BEFORE THE PUBLIC UTILITIES COMMISSION OF

THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Integrate And Refine Procurement Policies and Consider Long Term Procurement Plans	Rulemaking 12-03-014 (Filed March 22, 2012)

REBUTTAL TESTIMONY OF KEVIN WOODRUFF ON BEHALF OF THE UTILITY REFORM NETWORK REGARDING TRACK 4 – SONGS RETIREMENT

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INTRODUCTION

Q. Please introduce yourself.

A. I am Kevin Woodruff. I am the Principal of the consulting firm of Woodruff Expert Services. I have testified before this Commission on many occasions regarding electric utility resource planning and procurement and project valuation issues.

Q. On whose behalf are you testifying?

A. I am providing this Rebuttal Testimony on behalf of The Utility Reform Network (TURN), an organization that has long represented the interests of smaller consumers before this Commission.

Q. Have you testified previously in this Track 4 of this docket?

A. Yes. On September 30, 2013, TURN served my Prepared Testimony in Track 4. My resume was appended thereto as Attachment 1.

SUMMARY AND RECOMMENDATIONS

Q. What issue and other parties' testimony do you address in this Rebuttal Testimony?

A. In this Rebuttal Testimony, I address the issue of whether the capacity benefits and costs of any generation or comparable resources[1] the Commission authorizes the Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) to procure to meet local reliability criteria in their respective Western LA Basin (LA Basin) and San Diego Local Reliability Areas (LRAs) should be allocated using the Cost Allocation Mechanism (CAM).[2,3] To do so, I respond to the Testimony on Behalf of the

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1 By the phrase "generation or comparable resources", I refer to both conventional gas-fired generation, various preferred resources, and other initiatives SCE and SDG&E may take on behalf of all customer classes to maintain local reliability in their service territories. I shorten this phrase at times below by referring simply to "generation" or "resources".

2 I also refer to SCE and SDG&E as the "utilities" or “”IOUs" (for Investor-Owned Utilities). For purposes of this testimony, the term "utilities" or "IOUs" is not necessarily meant to refer to any other utility.

Alliance for Retail Energy Markets and Direct Access Customer Coalition (AReM/DACC Testimony) by Michael Rochman, which was originally served on September 30, 2013.[4,5] In that testimony, Mr. Rochman argued that the "any procurement authorized in this Track 4 is to meet the bundled load of the utilities" and thus that the benefits and costs of any such investments should be borne entirely by SCE's and SDG&E's bundled customers.[6]

Q. Please summarize your findings and recommendations regarding how the benefits and costs of any generation or comparable resource procurement the Commission authorizes should be allocated among SCE's and SDG&E's customers.

A. Briefly, any resources the Commission asks the utilities to make to meet local reliability criteria in the South Coast will benefit all of the utilities' "wires" customers, that is, both bundled and unbundled customers.[7] Therefore, the benefits and costs of such investments should be allocated equally to both bundled and unbundled customers. The benefits and costs of such investments should thus be allocated to customers and their serving Load-Serving Entities (LSEs) using the CAM.

Q. Please summarize the key points you will be making in this testimony in response to Mr. Rochman.

A. I will present three major arguments in response to Mr. Rochman in the following three sections. These arguments are:

- *Meeting Growing System Needs Is Not the Sole Responsibility of Bundled Customers:* Local reliability needs – including those driven by expected resource

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3 For purposes of this testimony, I refer to these two LRAs jointly as the South Coast LRAs, or simply the South Coast.

4 The testimony was re-served on October 10 to substitute Michael Rochman as AReM/DACC's witness.

5 I am also implicitly replying to the Testimony of the Western Power Trading Forum (WPTF) on Track 4 Issues submitted on September 30, 2013. In that testimony, WPTF witness Gary Ackerman explicitly endorsed the AReM/DACC Testimony (13:13-18).

6 *AReM/DACC Testimony*, 2:9-10.

7 Not all of SCE's load is in the LA Basin LRA. SDG&E's entire load is in the San Diego LRA.

retirements – are not solely the responsibility of bundled customers, even when they may be driven in part by the retirement of a resource that served bundled customer needs, such as the San Onofre Nuclear Generating Station (SONGS).

