

Application of SAN DIEGO GAS & ELECTRIC  
COMPANY For Authority to Update Marginal Costs,  
Cost Allocation, And Electric Rate Design (U 902-E)

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Application No. 07-01-\_\_\_\_  
Exhibit No.: (SDGE-11) \_\_\_\_\_

**PREPARED DIRECT TESTIMONY  
OF JOSEPH S. VELASQUEZ  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

**JANUARY 31, 2007**

**TABLE OF CONTENTS**

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>II.</b>	<b>DEFAULT CPP PROGRAM DESIGN .....</b>	<b>2</b>
	A. Generation Capacity Reservation .....	2
	B. Bill Protection .....	4
	C. Default CPP Time-Of-Use Periods.....	6
	D. Default CPP Event - Customer Notification.....	6
	E. Optional Commodity Rates.....	7
	F. Default CPP Commodity Rate Compatibility with Voluntary Demand Response and Reliability Programs .....	8
<b>III.</b>	<b>DEFAULT CPP COMMODITY RATE IMPLEMENTATION PLAN AND CUSTOMER OUTREACH AND EDUCATION .....</b>	<b>11</b>
<b>IV.</b>	<b>TIME DIFFERENTIATED RATES FOR RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS .....</b>	<b>13</b>
<b>V.</b>	<b>PROGRAM COSTS AND BUDGET .....</b>	<b>13</b>
<b>VI.</b>	<b>ELECTRIC VEHIVLE RATES.....</b>	<b>13</b>
<b>VII.</b>	<b>QUALIFICATIONS .....</b>	<b>15</b>

1 **PREPARED TESTIMONY**

2 **OF**

3 **JOSEPH S. VELASQUEZ**

4 **CHAPTER 11**

5 **I. INTRODUCTION**

6 The purpose of my testimony is to address the customer service issues  
7 associated with San Diego Gas & Electric's proposed default Critical Peak Pricing  
8 (CPP) commodity rate. Since SDG&E's rates are unbundled, all Large and Medium<sup>1</sup>  
9 size Commercial and Industrial (C/I) customers are billed under an applicable time-  
10 of-use rate schedule for electric transmission and distribution (T&D)<sup>2</sup> service in  
11 combination with an applicable time-of-use electric commodity rate schedule. Under  
12 SDG&E's proposed default CPP commodity rate, customers would continue to  
13 receive service under the applicable T&D rate schedule in combination with the  
14 default CPP commodity rate which, with the exception that CPP events can occur on  
15 Saturdays, will mirror the time periods contained in the applicable T&D rate  
16 schedule. As described below, SDG&E is proposing that the default CPP commodity  
17 rate become effective for all customers with demands equal to or in excess of 20  
18 kilowatts (kW) whose facilities are equipped with the required metering on January 1,  
19 2008<sup>3</sup>. SDG&E is proposing a phase-in approach for the remaining C/I customers  
20 with demands equal to or greater than 20 kW that would also begin on

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<sup>1</sup> Large and Medium C/I customers are defined as those with electric demands equal to or greater than 20 kW taking service under rate Schedules AL-TOU, AY-TOU, A6-TOU, A-TOU, and PA-T-1.

<sup>2</sup> T&D rates consist of various components including, Transmission Charges, Distribution Charges, Public Purpose Program Charges, Nuclear Decommissioning Charges, Trust Transfer Amount Charges, Ongoing Competition Transition Charges, Reliability Services Charges, and 2006 Rate Design Settlement Charges.

<sup>3</sup> This group of customers would also include customers on Schedule AD and Schedule PA that would qualify for service under AL-TOU.

1 January 1, 2008. These customers would default to CPP as the required metering is  
2 installed.<sup>4</sup> I will address certain design and applicability elements related to electric  
3 commodity service under the default CPP rate such as, generation capacity  
4 reservation, applicability and purpose of a twelve-month bill protection mechanism,  
5 applicable time-of-use periods, procedure and timing requirements for notifying  
6 customers of CPP events, ability to combine service under the default CPP  
7 commodity rate with service under existing voluntary demand response programs,  
8 optional dynamic commodity rates SDG&E is proposing that would be available to  
9 customers during, and after, the completion of an initial twelve-month period on the  
10 default CPP commodity rate. In addition, I will describe SDG&E's proposed default  
11 CPP rate implementation plan which will include customer outreach and education,  
12 addressing issues such as the time varying cost of power, high cost of peak load, and  
13 technologies and techniques for managing peak load. I will also describe SDG&E's  
14 proposal to offer the default CPP commodity rate as an option that would be available  
15 to Small<sup>5</sup> commercial customers. At the conclusion of my CPP testimony I provide  
16 additional testimony in support of SDG&E's electric vehicle rate schedules.

