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Exhibit No.:
Witness: Cynthia S. Fang

DIRECT TESTIMONY

OF

CYNTHIA S. FANG

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
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CYNTHIA S. FANG
ON BEHALF OF SDG&E

I. INTRODUCTION & BACKGROUND

The purposes of this testimony are to present (1) the 2011 market benchmark and (2) the 2011 Indifference Charge and the related Power Charge Indifference Adjustment ("PCIA") consistent with Decision ("D.") 08-09-012. In D.08-09-012, the California Public Utilities Commission ("Commission" or "CPUC") authorized implementation of new generation non-bypassable charges ("NBCs"), previously established by D.04-12-048 and D.06-07-029. In D.10-04-010, the Commission approved SDG&E's 2009 and 2010 Vintage PCIA for 2010[1] for the determination of the Cost Responsibility Surcharge ("CRS"), which applies to non-exempt Direct Access ("DA") customers, Community Choice Aggregation ("CCA"), and other departing load customers (e.g., Customer Generator Departing Load ("CGDL") and Municipal Departing Load ("MGDL"). This testimony presents the 2011 updates to the 2009 and 2010 Vintage PCIA as well as the addition of the 2011 Vintage PCIA.

A. Applicability of Non Bypassable Charges to Departing Load

In D.06-07-030 and as modified in D.07-01-030, the Commission adopted the Total Portfolio methodology and market benchmark for determining the above market costs associated with the utility/DWR total portfolio, and replaced the DWR Power Charge Component with the PCIA. In D. 07-01-025, the Commission adopted the same Total

[1] A.09-10-003, SDG&E's ERRA Forecast for 2010.

Portfolio methodology, market benchmark, and PCIA calculation for CCA.[2] Although the ERRA forecast filing directly addresses only SDG&E's fuel and purchased power costs, the Commission ordered that the calculation of PCIA and associated revenues must take place in the ERRA forecast proceeding. Thus, estimates of 2011 DWR costs and SDG&E's 2011 Non-Fuel Generation Balancing Account ("NGBA") are utilized to calculate SDG&E's 2011 PCIA.

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

B. Total Portfolio Methodology for Determining Above Market Costs

The purpose of the Total Portfolio methodology is to reasonably ensure that bundled customers are indifferent with respect to departing load. Rather than focus on each

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

individual resource cost, the Total Portfolio method recognizes that bundled customers are served from the entire portfolio of commodity resources and that when load departs the utility may, in general, offset a portion of the costs of departing load through additional market sales.

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

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

C. Vintaging The Total Portfolio

The bundled customer indifference standard requires that departing load pay for their share of above-market costs associated with the Total Portfolio that was committed to serve them prior to their departure. Also, departing load is not required to pay for above-market costs associated with utility procurement commitments after that load departs. In order to address this issue of matching departing load with the utility procurement process, the Commission has approved vintaging for CCA departing load.

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

In D.08-09-012, the Commission adopted the same vintaging process, in terms of the calendar year split, for large MDL and CCA. For current non-exempt DA customers, the vintage of resources excludes those added by SDG&E after 2001 when DA was suspended. Former DA load that is eligible to return to DA with the limited re-opening of DA under Senate Bill ("SB") 695 is subject to the PCIA calculations applicable to large MDL and CCA.

D. Resolution E-4226

On October 29, 2009, Resolution E-4226 was issued ordering the following:

5. In their next scheduled CRS updates for 2010 rates, SCE and SDG&E shall calculate the PCIA to vary by customer class in the same proportion as the ongoing CTC.

SDG&E's 2009 and 2010 Vintage PCIA approved by the Commission in D.10-04-010 incorporated the differentiation by customer class due to class differentiation of the ongoing CTC rate.

II. 2011 ESTIMATED MARKET BENCHMARK

The benchmark methodology adopted in D.06-07-030 and modified in D.07-01-030 is based on publicly available data for electricity prices from an industry-wide trade publication. This relatively new methodology uses the weighted average of peak and off-peak energy prices for the daily forward strip, as published in Platts MW Daily for SP15, for the period October 1 – October 31, in a given year. The average forward energy price is adjusted to include a capacity adder and to account for line losses. Based on market prices provided by the Commission's Energy Division for the period October 1- October 31, 2009, the benchmark that was used for determining the CTC in 2010 was $58.45/MWH. The benchmark for cost-responsibility-surcharge obligations is determined by adjusting for SDG&E's distribution-level-line losses, which results in a market benchmark in 2010 of $61.05/MWH. As explained in the Application, SDG&E will update its PCIA calculations based on the market benchmark for 2011, for distribution by the Energy Division in November, 2010.

III. INDIFFERENCE RATE AND PCIA

The PCIA is calculated by subtracting the CTC from the Indifference Rate. If the PCIA is negative, then for billing purposes it is set to zero, but SDG&E must track negative amounts and credit them against any future positive amounts. In its ERRA filing for 2010, SDG&E calculated positive PCIAs for both DA and CCA. There is no CCA load or MDL on SDG&E's system so there is no tracking of negative amounts or billing for positive amounts for CCA or MDL. On May 2010, consistent with D.10-04-010, SDG&E implemented its 2009 and 2010 Vintage PCIA for 2010, with the 2009 Vintage being applicable to customers departing load in the first half of the year and the 2010 Vintage being applicable to customers departing load in the second half of the year. For 2011, the 2009 and 2010 Vintage PCIA will be updated and the 2011 Vintage PCIA will be calculated to account for customers' departing load in the second half of 2011[4].

Since the market benchmark is determined by market data from the month of October, it is not possible at this time to provide the PCIA calculations for DA, CCA, and other departing load. Once the market benchmark for 2011 is distributed by the Energy Division, then SDG&E will provide its calculations for 2011 PCIAs applicable to departing load. However, because SDG&E has no CCA load or MDL, there will be no remittance forecast to DWR, even if the applicable PCIA is positive

SB 695 authorized the limited reopening of DA for all non-residential customers. On March 15, 2010, the CPUC issued D.10-03-022 detailing the enrollment caps and processes. Consistent with D.10-03-022, SDG&E will incorporate an update of departing load with its update for the 2011 benchmark.

This concludes my direct testimony.

[4] The 2010 Vintage PCIA is applicable to customers' departing load in the first half of 2011.

IV. QUALIFICATIONS OF CYNTHIA S. FANG

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

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

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