

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

Application 11-10-002  
Exhibit No.: (SDG&E-209)

**PREPARED REBUTTAL TESTIMONY OF  
DAVID CHENG  
CHAPTER 9  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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

**JULY 17, 2012**



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1 **REBUTTAL TESTIMONY OF**

2 **DAVID CHENG**

3 **CHAPTER 9**

4 **I. OVERVIEW AND PURPOSE**

5 The purpose of my testimony is to respond to the direct testimonies of intervenors  
6 regarding SDG&E’s proposed Prepay Program, submitted by Lee-Whei Tan on behalf of the  
7 Division of Ratepayer Advocates (“DRA”), John Howat on behalf of National Consumer Law  
8 Center (“NCLC”), The Utility Reform Network (“TURN”), the Center for Accessible  
9 Technology (“CforAT”), the Greenlining Institute (“Greenlining”), Dmitri Belser on behalf of  
10 CforAT, and Len Canty, Jorge Corralejo, and Faith Bautista on behalf of the joint parties Black  
11 Economic Council, Latino Business Chamber of Greater Los Angeles and National Asian  
12 American Coalition (collectively the “Joint Parties”).

13 SDG&E disagrees with these intervenors’ recommendation to reject the Prepay Program.  
14 The proposed Prepay Program will be completely optional for residential customers and will  
15 represent an additional payment and energy management option for customers, allowing  
16 customers the ability to manage their energy usage by prepaying for energy prior to  
17 consumption. The Prepay Program could also enable easier access to gas and electric service for  
18 customers with a previous bad debt or customers who are unable or choose not to pay the  
19 required deposit. The voluntary Prepay Program would be just one option that a customer may  
20 choose if there is an individual benefit to using the program.

21 My rebuttal testimony is organized as follows:

- 22 • Section II – The Primary Reasons for SDG&E’s Proposed Prepay Program Are  
23 Misrepresented.
- 24 • Section III – The Scope of the Pilot Program Is Misstated.
- 25 • Section IV – Lower-Income Customers Have Limited Options without a Prepay  
26 Program.
- 27 • Section V – Customer Protections Are Included in the Prepay Program.
- 28 • Section VI – DRA Misrepresents SDG&E’s Adherence to the Settlement Agreement.
- 29 • Section VII – The Commission Should Reject DRA’s Proposal for the Provision of  
30 Customer Budget Management Tools in Lieu of SDG&E’s Prepay Program.

1 **II. THE PRIMARY REASONS FOR SDG&E’S PROPOSED PREPAY PROGRAM**  
2 **ARE MISREPRESENTED.**

3 **A. Customer Choice**

4 The primary goal of the residential Prepay Program is to offer an additional payment and  
5 energy management option for customers who value such an option. Furthermore, the Prepay  
6 Program was designed to enable easier access to gas and electric service for customers with a  
7 previous bad debt or customers who are unable to or choose not to pay a required deposit. In its  
8 testimony, DRA claims, “Clearly, SDG&E’s main objective in offering a Prepay option is to  
9 reduce its bad debt (or uncollectibles).”<sup>1</sup> This is false. The cost for SDG&E to implement the  
10 Prepay Program outweighs the potential reduction in uncollectible expense. The estimated cost  
11 for the Prepay Program’s system modifications alone is approximately \$1.8 million,<sup>2</sup> whereas the  
12 projected savings for reduced bad debt is approximately \$28,000 in 2014 (assuming a 1%  
13 participation level), \$56,000 in 2015 (assuming a 2% participation level), and \$84,000 in 2016  
14 (assuming a 3% participation level), for a total of \$168,000 collectively in all three years.<sup>3</sup>

15 **B. Positive Customer Satisfaction for Prepay Option**

16 Studies have shown that a segment of the population prefers to use prepaid services.<sup>4</sup>  
17 NCLC fails to recognize that a recent study on the Salt River Project (SRP) prepaid service  
18 (which was cited numerous times in NCLC’s testimony) noted positive customer feedback  
19 regarding the SRP prepay program:

20 One obvious finding, which is consistent with every customer study, is that  
21 M-Power (prepaid) customers are very fond of the program. This finding was  
22 first found with the 100-home pilot discussed in Section 1, with the oldest  
23 studies reviewed for this report (circa 1999), and with the most recent studies  
24 reviewed, in the form of the Customer Contact Tracking Study.<sup>5</sup>

25  
26 Additionally, SRP surveyed its existing M-Power customers and the  
27 percentage of customers who were satisfied or very satisfied with the M-  
28 Power program ranged from 83% to 96%.<sup>6</sup>  
29

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<sup>1</sup> DRA Testimony, Chapter 7, 7-1.