## 17 **II. DEFAULT CPP PROGRAM DESIGN**

### 18 **A. Generation Capacity Reservation**

19 SDG&E is proposing to include a completely optional generation Capacity  
20 Reservation Charge (CRC) component in the default CPP commodity rate. The CRC  
21 would allow individual customers to "self-select" and reserve the level of generation  
22 capacity they believe will best meet their specific operational requirements by paying

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<sup>4</sup> SDG&E's default CPP commodity rate is identical for both Large and Medium C/I Customers.

<sup>5</sup> Small commercial customers are those with demands less than 20 kW.

1 for the capacity they reserve through a monthly charge (i.e., CRC). Customers  
2 electing a CRC would choose a specific capacity level for a twelve-month period.  
3 They would be billed a fixed CRC per kW, per month for the capacity reserved.  
4 During a CPP event, the customer would be billed the normal<sup>6</sup> on-peak price per kWh  
5 for all usage up to its CRC. To the extent a customer's usage does not exceed its  
6 capacity reservation, critical-peak commodity prices would not be applicable during  
7 that CPP event. For example, some customers may choose to reserve zero capacity.  
8 In this case, the customer would be billed the critical-peak commodity price for each  
9 kWhr consumed during CPP event hours. On the other hand, a customer may choose  
10 to reserve capacity for any level including 100% of its required capacity. In this case,  
11 the customer would pay a fixed monthly charge for each kW of capacity reserved.  
12 During a CPP event, the customer would be billed the critical-peak commodity price  
13 only for the kWhrs it consumed in excess of its reserved capacity. This will allow  
14 customers to align their exposure to CPP prices with their desire for predictable and  
15 stable bills as well as their ability to reduce or shift load during CPP events. Prior to  
16 the commencement of service under the default CPP commodity rate, customers will  
17 be required to notify SDG&E in writing of their CRC election, even if the choice is  
18 for zero capacity. In the event a customer fails to make an election, its CRC will  
19 default to a level equal to 50% of its recorded maximum summer on-peak demand  
20 during the most recent summer season<sup>7</sup>. SDG&E believes that its proposed CRC  
21 provides customers an important and useful tool that will add flexibility and control

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<sup>6</sup> The normal on-peak price per kWh is the on-peak price per kWh that is applicable during regular on-peak hours occurring on non-CPP operational times.

<sup>7</sup> Summer season is defined as the period from May 1 to September 30.

1 to help them manage their electric costs and energy consumption in a manner that  
2 meets their individual needs.

3 B. Bill Protection

4 In response to customer concerns regarding potential bill impacts associated  
5 with CPP commodity rates and to provide customers with a risk-free opportunity to  
6 gain experience and knowledge in understanding how their existing operations  
7 interact with the default CPP commodity rate, SDG&E is proposing a twelve-month  
8 Bill Protection mechanism. Bill Protection provides a guarantee that eligible  
9 customers will not be billed more, on an annual basis, for electric commodity service  
10 than they would have been billed on their otherwise applicable rate if they had not  
11 been placed on the default CPP commodity rate. Bill Protection would be applicable  
12 to a customer's initial twelve months of billing under the default CPP rate and  
13 customers would be required to remain on the default CPP commodity rate during the  
14 entire twelve-month period.<sup>8</sup> At the conclusion of the initial twelve-month period,  
15 SDG&E will compare each eligible customer's actual annual electric generation  
16 charges to the electric generation charges that would have been billed under their  
17 otherwise applicable rate. In the event SDG&E determines that a customer has been  
18 charged more for electric generation, including CRC charges, than it would have  
19 otherwise been billed, the customer's bill will be adjusted to reflect the lower electric  
20 generation costs.<sup>9</sup> Upon conclusion of the initial twelve-month period, SDG&E will  
21 notify customers of the results of the commodity charge comparison and provide

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<sup>8</sup> Bill Protection is not applicable, for example, to customer accounts that are terminated at any time during the initial twelve-month period under the default CPP commodity rate.

<sup>9</sup>The Bill Protection calculation only applies to the electric generation charges.

