2005 ANNUAL EARNINGS ASSESSMENT PROCEEDING
DIRECT TESTIMONY
OF
SAN DIEGO GAS & ELECTRIC COMPANY

May 2005

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA
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SAN DIEGO GAS & ELECTRIC COMPANY REGARDING
2004 INTERRUPTIBLE PROGRAMS AND CURTAILMENT PRIORITIES

2005 ANNUAL EARNINGS ASSESSMENT PROCEEDING
APPLICATION 05-05-

INTRODUCTION

The purpose of this testimony is to describe and support San Diego Gas & Electric Company’s (SDG&E) 2004 Interruptible Programs activities and their associated costs.

The California Public Utilities Commission (Commission or CPUC) Decision (D.) 01-07-029, dated July 12, 2001, ordered utilities to report on interruptible programs and curtailment priorities as part of their Demand-Side Management (DSM) programs report. D.01-07-029 also states that utility memorandum account balances will be reviewed in the Annual Earnings Assessment Proceeding (AEAP). Upon a finding of reasonableness, D.01-07-029 provides that “... balances in each memorandum account shall be recovered from ratepayers without respect to any policies otherwise in place regarding the end of the rate freeze.”¹

In 2001, the Commission issued three decisions that directed SDG&E to implement numerous demand response programs. D.01-04-006 ordered SDG&E to implement a Base Interruptible Program (BIP), a Voluntary Demand Response Program (VDRP), an Optional Binding Mandatory Curtailment Program (OMBC) and an Air Conditioner Cycling (A/C Cycling) program. The CPUC subsequently suspended the

¹ D. 01-07-027, at p. 10.
VDRP and replaced it with the Demand Bidding Program (DBP) in D. 01-07-025. D. 01-06-009 authorized SDG&E to implement a Rolling Blackout Reduction Program (RBRP). Senate Bill 5 (also referred to as SBX1 5) required utilities to implement the Scheduled Load Reduction Program (SLRP).

D.01-04-006 also ordered electric utilities to conduct distribution circuit reconfiguration studies to identify means by which more customers classified as non-essential, could be made eligible to participate in rotating outage (RO) programs.

In 2002, the Commission issued D. 02-04-060, extending demand response programs to the conclusion of the rate design phase of each utility’s next general rate case (GRC). In addition, the Commission specifically extended SDG&E’s RBRP to be consistent with all other interruptible programs. Modifications to the SLRP were approved and the Commission ordered the cancellation of SDG&E’s EAEI (Residential A/C Cycling) program. D. 02-04-060 also approved customer education and notification in advance of rotating outages to those vulnerable to extreme temperatures. And finally, the Commission authorized the utilities to collect from interruptible customers billed on Schedule A-V1 for more than 12 months, the non-compliance penalties reflected in the CPUC-approved memorandum account established to track the demand response programs for the period October 1, 2000 through January 25, 2001.

On July 17, 2002, the Commission issued D. 02-07-035 that authorized changes to the DBP. Most notably, DBP was transitioned to a reliability program, triggered by the

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7 D. 02-04-060, at p. 18.
8 D. 02-04-060, at p. 11.
9 D. 02-04-060, at p. 56.
10 D. 02-04-060, at p. 106.
11 D. 02-04-060, at p. 121.
California Independent System Operator (CAISO) on a Day-Ahead or Day-Of basis.

Customer incentives were set at $0.35/kWh and DBP expenses were to be tracked in the established memorandum account.

R. 02-06-001, the Advanced Metering, Demand Response and Dynamic Pricing Rulemaking, evaluated demand response programs, which led to D.03-06-032.

In June 2003, D.03-06-032 modified the DBP to have both a price and reliability trigger and created three new demand response programs: Critical Peak Pricing (CPP), Hourly Pricing Option (HPO), and California Power Authority’s Demand Reserves Partnership (CPA-DRP). Although SDG&E is not requesting recovery of those costs authorized in D. 03-06-032 in this filing, R.02-06-001 is important because demand response has evolved to include both reliability and pricing programs.

By Commission order D. 01-04-006, SDG&E tracks its costs for all demand response programs through an approved memorandum account\(^7\). D. 01-04-006 established an authorized annual level of SDG&E spending of $25 million (including base rate and incremental cost amounts) and curtailment priority limits of 250 MW.\(^8\) D. 02-04-060 lowered these limits for SDG&E to $12.5 million and 125MW\(^9\).

SDG&E established its CPUC approved Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA). The ILROPMA reflects the capital and operation & maintenance (O&M) costs, customer incentives and penalties; funding received from other sources (e.g., California Energy Commission, CAISO and California Department of Water Resources); and interest earned on the memorandum account.

