Application No:	A. 08-06-002	
Exhibit No.:		
Witness:	Mark Gaines / Tony Choi	_
In the Matter of the Amended Application of San		A 1: (: 00 0C 002
Diego Gas & Electric Company (U 902 M) for		Application 08-06-002
Approval of Demand Response Programs and		
Budgets for Years 2009 through 2011.		
And Related Matters		

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

REBUTTAL TESTIMONY OF MARK GAINES / TONY CHOI

I. INTRODUCTION

In accordance with the November 10, 2008 Assigned Commissioner and Administrative Law Judge's Scoping Memo and Ruling (the "Scoping Memo"), and the procedural schedule adopted therein at page 16, this Rebuttal Testimony responds to issues raised by The Utility Reform Network ("TURN") and The California Large Energy Consumers Association ("CLECA"). These parties filed their Opening Testimony in this proceeding on November 24, 2008 addressing, among other things, certain of SDG&E's PL Pilot program proposals for the 2009 – 2011 program cycle. This Rebuttal Testimony is organized to respond to specific issues raised by each of these parties as noted in the sections below.

II. REBUTTAL TO TURN TESTIMONY

TURN's primary criticism is that the participating load pilot (PLP) is too expensive given the technical requirements and the fact that benefits from the program cannot be guaranteed. TURN argues that SDG&E could avoid the cost of implementing the PLP by pursuing a pilot that conforms to PDR functionality.

TURN's argument is based on a flawed understanding of the specific goals of PL pilots because the PDR, as currently contemplated by CAISO, is a day-ahead resource that does not provide for ancillary services as the Commission intended. Section 4.4.1 of the Administrative Law Judge's Ruling Providing Guidance on Content and Format of 2009-2011 Demand Response Activity Applications states that: "...recognizing the limitation and barriers caused by current Western Electricity Coordinating Council standards, the IOUs *should* propose programs (if possible) or pilots that use DR resources to provide CAISO with ancillary services." (SDG&E's emphasis) The Administrative

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

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

III. REBUTTAL TO CLECA TESTIMONY

2.2.

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

This would indeed be a design flaw if CLECA's understanding was accurate.

However, CLECA has confused the elements of the PLP that relate to enrolling customers in the overall program (capacity payment) with the mechanism that triggers an actual load reduction (real-time energy price).

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

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

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

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

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

Secondly, the direct access community has expressed its strong preference for DR programs that allow full participation by DA customers and their suppliers. While SDG&E's PLP is open to both bundled and unbundled customers, SDG&E will expand further on provisions of the PLP that relate specifically to DA load participation in its 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. 12

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