%
SACRAMENTO	21	676,800	640,000	36,800	5.4%
SAN BENITO	34	24,000	22,300	1,700	7.2%
SAN BERNARDINO	23	863,500	815,100	48,400	5.6%
SAN DIEGO	9	1,517,600	1,448,500	69,100	4.6%
SAN FRANCISCO	5	433,200	414,800	18,400	4.2%
SAN JOAQUIN	41	289,100	265,700	23,400	8.1%
SAN LUIS OBISPO	6	134,200	128,500	5,800	4.3%
SAN MATEO	2	370,100	355,900	14,100	3.8%
SANTA BARBARA	8	213,800	204,500	9,300	4.4%
SANTA CLARA	10	844,700	805,100	39,600	4.7%
SANTA CRUZ	26	144,900	136,400	8,600	5.9%
SHASTA	36	82,700	76,500	6,200	7.5%
SIERRA	39	1,610	1,480	130	7.9%
SISKIYOU	45	18,820	17,220	1,600	8.5%
SOLANO	20	208,500	197,500	11,000	5.3%
SONOMA	6	257,700	246,500	11,200	4.3%
STANISLAUS	49	227,200	207,500	19,700	8.7%
SUTTER	54	41,000	37,100	4,000	9.7%
TEHAMA	34	24,900	23,100	1,800	7.2%
TRINITY	56	5,030	4,510	530	10.5%
TULARE	52	191,900	174,100	17,700	9.2%
TUOLUMNE	30	25,810	24,210	1,600	6.2%
VENTURA	16	423,700	403,000	20,700	4.9%
YOLO	24	97,700	92,100	5,600	5.7%
YUBA	53	27,400	24,800	2,500	9.3%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data.
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2000 population controls at the state level.

State of California
April 20, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http://www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
Annual Average 2008 - Revised
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**18,203,100**	**16,890,000**	**1,313,100**	**7.2%**
ALAMEDA	12	757,600	710,900	46,700	6.2%
ALPINE	43	470	420	50	10.3%
AMADOR	27	17,820	16,460	1,360	7.6%
BUTTE	30	103,000	94,300	8,600	8.4%
CALAVERAS	33	20,650	18,870	1,780	8.6%
COLUSA	57	10,510	9,060	1,440	13.7%
CONTRA COSTA	12	524,500	492,200	32,400	6.2%
DEL NORTE	34	11,380	10,380	1,000	8.8%
EL DORADO	20	90,700	84,400	6,300	6.9%
FRESNO	46	430,200	385,100	45,100	10.5%
GLENN	43	12,200	10,930	1,270	10.4%
HUMBOLDT	21	60,000	55,700	4,300	7.2%
IMPERIAL	58	72,400	56,200	16,200	22.4%
INYO	17	9,100	8,500	600	6.6%
KERN	40	359,600	324,500	35,100	9.8%
KINGS	46	58,800	52,600	6,200	10.5%
LAKE	50	24,550	21,950	2,600	10.6%
LASSEN	37	12,840	11,620	1,220	9.5%
LOS ANGELES	25	4,934,800	4,565,500	369,300	7.5%
MADERA	36	65,100	59,000	6,100	9.4%
MARIN	1	132,400	126,200	6,200	4.7%
MARIPOSA	25	9,290	8,590	690	7.5%
MENDOCINO	18	43,280	40,310	2,960	6.8%
MERCED	55	102,300	89,400	12,800	12.5%
MODOC	38	3,940	3,560	380	9.6%
MONO	9	8,620	8,110	510	5.9%
MONTEREY	30	212,400	194,500	17,800	8.4%
NAPA	3	75,700	71,800	3,800	5.1%
NEVADA	16	50,430	47,130	3,300	6.5%
ORANGE	5	1,618,100	1,532,800	85,300	5.3%
PLACER	15	177,200	165,800	11,400	6.4%
PLUMAS	46	9,820	8,790	1,030	10.5%
RIVERSIDE	32	912,700	835,000	77,700	8.5%
SACRAMENTO	21	680,400	631,600	48,800	7.2%
SAN BENITO	38	24,900	22,500	2,400	9.6%
SAN BERNARDINO	29	863,300	794,500	68,800	8.0%
SAN DIEGO	10	1,548,200	1,455,600	92,700	6.0%
SAN FRANCISCO	4	457,700	433,900	23,900	5.2%
SAN JOAQUIN	43	293,200	262,800	30,400	10.4%
SAN LUIS OBISPO	7	136,600	128,800	7,800	5.7%
SAN MATEO	2	373,000	354,900	18,100	4.8%
SANTA BARBARA	6	218,400	206,600	11,900	5.4%
SANTA CLARA	10	870,300	818,300	52,000	6.0%
SANTA CRUZ	23	146,300	135,600	10,700	7.3%
SHASTA	41	82,700	74,400	8,300	10.0%
SIERRA	46	1,590	1,420	170	10.5%
SISKIYOU	42	19,230	17,280	1,950	10.1%
SOLANO	18	211,400	196,900	14,500	6.8%
SONOMA	7	260,000	245,200	14,900	5.7%
STANISLAUS	52	232,000	206,400	25,500	11.0%
SUTTER	54	41,100	36,100	5,000	12.3%
TEHAMA	35	25,190	22,880	2,310	9.2%
TRINITY	56	4,860	4,240	620	12.7%
TULARE	51	199,100	177,700	21,400	10.8%
TUOLUMNE	28	25,800	23,750	2,050	7.9%
VENTURA	14	429,400	402,600	26,800	6.3%
YOLO	24	98,400	91,200	7,200	7.4%
YUBA	53	27,700	24,400	3,300	11.8%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data.
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2000 population controls at the state level.

