Proceeding No.: A.11-09-xxx
Exhibit No.:
Witness: William G. Saxe

DIRECT TESTIMONY OF

WILLIAM G. SAXE

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
September 30, 2011

259434

TABLE OF CONTENTS

I. OVERVIEW AND PURPOSE 1

II. BACKGROUND 2

III. 2012 MARKET PRICE BENCHMARK 3

IV. TOTAL PORTFOLIO 4

A. VINTAGING TOTAL PORTFOLIO 5

B. 2012 INDIFFERENCE RATE AND PCIA 6

V. COST ALLOCATION MECHANISM 7

VI. QUALIFICATIONS 9

DIRECT TESTIMONY OF
WILLIAM G. SAXE
ON BEHALF OF SDG&E

I. OVERVIEW AND PURPOSE

The purpose of my testimony is to present San Diego Gas & Electric Company's ("SDG&E") (1) 2012 market price benchmark ("MPB") for calculating the On-going Competition Transition Charges ("CTC") and Power Charge Indifference Adjustment ("PCIA") and (2) non-bypassable charges. As described in more detail below, SDG&E's non-bypassable charges include the 2012 Indifference Rate and resulting PCIA consistent with Decision ("D.") 08-09-012 and the Local Generation Charge ("LGC") proposed by SDG&E in Application ("A.") 11-05-023 consistent with the Cost Allocation Mechanism ("CAM") policy adopted in D.06-07-029. The allocation of allowances revenues related to California's Greenhouse Gas ("GHG") Cap-and-Trade Program, being addressed in Rulemaking ("R.") 11-03-012 and R.10-05-006, is still pending before the Commission and is not addressed here.

My testimony is organized as follows:

- **Section II – Background**: presents background on the Total Portfolio methodology, MPB and PCIA;
- **Section III – 2012 Market Price Benchmark**: presents SDG&E's estimated 2012 MPB;
- **Section IV – Total Portfolio**: describes the Total Portfolio methodology, including vintaging, the 2012 Indifference Rate and PCIA;
- **Section V – Cost Allocation Mechanism**: describes the non-bypassable LGC proposed in A.11-05-023; and

- **Section VI – Statement of Qualifications**: presents my qualifications.

II. BACKGROUND

In D.06-07-030, as modified by D.07-01-030, the Commission adopted the Total Portfolio methodology and MPB for determining the above market costs associated with the utility/California Department of Water Resources ("DWR") total portfolio, and replaced the DWR Power Charge Component with the PCIA. In D.07-01-025, the Commission adopted the same Total Portfolio methodology, MPB, and PCIA calculation for Community Choice Aggregation ("CCA").[1] Although the Energy Resource Recovery Account ("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. Therefore, with respect to this 2012 ERRA proceeding, estimates of 2012 DWR costs and SDG&E's 2012 Non-Fuel Generation Balancing Account ("NGBA") are utilized to calculate SDG&E's 2012 PCIA.

In D.08-09-012, the Commission ruled that Municipal Departing Load ("MDL"), other than large municipalization and Customer Generator Departing Load ("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 DWR related costs). 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

[1] SDG&E currently has DA Non Exempt load on its system but no (zero) CCA load.

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 Direct Access ("DA") load that is eligible to return to DA and does so, is subject to the same Cost Responsibility Surcharge ("CRS") treatment as large MDL and CCA.[2]

III. 2012 MARKET PRICE BENCHMARK

D.06-12-018 directed California investor-owned utilities ("IOUs") to use a Commission-adopted market benchmark for calculating the Ongoing CTC and PCIA.[3] The benchmark is calculated annually by the Commission's Energy Division according to the procedure adopted in D.06-07-030,[4] as modified by D.07-01-030.[5] The benchmark is calculated as follows:

- Collect daily forward price quotes from October 1 through October 31 for 12 months of on-peak (6 days x 16 hours/day) and off-peak (6 days x 8 hours/day; 1 day x 24 hours/day) power delivered at South of Path 15 (SP-15) in the given year.
- Average the daily quotes to get an annual on-peak forward price and an annual off-peak forward price.
- Determine a weighted average 24 x 7 forward power cost by multiplying the average on-peak price times the fraction of annual on-peak hours, and the average off-peak prices times the fraction of off-peak hours, and then adding the two.
- Add a resource adequacy/capacity cost to the 24 x 7 forward price. This adder for SDG&E is $7/megawatt-hour ("MW").
- For the benchmark applicable to the determination of the PCIA, a line loss factor adjustment is added.

Because the 2012 MPB calculated by the Energy Division will be based on daily forward price quotes from October 1 through October 31, 2011, the 2012 MPB was not available for this filing. Once the 2012 MPB is distributed by the Energy Division, SDG&E will update this

[2] D.08-09-012 Appendix E Cost Responsibility Surcharge Calculations.
[3] D.06-12-018, page 11-12.
[4] D.06-07-030, Appendix 1.
[5] D.07-01-030, Ordering Paragraph 2.

