

Application No: A. 08-06-002
Exhibit No.: _____
Witness: Mark Gaines / Tony Choi

_____)
In the Matter of the Amended Application of San)
Diego Gas & Electric Company (U 902 M) for)
Approval of Demand Response Programs and)
Budgets for Years 2009 through 2011.)
And Related Matters)

Application 08-06-002

**REBUTTAL TESTIMONY
OF MARK GAINES / TONY CHOI
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
DECEMBER 15, 2008

1 Law Judge's Ruling Requiring Amended Applications further clarifies on page 5 that
2 Commission seeks proposals that could be used for ancillary services. Therefore, PDR
3 clearly does not address the Commission's requirements.

4 More generally, SDG&E disagrees with TURN's expectation that ground-
5 breaking demand response functionality can be accomplished without some assumption
6 of uncertainty and investment of capital. The cost of DR capacity under a pilot will
7 necessarily be higher than production DR capacity because new technology solutions and
8 front-to-back business processes must be developed and tested to successfully complete
9 the PL pilot. SDG&E believes efficiencies will be gained through experience and
10 standardized solutions that could result in a favorable capacity cost for production phase
11 DR capacity following the pilot program. For example, SDG&E is working with CAISO
12 to reduce metering and telemetry costs via a combination of sampling and load response
13 algorithms rather than installing enabling technology on each meter.

14 **III. REBUTTAL TO CLECA TESTIMONY**

15 CLECA asserts in its testimony that while SDG&E's PLP is designed to respond
16 to market prices, the proposed capacity incentive payments are in fact not based on
17 CAISO market prices and does not demonstrate a response to market prices.

18 This would indeed be a design flaw if CLECA's understanding was accurate.
19 However, CLECA has confused the elements of the PLP that relate to enrolling
20 customers in the overall program (capacity payment) with the mechanism that triggers an
21 actual load reduction (real-time energy price).

22 The capacity payment should reflect the price that sellers of electric capacity will
23 accept in return for making their resource available for dispatch (e.g. load curtailment for
24 DR resources) over a certain period of time. It is not possible to precisely know the

1 current market price for capacity due to the complexity of this product and non-
2 transparency of the bilateral capacity market in the CAISO control area, although the *cost*
3 for particular types of capacity resource like peakers may be estimated based on
4 development and construction costs.

5 Of course, capacity itself is not the same as energy from generation or load
6 curtailment. For DR, load curtailment is activated when a trigger threshold is reached.
7 For its PLP, SDG&E proposes that this trigger be the real-time market price as
8 determined by CAISO using market bids and offers. This market trigger is expected to
9 be highly transparent under MRTU and will resolve CLECA's concern regarding lack of
10 market-based response.

11 **IV. CURRENT ISSUES RELATED TO SDG&E'S PLP**

12 After SDG&E submitted its amended application, FERC issued a ruling that
13 affects the PLP proposal. FERC's October 17, 2008 decision provides for DR resources
14 and aggregators to participate directly in the CAISO market. In light of this decision
15 SDG&E will include a description of the role of DR aggregators in its detailed PLP
16 implementation plan¹.

17 Secondly, the direct access community has expressed its strong preference for DR
18 programs that allow full participation by DA customers and their suppliers. While
19 SDG&E's PLP is open to both bundled and unbundled customers, SDG&E will expand
20 further on provisions of the PLP that relate specifically to DA load participation in its
21 detailed PLP implementation plan.

¹ The CPUC Decision Adopting Bridge Funding For 2009 Demand Response Programs (Decision) established that the IOU's provide the Energy Division a detailed implementation plan of the PLP programs within 45 days of the Decision's effective date.

1 Thirdly, workshops with CAISO and other stakeholders regarding the design of
2 future demand response products (PDR and DDR) have shed light on important PLP
3 implementation issues. Certain details of SDG&E's PLP may be modified to reflect
4 updated information and understanding from these workshops, including the use of
5 Default Load Aggregation Points (DLAP) versus Custom Load Aggregation Points
6 (CLAP) in settling energy payments, registration of PLP capacity into separate load and
7 generator Resource IDs and how each will be bid into the market, and the CAISO's
8 intended exclusion of PLP resources in the RUC process. These modifications are not
9 expected to compromise achieving the PLP's objectives or promoting participation by the
10 DA market.

11 This concludes the Rebuttal Testimony for Mark Gaines / Tony Choi.
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