

Docket No.: R.12-03-014, Track 4

Exhibit No.: \_\_\_\_\_

Date: September 30, 2013 (re-served October 10, 2013)

Witness: Michael Rochman

**TESTIMONY ON BEHALF OF THE  
ALLIANCE FOR RETAIL ENERGY MARKETS AND  
DIRECT ACCESS CUSTOMER COALITION**

## TABLE OF CONTENTS

I.	INTRODUCTION AND SUMMARY .....	1
II.	REQUESTS FOR CAM PROCUREMENT BY THE IOUS .....	3
III.	THE IOUS MUST FULFILL THEIR OBLIGATIONS AS LOAD-SERVING ENTITIES AND REGULATED PUBLIC UTILITIES .....	8
IV.	ANY IOU PROCUREMENT APPROVED IS TO MEET THE NEEDS OF THE BUNDLED CUSTOMERS; CAM TREATMENT SHOULD THEREFORE BE REJECTED.....	12
V.	THE COMMISSION MUST CONSIDER THE CUMULATIVE EFFECT OF ITS APPROVED CAM ALLOCATIONS .....	15
	ATTACHMENT – WITNESS QUALIFICATIONS	

1 **I. INTRODUCTION AND SUMMARY**

2  
3 **Q: Please state your name and business address.**

4 A: My name is Michael Rochman. I am Managing Director of the School Project for Utility  
5 Rate Reduction (SPURR). I provide my professional and educational qualifications in  
6 the Attachment.

7 **Q: Have you previously testified before the California Public Utilities Commission?**

8 A: Yes, I have.

9 **Q: On whose behalf are you testifying?**

10 A: I am testifying on behalf of the Alliance for Retail Energy Markets (“AReM”) and the  
11 Direct Access Customer Coalition (“DACC”). AReM is a California mutual benefit  
12 corporation whose members are electric service providers (“ESPs”) and load-serving  
13 entities (“LSEs”) that provide Direct Access (“DA”) service to retail end-use customers  
14 throughout the state. DACC is a regulatory alliance of educational, commercial,  
15 industrial and governmental customers who have opted for DA service for some or all of  
16 their loads. In the aggregate, DACC member companies represent over 1,900 MW of  
17 demand that is met by both direct access and bundled utility service and about 11,500  
18 GWhs of statewide annual usage.

19 **Q: What are the interests of AReM and DACC in this proceeding?**

20 A: Southern California Edison (“SCE”) and San Diego Gas & Electric Company  
21 (“SDG&E”) are requesting that all of the investment authorized in this Track 4 of the  
22 Long Term Procurement Planning (“LTPP”) proceeding should be afforded cost recovery  
23 from DA customers through a non-bypassable charge known as the Cost Allocation

1 Mechanism (“CAM”). Under CAM, DA customers pay a share of the net capacity costs  
2 of the approved project, and the ESPs that serve them are then allocated a share of the net  
3 capacity to be used in meeting their resource adequacy (“RA”) obligations. Thus, both  
4 ESPs and DA customers are directly affected by the proposals of SCE and SDG&E.

5 **Q: Please summarize your conclusions and recommendations.**

6 A: I do not take a position on whether the Commission should approve the incremental  
7 procurement proposed by SCE or SDG&E to replace energy and capacity lost by the  
8 closure of the San Onofre Nuclear Generating Station (“SONGs”). My testimony does,  
9 however, conclude that any procurement authorized in this Track 4 is to meet the bundled  
10 load of the utilities, and therefore the Commission must reject CAM treatment for any of  
11 the procurement that it authorizes in this Track 4. SCE and SDG&E must fulfill their  
12 statutory obligations as regulated public utilities and load-serving entities (“LSEs”) to  
13 meet their bundled customers’ needs and ensure reliability of service to those customers.  
14 To meet this bundled customer need, SCE and SDG&E have in part relied on SONGS.  
15 Now this resource needs to be replaced, and, as the LSEs who have been using this  
16 resource to serve their bundled load, SCE and SDG&E are now obligated to replace the  
17 energy and capacity lost by the closure of SONGS, and their bundled customers, not DA  
18 customers, should pay those costs. All LSEs have a similar obligation to replace  
19 resources that are no longer available, and SCE and SDG&E are no different. Shifting the  
20 cost of meeting these obligations to the customers of other LSEs should not be permitted.

21

1 **II. REQUESTS FOR CAM PROCUREMENT BY THE IOUS**

2 **Q. What is the purpose of Track 4 of the LTPP proceeding?**

3 A. Track 4 was initiated in May 2013 specifically to consider the effects on local reliability  
4 from a long-term outage of SONGS.<sup>1</sup> On June 7, 2013, SCE announced that it would  
5 permanently close SONGS.