State of California
April 20, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http //www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
Annual Average 2009 - Revised
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**18,208,300**	**16,144,500**	**2,063,900**	**11.3%**
ALAMEDA	16	761,000	681,200	79,800	10.5%
ALPINE	42	450	380	60	14.5%
AMADOR	27	17,820	15,740	2,080	11.7%
BUTTE	32	103,800	90,800	13,000	12.5%
CALAVERAS	37	20,340	17,520	2,820	13.9%
COLUSA	57	11,530	9,470	2,070	17.9%
CONTRA COSTA	13	524,800	471,500	53,400	10.2%
DEL NORTE	29	11,690	10,280	1,410	12.0%
EL DORADO	22	91,700	81,500	10,200	11.1%
FRESNO	46	434,500	369,400	65,100	15.0%
GLENN	40	12,590	10,770	1,820	14.4%
HUMBOLDT	21	60,800	54,200	6,600	10.9%
IMPERIAL	58	75,900	54,800	21,100	27.9%
INYO	9	9,390	8,530	860	9.2%
KERN	40	363,100	311,000	52,100	14.4%
KINGS	42	60,500	51,800	8,800	14.5%
LAKE	50	25,400	21,510	3,890	15.3%
LASSEN	33	13,570	11,860	1,710	12.6%
LOS ANGELES	26	4,904,300	4,335,200	569,000	11.6%
MADERA	36	66,500	57,500	9,100	13.6%
MARIN	1	131,900	121,800	10,100	7.7%
MARIPOSA	16	9,400	8,410	990	10.5%
MENDOCINO	14	43,310	38,860	4,440	10.3%
MERCED	54	105,500	87,700	17,900	16.9%
MODOC	30	4,050	3,550	500	12.3%
MONO	7	8,740	7,950	780	9.0%
MONTEREY	27	215,400	190,100	25,300	11.7%
NAPA	4	75,500	69,100	6,500	8.5%
NEVADA	16	50,380	45,100	5,290	10.5%
ORANGE	5	1,588,800	1,448,200	140,600	8.8%
PLACER	15	179,700	161,000	18,700	10.4%
PLUMAS	51	10,030	8,450	1,570	15.7%
RIVERSIDE	35	916,500	793,900	122,600	13.4%
SACRAMENTO	24	681,300	604,600	76,700	11.3%
SAN BENITO	39	24,900	21,300	3,500	14.2%
SAN BERNARDINO	34	858,300	747,400	110,900	12.9%
SAN DIEGO	10	1,554,200	1,405,000	149,200	9.6%
SAN FRANCISCO	6	459,300	418,600	40,800	8.9%
SAN JOAQUIN	48	298,200	252,700	45,400	15.2%
SAN LUIS OBISPO	7	136,300	124,100	12,300	9.0%
SAN MATEO	2	374,100	342,700	31,400	8.4%
SANTA BARBARA	2	219,900	201,400	18,500	8.4%
SANTA CLARA	20	875,200	780,500	94,600	10.8%
SANTA CRUZ	24	147,700	131,000	16,700	11.3%
SHASTA	45	84,000	71,700	12,300	14.6%
SIERRA	48	1,600	1,350	240	15.2%
SISKIYOU	42	19,650	16,790	2,850	14.5%
SOLANO	19	214,500	191,800	22,800	10.6%
SONOMA	10	256,500	231,800	24,700	9.6%
STANISLAUS	52	234,800	197,600	37,100	15.8%
SUTTER	53	41,900	34,900	7,000	16.8%
TEHAMA	37	25,370	21,830	3,530	13.9%
TRINITY	55	4,990	4,140	850	17.1%
TULARE	47	203,400	172,600	30,800	15.1%
TUOLUMNE	31	25,740	22,540	3,200	12.4%
VENTURA	12	430,300	387,900	42,400	9.8%
YOLO	23	98,800	87,700	11,100	11.2%
YUBA	56	28,400	23,500	4,900	17.2%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data.
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2000 population controls at the state level