- *Resources Procured Pursuant to Track 4 Will Benefit All of the Utilities' Wires Customers:* All of the utilities' customers will benefit equally from the resources that may be procured pursuant to Track 4 authorization, so all customers should share equally in paying for such resources.

- *Utilities Are Already Meeting their Obligations to Bundled Customers to Replace SONGS Capacity and Energy:* SCE and SDG&E have already met, are continuing to meet and will continue meeting – to the extent the Commission requires and allows – their bundled customers' additional capacity and energy needs arising from the retirement of SONGS. Further, the utilities are meeting bundled customers' needs at bundled customers' expense. The utilities have no other obligation to make long-term investments in resources to meet local reliability needs other than as directed by the Commission in a docket such as this Long-Term Procurement Plan (LTPP).

I also address other issues in the last substantive section of this testimony.

MEETING GROWING SYSTEM NEEDS IS NOT THE SOLE RESPONSIBILITY OF BUNDLED CUSTOMERS

Q. Does Mr. Rochman argue that bundled customers should pay for all new capacity because current levels of Direct Access (DA) and Community Choice Aggregation (CCA) load are capped and only bundled loads are expected to grow?

A. Yes. Mr. Rochman provides data purportedly showing that growth of SCE and SDG&E combined load is due entirely to bundled load because unbundled load is projected to remain flat.[8] He then says:

> …there is no case that can be made that the "reliability need" created by the closure of SONGS is attributable to [Energy Service Providers] and CCA customers...As shown below, retail choice customer load growth is fixed, whereas significant bundled load growth is expected. Also, there are no operating CCAs in Southern California. By any measure, the SONGS closure has created a reliability need that the IOUs alone must address on behalf of their *bundled customers*.[9]

Mr. Rochman is apparently trying to say that bundled customers should bear all the expense of making any investments needed to maintain reliable service in the South Coast because only their share of load is expected to grow.

Q. Does Mr. Rochman's argument have any merit?

A. No. The Commission addressed this argument succinctly in Decision (D.) 13-02-015, the decision in Track 1 of the current LTPP, by saying:

> AReM's driving peak / decreasing load proposal fails to recognize the interrelated nature of the electric system and the reality that some individual customers of ESPs, CCAs and IOUs have static load profiles, while others are driving the need for new resources. In addition, the retirement of existing resources creates the need for new resources to serve customers that may not be driving increases. Therefore, we continue the current Commission policy of allocating CAM costs and benefits at the IOU service area level.[10]

Q. Has anything changed in the eight months since D.13-02-015 was issued that should cause the Commission to change its reasoning?

A. No.

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8 *AReM/DACC Testimony*, Figure 1 (p. 12).

9 *Id.*, 11:18-23; emphasis original.

10 D.13-02-015 in Rulemaking (R.) 12-03-014, p. 106. See also Finding of Fact 50 (p. 126).

Q. Is any aspect of the Commission's reasoning in D.13-02-015 of particular relevance to the South Coast reliability issues in this Track 4?

A. Yes. This Track 4 is considering how to address potential reliability needs in the LA Basin and San Diego LRAs that arise due to the retirement of SONGS, the possible retirement of units relying on Once Through Cooling (OTC) technology and the possible retirement of other older units that do not use OTC technology. The capacity of these known and potential retirements totals 9,288 MW, or almost one-third of the projected "1-in-10" 2022 peak load of 28,973 MW for the "SONGS Study Area".[11] Suggesting that bundled load be entirely responsible for any new investment needed to replace SONGS, OTC units, and other aging non-OTC capacity is not rational. Under AReM/DACC's logic, if all generators in the LA Basin and San Diego retired, bundled load would need to pay for *all* new replacement capacity needed to serve load in those LRAs.

RESOURCES PROCURED PURSUANT TO TRACK 4 WILL BENEFIT *ALL* OF THE UTILITIES' WIRES CUSTOMERS – AND SHOULD BE PAID FOR BY *ALL* CUSTOMERS

Q. Can you cite other reasons why bundled customers should not bear all the costs of building new capacity needed to maintain reliable service in the South Coast LRAs?