1 them with the process for opting-out of the default CPP commodity rate, if they wish.  
2 Customers that do not affirmatively choose to switch to a different available  
3 commodity rate option within 30 days after SDG&E sends their twelve-month Bill  
4 Protection comparison would automatically default to an additional twelve-month  
5 term under the CPP commodity rate at the same CRC previously applied to the  
6 customer. Additionally, in order to opt-out of the CPP rate in years subsequent to the  
7 initial twelve-month term, a customer would be required to provide a written request  
8 to SDG&E at least 30 days prior to the expiration of its current twelve-month  
9 commitment period. Customers with CPP capable metering on January 1, 2008 will  
10 begin receiving service under the CPP commodity rate on their respective billing  
11 cycles that fall within the first month immediately following the program  
12 implementation date authorized by the Commission. These customers would receive  
13 bill protection during the initial twelve months on CPP. For new customers moving  
14 into facilities not equipped with the required metering capabilities, the CPP  
15 commodity rate will be effective 90 days from the installation of the required  
16 metering and Bill Protection would be applied upon the conclusion of the initial  
17 twelve months after the commencement of the CPP commodity rate. In the event a  
18 new customer is requesting service at a facility equipped with CPP metering  
19 capabilities, in order to be eligible for Bill Protection, the new customer would be  
20 obligated to demonstrate to SDG&E's satisfaction that it is not the same business that  
21 may have previously received Bill Protection at the same location. Bill protection is  
22 void in the event a customer terminates service prior to expiration of the initial  
23 twelve-month CPP term. Under no circumstances would Bill Protection be initiated

1 on or after January 1, 2011 for any customer. Additionally, SDG&E proposes to  
2 retain the exiting provision contained in its existing voluntary CPP and CPP-E  
3 programs which permits SDG&E to disregard, for purposes of establishing a demand  
4 charge, a customer's maximum demand if it occurs on a CPP event day during non-  
5 CPP event hours. The customer's monthly maximum demand charge would be based  
6 on the maximum demand recorded on a non-CPP event day or during CPP event  
7 hours on a CPP event day.

#### 8 C. Default CPP Time-Of-Use Periods

9 As discussed in Chapter 12, the testimony of Witness Jack, SDG&E is  
10 proposing a CPP event period that conforms to its existing summer on-peak hours of  
11 11:00 a.m. and 6:00 p.m., Monday – Friday, with one very minor yet critical  
12 modification. SDG&E is also proposing to include Saturdays as days when a CPP  
13 event may be called. Since this would not change the existing summer on-peak time  
14 periods, SDG&E does not believe it will result in customer confusion.

#### 15 D. Default CPP Event - Customer Notification

16 In D.06-11-049, the Commission approved SDG&E's recommendation to  
17 include the use of "soft triggers" in various demand response programs, including its  
18 existing voluntary CPP program. The Commission found that " 'Soft triggers' for  
19 calling demand response events may permit the utilities to manage demand response  
20 programs more effectively and in ways that are more attractive to customers than hard  
21 and fast event criteria."<sup>10</sup> Consistent with the Commission's findings, SDG&E  
22 proposes to continue the use of "soft triggers" in its default CPP program. Upon

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<sup>10</sup> D.06-11-048 – FOF 12

1 triggering a CPP event, SDG&E will inform affected customers by providing a notice  
2 on SDG&E's website, an e-mail message, or a text message. The customer may elect  
3 to receive notification through any combination of these methods and receipt of such  
4 notice shall be the responsibility of the customer. Notice will be provided to  
5 customers no later than 3:00 p.m. the day before a CPP event is to occur. While  
6 SDG&E expects that the majority of CPP events would be triggered on weekdays,  
7 when most businesses are in operation, providing notice by 3:00 p.m. on the day  
8 ahead for a CPP event that would occur on a Monday may be problematic for some  
9 businesses not operating on a Sunday afternoon. In order to mitigate this potential  
10 problem associated with triggering a CPP event for a Monday, SDG&E, on a best  
11 efforts basis, will also attempt to notify customers by 3:00 p.m. on Friday of a  
12 potential CPP event on the following Monday. If, on Sunday, conditions exist that  
13 cause the triggering of a CPP event for Monday, SDG&E will provide firm  
14 notification to customers no later than 3:00 p.m. Sunday afternoon.

#### 15 E. Optional Commodity Rates

16 SDG&E proposes that, both during and after the Bill Protection period,  
17 customers would have the option of electing to receive service under SDG&E's rate  
18 Schedule EECC-CPP-E. Schedule EECC-CPP-E is an existing critical peak pricing  
19 rate that is currently available to customers with demands equal to or greater than  
20 300kW. Customers receiving service under EECC-CPP-E would have the ability to  
21 continue on this rate or switch to the default CPP commodity rate.<sup>11</sup> Additionally,  
22 SDG&E proposes that the applicability of Schedule EECC-CPP-E be modified so that

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<sup>11</sup> A customer that elects to switch to default CPP must fulfill its existing commitment to service under EECC-CPP.