State of California
March 23, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http://www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
Annual Average 2010 - Revised
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**18,316,400**	**16,051,500**	**2,264,900**	**12.4%**
ALAMEDA	15	761,300	675,500	85,700	11.3%
ALPINE	37	450	380	70	15.4%
AMADOR	29	17,520	15,200	2,320	13.2%
BUTTE	31	103,600	89,200	14,400	13.9%
CALAVERAS	36	20,120	17,050	3,070	15.2%
COLUSA	57	12,000	9,570	2,420	20.2%
CONTRA COSTA	14	523,300	465,100	58,200	11.1%
DEL NORTE	28	11,700	10,170	1,540	13.1%
EL DORADO	22	91,800	80,400	11,400	12.4%
FRESNO	47	440,100	366,000	74,100	16.8%
GLENN	42	12,930	10,870	2,050	15.9%
HUMBOLDT	17	61,400	54,400	7,000	11.4%
IMPERIAL	58	77,200	54,200	23,100	29.9%
INYO	8	9,570	8,610	960	10.0%
KERN	42	373,300	314,100	59,200	15.9%
KINGS	44	61,400	51,300	10,100	16.5%
LAKE	52	25,630	21,090	4,540	17.7%
LASSEN	32	13,790	11,860	1,930	14.0%
LOS ANGELES	23	4,910,500	4,291,400	619,100	12.6%
MADERA	39	67,300	56,800	10,500	15.6%
MARIN	1	133,100	122,500	10,700	8.0%
MARIPOSA	20	9,600	8,470	1,140	11.8%
MENDOCINO	15	43,310	38,430	4,880	11.3%
MERCED	54	109,300	88,800	20,600	18.8%
MODOC	34	4,090	3,500	590	14.4%
MONO	9	8,860	7,950	910	10.3%
MONTEREY	25	220,900	193,000	28,000	12.7%
NAPA	6	75,700	68,400	7,300	9.7%
NEVADA	17	50,870	45,090	5,780	11.4%
ORANGE	4	1,591,000	1,440,400	150,700	9.5%
PLACER	19	176,700	156,500	20,200	11.5%
PLUMAS	46	10,070	8,380	1,680	16.7%
RIVERSIDE	35	937,500	801,600	135,900	14.5%
SACRAMENTO	25	682,000	595,200	86,700	12.7%
SAN BENITO	49	26,000	21,600	4,500	17.2%
SAN BERNARDINO	33	860,700	738,900	121,800	14.2%
SAN DIEGO	10	1,572,600	1,407,100	165,500	10.5%
SAN FRANCISCO	5	456,600	413,000	43,600	9.6%
SAN JOAQUIN	50	300,800	248,900	51,900	17.3%
SAN LUIS OBISPO	7	138,200	124,500	13,700	9.9%
SAN MATEO	2	374,900	342,100	32,800	8.8%
SANTA BARBARA	3	222,400	201,600	20,800	9.4%
SANTA CLARA	13	880,800	784,100	96,700	11.0%
SANTA CRUZ	23	149,900	131,000	18,900	12.6%
SHASTA	41	84,400	71,200	13,300	15.7%
SIERRA	37	1,620	1,370	250	15.4%
SISKIYOU	45	20,070	16,740	3,330	16.6%
SOLANO	21	214,600	188,800	25,800	12.0%
SONOMA	10	256,100	229,300	26,800	10.5%
STANISLAUS	50	239,600	198,200	41,400	17.3%
SUTTER	56	43,000	34,600	8,400	19.5%
TEHAMA	39	25,560	21,570	3,990	15.6%
TRINITY	53	5,070	4,140	930	18.4%
TULARE	48	208,500	173,300	35,200	16.9%
TUOLUMNE	30	25,780	22,220	3,560	13.8%
VENTURA	12	434,800	387,800	46,900	10.8%
YOLO	25	98,300	85,800	12,500	12.7%
YUBA	55	27,900	22,600	5,400	19.2%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data.
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2000 population controls at the state level.