\(^7\) D. 01-04-006, Ordering Paragraph 16.
\(^8\) D. 01-04-006, Ordering Paragraph 17.
balance. The balance in the ILROPMA is to be transferred to the Rewards and Penalties Balancing Account or other balancing account for future recovery with recovery of the undepreciated portion of the capital costs to be determined in the utility’s next GRC proceeding.

D.04-06-011 approved SDG&E’s proposal to enter into a demand response reliability contracts with Comverge and to recover costs from the ILROPMA\textsuperscript{10}. This decision also approved SDG&E to continue contract negotiations with Celerity and to recover costs along the same mechanism for Comverge\textsuperscript{11}.

D. 04-12-015 authorized SDG&E to collect through rates and authorized ratemaking accounting, 2004 Test Year Base Margin (O&M) costs for the programs listed in Table 1. O&M costs were no longer recorded in the ILROPMA starting in January 2004, except for the costs described below.

As a result, SDG&E is not seeking cost recovery for programs operations and activities related to implementation in this application. However, SDG&E seeks recovery in the amount of $23,061 for costs recorded in ILROPMA related to customer incentive payments and 2003 capital expenditures. In addition, SDG&E continues to track interest earned on the cumulative memorandum account balance in ILROPMA in 2004, totaling $24,338, for which it here seeks recovery.

Table 1 provides a summary of ILROPMA costs by program.

\textsuperscript{9} D. 02-04-060, at p. 22.
\textsuperscript{10} D. 04-06-011, Ordering Paragraph 2.
\textsuperscript{11} D. 04-06-011, Ordering Paragraph 3.
### TABLE 1

<table>
<thead>
<tr>
<th>Program</th>
<th>Activity</th>
<th>Interest</th>
<th>Net Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/C Cycling</td>
<td>$ -</td>
<td>$ 1,311</td>
<td>$ 1,311</td>
</tr>
<tr>
<td>BIP</td>
<td>$ -</td>
<td>$ 905</td>
<td>$ 905</td>
</tr>
<tr>
<td>DBP</td>
<td>$ 7,421</td>
<td>$ 7,054</td>
<td>$ 14,475</td>
</tr>
<tr>
<td>OBMC</td>
<td>$ -</td>
<td>$ 928</td>
<td>$ 928</td>
</tr>
<tr>
<td>RBRP</td>
<td>$ 6,759</td>
<td>$ 9,796</td>
<td>$ 16,555</td>
</tr>
<tr>
<td>Circuit Reconfiguration</td>
<td>$ 8,881</td>
<td>$ 2,416</td>
<td>$ 11,297</td>
</tr>
<tr>
<td>SLRP</td>
<td>$ -</td>
<td>$ 940</td>
<td>$ 940</td>
</tr>
<tr>
<td>Temperature Sensitive</td>
<td>$ -</td>
<td>$ 885</td>
<td>$ 885</td>
</tr>
<tr>
<td>VDRP</td>
<td>$ -</td>
<td>$ 103</td>
<td>$ 103</td>
</tr>
<tr>
<td>Converge - Direct Load Control</td>
<td>$ 24</td>
<td>$ -</td>
<td>$ 24</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$ 23,085</strong></td>
<td><strong>$ 24,338</strong></td>
<td><strong>$ 47,423</strong></td>
</tr>
</tbody>
</table>

**TOTAL AMOUNT TO BE RECOVERED**

<p>| | | |</p>
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<th></th>
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<tr>
<td></td>
<td></td>
<td>$ 47,399</td>
</tr>
</tbody>
</table>

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I.

SDG&E

DESCRIPTION OF 2004 ACTIVITIES

A. DEMAND BIDDING PROGRAM (DBP)

The DBP was designed to be a voluntary emergency response program, whereby participating customers submitted day-of or day-ahead bids to curtail load when requested by the CAISO, based on a forecast of insufficient operating reserves.

D. 03-06-032 ordered the utilities to transition the DBP to include both a price trigger and reliability trigger to be called by the CAISO or the utility. The utility could initiate DBP to offset outstanding system issues that may affect system reliability or (based on market price,) and the CAISO. The modified DBP continues to be voluntary,
but the customer incentive was raised to $0.50/kWh for load reduction when responding
to a reliability trigger. For a price-triggered event, incentives start at $0.15/kWh.

Activity costs recorded in DBP in 2004 are related to incentive payments made to
customers in response to a DBP event. SDG&E called four (4) DBP events:

- May 3, 2004
- June 30, 2004
- September 7, 2004
- November 22, 2004

B. ROLLING BLACKOUT REDUCTION PROGRAM

The Rolling Blackout Reduction Program (RBRP) permits SDG&E to call on
customers with backup generators (BUGs) during a CAISO-declared Stage 3 event.
Participants shift load from the grid to their BUGs in an effort to maintain system
reliability. Participants receive an incentive payment of $0.20/kWh of actual energy
reduction below the 10-day baseline.