<sup>2</sup> NCLC Data Request DR-01 Response, p. 6.

<sup>3</sup> NCLC Data Request DR-01 Response, p. 12.

<sup>4</sup> SDG&E February 2012 Testimony, Chapter 9, DWC - 1 & 2.

<sup>5</sup> Electric Power Research Institute, “Paying Upfront: A Review of Salt River Project’s M-Power Prepaid Program,” (October 2010).

<sup>6</sup> Electric Power Research Institute, “Paying Upfront: A Review of Salt River Project’s M-Power Prepaid Program,” (October 2010).

1           **C. Reduction in Energy Consumption**

2           As mentioned in my direct testimony, other utilities have reported a reduction in energy  
3 consumption for Prepay customers after switching from traditional post-pay. SRP conducted a  
4 series of analyses to understand how electricity consumption behavior changed under its prepaid  
5 service. The initial study indicated that prepaid subscribers reduced their consumption, and the  
6 recent study on SRP reports an average annual household reduction of 12%.<sup>7</sup>

7           In its testimony, NCLC explores the claim that the reduction in energy usage in Prepay  
8 Programs is due to service disconnections.<sup>8</sup> SDG&E disagrees with this claim, as NCLC has not  
9 provided any evidence to support this theory. In fact, a recent study on SRP states “many  
10 customers reported that their increased knowledge of consumption patterns make them more  
11 likely to be able to use less electricity, thus resulting in an overall monetary savings as well.”<sup>9</sup>  
12 This would help further important policy goals to empower and inform customers, as noted in  
13 Mr. Yunker’s testimony.

14           **III. THE SCOPE OF THE PILOT PROGRAM IS MISSTATED**

15           One argument presented by DRA<sup>10</sup> and NCLC<sup>11</sup> is that SDG&E’s Prepay Program will  
16 result in too many service disconnections. DRA incorrectly estimates that 124,000 customers<sup>12</sup>  
17 will be affected. However, as stated in my original testimony, SDG&E will limit participation in  
18 the Prepay Program to no more than one percent of total residential customers in its first year,  
19 which (assuming 100% participation) would only represent approximately 12,446 customers.<sup>13</sup>  
20 Using the disconnection rate of 2 to 3.5 percent assumed by DRA,<sup>14</sup> the result would be 250 to  
21 450 disconnections for the year (again, if 100% participation is reached), not 3,000 to 5,000.

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<sup>7</sup> Electric Power Research Institute, “Paying Upfront: A Review of Salt River Project’s M-Power Prepaid Program,” (October 2010).

<sup>8</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 19.

<sup>9</sup> Electric Power Research Institute, “Paying Upfront: A Review of Salt River Project’s M-Power Prepaid Program,” (October 2010).

<sup>10</sup> DRA Testimony, Chapter 7, 7-4.

<sup>11</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 10 & 11.

<sup>12</sup> DRA Testimony, Chapter 7, 7-5.

<sup>13</sup> SDG&E has 1,244,624 residential customers (from 2012 GRC 2, Chapter 3 workpapers Distribution System Determinants).

<sup>14</sup> Settlement Agreement Between San Diego Gas & Electric Company, Southern California Gas Company, Disability Rights Advocates, The Division of Ratepayer Advocates, The Greenlining Institute, The National Consumer Law Center, And The Utility Reform Network Resolving Issues In The Residential Disconnection Proceeding (Rulemaking No. 10-02-005), p. 5.

1           Additionally, DRA and NCLC have not provided any evidence to support their claim that  
2 prepaid programs result in more frequent disconnections. In its report, NCLC states, “National  
3 Consumer Law Center could not obtain disconnection rates for any prepaid programs.”<sup>15</sup> A  
4 small pilot conducted by SDG&E would be valuable as it would provide an opportunity to  
5 conduct an objective study on disconnection rates, effects on energy consumption, consumer  
6 satisfaction with the Prepay Program, and the effects on uncollectible expense. SDG&E fully  
7 intends to review and communicate the results of the pilot during Phase 2 of the next General  
8 Rate Case. Upon reviewing these key metrics, SDG&E could present options to the CPUC to  
9 enhance or refine the program prior to mass rollout or to cancel the program altogether.