Application to reflect the 2012 MPB, along with any changes to the MPB methodology and resulting 2012 PCIA due to the final decision issued in Phase III of the DA Reopening proceeding.[6]

IV. TOTAL PORTFOLIO

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 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 methodology 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 MPB, 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 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 MPB 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

[6] No final decision has been issued in Phase III of R.07-05-025 to-date only the Proposed Decision, which was issued on August 23, 2011.

as determined by the Commission in D.07-05-005, negative amounts are tracked for the purpose of applying against any future positive amounts.

A. VINTAGING 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 reopening of DA under Senate Bill ("SB") 695 is subject to the PCIA calculations applicable to large MDL and CCA.

B. 2012 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 2011, 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. In May 2010, consistent with D.10-04-010, SDG&E implemented its 2009 and 2010 Vintage PCIAs 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 PCIAs were updated and the 2011 Vintage PCIAs were calculated to account for customers' departing load in the second half of 2011. Likewise, in this Application, SDG&E is proposing to update the 2011 Vintage PCIAs and to calculate the 2012 Vintage PCIAs to account for customers' departing load in the second half of 2012[7].

Since the MPB 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 MPB for 2012 is distributed by the Energy Division, SDG&E will provide its calculation for its 2012 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 PCIAs are positive. Also as discussed earlier, the methodology used to calculate the PCIA is under review in R.07-05-025, including the suggestion to include a renewable adder to the MPB so as to determine a Green Benchmark for the 2012 PCIA. Once a final decision has been issued, SDG&E will update its 2012 PCIA to reflect any adopted changes to the PCIA calculation methodology.

[7] The 2011 Vintage PCIA is applicable to customers' departing load in the first half of 2012.

Finally, SB 695, signed into law on October 11, 2009, authorized the limited reopening of DA for all non-residential customers. On March 15, 2010, the Commission issued D.10-03-022, detailing the enrollment caps and processes. Phase III of R.07-05-025 was opened to resolve issues related to DA reopening, including modifications being considered in the calculation of the PCIA. In addition, a ruling issued in R.07-05-025 on April 14, 2011 granted the following:

> "2. The 2010 PCIA rate shall continue in effect for SCE and SDG&E until the Phase III decision is issued in this proceeding subject to the adjustments below.
>
> 3. Upon issuance of the Phase III decision in this proceeding, SCE and SDG&E shall calculate the difference in the 2011 PCIA to be collected based on the current methodology versus the revised methodology to be adopted in Phase III of this proceeding, to be applied beginning from the effective date of the 2011 rate change as adopted in their respective ERRA decisions."[8]

A proposed decision was issued in Phase III of the DA Reopening proceeding on August 23, 2011. Once a final decision is issued, SDG&E will update this Application to reflect any changes to the MPB calculation and resulting PCIA, as adopted in the final decision.

V. COST ALLOCATION MECHANISM

In D.06-07-029, as modified by D.08-09-012 and D.11-05-005, the Commission adopted a CAM policy to allow costs and benefits of new generation to be shared by all benefiting customers. In addition, Public Utilities Code Section 365.1(c)(2), added by SB 695, requires that the net capacity costs of generation resources, acquired to meet system or local area reliability needs, be allocated to all benefiting customers on a non-bypassable basis. Consistent with this guidance, SDG&E proposed in A.11-05-023 to implement a LGC to recover new generation costs

[8] R.07-05-025, Administrative Law Judge's Ruling Regarding Motion of Joint Parties, April 14, 2011, page 6.

for three long-term Power Purchase Tolling Agreements ("PPTAs") that SDG&E requested authority to enter into to provide 450 MW of additional local capacity. SDG&E proposed that the LGC be recovered as a per kilowatt hour non-bypassable charge from all benefiting customers defined as all bundled service, DA and CCA customers.

As of the date of this filing, no proposed decision or final decision has been issued in A.11-05-023. Accordingly, SDG&E did not include the cost of the PPTAs or the LGC to recover these costs in this Application. However, once a final decision is issued, SDG&E will make any necessary changes to this ERRA filing in compliance with the decision, should any costs be incurred during 2012.

This concludes my direct testimony.

VI. QUALIFICATIONS

My name is William G. Saxe. My business address is 8330 Century Park Court, San Diego, California 92123. I am employed as Program Manager III in the Strategic Analysis & Pricing Department of SDG&E. I have worked for SDG&E since February 2001. Prior to joining SDG&E, I was employed by Sempra Energy, the parent company of SDG&E, from April 1999 through January 2001. In addition, I was employed by the Illinois Commerce Commission ("ICC") from September 1990 through April 1999 where I submitted expert testimony on rate design and financial issues before the ICC.

I received a Bachelor of Science degree in Economics from the University of Wisconsin-Madison in 1985. I received a Master of Business Administration degree, with a concentration in Finance, from the University of Wisconsin-Madison in 1990.

I have previously testified before this Commission on rate design, marginal cost and other issues.