State of California
March 9, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http://www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
Annual Average 2011 - Revised
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**18,384,900**	**16,226,600**	**2,158,300**	**11.7%**
ALAMEDA	14	760,900	682,000	78,900	10.4%
ALPINE	40	500	430	80	15.1%
AMADOR	28	17,020	14,840	2,180	12.8%
BUTTE	33	101,700	87,900	13,800	13.6%
CALAVERAS	36	19,850	16,960	2,900	14.6%
COLUSA	57	11,800	9,400	2,400	20.4%
CONTRA COSTA	14	524,100	469,600	54,500	10.4%
DEL NORTE	31	11,450	9,920	1,530	13.4%
EL DORADO	21	91,000	80,300	10,700	11.8%
FRESNO	47	442,100	368,900	73,100	16.5%
GLENN	44	12,870	10,830	2,030	15.8%
HUMBOLDT	19	60,600	53,800	6,800	11.3%
IMPERIAL	58	77,600	54,500	23,000	29.7%
INYO	10	9,490	8,550	940	9.9%
KERN	39	382,000	325,100	56,900	14.9%
KINGS	46	61,100	51,200	9,900	16.1%
LAKE	50	25,810	21,510	4,300	16.7%
LASSEN	32	13,480	11,670	1,810	13.5%
LOS ANGELES	25	4,924,400	4,318,900	605,500	12.3%
MADERA	42	66,400	56,200	10,100	15.3%
MARIN	1	135,300	125,400	10,000	7.4%
MARIPOSA	21	9,680	8,540	1,140	11.8%
MENDOCINO	18	42,840	38,160	4,680	10.9%
MERCED	55	110,200	90,000	20,100	18.3%
MODOC	38	3,910	3,330	580	14.9%
MONO	11	8,790	7,910	880	10.0%
MONTEREY	26	222,900	195,200	27,600	12.4%
NAPA	6	76,500	69,600	6,900	9.0%
NEVADA	16	50,960	45,550	5,410	10.6%
ORANGE	4	1,603,700	1,464,400	139,300	8.7%
PLACER	17	175,100	156,200	18,900	10.8%
PLUMAS	45	9,870	8,300	1,570	15.9%
RIVERSIDE	33	938,400	810,600	127,800	13.6%
SACRAMENTO	23	675,600	594,100	81,500	12.1%
SAN BENITO	43	26,400	22,300	4,100	15.7%
SAN BERNARDINO	30	860,600	747,100	113,400	13.2%
SAN DIEGO	11	1,583,800	1,426,100	157,700	10.0%
SAN FRANCISCO	3	462,500	422,700	39,800	8.6%
SAN JOAQUIN	51	297,600	247,400	50,100	16.8%
SAN LUIS OBISPO	7	138,700	125,800	12,900	9.3%
SAN MATEO	2	380,300	350,200	30,100	7.9%
SANTA BARBARA	5	225,600	205,800	19,900	8.8%
SANTA CLARA	8	896,200	809,300	86,900	9.7%
SANTA CRUZ	23	150,700	132,500	18,200	12.1%
SHASTA	37	83,500	71,200	12,300	14.7%
SIERRA	35	1,680	1,440	240	14.3%
SISKIYOU	48	19,830	16,530	3,290	16.6%
SOLANO	20	215,500	190,800	24,600	11.4%
SONOMA	9	257,300	232,100	25,100	9.8%
STANISLAUS	51	236,600	196,800	39,800	16.8%
SUTTER	56	43,300	35,200	8,200	18.8%
TEHAMA	40	25,370	21,560	3,810	15.0%
TRINITY	53	5,060	4,160	900	17.8%
TULARE	48	208,100	173,500	34,600	16.6%
TUOLUMNE	29	25,890	22,510	3,380	13.0%
VENTURA	13	437,000	393,100	43,900	10.1%
YOLO	26	97,800	85,700	12,100	12.4%
YUBA	54	28,000	22,900	5,100	18.2%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data.
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2000 population controls at the state level.

State of California
October 19, 2012
March 2011 Benchmark

Employment Development Department
Labor Market Information Division
http://www.labormarketinfo.edd.ca.gov
(916) 262-2162

REPORT 400 C

Monthly Labor Force Data for Counties
September 2012 - Preliminary
Data Not Seasonally Adjusted