A. Yes. As discussed below, grid reliability is a "good" that is shared equally by all customers. Since the cost of the new capacity needed to maintain reliability far exceeds the cost of existing capacity, an equitable allocation of the costs of capacity needed for reliability requires all customers to fund an equal allocation of new capacity.

[11] Track 4 Testimony of Robert Sparks on behalf of the California Independent System Operator Corporation, August 5, 2013, Table 7 (pp. 11-13) and Table 1 (p. 4).

THE GOOD OF "GRID RELIABILITY" IS SHARED EQUALLY BY ALL CUSTOMERS, SO THE COSTS OF GRID RELIABILITY SHOULD ALSO BE SHARED EQUALLY

Q. Do you have any overarching observations about the allocation of "grid reliability" among customers?

A. Yes. As a general principle, all customers share equally in the "good" of grid reliability. Alternately stated, any one customer is as likely to have its service interrupted due to resource shortages as any other customer, regardless of whether they are bundled, DA or CCA customers. Given this lack of difference in service reliability, all customers should expect to pay equally for the costs of investing in new resources needed to provide reliability.[12] This principal applies fully to grid reliability in the LA Basin and San Diego LRAs.

Q. Did any of the reliability modeling that SCE, SDG&E or the California Independent System Operator (CAISO) performed for this Track 4 differentiate between bundled and unbundled customers?

A. No.[13]

Q. Does Mr. Rochman believe that bundled and unbundled customers somehow benefit differently from new capacity additions?

A. Apparently, yes. He does admit that "the electric grid may benefit from new resources that come on line" but then proceeds to argue that "[a] customer only benefits from such procurement if its capacity obligations are not otherwise being met".[14]

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12 There is a group of "interruptible" customers that allow grid operators to interrupt their service as necessary to maintain reliable service in exchange for paying a lower rate

13 Demand Response (DR) programs were included in the analyses, but these programs include customers that, similar to interruptible customers, agree to have their demand curtailed at certain times in exchange for some form of compensation.

14 *AReM/DACC Testimony*, 7:13-16.

Q. Is Mr. Rochman correct that customers only benefit from additional resources if their "capacity obligations are not otherwise being met"?

A. No. Additional generation will provide reliability benefits to all customers regardless of which customers' "capacity obligations are being met" by RA purchases or some other means.[15] The potential for "free rider" behavior – in which some customers receive reliable service based on the commitments to new capacity paid by other customers – is why it is so critical to allocate the costs of new capacity needed to provide reliable service equally among all customers, as discussed below.

COSTS OF NEW RESOURCES FAR EXCEED COSTS OF EXISTING RESOURCES

Q. Why is the allocation of payment for the costs new resources such a concern, as distinguished from paying the costs existing resources?

A. Both new and existing resources generally provide equivalent reliability to the grid. But the capacity costs of new resources are typically much higher than the capacity costs of existing resources. Thus, parties that pay for more than their proportionate share of new resources will pay more than their proportionate share for grid reliability, and parties that pay less than their proportionate share of new resources will pay less than their proportionate share for grid reliability.

Further, developers of new resources generally require long-term contracts with third parties – typically utilities – to secure financing for such new generation projects.[16] Customer support for new resources needs to extend for the duration of such financing arrangements, which are generally at least ten years and often longer.

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[15] Though additional capacity provides reliability benefits, in the interests of managing customers' costs this Commission's policy generally limits the amounts of capacity need to those amounts needed to maintain a Planning Reserve Margin across the system or, as in this Track 4, those amounts needed to meet reliability criteria in LRAs.

[16] I am not aware of any new capacity that has been constructed in California based on commitments from Energy Service Providers.

Q. Do you have any evidence to support your view that new resources are much more costly than existing resources?

A. Yes. In its *2011 Resource Adequacy Report*, the Commission's Energy Division reported a median price for "RA / Capacity only" contracts of $2.20/kW-mo or $26.40/kW-yr.[17] But according to a California Energy Commission analysis, the annual fixed costs of new gas-fired generating units are about $175/kW-yr to $190/kW-yr, of which the CAISO projects only one-sixth to one-third would be recovered from sales of energy and ancillary services.[18]

Q. How can the Commission ensure that the costs of new resources needed to maintain reliability are shared equally?

A. The Commission can and should use the CAM to allocate among all customers the costs of any generation or comparable resources it finds are necessary to maintain reliable service in the South Coast.

