

Proceeding No.: A.10-07-
Exhibit No.: _____
Witness: Joseph S. Velasquez

Application of San Diego Gas & Electric
Company (U 902 E) for Approval of its
Proposals for Dynamic Pricing and Recovery of
Incremental Expenditures Required for
Implementation.

PREPARED DIRECT TESTIMONY OF
JOSEPH S. VELASQUEZ
CHAPTER 1
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
July 06, 2010



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1 **PREPARED DIRECT TESTIMONY**

2 **OF JOSEPH S. VELASQUEZ**

3 **CHAPTER 1**

4 **I. OVERVIEW**

5 The purpose of this Application is to request that the California Public Utilities
6 Commission (Commission) approve: (1) San Diego Gas & Electric Company’s (SDG&E’s)
7 time-variant pricing and default dynamic rate proposal for its small nonresidential customers;¹
8 (2) optional (“opt-in”) time-variant pricing proposals for its residential customers, including a
9 dynamic pricing rate; and (3) the funding necessary to develop and implement the systems,
10 processes, and customer education and outreach necessary to provide all of SDG&E’s electric
11 customers with information and tools necessary to make informed decisions and successfully
12 transition to dynamic pricing.

13 This Application will provide a dynamic pricing option, in the form of a time-variant rate,
14 to virtually all of SDG&E’s customers including its estimated 1.2 million residential and 120,000
15 small nonresidential customers (*i.e.*, customers with maximum demand less than 20 kW). In
16 addition, the funding and resources being requested in this Application will also allow SDG&E
17 to implement its approved default Critical Peak Pricing (“CPP-D”) to its estimated 22,000
18 medium nonresidential customers (*i.e.*, customers with maximum demand between 20kW and
19 200 kW), which will be provided with Smart Meters and twelve months of interval energy usage
20 data over the next couple of years.

21 The purpose of my specific testimony is to provide a general description of SDG&E’s
22 dynamic pricing proposal for its small nonresidential customers and state the purpose, goals and
23 policy background for SDG&E’s proposal. My testimony will also describe how this

¹ Small nonresidential customers include all commercial and agricultural customers with peak demand less than 20 kW for three consecutive months. Nonresidential customers taking service on Schedule E-LI or Schedules for traffic signal, unmetered, street lighting or dusk to dawn lighting customers are not included in this proposal.

1 Application will allow SDG&E to implement CPP-D to its medium nonresidential customers.
 2 SDG&E's optional (opt-in) time-variant proposals for residential customers are described in the
 3 testimony of SDG&E witness William Saxe (Ch. 3) and a detailed description of the specific
 4 rates are described in the testimony of SDG&E witness Robert Hansen (Ch. 4). SDG&E's
 5 current timeframe for rolling out dynamic pricing to all its customers is shown in Table-1 below.

6 Table – 1²

7 Illustrative Timeframe for Dynamic Pricing for SDG&E Customers

Customer Class	Tariff	Rate Design Application	2011	2012	2013	2014
Residential	Peak Time Rebate (PTR)	Filed in 2008 GRC Phase 2; approved in D.08-02-034	PTR implemented		Reduction in PTR incentive credits.	
	Optional PeakShift at Home (PSH)	2010 Dynamic Pricing Application			Optional PSH implemented (prior to summer 2013)	
	Default PSH or Time of Day (TOD) Rate	Future Rate Design Application				Earliest date Default PSH or Default TOD implemented
Small Non-Residential (< 20 kW): Commercial & Agricultural	Default PSW	2010 Dynamic Pricing Application			Default PSW implemented (prior to summer 2013)	
Medium & Large Non-Residential (greater than or equal to 20 kW): C&I and Agricultural	Default Critical Peak Pricing (CPP) Rate (CPP-D)	Filed in 2008 GRC Phase 2; approved in D.08-02-034			CPP-D implemented in 2008 for customers with appropriate metering. All remaining customers default to CPP-D prior to summer 2013.	
All Customers	Optional Real Time Pricing (RTP)	2012 GRC Phase 2 Application or Future Rate Design Application			Earliest date Optional RTP implemented	