10 **IV. LOWER-INCOME CUSTOMERS HAVE LIMITED OPTIONS WITHOUT A**  
11 **PREPAY PROGRAM**

12           NCLC states that the benefits of the Prepay Program will be most attractive to payment-  
13 troubled customers, yet NCLC recommends that the Commission reject the proposal in its  
14 entirety.<sup>16</sup> SDG&E disagrees with NCLC’s abrupt conclusion. Without the option of a Prepay  
15 Program, payment-troubled customers, along with low-income customers, would not have the  
16 option of choosing not to pay a deposit and avoid locking up critical financial resources as a  
17 deposit. Payment-troubled customers and low-income customers are most at risk of being  
18 without utility service for an extended period of time as they have the least ability to pay a  
19 deposit. Every family should be able to decide for themselves how best to allocate their financial  
20 resources, especially during tough economic conditions.

21           Currently, SDG&E customers with prior bad debt are not able to activate service if they  
22 are unable to first pay off their existing bad debt. This prevents our low-income customers the  
23 opportunity of having utility service altogether and repairing their credit history. The Prepay  
24 Program would enable these customers to do both as the 75/25 Bad Debt Feature allows  
25 customers to establish service and slowly pay off their bad debt over time, improving their credit  
26 profiles in the process.

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<sup>15</sup> National Consumer Law Center, “Rethinking Prepaid Utility Service,” (June 2012).

<sup>16</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 29.

1 In response to NCLC's<sup>17</sup> and CforAT's<sup>18</sup> comments on how SDG&E will address Prepay  
2 customers who become ineligible (or self-identify as ineligible according to the particularly  
3 vulnerable customer definition<sup>19</sup>) after previously enrolling in the Prepay Program, SDG&E  
4 clarifies that it will transition the customer to its traditional post-pay service and the respective  
5 procedures for establishing an account would be applied, including collecting a deposit from the  
6 customer, if necessary. The same result would follow if a Prepay customer contacts SDG&E and  
7 indicates that he or she was part of a vulnerable customer class after receiving notice regarding  
8 imminent service disconnection. The customer would be converted to a post-pay account. In  
9 both of the cases above, under current SDG&E procedures, the customer would have at least 24  
10 days after being converted to a post-pay customer before he or she would be subject to a service  
11 disconnection, thereby providing these vulnerable customers additional time to make a payment,  
12 in addition to ensuring that they will not be remotely disconnected.

13 Finally, SDG&E disagrees with the Joint Parties' baseless claim that those in financially  
14 vulnerable situations will be subject to disconnection on a semi-regular basis.<sup>20</sup> The Joint Parties  
15 provide no evidence to support their conclusion that enrollment in the Prepay Program will lead  
16 to more disconnections for payment-troubled or low-income customers.

## 17 **V. CUSTOMER PROTECTIONS**

18 DRA,<sup>21</sup> CforAT<sup>22</sup> and NCLC<sup>23</sup> claim that SDG&E's Prepay Program proposal deprives  
19 consumers of substantial customer protections related to service termination set forth by the  
20 California Legislature. These arguments will be more fully addressed in briefing. In short,  
21 SDG&E seeks approval of the proposed Prepay Program under the Commission's broad  
22 authority to regulate public utilities.

23 In response to NCLC's claims of specific consumer protections that may be lost through  
24 the Prepay Program, SDG&E reiterates that it will have the following customer protections in  
25 place for its Prepay Program:

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<sup>17</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 4.

<sup>18</sup> Center for Accessible Technology Testimony, p. 6 & 7.

<sup>19</sup> SDG&E Feb 2012 Testimony, Chapter 9, DWC-3

<sup>20</sup> Joint Parties' Testimony, p. 9.

<sup>21</sup> DRA Testimony, Chapter 7, 7-7.

<sup>22</sup> Center for Accessible Technology Testimony, p. 5.

<sup>23</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 6.

1           **A. Emphasis on Optionality**

2           The Prepay Program is an **optional** program. Customers would only participate if they  
3 decided the risks and benefits were valuable and fitting to their circumstances. Since customers  
4 would elect to participate in the Prepay program on their own accord, the Prepay Program would  
5 not violate consumer protections since election into the program is the customer’s choice.

6           **B. Education Provided**

7           SDG&E is committed to educating its customers on how the Prepay Program differs from  
8 traditional post-pay service, including the risks and benefits of not paying a deposit (should they  
9 elect to participate in the Prepay Program). In addition to being educated on the Prepay Program  
10 by SDG&E’s Energy Services Specialists (if customers call), customers will also receive in  
11 writing a detailed description of the Prepay Program, and details of the program will also be  
12 available on the website. SDG&E is committed to ensuring that customers are making well  
13 informed decisions for their families.