SCE AND SDG&E ARE ALREADY MEETING THEIR OBLIGATIONS TO BUNDLED CUSTOMERS TO REPLACE SONGS CAPACITY AND ENERGY

Q. Please briefly summarize Mr. Rochman's position regarding how the costs of any resources authorized in this Track 4 should be allocated.

A. Briefly, Mr. Rochman observes that all of SONGS's output was used to serve the utilities' bundled customers. He then argues that the utilities must replace SONGS capacity and energy "now and into the future"[19] to meet bundled customers' needs, that

[17] This report is available at http://www.cpuc.ca.gov/PUC/energy/Procurement/RA/. See Table 15 on page 22.

[18] These figures are cited in the CAISO's *2012 Annual Report on Market Issues and Performance* at pages 51-55. This report is available at http://www.caiso.com/Documents/2012AnnualReport-MarketIssue-Performance.pdf. In citing these figures, I am not suggesting they be used as a standard of reasonableness or other estimate of the cost of capacity; however, I believe these data are sufficiently accurate to illustrate the large gap between the cost of new and existing capacity.

[19] *AReM/DACC Testimony*, 11:13-15. Mr. Rochman makes this and similar claims in many other places in his testimony, as noted below.

such costs should be borne entirely by such bundled customers and apparently that such replacement will also meet system reliability needs.

Q. Do you agree with Mr. Rochman's analysis?

A. No. Despite its superficial appeal, Mr. Rochman's argument is based on gross misunderstandings about Commission policy on the role IOUs play as LSEs for their bundled customers and the utilities' role in meeting long-term system reliability needs. I will detail these misunderstandings in more detail below.

I will show instead that under current Commission policy, the IOUs have been, are, and will continue to replace the capacity and energy that SONGS would have provided and that bundled customers are bearing the costs of such replacement.[20] But the IOUs have absolutely no obligation to replace SONGS capacity and energy on a long-term basis on behalf of their bundled customers. However, the IOUs' replacement of SONGS capacity in the near- and mid-term cannot be relied upon to ensure the development of the resources needed to maintain reliable service in the South Coast. With the active participation of the IOUs, the Commission is thus conducting this Track 4 to identify and authorize procurement of the resources needed to maintain such reliable service.

AREM/DACC IGNORE KEY DOCUMENTS GOVERNING UTILITIES' OBLIGATIONS TO BUNDLED CUSTOMERS

Q. Does Mr. Rochman offer any support for his interpretation of Commission policy regarding the utilities' obligations as LSEs for their bundled customers?

A. Yes, but his references to Commission policy are biased and incomplete. For example, Mr. Rochman presents vague quotations from two Commission decisions out of their

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[20] The amount of such costs bundled customers will bear is being addressed in Investigation 12-10-013. Though TURN is taking positions in that docket to reasonably reduce bundled ratepayers' burden, bundled ratepayers have and will continue to bear substantial additional costs to replace SONGS capacity and energy.

original context.[21] He also entirely fails to mention the utilities' Bundled Procurement Plans (BPPs), which – as their name implies – are the utilities' Commission-approved plans for meeting the needs of their bundled customers.[22] The direction the BPPs give the utilities on forward procurement of capacity and energy is entirely contrary to Mr. Rochman's view of the utilities' obligation as LSEs for their bundled customers. Mr. Rochman's failures to cite language from the BPPs supporting his interpretation – or even to acknowledge their existence – are fatal flaws in his testimony.

UNDER BUNDLED PROCUREMENT PLANS, IOUS HAVE NO OBLIGATION OR ABILITY TO MEET LONG-TERM RESOURCE ADEQUACY NEEDS

Q. Can you provide an example of one of Mr. Rochman's misunderstandings about the IOUs' obligations to their bundled customers?

A. Yes. Mr. Rochman makes the legitimate, even innocuous, observation that:

> SCE and SDG&E must fulfill their statutory obligations as regulated public utilities and load-serving entities ("LSEs") to meet their bundled customers' needs and ensure reliability of service to those customers.[23]

But he begins to stray when he expands this general obligation to include a responsibility to procure capacity and energy over a long-term time horizon that is neither authorized nor allowed by the IOUs' BPPs or other Commission policies. For example, he states:

21 *AReM/DACC Testimony*, 9:5-25. For example, Mr. Rochman's citation at 9:17-19 was to a section of D.04-01-050 that discussed transmission planning (pp. 125-131); this quotation cannot reasonably be interpreted as a Commission statement regarding the IOUs' role as LSEs purchasing capacity and energy on behalf of their bundled customers.