COUNTY	RANK BY RATE	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	RATE
STATE TOTAL	---	**18,374,400**	**16,599,700**	**1,774,600**	**9.7%**
ALAMEDA	15	772,400	705,900	66,600	8.6%
ALPINE	49	420	370	60	13.4%
AMADOR	31	16,570	14,740	1,830	11.0%
BUTTE	33	99,600	88,400	11,100	11.2%
CALAVERAS	38	19,500	17,180	2,320	11.9%
COLUSA	53	12,240	10,530	1,710	14.0%
CONTRA COSTA	11	530,600	486,000	44,600	8.4%
DEL NORTE	38	11,550	10,180	1,380	11.9%
EL DORADO	21	90,500	82,400	8,100	9.0%
FRESNO	47	447,700	389,100	58,600	13.1%
GLENN	43	12,740	11,160	1,570	12.4%
HUMBOLDT	23	60,000	54,400	5,500	9.3%
IMPERIAL	58	76,000	54,300	21,700	28.5%
INYO	13	9,200	8,420	780	8.5%
KERN	40	383,900	337,900	46,000	12.0%
KINGS	46	62,100	54,200	8,000	12.8%
LAKE	49	25,500	22,080	3,420	13.4%
LASSEN	33	12,740	11,320	1,430	11.2%
LOS ANGELES	28	4,807,000	4,317,900	489,000	10.2%
MADERA	35	67,500	59,600	7,900	11.6%
MARIN	1	139,000	130,900	8,100	5.8%
MARIPOSA	10	10,380	9,510	870	8.3%
MENDOCINO	17	41,780	38,100	3,680	8.8%
MERCED	56	109,100	93,200	15,800	14.5%
MODOC	37	3,720	3,290	440	11.8%
MONO	25	8,470	7,650	820	9.7%
MONTEREY	15	233,400	213,400	20,000	8.6%
NAPA	3	77,800	72,400	5,400	6.9%
NEVADA	13	50,420	46,140	4,280	8.5%
ORANGE	5	1,614,500	1,499,500	115,000	7.1%
PLACER	17	175,700	160,300	15,400	8.8%
PLUMAS	42	9,320	8,200	1,120	12.1%
RIVERSIDE	40	937,400	825,100	112,300	12.0%
SACRAMENTO	28	679,000	609,800	69,100	10.2%
SAN BENITO	25	25,600	23,200	2,500	9.7%
SAN BERNARDINO	32	855,700	760,500	95,200	11.1%
SAN DIEGO	11	1,598,200	1,463,300	134,800	8.4%
SAN FRANCISCO	3	474,000	441,400	32,600	6.9%
SAN JOAQUIN	49	301,400	260,900	40,500	13.4%
SAN LUIS OBISPO	7	141,400	130,900	10,500	7.4%
SAN MATEO	2	390,500	365,700	24,800	6.4%
SANTA BARBARA	5	227,300	211,100	16,200	7.1%
SANTA CLARA	9	914,600	842,000	72,600	7.9%
SANTA CRUZ	17	153,200	139,700	13,500	8.8%
SHASTA	35	83,600	73,900	9,700	11.6%
SIERRA	27	1,770	1,590	180	9.9%
SISKIYOU	44	19,580	17,130	2,450	12.5%
SOLANO	23	216,900	196,700	20,200	9.3%
SONOMA	8	264,300	244,200	20,100	7.6%
STANISLAUS	52	235,700	204,000	31,800	13.5%
SUTTER	53	41,800	35,900	5,800	14.0%
TEHAMA	44	24,820	21,710	3,110	12.5%
TRINITY	47	4,890	4,240	640	13.1%
TULARE	55	207,400	178,200	29,200	14.1%
TUOLUMNE	30	25,400	22,690	2,700	10.6%
VENTURA	17	434,000	395,900	38,100	8.8%
YOLO	21	96,600	87,900	8,700	9.0%
YUBA	57	28,000	23,400	4,500	16.3%

Notes
1) Data may not add due to rounding. The unemployment rate is calculated using unrounded data
2) Labor force data for all geographic areas now reflect the March 2011 benchmark and Census 2010 population controls at the state level

SBA
Office of Advocacy

Small Business Profile

California

Small businesses totaled 3.4 million in California in 2009. They represent 99.2 percent of all employers and employ 51 percent of the private-sector workforce. Being such a large part of the state's economy, these businesses are central to California's health and well-being.

This profile uses the latest available data to illustrate the status of California's small businesses. (Note that a small business is defined as one with fewer than 500 employees.)

- California's economy struggled in 2010, with real gross state product decreasing 1.6 percent and private-sector employment decreasing 1.2 percent (Bureau of Economic Analysis, Bureau of Labor Statistics).
- Most of California's small businesses are very small as 79.3 percent of all businesses did not have employees and most employers have fewer than 20 employees.
- Small businesses employed 6.5 million workers in 2009 (Table 1) with most of the employment coming from firms with 20-499 employees.
- While the employment situation in 2008-2009 was weak (Table 2), small businesses in California represented all of the net new jobs from 2005-2008.
- Self-employment in California surged over the last decade. Minority self-employment fared the best compared with other demographic groups during the decade.*
- Throughout 2010, the number of opening establishments was higher than closing establishments and the net employment change from this turnover was positive (Table 3).

For Further Information

- Data on all states and territories are available at www.sba.gov/advocacy/848.
- For other small business data and analysis, visit www.sba.gov/advocacy/847, call (202) 205-6533, or email advocacy@sba.gov.
- Visit http://web.sba.gov/list to subscribe to Advocacy's Listservs.

* Because of the relatively low number of veterans in the survey data source, the veteran self-employment figure is susceptible to large fluctuations.