Costs recorded to the ILROPMA in 2004 include $6,759 for capital-related
expenses (i.e. depreciation, return and taxes) recorded in January 2004. Because SDG&E
records capital-related expenses to regulatory accounts on a one-month lag, these
expenses actually relate to December 2003 activity, a period prior to when the assets were
effectively placed into rate base in SDG&E's most recent Cost of Service. This practice is
consistent with the accounting treatment for capital-related expenses recorded to other
regulatory accounts. Therefore, SDG&E is appropriately requesting recovery of these
costs in this application, as they correspond to the period in which the costs were actually
recorded to the ILROPMA and have not been previously recovered though another proceeding.

C. COMVERGE – DIRECT LOAD CONTROL PROGRAM

On June 9, 2004, the Commission issued D.04-06-011, which approved a number of utility proposals to address short-term and long-term grid reliability needs. A direct load control program, to be managed by a third-party Comverge, was one of the approved proposals. The Comverge proposal was in response to SDG&E’s May 16, 2003 Request for Proposals (RFP) for grid reliability resources, to include demand response.

SDG&E is authorized to recover costs from the Comverge contract in the ILROPMA. O&M and A&G charges and any incentive payments paid to participants will be collected from all distribution customers through the distribution rate changes effective January 1 of the following year.

Comverge activities in 2004 relate to costs associated with establishing a conference call line in the amount of $24. As ordered, SDG&E records the costs for Comverge activities in the ILROPMA, but is not seeking recovery here. Costs are transferred to SDG&E’s Rewards & Penalties Balancing Account (RPBA) for recovery through distribution rates.

D. CIRCUIT RECONFIGURATION - ROTATING OUTAGE PROGRAM

In D. 01-04-006, the Commission ordered electric utilities to conduct distribution circuit reconfiguration studies to identify means by which more customers classified as non-essential might be made available for participation in rotating outage (RO) programs. The non-essential customers in question are those served from circuits that also serve at
least one essential use customer. Each RO exemption of the circuit to protect the
essential customer also protects all non-essential customers on that circuit, essentially
removing them from the rotating outage pool. The Distribution Circuit Reconfiguration
Studies seek to identify and recommend reasonable means by which the SDG&E circuits
might be reconfigured or operated differently to create a more equitable situation among
non-essential customers and to increase the number of customers available for the RO
pool.
Costs associated with the Circuit Reconfiguration studies include $8,881 for costs
related to capital-related expenses (i.e. depreciation, return and taxes) recorded in January
2004. As described earlier, SDG&E records capital-related expenses to regulatory
accounts on a one-month lag. As a result, these expenses relate to December 2003
activity, a period prior to when the assets were effectively placed into rate base in
SDG&E's most recent Cost of Service.

II.
CPUC AUDITOR'S REPORT
2001-2003 EXPENDITURES

The California Public Utilities Commission Energy Division conducted an audit
of ILROPMA activities for 2001-2003. A draft report was submitted in April 2005. The
audit recommends SDG&E recover its incremental costs for program activities, less audit
adjustments of $169,674. To the extent that the Commission approves the audit report, as
drafted or later modified, SDG&E will reflect these changes in the ILROPMA as
necessary.

12D. 04-06-011, Ordering Paragraph 1.
III.

CONCLUSION

In conclusion, SDG&E respectfully requests the Commission to find reasonable
and to authorize SDG&E’s recovery of the Interruptible Programs and Curtailment
Priorities costs reflected in the ILROPMA and to issue a decision:

1) Finding that the 2004 expenditures of $47,423 are reasonable; and
2) Authorizing the recovery of the 2004 expenditures of $47,399 and the
   transfer of this amount to the electric RPBA.
QUALIFICATIONS

My name is Susie E. Sides. My business address is 8306 Century Park Court, Suite 42K, San Diego, California, 92123-1569. I am employed by San Diego Gas & Electric Company (SDG&E) as the Demand Response Programs Manager in the Commercial and Industrial Mass Department. In my current position, I am responsible for the development and management of demand response programs.

I graduated from San Diego State University with a Bachelor of Science degree in Business Management in 1993. I received a Master of Arts degree in Organizational Management from the University of Phoenix in 1997. Initially, I was hired by SDG&E in February 1986 and held several positions of increasing responsibility until February 2000. Between March 2000 and February 2001, I was employed by the San Diego Regional Energy Office as Assistant Director of Energy Programs. I returned to SDG&E in February 2001. Since then, I have managed the Demand Response Programs.

I have previously testified before the Commission.

This concludes my testimony.