1 all customers subject to the default CPP commodity rate, regardless of size, are  
2 eligible. However, customers electing to take service under Schedule EECC-CPP-E  
3 would not be eligible for Bill Protection.

4 As discussed in the testimony of SDG&E Witness Hansen in Chapter 2 and in  
5 the testimony of SDG&E Witness Borden in Chapter 7, SDG&E also proposes a  
6 revised commodity rate structure which incorporates a demand component. The  
7 revised commodity rate structure would be an optional commodity rate available to  
8 all demand-metered C/I customers choosing to opt-out of the default CPP commodity  
9 rate after an initial twelve-month term of service. The structure of commodity rates  
10 with demand charge components are shown in tables presented by SDG&E Witness  
11 Claffey in Chapter 6. This proposed commodity rate option will be used as the  
12 otherwise applicable commodity rate for calculating the effects of Bill Protection.

13 While some customers may choose to opt-out of the default CPP commodity  
14 rate, SDG&E will continue to encourage customer participation in voluntary  
15 demand response programs.

16 F. Default CPP Commodity Rate Compatibility with Voluntary Demand  
17 Response and Reliability Programs

18 Day-of Demand Response Programs (DRP) are designed to provide  
19 immediate protection of electric system reliability under circumstances when  
20 emergency conditions develop on a day when they may not have been anticipated the  
21 day before. SDG&E continues to believe that customers participating in day-ahead  
22 programs, such as the proposed default CPP, should continue to be allowed to  
23 participate in Day-of programs in order to encourage as much demand reduction as

1 possible when emergency conditions develop immediately. Therefore, SDG&E  
2 proposes to include a provision in its default CPP commodity tariff that provides for  
3 multiple program participation. The following table (JV-1) represents how SDG&E  
4 anticipates its proposed default CPP rate will interact with existing DRPs.

1  
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**Table JV-1**

**SDG&E Voluntary Demand Response Programs**

<b>Voluntary Demand Response / Reliability Program</b>	<b>Default CPP Compatible</b>	<b>Available 2008</b>	<b>Available 2009<sup>12</sup></b>	<b>Remarks</b>
Demand Bidding – Day-of-Only <sup>13</sup>	Yes	Yes	Yes	May provide demand response during non-CPP times
Scheduled Load Reduction - SLRP	No	No	No	Day-ahead programs are redundant with the proposed default CPP.
Base Interruptible - BIP	Yes	N/A <sup>14</sup>	N/A	Day-of reliability program compatible with a Day-ahead pricing program
Optional Binding Mandatory Curtailment – OBMC	Yes	Yes	Yes	Day-of reliability program compatible with a Day-ahead pricing program
Peak Generation	Yes	Yes	Yes	Day-of reliability program compatible with a Day-ahead pricing program
Capacity Bidding – CBP	No	No	No	Customers participating in the Capacity Bidding Program are not eligible to participate in any other utility demand response program. <sup>15</sup>
Schedule Peak Day Credit - TOU <sup>16</sup>	No	N/A	N/A	Consistent with the Commission’s intent in D.05-01-056, customers receiving service under the default CPP shall not be eligible to simultaneously participate. <sup>17</sup>

<sup>12</sup> Assumes Reliability programs in the Demand Response portfolio are approved in the next 2009-2011 program cycle.

<sup>13</sup> Customers receiving service under the default CPP commodity will not be permitted to participate in DBP under the day-ahead provisions.

<sup>14</sup> Proposed elimination in 2008 due to Capacity Bidding

<sup>15</sup> Per Special Condition 11 – Schedule CBP as filed in AL 1799-E-A

<sup>16</sup> Formerly known as 20/20 Program

<sup>17</sup> Pursuant to D.05-01-056 @ pg. 33, “Customers already participating in other day-ahead programs authorized by today’s decision are not eligible to also earn a rebate under any 20/20 program. As a result, customers electing service under the voluntary CPP program are not eligible to simultaneously participate in any 20/20 program.”

1 **III. DEFAULT CPP COMMODITY RATE IMPLEMENTATION PLAN AND**  
2 **CUSTOMER OUTREACH AND EDUCATION**

3 Currently, all existing Large<sup>18</sup> C/I Customers' facilities and a number of  
4 smaller C/I Customers' facilities are equipped CPP metering capabilities. Therefore,  
5 SDG&E requests Commission approval for its proposed default CPP commodity rate  
6 to become effective for all customers (with the exception of those customers that  
7 would currently be receiving service under SDG&E's existing CPP or CPP-E rates)  
8 equipped with the required metering on January 1, 2008. The default CPP  
9 commodity rate would become effective for the remaining existing Medium  
10 customers and new customers no sooner than 90 days after the required metering has  
11 been installed.