22 SCE's current approved BPP was submitted as Advice Letter 2713-E-B and is available at https://www.sce.com/NR/sc3/tm2/pdf/2713-E-B.pdf. SDG&E's current approved BPP was submitted as Advice Letters 2362-E and 2362-E-A and is available at http://regarchive.sdge.com/tm2/pdf/2362-E.pdf and http://regarchive.sdge.com/tm2/pdf/2362-E-A.pdf. As will be discussed below, both utilities have updated these BPPs since their approval.

23 *AReM/DACC Testimony*, 2:11-13.

> The Commission has consistently determined that the IOUs are statutorily obligated to procure energy and capacity to meet their bundled load today *and tomorrow*, including meeting associated reserve requirements.[24]

This passage is reasonable if the phrase "and tomorrow" is interpreted simply to mean the utilities have an ongoing obligation over time to meet their bundled customers' capacity and energy requirements. However, if the phrase "and tomorrow" is interpreted to mean that the IOUs have specific obligations to procure resources "today" to meet "tomorrow's" loads, it is not necessarily correct. As discussed below, pursuant to their BPPs, the utilities have both limited obligations and ability today to procure to meet future loads.

Mr. Rochman's representation of the utilities' obligations jumps the rails when he appears to suggest that the utilities have an obligation to replace SONGS capacity and energy explicitly, seemingly on a MW-for-MW, type-for-type, year-by-year basis. For example, he states:

> …SONGS capacity and energy was <u>needed and used</u> by SCE and SDG&E to meet their own bundled customer load over time and was projected to do so into the future if it had remained in operation. Fulfilling their LSE obligations means they must *replace* that procurement with other capacity and energy now and into the future to meet their *bundled customer needs*. Thus, SONGS met the reliability needs of SCE's and SDG&E's bundled customers and the SONG's [sic] replacement power will as well.[25]

Q. What is the time horizon over which the IOUs are obligated to meet their bundled customer RA needs pursuant to their BPPs and other Commission direction?

A. The IOUs first have an obligation pursuant to the Commission's RA policy to meet RA requirements during the current year (year 0) and immediate future year (year 1). They may – and do – also procure substantial amounts of RA capacity in following years (year 2 and beyond) pursuant to their BPPs, even though Commission RA policy itself does not

[24] *Id.*, 9:7-9; emphasis added. Mr. Rochman makes similar statements at 9:26-10:2 and 12:9-11.
[25] *Id.*, 11:11-17; emphasis original. Mr. Rochman makes similar statements at 10:7-12 and 10:22-11:6.

require such procurement. The IOUs also control substantial amounts of RA capacity many years forward through various types of long-term contracts and utility ownership.

However, the IOUs have no obligation to replace SONGS capacity on a MW-for-MW, type-for-type, year-by-year basis. For example, SDG&E has no need to procure 449 MW of resources that will run in baseload mode into the year 2022 and possibly beyond.[26] Rather, the IOUs are now managing their capacity and energy positions pursuant to their BPPs based on the assumption that SONGS capacity and energy are no longer available. To manage their shorter capacity positions, they purchase replacement RA capacity as required by Commission RA policy and are likely increasing their forward purchases of RA capacity beyond "year 1". They are also already replacing SONGS energy by increasing purchases from other sources and generation from their own resources.[27] They may also be increasing forward purchases of energy as appropriate to hedge their financial risk. But as long as they continue to meet their RA obligations and other requirements of their BPPs, the utilities have no obligation to replace the quantities of capacity and energy through 2022 that SONGS would have provided.

Q. Do their BPPs allow the utilities to replace SONGS on a MW-for-MW, type-for-type, year-by-year basis?

A. No. The BPPs limit the IOUs' forward purchases of capacity within a given year to a fraction of future years' projected net open positions; these limits take the form of "position limits" and maximum rates of transaction, which are known as the "ratable rates".[28] Under their BPPs, the IOUs do not even have the ability pursuant to their BPPs to replace SONGS capacity and energy as Mr. Rochman says they should.