14           The Prepay Program also offers education regarding a household’s electricity  
15 consumption and the effect of their daily behaviors. The SRP study mentions one of the main  
16 advantages reported is the educational and awareness aspect of the program.<sup>24</sup> Customers have  
17 consumption information about their home which enables them to monitor their power usage, to  
18 pay for power at their own pace (e.g., daily or weekly instead of monthly), and to have the ability  
19 to know and be ready for a disconnection if necessary.

20           **C. Timely Notifications**

21           Customers will be able to customize the channel on which they wish to receive  
22 notifications of account balances. The options include text message, email and automated phone  
23 call. Customers will be able to set their own thresholds for notification to ensure they are alerted  
24 as they deem appropriate. At a minimum, customers will receive three notifications including  
25 when the balance reaches the default level (to be determined later), when the balance reaches  
26 zero, and every day the account balance is below zero.

27           NCLC states “standard-post paid customers must be contacted two times before service  
28 can be terminated, including a 15-day notice by mail, and a 24-hour notice by telephone or  
29 personal contact or a 48-hour notice by mail or in person.” NCLC goes on to say that the

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<sup>24</sup> Electric Power Research Institute, “Paying Upfront: A Review of Salt River Project’s M-Power Prepaid Program,” (October 2010).



1 notification options provided by the Prepay proposal are considerably less reliable.<sup>25</sup> However, in  
2 its testimony, DRA agrees with SDG&E’s proposal that 1) customers should be able to set  
3 different budget amount thresholds for notification and the frequency of notification, and 2) they  
4 should be able to customize the channel on which they wish to receive notifications of account  
5 balances, which should include text message, email and automated phone call.<sup>26</sup>

6 The Joint Parties stated that they “oppose any option that allows SDG&E to disconnect  
7 someone’s utility services *the very next day*.”<sup>27</sup> However, the proposed Prepay Program allows  
8 customers to have a negative balance for four consecutive days or reach -\$20 before  
9 disconnection. Given that the typical monthly bill for a SDG&E non-CARE customer is around  
10 \$85 (\$60 for a CARE customer), it is unlikely and rare that a customer would consume \$20 of  
11 energy a day and be disconnected the very next day. Even under these rare circumstances, the  
12 customer would have already received notice when the balance reached the default level, plus  
13 whatever other threshold alerts set by the customer. Thus, the customer would not be  
14 disconnected the very next day after receiving the first notice.

#### 15 **D. Customer Assistance Programs**

16 In their testimonies, DRA<sup>28</sup> and NCLC<sup>29</sup> mention customer protections which may be  
17 forgone with SDG&E’s Prepay Program. But if a Prepay customer disputes an issue of service  
18 or charges after receiving a disconnection notice, SDG&E would not disconnect service to the  
19 customer until the issue was resolved. This is no different whether the customer chooses the  
20 Prepay Program or the traditional post-pay program. Additionally, Prepay customers would not  
21 lose access to the income-qualified programs that SDG&E offers to its customers, including  
22 California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA)  
23 which allows the customer a discount on their monthly bill and the Energy Savings Assistance  
24 Program which offer free energy efficient home improvements. In addition, the Neighbor-to-  
25 Neighbor Program which offers bill assistance of up to \$200 to residential customers  
26 experiencing a hardship.

27  

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<sup>25</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 12.

<sup>26</sup> DRA Testimony, Chapter 7, 7-2.

<sup>27</sup> Joint Parties’ Testimony, p. 9.

<sup>28</sup> DRA Testimony, Chapter 7, 7-7.

<sup>29</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 6.

1           **E. Option to Opt Out of the Prepay Program at Any Time**

2           There is no minimum service term requirement for the Prepay Program, which allows  
3 customers to opt out of the program at any time. If a customer is dissatisfied with the benefits of  
4 the Prepay Program, he or she can switch to the traditional post pay program at no penalty or  
5 cost as long as they have paid off any arrearages in full, which would be no more than \$20 under  
6 the program.

7           **F. Reduced Fees Related to Disconnection and Reconnection**

8           SDG&E’s Prepay Program has reduced fees compared to post-pay, as SDG&E will  
9 waive the disconnection and reconnection fees for Prepay customers. This is another feature of  
10 the Prepay Program that could lower the cost of utility service for some customers.