8
9
10 **II. GENERAL DESCRIPTION OF SDG&E'S DYNAMIC PRICING PROPOSAL**
 11 **FOR SMALL NONRESIDENTIAL CUSTOMERS**

12 SDG&E's dynamic pricing proposal for its small nonresidential customers pertains solely
 13 to the electric commodity charges.³ SDG&E seeks approval for two new electric commodity

² Some of the terms used in this table will be further defined in my testimony or in the testimony of witness Saxe (Ch. 3). In addition, the proposals in this table that go beyond either the specific request being made in this application or proposals already adopted by the Commission for SDG&E, reflect SDG&E's current position and are included for illustrative purposes. These future proposals may be modified as SDG&E and its customers gain more experience with dynamic pricing.

³ Electric Commodity as opposed to the Utility Distribution Company (UDC) Charges associated with the costs for operating, maintaining and delivering the electric commodity to customers.

1 rate options for its small nonresidential customers. Each of these options consists of two parts.

2 These rate options are:

- 3 • PeakShift at Work (PSW) Rate⁴ (Default Tariff Rate - PSW): This will be the default
4 rate option upon implementation of dynamic rates for this class of customers. This rate
5 consists of a simplified two-period TimeOfDay⁵ (TOD) rate component with specific
6 energy charges (\$/kWh) for the on-peak and off-peak periods. In addition, the rate will
7 have a PeakShift Energy Charge (approximately 20¢/kWh) component which will be
8 added to the TOD energy charges **only** during a ReduceYourUse Day⁶ and **only** applied
9 to the customer's electric usage during the hours of 11:00 a.m. to 6:00 p.m.
10 ReduceYourUse Days will be called by 3:00 p.m. the day before an event. SDG&E
11 estimates calling an average of nine (9) ReduceYourUse Days a year but the number can
12 range from zero (0) to a maximum of eighteen (18) ReduceYourUse Days a year.
13 ReduceYourUse Days can be called on any day of the year, but are expected to occur
14 primarily during the May through September time period.
- 15 • Electric Energy Commodity Cost (EECC) Rate (Optional Tariff Rate – EECC):
16 Customers opting out of the PSW Rate will be served on the optional EECC Rate. This
17 rate also consists of a simplified two-period TOD rate component with specific energy
18 charges for the on-peak and off-peak periods. The specific TOD energy charges are the
19 same under either the default PSW Rate or the optional EECC Rate. Instead of the

⁴ PeakShift at Work (PSW) refers to what is known as Critical Peak Pricing (CPP) for SDG&E's Medium and Large Non-Residential customers. SDG&E is tentatively using "PeakShift at Work" and "PeakShift at Home" for its pricing options, however as it searches for more descriptive and customer-friendly names, SDG&E may modify these names based on feedback from customers and stakeholders.

⁵ TimeOfDay (TOD) Pricing refers to what is known as the Time-of-Use Rate for SDG&E's Medium and Large Non-Residential customers. Similarly, SDG&E is proposing to use "TimeOfDay" as a more descriptive and customer-friendly nomenclature. This name is subject to change as SDG&E receives feedback from customers.

⁶ SDG&E will call a "ReduceYourUse" Day when very hot weather is forecasted or when high system loads are projected as currently described in Special Condition 16 in Schedule EECC-CPP-D. The term "ReduceYourUse" is also subject to change as SDG&E receives feedback from customers.

1 PeakShift Energy Charge, the EECC Rate will have an on-peak, monthly demand charge
2 (\$1.29 kW/month) component. The on-peak monthly demand charge will apply each
3 month during the months of the summer season.⁷ The demand charge will be applied to
4 the customer's highest kilowatt (kW) electric demand recorded during the on-peak period
5 for that month.