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26 The Nuclear Regulatory Commission licenses for each SONGS unit were set to expire in 2022. SONGS also faced an OTC compliance deadline of December 31, 2022.

27 Mr. Rochman appears to believe that "capacity and energy" are inseparable. Many resources provide both RA capacity and energy. But the IOUs and other LSEs may also purchase RA capacity that provides no energy and purchase energy from sources that yield no RA capacity.

28 SCE's current ratable rates for capacity may be found in Advice Letter 2823-E, which is available at https://www.sce.com/NR/sc3/tm2/pdf/2823-E.pdf. SDG&E's current ratable rates for capacity may be

COMMISSION RELIES ON LONG-TERM PROCUREMENT PLAN "SYSTEM" TRACKS TO ENSURE INVESTMENTS IN RESOURCES NEED FOR RELIABILITY

Q. If existing Commission policies do not give the utilities the obligation – or even the ability – to meet long-term RA requirements, how does the Commission ensure that long-term system needs are met?

A. The Commission recognizes the limits of the utilities' incentives as agents for their bundled customers and thus implements at least two tracks in its LTPP dockets: a "Bundled" track that reviews and approves the utilities' BPPs and one or more "System" tracks that consider whether the utilities should be authorized to procure new resources to meet system or local reliability needs.[29] A key adjunct to such utility procurements is the CAM, which ensures that the costs of the resources procured pursuant to system track authorizations are allocated equitably among all LSEs.

OTHER ASPECTS OF AREM/DACC TESTIMONY

Q. Does Mr. Rochman raise any other issues you wish to address?

A. Yes. Mr. Rochman raises three other issues I will address briefly below.

COMMISSION'S "COST CAUSTION PRINCIPLES" CITED BY AREM/DACC CONTRADICT AREM/DACC'S ARGUMENT ON RESPONSIBILITY OF COSTS FOR NEW GENERATION

Q. Does Mr. Rochman offer any other rationales for requiring bundled customers to pay for all of the new capacity needed to provide reliable service in the South Coast?

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found in Advice Letter 2475-E, which is available at http://regarchive.sdge.com/tm2/pdf/2475-E.pdf. SCE also has position limits on forward electrical energy purchases and sales.

[29] For example, four Tracks were established within this current LTPP, R.12-03-014. A Scoping Ruling issued May 17, 2012 established the 1st, 2nd and 3rd Tracks, which were labeled "Local Reliability," "System Reliability" and "Procurement Rules and Bundled Procurement Plans," respectively. A Scoping Ruling issued May 21, 2013 initiated a Track 4 to review "the local reliability impacts of a potential long-term outage at the San Onofre Nuclear Power Station (SONGS) generators," which outage has since become permanent. The Commission issued D.13-02-015 in Track 1 and cancelled Track 2. Tracks 3 and 4 are pending.

A. Yes. Mr. Rochman cites the Commission's ongoing review of residential rate design in R.12-06-013 to suggest that "cost causation" principles require bundled customers to pay all the costs of replacing SONGS. He said:

> …the "customers who cause the utility to incur the expense" of the SONGS replacement power are the bundled customers and, if CAM treatment is approved, significant cross subsidies and cost shifting would result with DA and CCA customers picking up the tab.[30]

Q. Do you have any response to Mr. Rochman's statement?

A. Yes. First, as noted above, SCE and SDG&E are already replacing SONGS capacity and energy in their bundled portfolios – at bundled customer expense – pursuant to their BPPs and other Commission policies.

But Mr. Rochman's reference to rate design principles merits the reminder that in the Commission's rate design cases, allocation of generation costs among customer classes is based on each class's aggregate demand, without regard to whether an individual class's load is growing, static or declining. This particular rate design principle is contrary to AReM/DACC's position that the allocation of the costs of new generation needed to provide reliability should be borne entirely by bundled customers.

