Application No.: A.09-10-_____________
Exhibit No.: ________________________
Witness: Cynthia S. Fang

DIRECT TESTIMONY

OF

CYNTHIA S. FANG

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
October 1, 2009

SDGE

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CYNTHIA S. FANG

ON BEHALF OF SDG&E

I. INTRODUCTION & BACKGROUND

The purpose of my testimony is to discuss the estimate of revenues recovered from non-exempt Direct Access ("DA") customers, Community Choice Aggregation ("CCA") customers, and other departing load (e.g., Customer Generator Departing Load ["CGDL"] and Municipal Departing Load ["MDL"]), representing their responsibility for any above market costs associated with the combined utility-procured and Department of Water Resources ("DWR") total commodity portfolio ("Total Portfolio"). At the time of filing the instant application, SDG&E estimates zero revenues to be recovered from departing load for above market costs. There are two primary reasons that zero revenues are estimated:[1] (1) for non-exempt DA customers, there is a negative balance from prior years' calculation of the Power Charge Indifference Adjustment ("PCIA"), that will offset the positive PCIA for 2010; and (2) there appears to be no (zero) CCA and other departing load on SDG&E's system that would otherwise pay for above market costs associated with their respective Total Portfolio vintage.

A. Applicability of Non Bypassable Charges to Departing Load

In D.06-07-030 and as modified in D.07-01-030, the California Public Utilities

[1] The estimate of zero revenues recovered for above market costs utilizes the 2009 market benchmark currently in effect. As noted below, SDG&E will provide above market cost calculations and any associated revenues from departing load in November 2009 when the Energy Division distributes the 2010 market benchmark.

Commission ("CPUC" or "Commission") adopted the Total Portfolio methodology and market benchmark for determining the above market costs associated with the utility/DWR total portfolio, and replaced the DWR Power Charge Component with the PCIA. In D. 07-01-025, the Commission adopted the same Total Portfolio methodology, market benchmark, and PCIA calculation for CCA.[2] Although the ERRA forecast filing directly addresses only SDG&E's fuel and purchased power costs, the Commission ordered that the calculation of PCIA and associated revenues must take place in the ERRA forecast proceeding. Thus, estimates of 2010 DWR costs and SDG&E's 2010 Non-Fuel Generation Balancing Account ("NGBA") are utilized to calculate SDG&E's 2010 PCIA.

In D.08-09-012, the Commission ruled that MDL, other than large municipalization, and CGDL shall be exempt from non bypassable charges related to new world generation resources that were not procured on their behalf. Thus, to the extent that there are MDL and CGDL customers, then they are responsible only for the above market costs associated with resources procured before January 1, 2003, as well as the above market costs associated with the DWR supply (to the extent that they are not otherwise exempt from the DWR supply). SDG&E has no MDL in its service area and is unaware of the formation of any MDL in its service area. Regarding CGDL in SDG&E's service area, there are currently no CGDL customers that are subject to the PCIA and pursuant to the Commission's ruling in D.08-09-012, all future CGDL is exempt from the PCIA as well. The Commission also determined in D. 08-09-012 that former DA load that is eligible to return to DA and does, is subject to the same Cost Responsibility Surcharge treatment as large MDL and CCA.[3]

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[2] SDG&E currently has DA Non Exempt load on its system but no (zero) CCA load.
[3] D.08-09-012 Appendix E Cost Responsibility Surcharge Calculations.

B. Total Portfolio Methodology for Determining Above Market Costs

The purpose of the Total Portfolio methodology is to reasonably ensure that bundled customers are indifferent with respect to departing load. Rather than focus on each individual resource cost, the Total Portfolio method recognizes that bundled customers are served from the entire portfolio of commodity resources and that when load departs the utility may, in general, offset a portion of the costs of departing load through additional market sales.

The use of the Total Portfolio method treats bundled and departing load customers in a similar manner by allowing both to benefit from below market resources and to pay their respective share of above market costs. If the Total Portfolio cost, in $/MWH, is greater than the market benchmark then the difference between the two (referred to as a positive indifference rate) is used to calculate above market costs. Given that DA, CCA, and other departing load customers pay for certain above market costs recovered in the Competition Transition Cost ("CTC") component, the CTC rate is subtracted from the indifference rate to determine the PCIA.

In order to maintain bundled customer indifference, the subtraction of the CTC necessitates that the CTC revenue requirement be calculated using the same market benchmark that is used to calculate the indifference rate. In instances where the PCIA is positive, then SDG&E determines the remittance to DWR and the allocation of the DWR revenue requirement is reduced by this amount. If the indifference rate is less than or equal to zero, then the PCIA is set to zero for billing purposes, and as determined by the Commission in D.07-05-005, negative amounts are tracked for the purpose of applying against any future positive amounts.

C. Vintaging The Total Portfolio

The bundled customer indifference standard requires that departing load pay for their share of above market costs associated with the Total Portfolio committed to serve them prior to their departure and that departing load is not required to pay for above market costs associated with utility procurement commitments after load departs. There is no perfect way to address this issue of matching departing load with the utility procurement process. The Commission has approved vintaging for CCA departing load to provide for a reasonable solution.

Vintaging is simply calculating the Total Portfolio for a given year and then determining which year's vintage of Total Portfolio costs is applicable to the departing load. If the departure of load for CCA (adhering to the rules for departure that are set forth in SDG&E's tariff schedules applicable to CCA) takes place prior to July 1 in a given year, then the departing load is assigned the vintage of Total Portfolio resources from the prior calendar year. If it takes place on or after July 1, then the departing load is assigned the vintage of Total Portfolio resources in that same calendar year. To date, SDG&E has not received a binding notice of intent to depart from any CCA and is unaware of any CCA load in its service area.