6 In addition to these two new commodity pricing options, SDG&E is proposing to also
7 make available, on a voluntary basis, the existing EECC - Critical Peak Pricing –Default
8 Tariff Rate (CPP-D) to its small nonresidential customers. This is currently the default
9 commodity rate option for SDG&E's large and medium nonresidential customers with
10 appropriate metering. However, CPP-D would be made available to small nonresidential
11 customers only as a voluntary (i.e., opt-in) option.

12 Other more specific provisions related to SDG&E's dynamic rate proposal for its small
13 nonresidential customers are included in the testimony of SDG&E witness Glen Breed
14 (Ch. 2).

15 In addition, SDG&E is proposing that the corresponding UDC rate schedules for these
16 small nonresidential customers have the structure to match these new TOD commodity
17 options, specifically TOD energy rates and on-peak monthly demand charge structure,
18 though there will be no change in the effective UDC rates for these customers. This is
19 discussed in detail in the testimony SDG&E witness Hansen (Ch. 4).

20 **III. SDG&E'S GOALS FOR ITS DYNAMIC PRICING PROPOSAL**

21 SDG&E developed its dynamic pricing proposal with the following goals in mind:

⁷ In D.08-02-034 in SDG&E's last GRC Phase 2 (A.06-12-009), SDG&E was authorized to include the month of October as a summer month, consistent with residential, once all the meters serving these customers are replaced with AMI meters. Therefore, the proposals presented in this application reflect October as a summer month for small nonresidential. While in SDG&E's last GRC Phase 2 SDG&E recommended that this change be reflected as the elimination of the winter on-peak period, for greater simplicity, SDG&E proposes that the resulting two-period winter TOD periods be identified as an on-peak and off-peak period to match the summer TOD period nomenclature.

- 1 a. ***Consistency with Commission Policy***: SDG&E has carefully reviewed the
2 relevant Commission decisions to ensure its proposals are consistent with State
3 and Commission policy. In Section IV below, SDG&E provides a detailed
4 description of the Commission decisions that have formed the policy foundation
5 for its proposal.
- 6 b. ***Responsive to SDG&E's Small Nonresidential Customers***: SDG&E believes its
7 proposal must be responsive to the needs of its small nonresidential customers.
8 Before filing its Application, SDG&E held focus groups with small
9 nonresidential customers and met with several small nonresidential customer
10 stakeholder groups⁸ to review SDG&E's proposal and gain their feedback on
11 how to improve SDG&E's proposal.
- 12 c. ***Comprehensive Outreach and Education for Small Nonresidential Customers***:
13 SDG&E understands and appreciates the significant undertaking necessary to
14 properly educate customers on dynamic pricing options and potential actions that
15 they can take to effectively reduce their energy use during the on-peak period
16 and/or to shift load to lower cost time periods thereby lowering customers' bills.
17 SDG&E's ultimate goal is for small business customers to make informed
18 decisions about their energy use. SDG&E understands that small nonresidential
19 customers are extremely busy operating their businesses and often have limited
20 resources to focus on energy choices. Therefore, SDG&E believes it is important
21 to work closely with these customers and their representatives to better
22 understand their needs and how they operate. This collaboration will help

⁸ SDG&E met with representatives of the San Diego Regional Chamber of Commerce, California Small Business Association, Neighborhood Markets Association, Food and Beverage Association, and San Diego County Farm Bureau.

1 SDG&E design and develop the right mix of information and tools to allow for
2 more effective outreach efforts for these customers and will provide the
3 information/tools that are most responsive to customer specific business needs.
4 In addition, these customers also expressed that they will need SDG&E's support
5 in helping them identify and adopt demand response strategies so they can
6 successfully transition to dynamic rates. In the testimony of witness Breed (Ch.
7 2), SDG&E has included a detailed description of SDG&E's comprehensive
8 customer outreach and education plan for such customers.

