Application No.: R.07-05-025
Exhibit No.: ______
Witness: Cynthia S. Fang

PREPARED REBUTTAL TESTIMONY OF
CYNTHIA S. FANG
CHAPTER 2
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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PREPARED REPLY TESTIMONY OF

CYTNHIA S. FANG

(CHAPTER 2)

I. OVERVIEW AND PURPOSE

My direct testimony filed January 31, 2011, presented SDG&E's proposal to adopt the following modifications to the Market Price Benchmark (MPB) used for the calculation of the indifference amount used for the determination of the Power Charge Indifference Amount (PCIA):

1. Adopt a method of regularly updating the generation capacity adder; specifically, base the generation capacity adder on the price set in the California Independent System Operator's ("CAISO") Interim Capacity Procurement Mechanism ("ICPM") (to be superseded by Capacity Procurement Mechanism ("CPM")) in effect when the annual MPB is calculated. In addition, the ICPM/CPM is a public source of data on capacity value that is expected to be updated regularly to reflect actual CAISO capacity payments to generators. The ICPM is currently $41/kilowatt ("kW")-yr, with the CAISO proposed CPM of $55/kW-yr pending.
2. Establish a MPB adder to incorporate the value of renewable energy in the IOU portfolio using public data; specifically, weight the MPB using the U.S. Department of Energy's survey of reported contract premiums for renewable energy in the Western U.S. unless and until a transparent renewable energy credit ("REC") market value is available for California RPS compliance;
3. Incorporate load profile weighting of the MPB using the IOU generation profile, consistent with the load profile underlying the total portfolio cost.

In addition, SDG&E supported:

4. The exclusion from the total portfolio of the following:
   a. forecasted costs associated with load-related CAISO charge types, on a non-vintaged basis, from the total portfolio;
   b. forecasted costs associated with energy purchases at CAISO to fill anticipated short position to the extent they are included in an IOU's calculation.

5. Resolving the CTC / PCIA issue raised by PG&E; specifically, if the indifference amount minus the ongoing CTC is less than or equal to zero, then the PCIA should be set at zero;
6. Reconsideration of the designation of PCIA-Utility Retained Generation ("URG") and PCIA-DWR given impending elimination of DWR generation from total portfolios and the incorrect classification of "New Gen" above-market costs as PCIA-DWR.

The purpose of this testimony is to reply to the opening testimony of parties filed in this proceeding specific to the proposals identified above. SDG&E notes general consensus among parties regarding the following:

1. The adoption of a method of regularly updating the generation capacity adder;
2. The need to establish to incorporate the value of renewable energy in the IOU portfolio by incorporating an adder and weighting the MPB though there continues to be debate regarding how;
3. The incorporation of load profile weighting of the MPB using the IOU generation profile, consistent with the load profile underlying the total portfolio cost. Though the Joint parties include a proposal for Basis Adder to account for difference between Trading Hub and Load Aggregation Points.

Specifically, my reply testimony addresses proposals related to modifications related to calculation of PCIA:

- Methodology for weighting and determining a Green Benchmark;

In addition, my reply testimony responds to CLECA's proposed modification to the treatment of negative PCIA.

II. THE GREEN BENCHMARK

PG&E states "…with respect to identifying the proper value for a renewables adder, PG&E believes that the best source for obtaining a market value will be from a RECs market, specifically, a RECs market that represents the value of renewable generation in California." (Chapter 1, pp. 1-13, lines 3-6) SDG&E agrees, however, SDG&E feels the need to have an interim value in place prior to the availability of such a market value. PG&E argues that since "…it is anticipated that a transparent REC market will be available by the third quarter 2011…"

(Chapter 1, pp. 1-13, lines 9-11) that this would be sufficient time for the market to evolve in time to meet a January 1, 2012 implementation that would be needed for a Green Benchmark to be based on this price. SDG&E recommends that adoption of an interim price, such as the U.S. Department of Energy's survey of reported contract premiums for renewable energy in the Western U.S., in the event that the California RECs market is not sufficiently developed for the use in determining a Green Benchmark for the 2012 PCIA.

The Joint Parties provided a proposal for a methodology to determine a Green Benchmark that would involve:

1. Each utility would identify all RPS-compliant resources that began delivery in year 2010 and those projected in their ERRA forecast applications to begin delivery in 2011. This would include both contracts and IOU-owned resources.
2. The IOUs would identify the projected costs of energy produced by each of these resources in 2011.
3. IOUs would then provide these data (costs in dollars and volumes in MWh) to the Energy Division.
4. The Energy Division would then calculate the average cost of power from these resources in 2011 by summing up all the costs from all three IOUs and dividing by the sum of all the MWHs from all three IOUs. This could be calculated or verified by trusted non-market participant(s).
5. This average value would be the Green Benchmark for all three IOUs. (page 24)

This value would then be applied with a vintaged weighting factor to the MPB.

The Joint Parties proposal adds notably to the complexity of the PCIA calculation methodology as well as adding to the administrative burden. SDG&E disagrees that the added complexity and administrative burden is necessary to improve the PCIA methodology such that it is a better determination of bundled customer indifference.

III. NEGATIVE PCIA

CLECA proposes that negative PCIA should be issued as a credit to DA customers, arguing that "…as a matter of fairness, departing customers should be able to be paid for leaving the system if this creates a benefit for remaining bundled customers." (page 16) However, these credits would effectively DA customers paying an effective total rate that would be below the total Utility Distribution Company rate which would no longer preserve bundled customer indifference and in fact result in harm to bundled customers.

IV. SUMMARY AND CONCLUSION

SDG&E continues to recommend the adoption of

- Establishment of a MPB adder to incorporate the value of renewable energy in the IOU portfolio using public data; specifically, weight the MPB using the U.S. Department of Energy's survey of reported contract premiums for renewable energy in the Western U.S. unless and until a transparent REC market value is available for California RPS compliance; and
- Rejection of CLECA's proposal to change the treatment of negative PCIA.

This concludes my prepared direct testimony.