California Small Business Facts

	2009*	2008	2000
Number of Businesses			
Small employers (<500 employees)	691,479	711,313	658,898
Large employers (500+ employees)	5,603	5,820	5,687
Nonemployers	2,674,301	2,688,453	2,103,178
	Level in 2007* (000)		
	Firms	**Employment**	**Receipts($M)**
Business Owner Demographics			
Male-owned	1,686	4,677	923,356
Woman-owned	1,039	962	152,867
Equally male/female-owned	597	1,213	184,496
African American-owned	138	85	14,982
Asian-owned	509	906	161,825
Hispanic-owned	567	459	61,844
Native American/Alaskan-owned	46	21	3,070
Hawaiian/Pacific Islander-owned	9	6	812
Veteran-owned	370	873	193,897
Publicly held, unclassified	104	6,774	2,364,650
	Level in	**% Change from**	
	2010*	**2009**	**2000**
Workforce (Thousands)			
Private-sector employment	11,469	-1.2	-5.8
Government employment	2,423	-2.3	4.5
Self-employed (incorp. & uninc.)	2,140	0.5	17.9
Female self-employment	755	-3.9	15.5
Male self-employment	1,385	3.0	19.3
Minority self-employment	820	3.7	36.5
Veteran self-employment	138	-9.2	-41.1
Unemployment Rate (Percent)	12.4	1.1†	7.5†
Business Turnover			
Quarterly establishment openings	169,853	1.6	0.6
Quarterly establishment closings	164,563	-16.7	3.8
Business bankruptcies	8,814	-2.2	91.8
	2010*	**2009**	**2000**
Income and Finance			
Proprietors' income ($billion)	148.8	135.9	136.6
Number of bank branches	7,176	7,401	6,195
No. of bus. loans under $100,000‡	652,927	771,798	556,579
Total value of business loans under $100,000 ($million)‡	9,685	11,177	6,211

Source: U.S. Dept. of Commerce, Census Bureau, Bureau of Economic Analysis; U.S. Dept. of Labor, Bureau of Labor Statistics; Admin. Office of the U.S. Courts; Federal Deposit Insurance Corporation; and U.S. Small Business Admin., Office of Advocacy.
* Latest available data. †Percentage point change. ‡Data are for CRA loans.

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Table 1: Firms and Employment in California by Industry and Firm Size, 2009 (Nonfarm, Thousands)

Industry	Nonemployer Firms	Employer Firms: Total	Employer Firms: 1-19 Employees	Employer Firms: 1-499 Employees	Employment: Total	Employment: 1-19 Employees	Employment: 1-499 Employees
Total	2,674.3	697.1	618.6	691.5	12,833.7	2,447.0	6,541.8
Forestry, etc. and agriculture support	12.7	1.8	1.6	1.8	24.8	5.6	18.4
Mining	4.9	0.6	0.5	0.6	22.1	2.2	8.6
Utilities	1.3	0.5	0.4	0.4	D	1.5	4.1
Construction	214.1	70.1	63.3	69.8	669.5	248.1	577.9
Manufacturing	40.6	38.0	28.4	36.9	1,246.5	154.1	660.4
Wholesale trade	56.3	51.3	43.1	50.2	826.6	181.2	510.8
Retail trade	211.2	70.1	63.5	69.5	1,544.3	267.9	574.9
Transportation and warehousing	117.0	17.0	14.1	16.4	428.8	58.5	160.6
Information	52.1	14.1	11.9	13.7	527.8	37.5	143.5
Finance and insurance	82.3	28.0	25.3	27.5	609.9	77.1	202.3
Real estate and rental and leasing	259.5	36.7	34.4	36.4	283.1	97.4	196.9
Professional, scientific, and technical svcs.	474.9	104.1	96.2	103.1	1,134.1	299.4	633.2
Management of companies and enterprises	--	3.2	0.5	2.2	264.9	1.6	40.4
Admin., support, waste mgt., remed. svcs.	225.2	35.6	30.3	35.0	989.4	118.5	422.6
Educational services	65.8	10.3	7.9	10.1	341.5	37.4	175.6
Health care and social assistance	264.5	84.1	76.2	83.6	1,678.8	327.0	805.8
Arts, entertainment, and recreation	166.2	18.7	16.8	18.6	295.9	42.1	153.4
Accommodation and food services	36.0	56.5	45.4	56.1	1,333.2	263.3	809.2
Other services (except public admin.)	389.6	62.1	57.1	61.8	550.9	224.2	440.5
Unclassified	--	2.2	2.2	2.2	2.6	2.5	2.6

Source: U.S. Dept. of Commerce, Bureau of the Census, Statistics of U.S. Businesses. (See www.sba.gov/advocacy/849/12162 for data from other years, and for starts, closures, job creation and destruction by industry and by size category.)

Table 2: Net Job Change by Firm Size, 2005–2009 (Nonfarm)

	Total Net New Jobs	Employment Size of Firm: 1-4	5-9	10-19	20-99	100-499	<500	500+
2005 - 2006	451,231	140,266	48,578	54,001	88,089	39,742	370,676	80,555
2006 - 2007	-60,110	125,188	19,767	-1,602	-46,761	-74,104	22,488	-82,598
2007 - 2008	-12,287	91,746	2,094	-17,779	-46,968	-30,585	-1,492	-10,795
2008 - 2009	-901,418	55,853	-43,545	-74,356	-228,863	-197,703	-488,614	-412,804

Source: U.S. Dept. of Commerce, Bureau of the Census. (For more detailed data see www.sba.gov/advocacy/849/12162.)