9 **d. *Ensure Robust Systems are in Place to Provide a Coordinated and Smooth***
10 ***Transition and Implementation to Dynamic Pricing:*** A project of this
11 magnitude, involving hundreds of thousands of customers with multiple rate
12 options, requires a high degree of automation and robust information technology
13 (IT) systems to handle the multitude of customer interactions, interfaces and
14 processes. Also, while some customers will adapt to automation and self-service
15 tools, other customers will expect (and require) more traditional customer support
16 and services. SDG&E's proposal is designed to provide for both. SDG&E
17 witnesses Daniel Shulman (Ch. 5), Breed (Ch. 2), and Saxe (Ch. 3), describe the
18 systems and processes necessary to implement SDG&E's proposal to both small
19 nonresidential and residential customers.

20 **IV. BACKGROUND AND COMMISSION POLICY ON DYNAMIC PRICING**

21 **A. Dynamic Pricing in General**

22 "Dynamic pricing" refers to a rate design structure in which electricity use is priced
23 differently throughout the day and can vary with market conditions. "Demand response" refers
24 to a customer's ability to take action in response to such electricity pricing. SDG&E and the
25 Commission have also referred to "dynamic rates" as "time-differentiated" rates. The Critical

1 Peak Pricing (CPP) rate (which is identical in concept to SDG&E’s proposed “PeakShift” rates)
2 has been established by the Commission as the default dynamic rate for commercial and
3 industrial customers per guidance provided in Pacific Gas & Electric’s (PG&E’s) Dynamic
4 Pricing decision, D.08-07-045 and PG&E’s 2009 Peak Day Pricing decision, D.10-02-032.
5 ReduceYourUse Days are most likely to occur when very hot weather prompts peak demand
6 because air-conditioning use and/or system electricity resources are relatively strained. SDG&E
7 can activate ReduceYourUse Days when it determines there is a need to call on customers for
8 temporary reductions in electricity demand. The intent of PeakShift rates is to send customers a
9 proxy price signal to encourage them to curtail usage when a ReduceYourUse Day is triggered.

10 **B. Commission Decisions Underlying this Application**

11 This Application is being filed based on, and in accordance with, recent Commission
12 decisions addressing dynamic pricing. These decisions provide important background and policy
13 reasons underlying this Application, as SDG&E shares the Commission’s goal of moving all
14 customer classes towards dynamic pricing rates. These decisions are:

- 15 • SDG&E’s 2008 General Rate Case, Phase II (D.08-02-034);⁹
- 16 • PG&E’s Dynamic Pricing (D.08-07-045);¹⁰
- 17 • SDG&E’s 2008 Rate Design Window (D.09-09-36);¹¹
- 18 • PG&E’s 2009 Peak Day Pricing (D.10-02-032).¹²

19 1. SDG&E’s 2008 General Rate Case, Phase II (D.08-02-034)

20 SDG&E was the first utility in California to receive Commission approval for a default
21 CPP rate for its medium and large non-residential customers with average monthly demand equal

⁹ A.06-12-009.

¹⁰ A. 06-03-005

¹¹ A.08-12-014.

¹² A.09-02-022

1 to or greater than 20 kW and whose facilities are equipped with the appropriate metering.¹³ In
2 D.08-02-034, the Commission adopted default CPP-D rates for SDG&E's medium and large
3 non-residential customers equipped with the appropriate metering devices (*i.e.*, interval meters
4 with communications at their facilities). Those customers without the appropriate metering
5 devices would continue to be charged their standard rate until the requisite metering is installed,
6 including telecommunications capability, and the corresponding IT systems are in place to
7 properly bill the customers with interval meter reads. The default CPP-D rate for SDG&E large
8 customers who had the appropriate metering and communications was effective as of May 1,
9 2008.