CAM RESOURCES DO NOT SIGNIFICANTLY IMPINGE ESPS' ABILITY TO MANAGE THEIR PORTFOLIOS

Q. Do any other aspects of Mr. Rochman's testimony bear comment?

A. Yes. Mr. Rochman said:

> The fact that [DA customers] have elected DA service means precisely that they do not want their *energy* needs met through utility procurement – they want their ESPs to plan and implement portfolio purchases that meet their unique needs

[30] *AReM/DACC Testimony*, 13:19-22; quotations original; footnote omitted.

(while complying with required capacity levels and other legal mandates imposed upon them).[31]

Mr. Rochman also presents data purporting to show that by 2022, CAM resources will constitute 27 percent and 38 percent of the capacity in the SCE and SDG&E service territories, respectively. Mr. Rochman then suggests the presence of CAM resources limits ESPs' and CCAs' ability to control costs and limits their flexibility.[32]

Q. Does CAM procurement significantly impinge ESPs' ability to manage their clients' energy needs?

A. I do not believe so. CAM provides an allocation of RA capacity credits and has no direct impact on ESPs' energy positions. ESPs are free to assemble portfolios of energy resources to meet their customers' needs as they see fit, provided they comply with requirements such as their RA obligations.

Q. Is the growth in the proportion of CAM resources projected by Mr. Rochman necessarily a problem for the state's energy consumers?

A. No. Mr. Rochman seems to offer these numbers on a "gee whiz" basis, that is, on the assumption the reader will immediately see their significance. But Mr. Rochman does not establish that the proportions of CAM resources provided in his testimony are a significant problem for ESPs, CCAs or any other buyer or seller of electricity. If AReM/DACC want to establish that the proportion of CAM resources in the system should be limited, they should provide a more detailed analysis – preferably based on actual ESP or CCA procurement data and costs – that makes that point.

Further, any of the CAM's negative aspects must be weighed against its benefits, such as (a) ensuring that needed new resources can be financed and built, and (b) allocating the costs of such needed resources to all benefitting customers.

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31 *AReM/DACC Testimony*, 8:1-4; emphasis added.

32 *Id.*, Figure 3 (p. 16) and 16:12-17:2.

ALLOCATION OF COSTS OF UTILITIES' CONCEPTUAL RELIABILITY PROPOSALS

Q. Does Mr. Rochman address any other aspects of CAM policy that merit attention?

A. Yes. Mr. Rochman argues that CAM treatment of the costs of SCE's "contingent Gas-Fired Generation (GFG) contracts" should be "rejected outright".[33]

Q. Do you agree with Mr. Rochman's position that CAM treatment for SCE's "contingent GFG contracts" should be "rejected outright"?

A. No. The costs of SCE's contingent GFG siting proposal[34] – as well as its Preferred Resources "Living" Pilot Program[35] and SDG&E's "energy park" proposal[36] – may be incurred to provide reliable service to all customers in the LA Basin and San Diego LRAs. Allocation of these programs' costs by the CAM or similar mechanism may thus be appropriate. But neither utility has filed proposals to implement these concepts yet, so it is not clear precisely what these programs will do or what their costs will be. Commission decisions on whether or not to apply the CAM or other mechanism to these programs' costs is thus premature. Such decisions should instead be deferred to the Commission's review of utility applications to implement such programs.

CONCLUSION

Q. Please summarize your findings and recommendations.

A. SCE's and SDG&E's ongoing efforts to replace SONGS capacity and energy in their bundled customers' portfolios – which is occurring at bundled ratepayers' expense – will not yield the investments in the new resources that may be necessary to preserve reliable service in the LA Basin and San Diego LRAs. Rather, utility procurement pursuant to this Track 4 will be necessary to ensure that any such needed investments are made.

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33 *Id.*, 5:8-17.

34 *SCE Track 4 Testimony*, August 26, 2013, 61:1-62:10.

35 *Id.*, pp. 49-54, for description of the Pilot and 51:4-7 regarding SCE's intent to file applications for approval of this Pilot and the contingent GFG siting proposals.

36 *SDG&E Track 4 Testimony of Robert B. Anderson*, August 26, 2013, 16:9-17:10.

Since all of the utilities' customers – bundled and unbundled – will receive equal reliability benefits from such investments in generation or comparable resources, the Commission should allocate the costs of such investments using the CAM.

Q. Does this conclude your testimony?

A. Yes.