6 **Q. Did SCE and SDG&E propose procurement in Track 4 to replace SONGS?**

7 A. Yes. Both IOUs filed testimony supporting their proposed incremental procurement plans  
8 to replace SONGS and requested that the Commission approve CAM treatment.

9 **Q. What were the IOUs' specific requests for CAM treatment?**

10 A. Their proposed incremental procurement for which they have requested CAM treatment  
11 is summarized as follows:

12 **SCE:** *a. 500 MW In The LA Basin From Any Technology Source.* To  
13 procure this quantity, SCE proposes to expand the procurement it is  
14 undertaking pursuant to the authority it received in this proceeding's  
15 Track 1 Decision ("D.") 13-02-015 to include procurement of an  
16 additional 500 MW, to be selected from all bids for conventional and  
17 preferred resources offered into the Track 1 RFO;<sup>2</sup> and  
18 *b. Contingent Gas-Fired Generation ("GFG") Contracts.* SCE  
19 proposes to enter into an unspecified number of MWs of "contingent  
20 GFG contracts" or "option contracts," which are to be bilaterally  
21 negotiated as contingency against the failure to procure Track 1

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<sup>1</sup> Revised Scoping Ruling and Memo of the Assigned Commissioner and Administrative Law Judge, R.12-03-014, May 21, 2013, p. 4: "Track 4 will consider the local reliability impacts of a potential long-term outage at the San Onofre Nuclear Power Station (SONGS) generators, which are currently not operational."

<sup>2</sup> SCE Testimony, p. 55 and p. 59, Chapter VI (Colin Cushnie).

1 resources, develop “local area grid enhancements,” or for planning  
2 assumptions to “materialize.”<sup>3</sup>

3 **SDG&E:** *500 to 550 MW of supply-side resources.* SDG&E’s request includes  
4 renewable, energy storage or conventional resources and will be  
5 increased by 300 MW if the Commission does not approve SDG&E’s  
6 Pio Pico Application.<sup>4</sup> Furthermore, SDG&E notes that this need  
7 could increase dramatically, to over 1,400 MW, if the Imperial Valley-  
8 NCGen Direct Current (“DC”) Regional Transmission Project does not  
9 come to fruition.<sup>5</sup>

10 **Q. Did the Commission previously authorize any procurement by the IOUs to replace**  
11 **SONGS in Track 1 of the LTPP?**

12 A. No. As SCE points out in its testimony, the procurement authorized by the Commission  
13 in Track 1 addresses the local needs in SCE’s service territory associated with the  
14 possible retirement of the Once-Through Cooling (“OTC”) plants, but not the closure of  
15 SONGS.<sup>6</sup> In addition, the Commission separately considered local needs for San Diego  
16 in Application (“A.”) 11-05-023, but approved only one small brown-field repowering  
17 project.<sup>7</sup> The outage (at the time) of SONGS was determined to be outside the scope of  
18 the proceeding.<sup>8</sup>

19 **Q. How does CAM work?**

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<sup>3</sup> SCE Testimony, pp. 58-59, Chapter VI (Colin Cushnie).

<sup>4</sup> SDG&E Testimony of Robert Anderson, p. 5 and footnote no. 2. SDG&E’s Pio Pico application is under consideration by the Commission in A.13-06-015.

<sup>5</sup> SDG&E Testimony of John M. Jontry, pp. 2-3.

<sup>6</sup> SCE Testimony, p. 2, Chapter I (Mark Nelson).

<sup>7</sup> D.13-02-029, Ordering Paragraph No. 1, p. 26.

<sup>8</sup> D.13-02-029, p. 17.

1 A. The CAM is a charge to all customers within an IOU’s service area, including bundled,  
2 DA or Community Choice Aggregator (“CCA”) customers, for the net capacity costs  
3 associated with new resources contracted (or owned) by the utility. All non-bundled  
4 customers who pay the CAM charge also receive an associated “benefit” – an allocation  
5 of the Resource Adequacy (“RA”) capacity of the resource to the ESPs and CCAs serving  
6 those customers. The statutory authority for CAM specifically states that *ALL* customers  
7 within the IOUs’ distribution service territory must benefit for CAM to be applied.<sup>9</sup>

8 **Q. Please explain how CAM would apply to SCE’s proposed contingent GFG**  
9 **contracts.**

10 A. That is an excellent question that I cannot answer. SCE has not provided any estimates  
11 of the number of MWs of such contracts it proposes to enter into nor explained how the  
12 net capacity costs of each could even be calculated.<sup>10</sup> If these are truly “option  
13 contracts,” as SCE asserts,<sup>11</sup> I do not believe they are subject to the CAM, which requires  
14 an operating power plant producing energy so that a calculation can be made of the net  
15 capacity costs by accounting for the revenues generated by the production of electricity  
16 and other related products. Moreover, this calculation is dictated by statute.<sup>12</sup> Thus,  
17 CAM treatment for these contingent contracts should be rejected outright.