10 In that same decision, the Commission also adopted a peak-time rebate (PTR) program
11 applicable to small nonresidential and residential customers. Under the adopted PTR program,
12 small nonresidential customers with a demand of less than 20 kW and residential customers
13 would be placed on the PTR program following smart meter installation and once PTR billing on
14 such meters would be possible.¹⁴

15 2. PG&E's Dynamic Pricing (D.08-07-045)

16 In PG&E's Dynamic Pricing decision (D.08-07-045), the Commission provided further
17 policy guidance and specifically addressed the applicability of this decision to the other major
18 electric utilities, Southern California Edison Company (SCE) and SDG&E, in their future rate
19 design proceedings. The Commission stated:

20 Although this is a PG&E proceeding, the policies adopted for PG&E could be applied
21 to SCE and SDG&E in their future rate design proceedings. This is similar to how the
22 resolution of a policy issue in one utility's general rate case may set the stage for
23 implementation of that policy in other utility general rate cases following notice and
24 due process.

¹³ Appropriate metering refers to interval meters with remote communications capability.

¹⁴ System-wide rollout of smart meters in SDG&E's service territory for its electric customers was authorized pursuant to SDG&E's Advance Metering Infrastructure project. *See* D.07-04-043.

1 We make clear that we are not ordering SCE and SDG&E to adhere to the timetable
2 or rate design guidance adopted herein. However, we recommend that SCE and
3 SDG&E take this decision into consideration. The Commission may require SCE and
4 SDG&E to follow this guidance in those utilities' rate design proceedings.¹⁵
5

6 As part of the PG&E decision, the Commission adopted the following provisions
7 relevant to this Application:

- 8 • A timetable for implementing default CPP Rates for nonresidential customers with
9 demand < 20 kW;¹⁶
- 10 • A timetable for offering optional CPP rates with a TOU rate design structure for
11 residential customers;¹⁷ and
- 12 • A mechanism to recover incremental expenditures required to implement dynamic
13 pricing incurred before PG&E's next general rate case.¹⁸
14

15 3. SDG&E's 2008 Rate Design Window (D.09-09-036)

16 SDG&E filed its 2008 Rate Design Application to more closely align its dynamic rates
17 with Commission guidance in PG&E's Dynamic Pricing decision. In D.09-09-036, the
18 Commission adopted a joint-party settlement, which included SDG&E's proposals for its CPP-D
19 and PTR rates. These proposals included allowing SDG&E: (a) the ability to call CPP events
20 any day of the week, year round; (b) to default medium and large non-residential customers to
21 CPP-D rates only after customers have had a smart meter and associated interval billing/usage
22 data for at least 12 months; and (c) to eliminate PTR for small nonresidential customers in light

¹⁵ D.08-07-045 (mimeo), p. 83.

¹⁶ D.08-07-045, p. 96. Some of the implementation dates were subsequently revised in D. 1-02-032

¹⁷ Ibid.

¹⁸ D.08-07-045, p. 98.

1 of the Commission’s intent to have these customers default to CPP.¹⁹ This last provision was
2 intended to avoid temporarily “detouring” small nonresidential customers through the PTR
3 program to an eventual default CPP rate, which would make for a less confusing transition from
4 PTR to a CPP rate. SDG&E explained that it would provide the detailed rate design and
5 implementation plan for default TOU/ CPP for its small nonresidential customers in its next Rate
6 Design Window. In this Application, SDG&E is providing those details, in its proposal for a
7 comprehensive default PeakShift at Work rate for its small nonresidential customers (*i.e.*, PSW).

8 4. PG&E’s 2009 Peak Day Pricing Decision (D.10-02-032)

9 In PG&E’s Peak Day Pricing Decision the Commission approved default peak day
10 pricing for all of PG&E’s nonresidential customers. The Commission found it to be extremely
11 important that customers receive necessary outreach and education regarding their rate options.²⁰
12 SDG&E agrees with and supports the Commission’s finding. We understand and appreciate that
13 the default PSW rate and the optional EECC rate both represent dramatic changes from these
14 customers’ currently applicable flat rates. Implementation of SDG&E’s proposed rates will
15 require significant customer support and education to ensure that customers have the opportunity
16 to be adequately informed of their new tariff options. SDG&E carefully reviewed the
17 Commission’s Peak Day Pricing decision and accordingly reflected many of the provisions
18 adopted in that decision in developing its Application. SDG&E proposes a comprehensive
19 customer education and outreach plan, as well as customer analyses and easy-to-use decision
20 support tools to help customers make informed decisions and transition successfully to dynamic
21 rates. Although similar in many respects, SDG&E proposal does have provisions that differ

¹⁹ D.09-09-036, Attachment A, Appendix A, p. 6.

