Application No.: R.07-05-025
Exhibit No.:
Witness: Tony Choi

PREPARED REBUTTAL TESTIMONY OF
TONY CHOI
CHAPTER 3
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

February 25, 2011

SDGE

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PREPARED REBUTTAL TESTIMONY OF
TONY CHOI
ON BEHALF OF SDG&E

I. INTRODUCTION

The purpose of my reply testimony is to address the "Testimony of Mark E. Fulmer on behalf of the Direct Access Parties Concerning the Transitional Bundled Service Rate, Direct Access Switching Rules, Minimum Stay Provisions, and Energy Service Provider Financial Security Requirements" ("DA Parties"). Specifically, my reply testimony:

a. Further explains the need for a full 12-month stay on a fully compensatory TBS rate for mass involuntary returns; and
b. Further explains the need for an 18-month minimum stay on the bundled procurement rate for all customers returning to utility service

II. TBS RATE

In opening testimony, SDG&E proposed that there were two types of involuntary returns of direct access customers to utility service: a.) "Business as usual" involuntary returns; and b.) "En Masse" involuntary returns. This second type of involuntary return could be characterized by widespread and sudden shift in movement from Energy Service Providers ("ESPs") to utilities. SDG&E believes that an additional safeguard in the form of a longer TBS period should be adopted to protect existing utility customers from incremental procurement costs for returning customers under such en masse involuntary conditions.

DA Parties propose that for all involuntary returns, a 6-month TBS period should apply. SDG&E proposes a 6-month TBS period for voluntary and business as usual involuntary returns, and a 12-month TBS period for en masse returns. The 6-month TBS period DA Parties propose is unreasonable for en masse involuntary returns because it would create unnecessary time constraints and complexity to the utility's procurement process to acquire RA capacity, satisfy RPS requirements and hedge Customer Risk Tolerance ("CRT") for this (potentially significant) incremental load when it gets folded into the bundled procurement service ("BPS"). However, en masse involuntary returns are likely to coincide with unstable market conditions that affect prices, market liquidity, counterparty credit, etc., and the utility may be forced to pay higher prices to meet procurement requirements for en masse-returning customers not only due to unstable market conditions but also because of the compressed 6-month procurement window. SDG&E believes the 6-month TBS period could lead to incrementally high costs to cover en masse-returning customers that must be absorbed into the BPS rate and would therefore negatively impact existing utility customers.

Further, if en masse involuntary customer returns result from unstable market conditions caused by extreme spot market prices, the 6-month TBS period as proposed by the DA Parties would transition these returning customers more quickly from spot market exposure to the more stable pricing provided by BPS (due to the utilities' longer-term procurement of capacity commitments, RPS contracts and energy price hedges). This stable (and potentially lower) pricing is extended to en masse-returning customers at the expense of existing utility customers. For example, if the utility's portfolio includes in-the-money price hedges beyond the 6-month TBS period, the en masse-returning customers would enjoy the benefit of these price hedges once they roll into the BPS even though the hedges were in place prior to their return and not procured for their benefit. Similarly, the benefits of any low-cost resource previously procured by the utility prior to the return of en masse returning customers would trickle down to these customers after the TBS period, at the expense of existing utility customers. Extending the TBS period to 12 months for involuntary en masse-returning customers as SDG&E proposes would allow more time for market conditions to stabilize and reduce the possibility that existing utility customers are not harmed.

III. MINIMUM STAY ON BUNDLED RATE

SDG&E also responds to DA Parties' proposal that the minimum commitment period on bundled service be revised from the current three-year period down to a 12-month period, rather than the 18-month period proposed by SDG&E. The 12-month minimum commitment period is not reasonable because it increases the likelihood that costs will be misallocated from departing DA customers to remaining utility customers.

For example, if a DA customer returns to BPS service in January 2015, subject to space being available under the DA load cap, it can leave again for direct access service by January 2016 under the DA Parties' proposal, which entitles that DA customer to the 2015 vintage Power Charge Indifference Adjustment ("PCIA"). The 2015 PCIA is determined at the end of 2014 and therefore does not include costs the utility may have incurred in 2015 to procure incremental RA capacity and RPS energy for this customer. Any above-market costs for these new commitments would then be borne by remaining utility customers because they are not covered by the PCIA that applies to the departing customer.

A longer minimum commitment period would reduce the potential for such gaps in cost allocation between the BPS and PCIA. At the very least, if the SDG&E-proposed 18-month minimum commitment period is adopted, the departing customer would be subject to the 2016 PCIA that captures utility commitments made for that customer's benefit during its first year on BPS. This strikes a more reasonable balance between protecting bundled customers from unfair cost allocations and providing DA customers with flexibility to choose their suppliers.

Lastly, SDG&E responds to DA Parties proposal that utilities plan their procurement activities as if Direct Access will always be at the capped level "*Utility planning processes should be conducted under a presumption that the Direct Access cap will be full. Consistent with that assumption, there is no need for a long minimum stay because customers are going to be only able to leave utility service when there are temporary opening in an existing cap or expansion of the cap.*"[1]

This proposal ignores any possibility that unforeseen market conditions could prompt an en masse return of DA customers back to utility service, for example due to high market prices, widespread credit problems, etc. If the DA Parties' presumption that DA will always be fully subscribed is incorrect, the result is that utilities would be short on their procurement obligations by following DA Parties proposal. Further, such a change in utility procurement would be at odds with CPUC-approved Long-Term Procurement Plans that require certain standards of planning and procurement for Resource Adequacy, RPS and hedging. SDG&E requests that the Commission not consider this proposal as it appears to simply be a new procurement concept that support DA Parties' proposal to shorten the minimum commitment period.

V. CONCLUSION

SDG&E proposes minimal changes to the Switching Rules to: a.) extend the term-of-service under the TBS rate to one year for customers returning to utility service from an en masse involuntary return; and b.) reduce the minimum stay for all customers from a three-year

[1] DA Parties Opening Testimony, at Attachment A page 5.

period to an 18-month period (but not a 12-month period) to protect the remaining bundled customers from incremental procurement costs for customers transferring to DA.

This concludes my reply testimony.

XI. QUALIFICATIONS

My name is Tony Choi. My business address is 8315 Century Park Court, San Diego, CA 92123. I am currently employed by SDG&E as Market Operations Manager. My responsibilities include overseeing a staff of schedulers involved in dispatching the SDG&E bundled load portfolio of supply assets for the benefit of retail electric customers. This includes operational administration of DWR contracts, transacting in the real-time wholesale market and managing scheduling activities in compliance with CAISO requirements. I assumed my current position in March 2007.

I previously managed the Electric Power and Generation Fuels Trading desks for SDG&E, primarily managing day-ahead and forward procurement of energy. Prior to joining SDG&E in 2002, my experience included two years as a power plant engineer, four years as an energy trader and three years as a wholesale energy transaction structurer.

I hold a Bachelors degree in Chemical Engineering and a Masters degree in Business Administration from the University of California, Berkeley. I have previously testified before the CPUC.