18 **Q. What are the IOUs’ rationales for applying the CAM to procurement needed to**  
19 **replace SONGS?**

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<sup>9</sup> See, Public Utilities Code Sections 365.1(c)(2)(A) and 365.1(c)(2)(B).

<sup>10</sup> SCE Testimony, pp. 58-59, Chapter VI (Colin Cushnie).

<sup>11</sup> SCE Testimony, p. 61, Chapter VII (Jonathan Rumble).

<sup>12</sup> See, Public Utilities Code Sections 365.1(c)(2)(C): “...Net capacity costs shall be determined by subtracting the energy and ancillary services value of the resource from the total costs paid by the electrical corporation pursuant to a contract with a third party or the annual revenue requirement for the resource if the electrical corporation directly owns the resource.”

1 A. The discussion in each testimony is brief. SCE asserts that there is nothing for the  
2 Commission to decide in Track 4, because application of the CAM was already decided  
3 in Track 1.<sup>13</sup> However, replacement for SONGS was not addressed in Track 1. For its  
4 part, SDG&E argues that CAM treatment is applicable because the procurement is  
5 “needed for the reliability of all customers in the SDG&E load pocket.”<sup>14</sup>

6 **Q. Do you agree with the IOUs’ rationales for seeking permission to impose CAM**  
7 **treatment for their procurement to replace SONGS?**

8 A. No. At a minimum, their scant testimony on this topic violates a recent Commission  
9 directive that the “IOUs *must provide clear explanations of and support for their cost*  
10 *allocation proposals* in applications and supporting testimony, to facilitate the  
11 development of a sufficient record on which to evaluate such proposals” (emphasis  
12 added)<sup>15</sup>.

13 Indeed, SCE’s arguments, in particular, are spurious. As discussed above, the Track 1  
14 decision did not address procurement to replace SONGS. In fact, the citations by SCE  
15 provided in support of its proposal for CAM treatment clearly state that the CAM was  
16 authorized *only* for procurement made as a result of the Track 1 decision.<sup>16</sup> The only  
17 other support provided by SCE are the plain words from the applicable statute -- SCE  
18 quotes Public Utilities Code Section 365.1(c)(2)(B), which addresses the need for a “fair  
19 and equitable” allocation if all customers are found to benefit from the proposed  
20 procurement. SCE inserts the quotation then simply asserts: “Therefore, any Track 4

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<sup>13</sup> SCE Testimony, pp. 59-60, Chapter VI (Colin Cushnie).

<sup>14</sup> SDG&E Testimony of Robert Anderson, p. 13.

<sup>15</sup> D.13-08-023, p. 16.

<sup>16</sup> D.13-02-015, Ordering Paragraph No. 15, p. 136 and Conclusion of Law No. 21, p. 130 (incorrectly cited by SCE as “Ordering Paragraph No. 21”), as cited in SCE Testimony, p. 60 and in footnote no. 37, Chapter VI (Colin Cushnie).



1 procurement is eligible for CAM.”<sup>17</sup> Essentially, SCE has failed to provide any support  
2 for CAM treatment of its proposed Track 4 procurement.

3 SDG&E’s argument is similarly incomplete. SDG&E simply states that the procurement  
4 they propose will provide reliability benefits for all and therefore CAM is applicable.

5 The fact that SONGS happens to use OTC technology, the type of unit for which CAM  
6 was approved in Track 1, does not justify a rote application of CAM to SONGS  
7 replacement power. In fact, the statute requires the Commission to decide whether the  
8 SONGS replacement proposals are CAM eligible on their own merits.<sup>18</sup> Accordingly, the  
9 Commission must determine the extent to which the proposals meet a reliability need of  
10 only bundled customers or of *all* customers.

11 SCE’s and SDG&E’s also ignore a fundamental premise of the legislation that governs  
12 CAM applicability. That premise is that the utility procurement must benefit the direct  
13 access customers who are required to pay for it. While the electric grid may benefit from  
14 new resources that come on line, that is not the same as saying that all customers directly  
15 benefit from the capacity of specific projects. A customer only benefits from such  
16 procurement if its capacity obligations are not otherwise being met.

17 The ESPs that serve DA customers have the same RA obligations that the IOUs have, and  
18 they have consistently met all those requirements. To require ESPs to limit their  
19 portfolio purchases of RA in order to accommodate utility purchases undermines the very  
20 fabric of choice – if DA customers wanted utility service, they would stay on or return to

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<sup>17</sup> SCE Testimony, p. 60, Chapter VI (Colin Cushnie).

<sup>18</sup> Public Utilities Code Section 365.1(c)(2)(A): The Commission shall: “Ensure that, in the event that the commission authorizes, in the situation of a contract with a third party, or orders, in the situation of utility-owned generation, an electrical corporation to obtain generation resources ...”