²⁰ D. 10-02-032, Finding of Fact 29: “Through customer outreach and education, it is extremely important that, as their first year on PDP progresses, customers (especially defaulted customers) become well aware of the PDP program, the details as they affect their rates, their rate options to opt out or remain in the program and the requirements for switching rates in the future.”

1 from PG&E’s proposal. In Section V, below I summarize the more significant provision of
2 SDG&E’s proposal.

3 Although not part of this Application, SDG&E is separately exploring Real-Time
4 Pricing (RTP) for its customers and may file optional RTP rates for all customer classes as early
5 as its 2012 General Rate Case Phase 2 proceeding, or alternatively, in a future rate design
6 proceeding.

7 **V. SUMMARY OF KEY POLICY PROVISIONS OF SDG&E DYNAMIC PRICING**
8 **PROPOSAL**

9 **A. Customer Segments included in Default PeakShift at Work Rate:** SDG&E
10 proposes to implement its default PSW Rate for all small nonresidential customers with only a
11 few exceptions. SDG&E proposes to exclude street lighting, traffic signal, and dusk to dawn
12 lighting customers. The majority of these customers are unmetered, others do not operate during
13 the on-peak or already have specially designed rates to match their specific end-use and load
14 profile. Low income nonresidential customers on Rate Schedule E-LI will also be excluded from
15 the proposed default PSW rate. However, none of these customers would be prevented from
16 “opting-in” or electing to take service under PSW as long as they have the appropriate metering.

17 **B. Tempering the PeakShift at Work Energy Charge and the On-Peak TOD Rate:**
18 Some of SDG&E’s small nonresidential customers and trade group representatives expressed
19 significant concerns with adjusting to the new dynamic rates. SDG&E realizes that many of
20 these customers will require actual experience with these new dynamic rates in order to adjust
21 and/or implement changes to their operations for a successful transition. SDG&E is also
22 concerned with having customers prematurely opt-out of the PSW rate before having an
23 opportunity to fully explore savings under the rate. SDG&E has designed its proposal to prevent
24 initial bill shock during an unusually hot month with several consecutive ReduceYourUse Days.
25 In an effort to avoid or mitigate such situations, SDG&E is proposing a rate design that includes

1 a modest PeakShift Energy Charge and an on-peak TOD energy charge set at approximately 50%
2 of the full cost-based level to allow small nonresidential customers the time and experience to
3 learn and adopt successful demand response strategies. In addition, SDG&E proposes to
4 simplify to a two-period TOD structure in which the summer semi-peak and off-peak period are
5 consolidated into a single summer off-peak period. Witness Hansen (Ch. 4) describes SDG&E's
6 rate design consistent with this policy. SDG&E's measured approach is intended to deliver
7 sustainable demand response from more customers over the long-term. SDG&E believes this
8 strategy will result in more engaged and supportive customers that are more likely to remain on
9 dynamic rates and participate in demand response and will lessen any initial frustration with the
10 dynamic pricing rates. SDG&E plans to continue monitoring customer acceptance and
11 adjustment to dynamic pricing. As customers adjust, SDG&E will gradually ramp up these rates
12 in future rate proceedings to be more aligned with cost.