In D.08-09-012, the Commission adopted the same vintaging process, in terms of the calendar year split, for large MDL and CCA. For current non-exempt DA customers, the vintage of resources excludes those added by SDG&E after 2001 when DA was suspended. Former DA load that is eligible to return to DA, and does so in 2010, is subject to the PCIA calculations applicable to large MDL and CCA.

D. Draft Resolution E-4226

Draft Resolution E-4226 (the Draft Resolution) addresses the implementation of new world generation non-bypassable charges ("NBCs") using the vintaging (date of departure) methodology adopted by the Commission in D.08-09-012. The Draft Resolution clarified the following points:

1. New World Generation charges do not apply to CG or Municipal DL;
2. Vintaged CRS (beginning with the 2009 vintage) will be effective for non-exempt customers departing bundled service on or after the effective of this resolution; and
3. The PCIA shall vary by customer class in the same proportion as ongoing CTC.

SDG&E provided comments addressing the calculation of the PCIA in the context of the direction provided in point 3, specifically with regards to (1) the calculation of the PCIA and its relationship to the ongoing CTC, and (2) the PCIA varying by customer class. SDG&E made the following recommendations:

1. The calculation of the PCIA, to be consistent with D.06-07-030 and D.08-09-012 and the existing methodology, should be:

   PCIA = Indifference Rate – CTC

2. The requirement that the PCIA vary by customer class was not required by D.08-09-012. But in the event that it is required that the PCIA vary by customer class, to be consistent with D.06-07-030 and D.08-09-012, this calculation should be:

   PCIA = Indifference Rate – CTC by Customer Class.

The Draft Resolution is still pending before the Commission at the time of the filing of this testimony. SDG&E will conform with the final resolution and file updated testimony, if necessary.

II. 2010 ESTIMATED MARKET BENCHMARK

The benchmark methodology adopted in D.06-07-030 and modified in D.07-01-030 is based on publicly available data for electricity prices from an industry-wide trade publication. This relatively new methodology uses the weighted average of peak and off-peak energy prices for the daily forward strip, as published in Platts MW Daily for SP15, for the period October 1 – October 31, in a given year. The average forward energy price is adjusted to include a capacity adder and to account for line losses. Based on market prices provided by the Commission's Energy Division for the period October 1- October 31, 2008, the benchmark that was used for determining the CTC in 2009 was $67.57/MWH. The benchmark for cost responsibility surcharge obligations is determined by adjusting for SDG&E's distribution level line losses which resulted in a market benchmark in 2009 of $70.48/MWH. SDG&E will update its PCIA calculations based on the market benchmark for 2010 that will be distributed by the Energy Division in November, 2009.

III. INDIFFERENCE RATE AND PCIA

The PCIA is calculated by subtracting the CTC from the Indifference Rate. If the PCIA is negative, then for billing purposes it is set to zero, but SDG&E must track negative amounts and credit them against any future positive amounts. In its ERRA filing for 2007, SDG&E calculated negative PCIAs for both DA and CCA, but positive rates in its 2008 ERRA filing. There is no CCA load or MDL on SDG&E's system so there is no tracking of negative amounts or billing for positive amounts for CCA or MDL. In Attachment A to my testimony, I set forth estimates of the PCIA for non-exempt DA and other departing load. Non-exempt DA has its own historical vintage and so there is just one PCIA calculation (a single vintage). There are two separate PCIA calculations for other departing load based on 2009 and 2010 vintage Total Portfolio. The latter PCIA for the 2009 and 2010 vintages would also apply to former DA load that is eligible to return to DA and does so in 2010.

Since the market benchmark is determined by market data from the month of October, it is not possible at the time of this Application to provide the PCIA calculations for DA, CCA, and other departing load. Once the market benchmark for 2010 is distributed by the Energy Division, then SDG&E will provide its calculations for 2010 PCIAs applicable to departing load.[4] However, with respect to CCA and MDL, since SDG&E has no CCA load or MDL there will be no remittance forecast to DWR, even if the applicable PCIA is positive. As previously stated above, to the extent the final resolution in E-4226 requires changes to the current PCIA calculation methodology set forth in this testimony, SDG&E may include in its November update, PCIA calculations that are consistent with the final resolution.

This concludes my direct testimony.

[4] At the time of filing the instant application, and using the effective 2009 market benchmark, SDG&E estimates zero PCIA for billing purposes for DA non-Exempt customers for 2010 (and a negative PCIA for tracking purposes). Utilizing the Total Portfolio vintage for 2009 and 2010, SDG&E estimates a positive PCIA that would be applicable to CCA and MDL.

IV. QUALIFICATIONS OF CYNTHIA S. FANG

My name is Cynthia S. Fang and my business address is 8330 Century Park Court, San Diego, California 92123. I am currently employed by SDG&E as a Principal Regulatory Economic Advisor. I began work at SDG&E in May 2006 in my current position and my responsibilities include electric rate design, rates and revenues forecasts, and other ad hoc analysis. Prior to joining SDG&E, I was employed by the Minnesota Department of Commerce, Energy Division, as a Public Utilities Rates Analyst from 2003 through May 2006.

I have submitted testimony before the CPUC regarding SDG&E's electric rate design. I have submitted testimony before the Federal Energy Regulatory Commission ("FERC") regarding SDG&E's transmission and reliability service rate design. I have submitted testimony and testified before the Minnesota Public Utilities Commission on numerous rate and policy issues applicable to the electric and natural gas utilities.

In 1993, I graduated from the University of California at Berkeley with a Bachelor of Science in Political Economics of Natural Resources. I also attended the University of Minnesota where I completed all coursework required for a Ph.D. in Applied Economics.