1 utility service. The fact that they have elected DA service means precisely that they do  
2 not want their energy needs met through utility procurement – they want their ESPs to  
3 plan and implement portfolio purchases that meet their unique needs (while complying  
4 with required capacity levels and other legal mandates imposed upon them). Approving  
5 CAM treatment for utility procurement on such a loose interpretation of benefits is a  
6 slippery slope that will soon categorize all utility procurement as eligible for CAM,  
7 eviscerating one aspect of retail choice. The Commission must recognize that such an  
8 outcome is not what the statute intended. In the case of this procurement to replace  
9 capacity that has heretofore only been used to serve bundled load, the inapplicability of  
10 CAM is clear.

11 I elaborate on this point further in Section IV below.

### 12 **III. THE IOUS MUST FULFILL THEIR OBLIGATIONS AS LOAD-** 13 **SERVING ENTITIES AND REGULATED PUBLIC UTILITIES**

#### 14 **Q. What are the IOUs' load-serving obligations as LSEs and regulated public utilities?**

15 A. After the 2001-02 energy crisis, the Commission initiated a process by which the IOUs  
16 would resume procurement activities. This was later bolstered by Assembly Bill (“AB”)  
17 57,<sup>19</sup> which set forth requirements the IOUs must meet to fulfill their obligation to serve  
18 their bundled customers.<sup>20</sup> In addition, the Commission has established RA requirements  
19 that are intended to ensure that system and local reliability requirements are met and  
20 which apply to *ALL* LSEs, including ESPs, CCAs, and the IOUs. The RA rules require all

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<sup>19</sup> Stats 2002, Ch 835, signed by the Governor in September 2002.

<sup>20</sup> This bill added Section 454.5 to the Public Utilities Code, which requires the IOUs to fulfill their obligation to serve (see, for example, Section 454.5(d): “(d) A procurement plan approved by the commission shall accomplish each of the following objectives: (1) Enable the electrical corporation to *fulfill its obligation to serve its customers* at just and reasonable rates.” [emphasis added]).

1 LSEs to procure RA capacity proportional to the loads they serve. The requirements  
2 include procuring RA resources to meet 100% of Local Capacity Requirements (“LCRs”)  
3 a year in advance, and to procure additional system requirements to meet a 15% planning  
4 reserve margin.

5 **Q. What direction has the Commission provided to the IOUs about their obligations to**  
6 **serve their bundled customers?**

7 A. The Commission has consistently determined that the IOUs are statutorily obligated to  
8 procure energy and capacity to meet their bundled load today and tomorrow, including  
9 meeting associated reserve requirements.<sup>21</sup> Further, the Commission has determined that  
10 the IOUs’ obligation to serve their bundled customers comes with an obligation to ensure  
11 *reliability* for those same customers:

12 We also make explicit, in this decision, that the IOUs are responsible for  
13 procuring reserves on behalf of their customers’ needs, as part of their  
14 continuing obligation to serve in order *to ensure a stable, reliable power*  
15 *system*. (emphasis added)<sup>22</sup>

16  
17 We strongly believe that the utilities themselves must be responsible and  
18 accountable for *providing their customers reliable service* and just and  
19 reasonable rates; this is the utilities’ statutory obligation to serve.<sup>23</sup>

20 Moreover, the Commission has directed the IOUs to “make investments” to ensure such  
21 reliability for their bundled customers:

22 Each utility *should make the investments necessary to meet their*  
23 *obligation to serve their customers* at just and reasonable rates. Care  
24 should be taken not to make commitments that could later result in  
25 stranded costs. (emphasis added)<sup>24</sup>

26 In short, the IOUs are obligated, both as regulated public utilities and LSEs

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<sup>21</sup> See, for example, D.02-10-062, Conclusion of Law No. 2: “Consistent with Pub. Util. Code Sections 451, 761, 762, 768, 770 and proposed 454.5(a), the utilities have an obligation to serve.” And Finding of Fact No. 19: “It is reasonable to require the utilities to meet a reserve requirement, as part and parcel of their obligation to serve.”

<sup>22</sup> D.02-10-062, p. 29.

<sup>23</sup> D.04-01-050, p. 127.

<sup>24</sup> D.04-01-050, Conclusion of Law No. 26, p. 196.

1 subject to RA requirements, to procure capacity and energy to ensure the needs  
2 of their bundled customers are met *reliably* over the long term. Yet, SCE and  
3 SDG&E are seeking to impose a portion of these costs formerly only borne by  
4 bundled customers on customers other than their bundled customers, including  
5 retail choice customers, by proposing CAM treatment.

6 **Q. Please explain further.**

7 A. All LSEs must meet their customers' loads reliably and the IOUs are no different. As  
8 contracts terminate, each LSE must procure new contracts to continue to meet its  
9 obligations to its customers, including its obligation to provide capacity reserves. If a  
10 LSE has procured capacity and energy from a plant that suffers a long-term outage or  
11 closes unexpectedly, the same obligations apply – the LSE must procure replacement  
12 power and capacity in order to continue to meet its customer service obligations. In  
13 short, SCE and SDG&E are proposing that retail choice customers pay for costs the IOUs  
14 incur to meet their bundled customer service obligations.