13 **C. Implementation Timing For Rate Design Proposal:** SDG&E plans to implement
14 its PSW rate prior to the summer in 2013. This implementation allows time for SDG&E to: (1)
15 complete implementation of its Advanced Metering Initiative (AMI) deployment of smart meters
16 to all customers; (2) allow customers to access at least 12-months of historical interval usage
17 data from smart meters; (3) conduct extensive customer and education efforts; and (4) design and
18 deploy the information systems and web tools necessary to implement and support these
19 customers. Below is a brief timeline of SDG&E PSW Dynamic Pricing Proposal:

2010 - 2011	Customer/Stakeholder Research, Systems Design and Build
2011 - 2012	Launch Customer Education and Outreach Effort
2012 - 2013	Test and Implement Systems
2013 - 2014	Roll-out Dynamic Rate to Customers Over a 12-month Period

21 **D. Bill Protection for Customers on PeakShift at Work:** As an incentive to have
22 nonresidential customers remain on PeakShift at Work, SDG&E proposes to offer twelve (12)

1 months of Bill Protection²¹ to any small non-residential customer that elects to remain on (i.e.,
2 does not opt-out of) PeakShift at Work. In addition, SDG&E proposes that any small
3 nonresidential customer who opts out of PeakShift at Work during their initial 45 day election
4 period be provided the opportunity to opt back in to PeakShift at Work with 12 months of Bill
5 Protection anytime during the initial 12 months on TimeOfDay Rates. For this purpose only,
6 these customers would be allowed a second rate change within a 12 month period. SDG&E is
7 also not proposing to extend Bill Protection for a second 12 month period for customers
8 remaining on PeakShift rates.

9 **E. Implementation of CPP-D to Medium Nonresidential Customers:** The
10 Commission adopted default CPP-D rates for SDG&E's medium and large non-residential
11 customers equipped with the appropriate metering devices (i.e., interval meters with
12 communications at their facilities) in D.08-02-034. Most of SDG&E's large nonresidential
13 customers (i.e., those with demand greater than 200 kW) were equipped with the appropriate
14 metering and communications that allowed them to default to CPP-D effective on their meter
15 reading date in May 2008. However, most of SDG&E's 22,000 medium nonresidential
16 customers do not yet have the appropriate metering devices to default to CPP and continue to be
17 charged their standard rate. These customers will continue on their standard rates until the
18 requisite metering is installed, including telecommunications capability, and the corresponding
19 IT systems are in place to properly bill the customers with interval meter reads.

20 While SDG&E utilized and continues to utilize manual processes to manage CPP for the
21 estimated 2000 large nonresidential customers, it cannot effectively implement and then manage
22 CPP-D to the remaining 22,000 medium-sized nonresidential customers without more

²¹ Bill Protection provides customers, who elect to remain on a PeakShift commodity rate, with the assurance that over the initial 12 month period, they will pay a commodity rate no more than their otherwise alternative commodity rate.

1 automation and customer support systems. The customer support tools and systems in this
 2 Application will be needed to default these medium-sized nonresidential customers to CPP-D.

3 In addition, consistent with the roll-out of time-variant rates, either PSW or TOD, to all
 4 small nonresidential customers, SDG&E also proposes to move the remaining medium and large
 5 non-residential customers to time-variant rates. Specifically, as CPP-D rolls out to the remaining
 6 medium and large nonresidential class the opt-out option for all customers will become a TOD
 7 rate option. This is discussed in detail in the testimony SDG&E witness Hansen (Ch. 4).

8 **VI. SUMMARY OF INCREMENTAL COSTS (2010-2015)**

9 Implementing dynamic pricing will require approximately \$118 million in funding over a
 10 six-year period (2010-2015). These incremental costs are largely related to customer education
 11 and outreach, investments to information systems necessary to implement and provide the
 12 ongoing support for dynamic pricing to virtually all customers, additional customer operations
 13 support and facilities costs for the team members and contract services required to implement the
 14 program. In this Application, SDG&E is requesting funding for these incremental costs. The
 15 following table provides a summary of the overall costs associated with the implementation of
 16 this dynamic pricing proposal. Details of the incremental costs are described in the testimonies
 17 of witnesses Breed (Ch. 2), Saxe (Ch. 3), Shulman (Ch. 5) and Frederick Myers (Ch. 6).

