

Application of San Diego Gas & Electric
Company (U-902-M) for Approval of
Demand Response Programs and Budgets
for Years 2006 through 2008.

Application 05-06-____

CHAPTER III
PREPARED DIRECT TESTIMONY
OF
KEN DEREMER

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

JUNE 1, 2005

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PURPOSE

The purpose of my testimony is to describe the current regulatory accounting and cost recovery for demand response programs and San Diego Gas & Electric Company's (SDG&E) proposal for consolidation of current regulatory accounting mechanisms.

I. CURRENT COST RECOVERY MECHANISM

Consistent with the regulatory accounting and cost recovery treatment initially established by D. 03-03-036 and most recently affirmed by D. 05-01-056, SDG&E currently records all program costs associated with its existing demand response programs in its Advanced Metering and Demand Response Memorandum Account (AMDRMA),¹ with three exceptions as discussed below. For the authorized new and expanded demand response program costs for 2006-2008 not recovered through SDG&E's 2004 Cost of Service adopted rates,² SDG&E proposes that the O&M expenses, capital-related costs, customer capacity incentive payments, and all other authorized program costs be recorded in the AMDRMA beginning in 2006. SDG&E proposes that there be no change to the existing disposition of the AMDRMA balances being transferred to the Rewards and Penalties Balancing Account (RPBA) on an annual

¹ See D.03-03-036, Ordering Paragraph 8, and D.05-01-056, mimeo at pages 66-67.

² Through its 2004 Cost of Service Settlement rates (A.02-12-028/D.04-12-015), SDG&E has approximately \$530,000 in distribution rate funding for activities associated with its current ALTOU-CP, SLRP, BIP, RBRP and OBMC programs. SDG&E's proposal herein does not include any proposed revision to the treatment of those components of program costs.

1 basis for amortization in SDG&E's electric distribution rates over 12 months, effective
2 on January 1st of each year, consistent with SDG&E's adopted tariffs

3 As noted above, there are currently three exceptions to the way SDG&E records
4 demand response programs costs in AMDRMA: 1) As authorized in D. 03-03-036,
5 SDG&E records the energy component of the customer incentive payments to its Energy
6 Resource Recovery Account (ERRA). SDG&E requests to continue this treatment of
7 these costs; 2) SDG&E records the costs associated with the SDG&E/Comverge contract,
8 as well as the SDG&E/Celerity Energy Partners San Diego LLC (Celerity) contract in
9 SDG&E's existing Interruptible Load and Rotating Outage Programs Memorandum
10 Account (ILROPMA);³ and, 3) SDG&E records the costs of the Residential Smart
11 Thermostat Program in the RDRPMA (Residential Demand Responsiveness Programs
12 Memorandum Account).⁴ Similar to the treatment of the AMDRMA balances, the
13 ILROPMA⁵ and RDRPMA balances transfer to the RPBA for ultimate amortization in
14 rates.

15 **2. CONSOLIDATION OF REGULATORY ACCOUNTS**

16 Since the establishment of ILROPMA, the types of costs recorded into this
17 account have diminished, reflecting the prior consolidation of costs into other accounts or
18 the inclusion of costs into base rates. Consequently, the only remaining costs that are
19 presently recorded into the ILROPMA are those associated with the Comverge and

³ The ILROPMA was established by D. 01-04-006. In D. 04-06-011, Ordering Paragraphs 2 and 3 the Commission authorized the accounting treatment for the Comverge and Celerity contracts.

⁴ See D.01-03-073. Most recently, D.05-01-056 extended the Residential Smart Thermostat Pilot Program through 12/31/05.

⁵ While the review and disposition of other costs recorded to the ILROPMA are addressed in the Annual Earnings Assessment Proceeding (AEAP), D.04-06-011 authorizes SDG&E to recover the costs associated with the Comverge and Celerity contracts through electric distribution rates on an annual basis.

1 Celerity contracts. Costs related to Comverge and Celerity are subsequently transferred
2 from the ILROPMA into the RPBA annually for recovery in rates.

3 In the interest of further simplicity of recording the demand response programs
4 costs and consolidating the various existing regulatory accounts that reflect costs that are
5 similar in nature with the same disposition, SDG&E proposes that the costs associated
6 with the Comverge and Celerity contracts, with the exception noted below, be recorded
7 into the AMDRMA beginning in 2006; SDG&E further proposes that once the then-
8 existing ILROPMA balance is transferred into the RPBA, the ILROPMA be closed.
9 Consistent with the treatment of other energy incentive payments described above,
10 SDG&E requests that the energy incentives associated with the Comverge and Celerity
11 contracts be recorded to the ERRR for recovery from bundled customers, with all other
12 payments recorded in the AMDRMA as requested above.

13 Finally, SDG&E proposes that the costs of the Residential Smart Thermostat
14 Program also be recorded in the AMDRMA beginning in 2006, and that upon transfer of
15 the then-existing RDRPMA balance into the RPBA, the RDRPMA be closed. SDG&E
16 believes that it is more efficient and appropriate to reflect all authorized, non-Cost of
17 Service costs of demand response programs into a single account - - the AMDRMA.
18 The detail of the costs for the individual demand response programs will continue to be
19 tracked separately within the AMDRMA. Recording the Comverge, Celerity and
20 Residential Smart Thermostat Program costs in the AMDRMA, and eliminating the
21 ILROPMA and RDRPMA will not result in any change in how these costs are recovered
22 but will streamline the accounting and simplify the review process.

23 This concludes my prepared direct testimony.

1 **QUALIFICATIONS**

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3 My name is Kenneth J. Deremer and my business address is 8330 Century Park
4 Court, San Diego, California 92123. I am currently employed by San Diego Gas &
5 Electric as a Regulatory Accounts Manager. My responsibilities include managing the
6 process for the development, implementation and analysis of regulatory balancing and
7 memorandum accounts. I assumed my current position in April 2002. Prior to my current
8 position, I served as a Regulatory Tariff Administrator for Sempra Energy from
9 December 1998 through March 2002. My principal responsibilities included the
10 implementation and analysis of revenue requirements and regulatory accounts.

11 I received a Bachelors of Science in Business Administration from the University
12 of California, Riverside in June 1987. I also received a Masters in Business
13 Administration, with an emphasis in Finance, from the University of California,
14 Riverside in December 1989.

15 I have been employed by SDG&E and Sempra Energy since 1991. In
16 addition to my work experience in Regulatory Affairs, I held various positions of
17 increasing responsibility in the Financial Reporting Department. My main
18 responsibilities included the preparation and analysis of financial statements and
19 reports submitted to shareholders and regulatory agencies.

20 I have previously testified before this Commission.