15 **Q. Was SONGS used by the IOUs to meet bundled load needs?**

16 A. Yes. SONGS energy and capacity was used solely to meet the needs of bundled load;  
17 retail choice customers only helped pay a portion of the fixed costs of SONGS that were  
18 deemed “stranded” through the Power Charge Indifference Amount (“PCIA”) of the  
19 IOUs’ DA-CRS rate schedule.

20 **Q. Did the SONGS closure create a “reliability need”?**

21 A. Of course. SONGS was a large generating facility. Whenever a large generating facility  
22 is no longer available, it can affect reliability. However, SONGS was used by SCE and  
23 SDG&E to serve their bundled load. Whenever a generating plant closes, the affected

1 LSEs are obligated to replace the capacity and energy on their own and to recover the  
2 costs from their own customers, who are the sole beneficiaries of the replacement  
3 purchases that allow SCE and SDG&E to continue to reliably serve them. Put simply,  
4 the SONGS outage and closure is a clear case where the affected LSEs – SCE and  
5 SDG&E – must be required to do their LSE duty and procure to *replace* the lost energy  
6 and capacity to meet *their own* load obligations reliably now and into the future. Shifting  
7 the costs to meet these obligations to customers who are not their bundled customers  
8 should not be permitted.

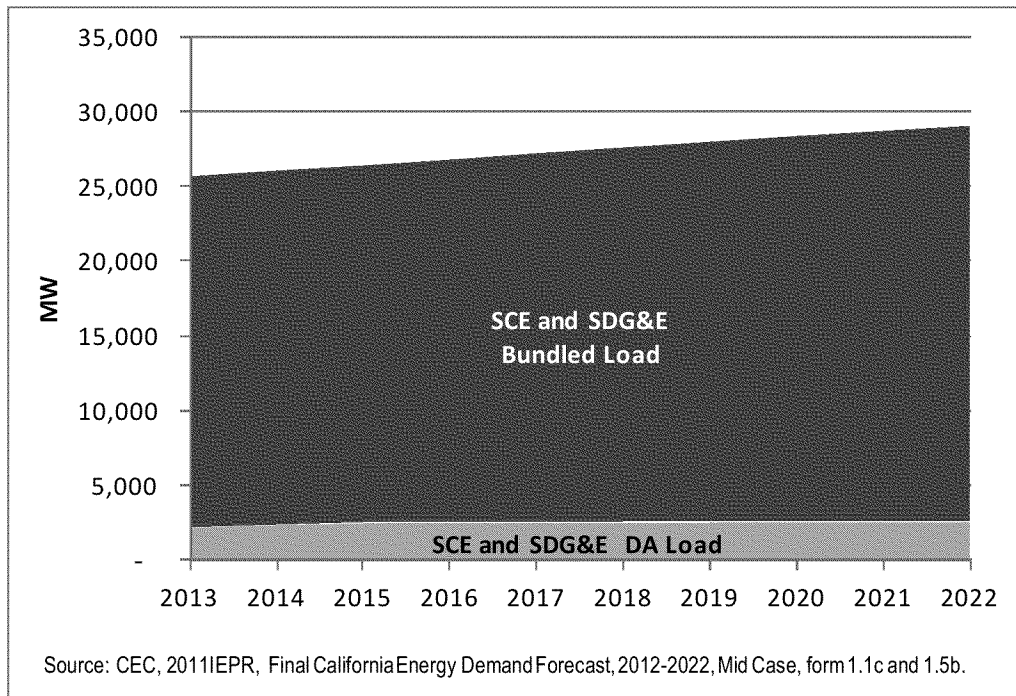
9 **Q. How do you respond to the assertions of SCE and SDG&E that procurement to  
10 replace SONGS is needed to meet the reliability needs of ALL.**

11 A. Again, that argument conveniently ignores the reality that SONGS capacity and energy  
12 was needed and used by SCE and SDG&E to meet their own bundled customer load over  
13 time and was projected to do so into the future if it had remained in operation. Fulfilling  
14 their LSE obligations means they must *replace* that procurement with other capacity and  
15 energy now and into the future to meet their *bundled customer needs*. Thus, SONGS met  
16 the reliability needs of SCE’s and SDG&E’s bundled customers and the SONG’s  
17 replacement power will as well.

18 Moreover, there is no case that can be made that the “reliability need” created by the  
19 closure of SONGS is attributable to ESP and CCA customers. It simply strains credulity.  
20 As shown below, retail choice customer load growth is fixed, whereas significant bundled  
21 load growth is expected. Also, there are no operating CCAs in Southern California. By  
22 any measure, the SONGS closure has created a reliability need that the IOUs alone must  
23 address on behalf of their *bundled customers*.