18 **Summary of Implementation Costs**

Costs	2010 (\$1,000)	2011 (\$1,000)	2012 (\$1,000)	2013 (\$1,000)	2014 (\$1,000)	2015 (\$1,000)	Total (\$1,000)
Capital							
Outreach & Education	-	\$954	\$1,071	-	-	-	\$2,025
IT	\$2,560	\$18,444	\$16,632	\$7,228	-	-	\$44,864
Operations	\$115	\$313	\$319	\$42	-	-	\$789
Facilities	-	\$4,036	-	-	-	-	\$4,036
AFUDC ²²	\$56	\$1,261	\$2,020	\$603	-	-	\$3,941
Total Capital	\$2,731	\$25,008	\$20,083	\$7,831	-	-	\$55,654
O&M							

²² AFUDC (Allowance for Funds Used During Construction) per witness Myers (Ch. 6).

Outreach & Education	\$290	\$3,001	\$4,297	\$7,318	\$6,366	\$4,572	\$25,844
IT	\$844	\$96	\$1,389	\$3,592	\$4,163	\$4,341	\$14,425
Operations	\$464	\$1,268	\$3,173	\$5,397	\$4,900	\$4,068	\$19,270
Facilities	\$102	\$714	\$734	\$755	\$288	\$295	\$2,888
Total O&M	\$1,700	\$5,079	\$9,593	\$17,062	\$15,717	\$13,276	\$62,427
Total Cost	\$4,431	\$30,087	\$29,676	\$24,893	\$15,717	\$13,276	\$118,081

VII. COST RECOVERY AND COST ALLOCATION PROPOSAL

SDG&E proposes to recover the incremental costs for implementing dynamic pricing from all SDG&E electric ratepayers. The incremental costs for customer education and outreach, support, and information systems will be incurred to ensure that all customers have the information and support necessary to make informed decisions regardless of the options they elect. The billing/information systems will also be available to support customers who are currently eligible or may become eligible. SDG&E will also use these systems to continue to implement the program to the existing 1700 customers currently on its CPP-D rate. Many of the processes used to manage CPP to the current small number of CPP-D customers are mostly manual. These processes will be replaced and incorporated into the systems being developed for these customers. The systems being developed will also be used to transition the 22,000 medium nonresidential customers to CPP-D after smart meter installation and 12 months of interval usage data collection. In addition, when participating customers reduce their loads during system peaks it can result in improved system reliability and/or lower costs which benefits all customers, even those not participating in dynamic pricing. When this factor is taken into account, along with the fact that the information systems and customer tools necessary to implement dynamic pricing will, or could be used by any of SDG&E customers at any time and regardless of the rate options they choose, it is reasonable and appropriate that such costs be allocated to all SDG&E electric customers. Details of the cost recovery proposal are included in the testimony of

1 | SDG&E witness Yvonne Le Mieux (Ch. 7) and the associated rate impacts are presented in the
2 | testimony of SDG&E witness Hansen (Ch. 4).

3 | This concludes my direct testimony.

1 **VIII. STATEMENT OF QUALIFICATIONS**

2 My name is Joseph S. Velasquez. My business address is 8306 Century Park Court, Suite
3 CP42D, San Diego, California, 92123-1530.

4 I am employed by SDG&E as Director of Commercial and Industrial Services. Previous
5 to this position, I held positions as the Commercial and Industrial Markets Manager for both
6 SDG&E and Southern California Gas Company (SoCalGas). I began at SoCalGas in 1986 and
7 have held several positions of increasing responsibility at SoCalGas and SDG&E. One of the
8 responsibilities of my current position is to implement Energy Efficiency and Demand Response
9 Programs for SDG&E's commercial and industrial customers and direct the customer services
10 function for this customer segment.

11 I received a Bachelor of Science degree in Engineering from California State University,
12 Northridge and a Masters of Business Administration from Pepperdine University.

13 I have previously testified before the Commission.