Table 3: Establishment and Employment Turnover by Quarter, 2010 (Nonfarm, Thousands)

	Establishments: Quarter 1	Quarter 2	Quarter 3	Quarter 4	Employment: Quarter 1	Quarter 2	Quarter 3	Quarter 4
Openings	38.8	44.9	38.9	47.2	139.8	161.1	132.9	165.5
Expansions	152.0	163.2	158.2	165.7	619.2	716.9	645.6	699.7
Contractions	166.0	161.8	163.6	157.5	645.8	641.3	664.1	630.1
Closings	49.7	39.8	40.1	35.0	170.2	133.9	144.5	134.3

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Business Employment Dynamics. (For more detailed data see www.bls.gov/bdm/.)

Note: These figures contain all firm sizes; Census data from 2009 show that 85 percent of establishment births and deaths were in firms with fewer than 500 employees.

Published in Jan. 2012 by the U.S. Small Business Administration, Office of Advocacy

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served a copy of **DRA REBUTTAL TESTIMONY ON THE ECONOMIC DEVELOPMENT RATE APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY (Updated Responses to ACR Questions)** to all known parties by either United States mail or electronic mail, to each party named on the official service list attached in **A.12-03-001**:

I also hand-delivered a hard copy to the assigned Administrative Law Judge's mail slot.

Executed on **November 2, 2012** at San Francisco, California.

/s/ ROSCELLA V. GONZALEZ

Roscella V. Gonzalez

California Public Utilities Commission

CPUC Home

CALIFORNIA PUBLIC UTILITIES COMMISSION
Service Lists

PROCEEDING: A1203001 - PG&E - FOR APPROVAL
FILER: PACIFIC GAS AND ELECTRIC COMPANY
LIST NAME: LIST
LAST CHANGED: OCTOBER 31, 2012

Parties

JORGE CORRALEJO
CHAIRMAN / PRESIDENT
LAT. BUS. CHAMBER OF GREATER L.A.
634 S. SPRING STREET, STE 600
LOS ANGELES, CA 90014
FOR: LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES

DANIEL W. DOUGLASS
DOUGLASS & LIDDELL
21700 OXNARD ST., STE. 1030
WOODLAND HILLS, CA 91367
FOR: ALLIANCE FOR RETAIL ENERGY MARKETS

FADIA KHOURY
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVE.
ROSEMEAD, CA 91770
FOR: SOUTHERN CALIFORNIA EDISON COMPANY

FAITH BAUTISTA
PRESIDENT
NATIONAL ASIAN AMERICAN COALITION
1758 EL CAMINO REAL
SAN BRUNO, CA 94066
FOR: NATIONAL ASIAN AMERICAN COALITION

GREGORY HEIDEN
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 5039
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214
FOR: DRA

THERESA L. MUELLER
CITY AND COUNTY OF SAN FRANCISCO
CITY HALL, ROOM 234
1 DR. CARLTON B. GOODLETT PLACE
SAN FRANCISCO, CA 94102-4682
FOR: CITY & COUNTY OF SAN FRANCISCO

NINA SUETAKE
THE UTILITY REFORM NETWORK
115 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94104
FOR: THE UTILITY REFORM NETWORK

STEPHEN A. S. MORRISON
SPECIAL DEPUTY
OFFICE OF THE CITY ATTORNEY
955 CLAYTON ST., SUTRO BUILDING NO. 4
SAN FRANCISCO, CA 94117
FOR: THE LOCAL GOVERNMENT PARTIES

ANN H. KIM
PACIFIC GAS AND ELECTRIC COMPANY
LAW DEPT
77 BEALE STREET, RM 3105 / PO BOX 7442
SAN FRANCISCO, CA 94120
FOR: PACIFIC GAS AND ELECTRIC COMPANY

LEN CANTY
CHAIRMAN
BLACK ECONOMIC COUNCIL
484 LAKE PARK AVE., SUITE 338
OAKLAND, CA 94610
FOR: BLACK ECONOMIC COUNCIL

ENRIQUE GALLARDO
LEGAL COUNSEL
THE GREENLINING INSTITUTE
1918 UNIVERSITY AVE., 2ND FLOOR
BERKELEY, CA 94704-1051
FOR: THE GREENLINING INSTITUTE

ELIZABETH RASMUSSEN
REG. AND LEGAL COUNSEL
MARIN ENERGY AUTHORITY
781 LINCOLN AVENUE, SUITE 320
SAN RAFAEL, CA 94901
FOR: MARIN ENERGY AUTH./SAN JOAQUIN
VALLEY POWER AUTH.