1 **Figure 1: Projected Southern California Bundled and Direct Access Load**

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4 **IV. ANY IOU PROCUREMENT APPROVED IS TO MEET THE NEEDS**  
5 **OF THE BUNDLED CUSTOMERS; CAM TREATMENT SHOULD**  
6 **THEREFORE BE REJECTED.**

7 **Q. Why should CAM treatment be rejected for the IOUs' procurement to replace**  
8 **SONGS?**

9 A. As discussed above, the replacement power is needed to meet the IOUs' obligation to  
10 serve its bundled customers. This obligation extends to future bundled customer needs as  
11 well as to reserve requirements associated with the bundled load. Accordingly, bundled  
12 customers are the beneficiaries of this procurement and must pay for it. This is consistent  
13 with the applicable statutes, which state that (1) CAM is only applicable if the procured

1 resources benefit *ALL* customers,<sup>25</sup> when, in fact, this procurement benefits *bundled*  
2 *customers*, and (2) costs are to be recovered from the customers “on whose behalf the  
3 costs are incurred,”<sup>26</sup> which, again, are the *bundled customers*.

4 **Q. Are there are other reasons you oppose CAM treatment of the IOUs’ procurement**  
5 **to replace SONGs?**

6 A. Yes. In addition to the concerns noted above, CAM treatment for IOU replacement power  
7 to serve bundled load would directly violate the Commission’s cost causation principles.  
8 In Rulemaking 12-06-013, the Commission recently emphasized the importance of cost  
9 causation principles in setting equitable rates:

10 Developing equitable rates based on the principle of cost causation is one  
11 of the underlying goals of the Commission’s rate making process. Cost  
12 causation means that costs should be borne by those customers who cause  
13 the utility to incur the expense.<sup>27</sup>

14 ... avoiding cross-subsidies and supporting cost-causation principles  
15 “achieves equity in rates by relating the costs imposed on the utility  
16 system to the customer responsible for those costs.”<sup>28</sup>

17 The Commission is also obligated by statute to “equitably allocate the cost of generating  
18 capacity and *prevent shifting of costs between customer classes*.” (emphasis added)<sup>29</sup>  
19 Clearly, the “customers who cause the utility to incur the expense”<sup>30</sup> of the SONGS  
20 replacement power are the bundled customers and, if CAM treatment is approved,  
21 significant cross subsidies and cost shifting would result with DA and CCA customers  
22 picking up the tab. In fact, the Commission recently committed in D.13-08-023 issued in

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<sup>25</sup> Public Utilities Code Sections 365.1(c)(2)(A) and 365.1(c)(2)(B).

<sup>26</sup> Public Utilities Code Section 380(g).

<sup>27</sup> Order Instituting Rulemaking on the Commission’s Own Motion to Conduct a Comprehensive Examination of Investor Owned Utilities’ Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations, R.12-06-013, June 21, 2012, p. 13.

<sup>28</sup> R.12-06-013, *loc. cit.*, footnote 19, p. 13, citing: 26 CPUC 2d 392, D.87-12-066 (1987).

<sup>29</sup> Public Utilities Code Section 380(b)(2).

<sup>30</sup> R.12-06-013, *loc. cit.*, p. 13.

1 response to Petition 12-12-10 to evaluate whether untoward subsidies would result from  
2 particular IOU proposals:

3 Determinations of whether cost sharing is appropriate, or *whether*  
4 *unbundled customers are subsidizing bundled customers*, are  
5 appropriately informed by the specifics of the situation. As provided in  
6 state law, the determination of whether a specific IOU proposal meets the  
7 requirements for collection from unbundled customers can only be  
8 determined through a thorough review of the proposal itself by this  
9 Commission. (emphasis added)<sup>31</sup>

10 The Commission remains committed to ensuring that Community Choice  
11 Aggregators and other non-utility LSEs may compete on a fair and equal  
12 basis with regulated utilities. Towards this end, *we will continue to*  
13 *consider both the mechanics and overall fairness of cost allocation* and  
14 departing load charge methodologies proposed in the future, with the  
15 *specific goal of avoiding cross-subsidization*. (emphasis added)<sup>3233</sup>

16 After a reasoned evaluation of the IOUs' proposal, the Commission must reject the  
17 application of CAM treatment to procurement needed to replace SONGS to meet the  
18 IOUs' bundled customers' needs.