11           **G. Same Rates as Post-Pay Customers**

12           In its testimony, NCLC contends that Prepay customers will experience “second class  
13 utility service compared to other customers.”<sup>30</sup> Contrary to claims made by the NCLC, Prepay  
14 customers will not lose access to customer service nor technical expertise provided by SDG&E’s  
15 staff. With any program or payment option offered, SDG&E is committed to providing the same  
16 level of reliable service to all of its customers.

17           SDG&E confirms the claim from intervenors that the Prepay Program does not offer  
18 customers a lower, more affordable rate.<sup>31</sup> While customers would not receive a rate reduction  
19 by choosing one payment method over the other, customers would benefit by having an  
20 additional option to choose from by deciding what is best for their family. SDG&E believes that  
21 all payment methods should experience the same rates.

22           **VI. DRA MISREPRESENTS SDG&E’S ADHERENCE TO THE SETTLEMENT**  
23           **AGREEMENT.**

24           From the initial development of the Prepay Program, SDG&E has been in discussion with  
25 the parties of the Settlement Agreement which includes the DRA, TURN, Greenlining, CforAT  
26 and NCLC. SDG&E’s Prepay Program was discussed at the June and September 2011 quarterly  
27 meetings for the Disconnection Order Instituting Rulemaking (OIR) settlement parties.  
28 Furthermore, on July 28, 2011, SDG&E conducted a two-hour discussion with the same parties

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<sup>30</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 26.

<sup>31</sup> National Consumer Law Center, The Utility Reform Network, the Center for Accessible Technology, and the Greenlining Institute Testimony, p. 8.

1 focused solely on the Prepay Program.<sup>32</sup> As a result of these discussions, SDG&E made  
2 significant changes to the Prepay Program proposal during its development. The changes  
3 included:

- 4 1. Existing customers will not be eligible for the Prepay program unless they have a  
5 current balance (no arrears).
- 6 2. Only bad debt balances are eligible for the 75/25 Bad Debt feature (Final Bills older  
7 than 145 days), not current or recent Final Bills.
- 8 3. Reduced fees – Prepay customers will be waived from the disconnection and  
9 reconnection fees.
- 10 4. Revised implementation date of January 1, 2014 (from January 1, 2013).

11 In regards to the DRA’s claims of violations of the Settlement Agreement signed in  
12 September 2010,<sup>33</sup> SDG&E purposely proposed an introduction date for this program that would  
13 allow all parties the opportunity to discuss the impacts of the program on disconnection rates  
14 prior to expiration and whether any customer protections needed to be adjusted based upon the  
15 Prepay Program. In addition to having the lowest disconnection rates among all the investor-  
16 owned utilities (IOUs) in California,<sup>34</sup> SDG&E has been in compliance with the Settlement  
17 Agreement and fully expects to meet and discuss the disconnection rates and the potential impact  
18 of the Prepay Program, if approved, before the expiration of the Settlement Agreement on  
19 December 31, 2013.

20 **VII. THE CPUC SHOULD REJECT DRA’S PROPOSAL FOR THE PROVISION OF**  
21 **CUSTOMER BUDGET MANAGEMENT TOOLS IN LIEU OF SDG&E’S**  
22 **PREPAY PROGRAM**

23 DRA recommends that budgeting tools be provided in lieu of SDG&E’s Prepay Program.  
24 Regarding these budgeting tools, such tools are either already available or will become available  
25 for **all** customers by January 1, 2014. However, the budgeting tools alone are not as effective  
26 when not combined with a Prepay option. Knowing your month-to-date bill is not as effective as  
27 being able to set aside a limited budget in advance by prepaying for energy usage. SDG&E  
28 agrees with DRA’s claim that residential customers have invested in the advanced metering  
29 infrastructure (“AMI”) and should be given the opportunity to realize the potential benefits of

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<sup>32</sup> Joint Parties Data Request DR-01, p. 2.

<sup>33</sup> DRA Testimony, Chapter 7, 7-6.

<sup>34</sup> DRA, “Status of Energy Utility Service Disconnections in California,” (March 2011).

1 Smart Meter Technologies. Currently, customers can review their daily account balances online.  
2 Customers who value this tool can use it at their discretion. However, there are customers who  
3 would prefer the additional functionality of allocating their resources for utility service in  
4 advance. By implementing a Prepay Program, customers can decide for themselves if the  
5 budgeting tools are sufficient for their planning needs or if they would rather leverage the  
6 prepayment option.

7 This concludes my prepared rebuttal testimony.