12 Customers receiving service under a voluntary CPP rate at the time the  
13 proposed default CPP commodity rate becomes effective will be required to continue  
14 on the existing rate until the conclusion of their current commitment period. As  
15 customers' commitment periods end, those on voluntary CPP will default to the CPP  
16 commodity rate, or have the option to elect service under CPP-E. Customers on CPP-  
17 E, whose commitment period has expired, can elect to remain on CPP-E or default to  
18 the CPP commodity rate.

19 Voluntary CPP will be closed to new customers as of December 31, 2007.  
20 However, for a voluntary CPP customer to be eligible for bill protection after being  
21 moved to default CPP, that customer must be signed up for voluntary CPP by  
22 May 1, 2007.

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<sup>18</sup> Large Customer is defined as customers with demand equal to or greater than 200 kW.

1           SDG&E recognizes that a key driver to achieving customer response to CPP  
2 events is effective communication with, and education of, its customers. As an  
3 integral component of its communication effort, SDG&E is committed to working  
4 with customers that will be subject to the default CPP commodity rate and ensuring  
5 that each customer is provided with the available information and tools in order to  
6 make informed decisions and achieve demand response. Once a default CPP  
7 commodity rate has been approved by the Commission, SDG&E will begin informing  
8 and working with default CPP customers. To the extent available, SDG&E will  
9 provide bill impact information. The bill impact scenarios will be estimated based on  
10 variables such as historical electric use information; operational changes customers  
11 may be contemplating; some level of assumed demand response; and capacity  
12 reservation assumptions. SDG&E also proposes to make information available on its  
13 web site to assist customers in assessing their options. In addition, SDG&E will  
14 inform customers of the technical assistance and incentives that may be available to  
15 assist them in identifying and understanding the potential benefits resulting from  
16 upfront investments in implementing energy efficiency and demand response  
17 measures. Understanding the potential benefits of installing or enhancing automated  
18 demand response technologies that result from responding to a CPP event can make  
19 investment decisions less difficult. Armed with the variety of information SDG&E  
20 intends to provide, customers will be in a better position to make informed decisions  
21 regarding default CPP participation, capacity reservation levels, opt-out options and  
22 participation in voluntary demand response programs that may be provided in  
23 combination with the default CPP commodity rate.

1 **IV. TIME DIFFERENTIATED RATES FOR RESIDENTIAL AND SMALL**  
2 **COMMERCIAL CUSTOMERS**

3 In the testimonies of SDG&E Witness Magill in Chapter 10 and SDG&E  
4 Witness Willoughby in Chapter 13, SDG&E describes a peak time rebate (PTR)  
5 program applicable to residential and small C&I customers. While Small C&I  
6 customers will not default to the proposed CPP commodity rate applicable to medium  
7 and large commercial customers, SDG&E believes that small customers that desire  
8 the benefits of lower rates during non-CPP event periods and are willing to reduce  
9 their demand during CPP events should have the opportunity to take service under the  
10 default CPP commodity rate, under the same conditions that would be applicable to  
11 the medium and large customers.

12 **V. PROGRAM COSTS AND BUDGET**

13 Pursuant to Commission Decisions, D.06-05-038 and D.06-09-031, SDG&E  
14 has included the CPP Program Development costs, Customer Outreach and Education  
15 Costs, and Measurement and Evaluation costs in its General Rate Case Application,  
16 A.06-12-009, filed with the Commission on December 8, 2006.

17 **VI. ELECTRIC VEHIVLE RATES**

18 As described by SDG&E Witness Claffey in Chapter 6, SDG&E proposes the  
19 retention of Electric Vehicle rate schedules EV-TOU-1, EV-TOU-2, and EV-TOU-3.  
20 The retention of these rate schedules allows the current customers to remain on EV  
21 service. In addition, SDG&E anticipates that the development of plug-in hybrid  
22 electric vehicles (PHEV) along with SDG&E's proposed EV Program in Phase 1 of

1 the General Rate Case proceeding will increase the interest and demand for service  
2 under these EV rates.

3 This concludes my prepared testimony.

1 **VII. QUALIFICATIONS**

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

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

11 I received a Bachelor of Science degree in Engineering from California State  
12 University, Northridge in 1985 and a Masters of Business Administration from  
13 Pepperdine University in 1990.

14 I have previously testified at the Commission.