19 **Q. D.13-08-023 mentions that the Commission will consider “overall fairness” in**  
20 **making its determination on cost allocation. Has this also been a consideration,**  
21 **more specifically, in application of the CAM?**

22 A. Yes. In the Track 1 LTPP decision (D.13-02-015), the Commission noted that CAM  
23 allocations must be “fair and equitable.”<sup>34</sup>

24 **Q. Does the concept of “fairness” apply here as well?**

25 A. Yes. “Fairness” to *ALL* customers should be a goal of the Commission. Requiring DA  
26 and CCA customers to pay CAM charges for resources procured to meet the IOUs'  
27 bundled customers' needs is *unfair*, creates cross subsidies and violates cost causation

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<sup>31</sup> D.13-08-023, p. 15.

<sup>32</sup> D.13-08-023, p. 15.

<sup>33</sup> D.13-08-023, p. 17.

<sup>34</sup> D.13-02-015, p. 100, citing provision found in Public Utilities Code Section 365.1(c)(2)(B).



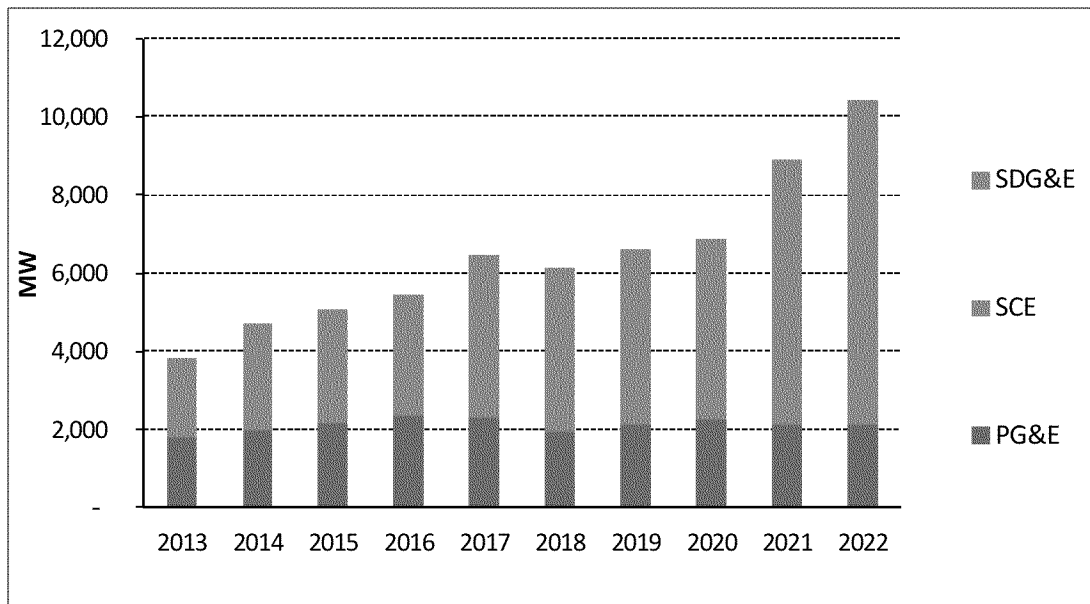
1 principles. Accordingly, the Commission should reject the IOUs' proposals for CAM  
2 treatment of its procurement to replace SONGS.

3 **V. THE COMMISSION MUST CONSIDER THE CUMULATIVE**  
4 **EFFECT OF ITS APPROVED CAM ALLOCATIONS**

5 **Q. How much CAM has the Commission approved to date?**

6 A. With the additional CAM procurement authorized in the Track 1 decision, the  
7 Commission has thus far approved over 9,000 MW of CAM for the three IOUs. There  
8 are an additional nearly 4,000 potential megawatts (including those noted in this  
9 application) of CAM capacity that could be added by 2022. The estimated annual  
10 approved and potential CAM obligations are shown in the figure below.<sup>35</sup>

11 **Figure 2: Approved and Potential CAM For 2013-2025**



12  
13 The startling reality is that resources approved for CAM treatment by the Commission  
14 now represent 20 percent of current system load. At this point, approved CAM resources