CAROLYN M. KEHREIN
ENERGY USERS FORUM
2602 CELEBRATION WAY
205
WOODLAND, CA 95776
FOR: ENERGY USERS FORUM
DISTRICT/MODESTO

ANN L. TROWBRIDGE
DAY CARTER & MURPHY LLP
3620 AMERICAN RIVER DRIVE, SUITE

SACRAMENTO, CA 95864
FOR: MERCED IRRIGATION

IRRIGATION DISTRICT

Information Only

CASE COORDINATION
PACIFIC GAS AND ELECTRIC COMPANY
EMAIL ONLY
EMAIL ONLY, CA 00000

KARI KLOBERDANZ
SEMPRA ENERGY UTILITIES
EMAIL ONLY
EMAIL ONLY, CA 00000

SCOTT BLAISING
BRAUN BLAISING MCLAUGHLIN P.C.
EMAIL ONLY
EMAIL ONLY, CA 00000

SUE MARA
PRINCIPAL
RTO ADVISORS, LLC
EMAIL ONLY
EMAIL ONLY, CA 00000

MRW & ASSOCIATES, LLC
EMAIL ONLY
EMAIL ONLY, CA 00000
800

CASE ADMINISTRATION
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE / PO BOX

ROSEMEAD, CA 91770

JANET COMBS
SOUTHERN CALIFORNIA EDISON
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770

JAMES C. SANCHEZ
CITY ATTORNEY
OFFICE OF THE CITY ATTORNEY
2600 FRESNO STREET

FRESNO, CA 93721-3602
FOR: OFFICE OF THE CITY
ATTORNEY/LOCAL
GOVERNMENT PARTIES

KATIE STEVENS
GOVERNMENT AFFAIRS MANAGER
OFFICE OF THE MAYOR
2600 FRESNO STREET
FRESNO, CA 93721-3602
FOR: OFFICE OF THE MAYOR/LOCAL
GOVERNMENT PARTIES

ROBERT GNAIZDA
OF COUNSEL
1758 EL CAMINO REAL
SAN BRUNO, CA 94066
FOR: NAAC, BEC, LBCGLA

SHALINI SWAROOP
SR. STAFF ATTORNEY
NATIONAL ASIAN AMERICAN COALITION
1758 EL CAMINO REAL
7442
SAN BRUNO, CA 94066
FOR: NATIONAL ASIAN AMERICAN COALITION

DANIEL PEASE
ANALYSIS - RATES DEPT
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE ST, RM 1179, B10A / PO BOX
SAN FRANCISCO, CA 94103

MARCEL HAWIGER
THE UTILITY REFORM NETWORK
115 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94104

ROBERT FINKELSTEIN
GENERAL COUNSEL
THE UTILITY REFORM NETWORK
115 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94104

KATIE DONNELLY
PACIFIC GAS & ELECTRIC COMPANY
77 BEALE ST., MC B9A
SAN FRANCISCO, CA 94105

CALIFORNIA ENERGY MARKETS
425 DIVISADERO ST. STE 303
SAN FRANCISCO, CA 94117-2242

NOEMI GALLARDO
LEGAL FELLOW
THE GREENLINING INSTITUTE
1918 UNIVERSITY AVE., 2ND FLOOR
BERKELEY, CA 94704

STEPHANIE CHEN
THE GREENLINING INSTITUTE
1918 UNIVERSITY AVE
BERKELEY, CA 94704

JEREMY WAEN
REGULATORY ANALYST
MARIN ENERGY AUTHORITY
781 LINCOLN AVENUE, STE. 320
SAN RAFAEL, CA 94901

BILL MARCUS
J B S ENERGY, INC.
311 D STREET, SUITE A
WEST SACRAMENTO, CA 95605

RALPH R. NEVIS
DAY CARTER & MURPHY
3620 AMERICAN RIVER DRIVE, STE. 205
SACRAMENTAO, CA 95864

MIKE CADE
ALCANTAR & KAHL, LLP
1300 SW 5TH AVE, SUITE 1750
PORTLAND, OR 97201

ROSS VAN NESS
ALCANTAR & KAHL
1300 SW FIFTH AVE., STE. 1750
PORTLAND, OR 97209

State Service

CHRISTOPHER DANFORTH
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PRICING AND CUSTOMER PROGRAM PROGRAM
ROOM 4209
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

ELISE TORRES
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PRICING AND CUSTOMER
ROOM 4209
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

LEE-WHEI TAN
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PRICING AND CUSTOMER PROGRAM PROGRAM
ROOM 4102
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

MARGARITA ZUNIGA
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PRICING AND CUSTOMER
ROOM 4104
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

MICHAEL COLVIN
CALIF PUBLIC UTILITIES COMMISSION
EXECUTIVE DIVISION
ROOM 5212
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

RAJAN MUTIALU
CALIF PUBLIC UTILITIES COMMISSION
DEMAND SIDE ANALYSIS BRANCH
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

RICHARD CLARK
CALIF PUBLIC UTILITIES COMMISSION
DIVISION OF ADMINISTRATIVE LAW JUDGES
ROOM 5109
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

ROBERT BENJAMIN
CALIF PUBLIC UTILITIES COMMISSION
DEMAND SIDE ANALYSIS BRANCH
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

ROBERT LEVIN
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PRICING AND CUSTOMER PROGRAM
ROOM 4102
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214