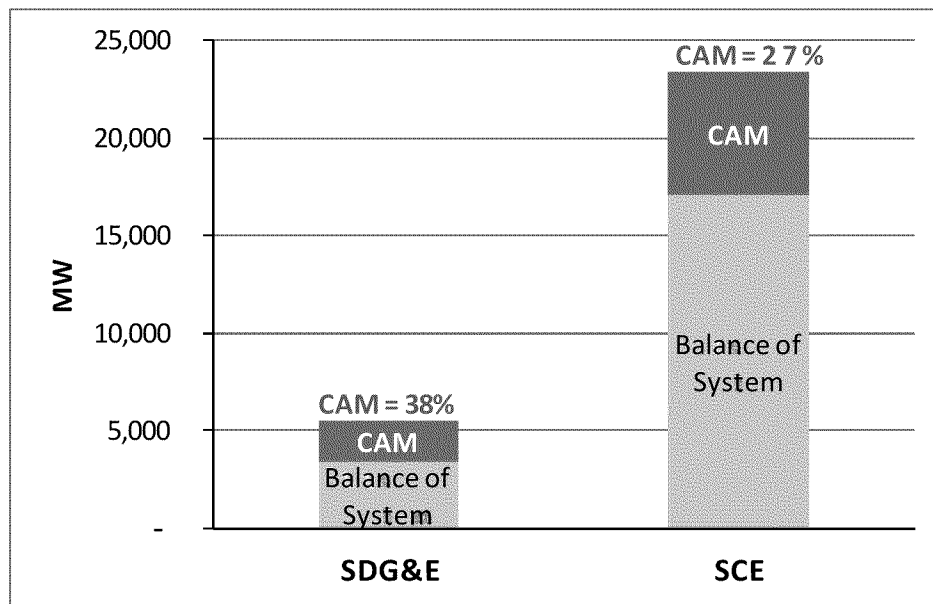
<sup>35</sup> Includes a linear phase-in of the CHP capacity per D.10-12-035 and that the Imperial Valley-NCGen Direct Current Regional Transmission Project is not implemented. Includes the contract terms (PPA capacity, start-up and expiration) of the approved CAM contracts.

1 far exceed the amount needed to ensure that the 115% planning reserve margin is met by  
2 SCE and SDG&E.

3 Of greater concern and relevance here is the magnitude of the currently authorized and  
4 potential CAM capacity in the SDG&E and SCE territories. Based on California Energy  
5 Commission forecasts and the CAM capacities shown above in Figure 2, by 2022  
6 potentially 38% of the capacity in SDG&E's<sup>36</sup> service area and 27% in SCE's service  
7 area would be under CAM rate treatment.

8  
9

**Figure 3: Potential CAM Amounts in 2022**



10

11 The Commission has expressed concern about the anti-competitive effects of CAM.<sup>37</sup>

12 CAM allocations can impair direct access activity and formation of CCAs by limiting the  
13 options of ESPs and CCAs to control costs in their own capacity portfolios and limits

<sup>36</sup> Assumes the Imperial Valley-NCGen DC Regional Transmission Project is not implemented. If it were, the CAM fraction for SDG&E in 2022 would be 22%.

<sup>37</sup> D.06-07-029, pp. 24-25, noting that the mechanism to allocate costs to DA and CCA customers might afford “too much price guarantee and risk protection for the IOUs” that could “undermine the development of a more competitive market.”

1 their ability to assemble an RA portfolio of their own design to meet the specific  
2 preferences of their customers.

3 **Q. How should the Commission proceed when faced with this and other requests from**  
4 **the IOUs for approval of CAM treatment for IOU procurement?**

5 A. The Commission should take a circumspect approach to the approval of CAM for utility  
6 investments. Given the magnitude of resources that have already been approved for  
7 CAM treatment, and the requirement that such cost allocation can only be used when  
8 there is clear benefit to all customers, any acceptance of the IOUs' idea that a project that  
9 offers an improvement to reliability must accrue to all load is simply not tenable or valid  
10 if the Commission evaluates contributions to reliability in concert with the IOUs'  
11 obligations to properly serve their bundled load first. Nor is routine application of CAM  
12 appropriate simply because a project confers some general reliability consistent with the  
13 statute; *i.e.*, the statute does not contemplate that application of CAM will cause  
14 competitive retail suppliers to have *no* reliability procurement responsibilities, which is  
15 what the continued pattern of CAM application appears to be leading. This immediate  
16 instance of replacement of SONGS is an eminently justifiable place to exercise this more  
17 measured approach – the replacement procurement is needed solely for the LSEs to serve  
18 their bundled load, and as such, cannot be determined necessarily to produce a reliability  
19 benefit for retail choice customers. Replacement of SONGs is NOT an appropriate  
20 application of the CAM and such application should be rejected.

21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.

23

**ATTACHMENT**  
**WITNESS QUALIFICATIONS**  
**MICHAEL ROCHMAN**

Michael Rochman is the Managing Director of the School Project for Utility Rate Reduction (SPURR).

SPURR is a joint powers authority (JPA) whose membership consists of California public K-12 to school districts, community colleges, and county offices of education. JPAs are frequently formed for the purpose of aggregating purchasing power and expertise among public agencies. That is the purpose of SPURR, in the area of utilities services, such as natural gas, electricity, telecommunications and water.

SPURR currently operates natural gas and electricity procurement programs that serve hundreds of public agencies, at thousands of facilities, across California. Mr. Rochman is responsible for overall management of SPURR.

Mr. Rochman also represents SPURR in utility restructuring negotiations with the major California utilities, in proceedings before the California Public Utilities Commission, and in hearings before the California Legislature.

Prior to joining SPURR in 1998, Mr. Rochman practiced business transactional law in San Francisco. Mr. Rochman holds an AB with High Distinction from the University of Michigan, Ann Arbor, and a JD from the University of California, Berkeley.