Rulemaking No: R.13-09-011
Exhibit No: __________
Witness: Athena Besa

Order Instituting Rulemaking to Enhance the Role of Demand Response in Meeting the State's Resource Planning Needs and Operational Requirements

R.13-09-011
(Filed September 19, 2013)

PREPARED DIRECT TESTIMONY OF

ATHENA BESA

CHAPTER V

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

May 6, 2014

SDGE

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The purpose of my testimony is to respond to questions posed in Attachment A of the *Joint Assigned Commissioner and Administrative Law Judge Ruling and Revised Scoping Memo Defining Scope and Schedule for Phase Three, Revising Schedule for Phase Two, and Providing Guidance for Testimony and Hearings*, dated April 2, 2014. I am employed by SDG&E and hold the position of Customer Programs Policy and Support Manager. My business address is 8335 Century Park Court, San Diego, CA 92123. My full statement of Witness Qualifications is set forth as part of my Prepared Direct Testimony.

I. PROGRAM BUDGET APPLICATION PROCESS

Question 1: In the OIR, the Commission discussed the idea of longer budget cycles. Provide your comments on why the Commission should consider longer budget cycles. Provide justification for the specific length of the budget cycle.

Response 1: The benefits of a longer budget cycle are that:

- The Commission and stakeholders would have adequate time to study and address policy changes while being assured that DR resources will be available as programs will not start-stop pending resolution of policies.
- The proposed process is intended to improve program planning and customer experience. For example, a 10-yr commitment will enable programs to be planned with ten year horizons (if appropriate).

- Funding would be available irrespective of regulatory processes thereby creating greater market certainty and making program participation (both customers and aggregators) more stable.
- The proposed process would increase stability in the efficiency industry by ensuring funding will be available for at least five to ten years.
- Customers can rely on programs to be stable so that they can build DR into their business process and count on program incentives as part of their revenue stream or manage their utility bills.
- This would also help to reduce customer confusion due to seemingly constant changes to programs and provide longer term opportunities for customers to participate in programs.
- Contracting could more easily be designed to respond to the market versus responding to the regulatory process.
- The proposal is intended to increase the confidence of the California Energy Commission and the CAISO in relying on efficiency as a resource for long-term procurement planning since funding would be authorized for DR programs for at least 10 years.
- Longer term cycles would also benefit participation in the CAISO energy market as programs would have more stability and predictability.
- Commission staff and stakeholders can be more efficient and focused with resources.
- Planning consistent budget cycles with Energy Efficiency would facilitate integrated demand side management.

Although longer cycles would create greater market certainty and stability, they can and should be implemented in a manner that would allow for ongoing program improvements, including those necessary to better accommodate and incorporate greater reliance on market price signals to trigger cost-effective deployment of DR.

Question 2: If the Commission approves longer budget cycles, i.e. 5 or 10 years, should there be regular reviews of the budgets in between the application approval. How often should the reviews occur and what level of scrutiny should be involved and why? How can evaluation, measurement, and verification (EM&V) processes be leveraged to improve demand response programs in longer budget cycles?

Response 2:

- A 10-year budget cycle would not mean a program will stay in place for 10 yrs. The proposed participation process should integrate plans for periodic (can be as frequently as annual) review of programs to ensure the portfolio is operating at the optimal level or programs are retired if they are not effective or are no longer conforming to changes to Commission DR policy changes or responsive to market changes. (The Commission should maintain its current authority to review programs as it sees fit).
- Measurement and Evaluation ("M&E") results are usually available by the first quarter following each calendar year and modifications based on program performance can be incorporated into program updates. The M&E results provided from these studies provide a basis for regularly reviewing the effectiveness of programs and therefore should be considered in updating programs to ensure the reliability of DR programs.
- Programs, as necessary, could be updated either through advice letters or limited applications that are targeted towards specific program areas. This will minimize

the amount of resources and time that would be needed to review and approve program changes.

II. COST RECOVERY

Question 1: Provide a summary of each of the Utilities' current demand response program cost recovery and provide citations for the decisions authorizing this recovery method.

Response 1: SDG&E's current cost recovery mechanism for the costs associated with its demand response programs consists of its Advanced Metering and Demand Response Memorandum Accounts ("AMDRMA"), which was most recently authorized by the Commission in D.12-04-045. SDG&E has been utilizing the AMDRMA mechanism for at least the last 4 DR program cycles, dating back to the 2005 program and budget cycle. Under the AMDRMA mechanism approach to cost recovery, SDG&E presents for Commission approval proposed DR program budgets in its DR program and budget application process (the most recent of which was in A.11-03-002.) Once authorized by the Commission, SDG&E's DR program budgets create a maximum authorized level of expenditures for each program. On a monthly basis, SDG&E records into the AMDRMA the <u>actual</u> program expenditures, not to exceed the authorized total budget. The AMDRMA balances are then transferred to SDG&E's Rewards and Penalties Balancing Account on an annual basis for amortization in SDG&E's electric distribution rates over 12 months, effective on January 1st of each year, consistent with SDG&E's adopted tariffs.

As described in the Prepared Direct Testimony of Athena Besa in A. 11-03-002, the single exception to the AMDRMA mechanism for SDG&E's DR program costs is that the energy component of SDG&E's DR customer incentive payments is recorded in SDG&E's Energy Resource Recovery Account.

Question 2: Should the current cost recovery policy be changed? Please describe your proposed alternate cost recovery methods for the Supply Resource and Load Modifying Resource demand response programs in the future?

Response 2: SDG&E believes that its current AMDRMA cost recovery mechanism for its DR program costs is accurate, appropriate and fair to both ratepayers and to SDG&E, and as such proposes that there be no changes to that mechanism going forward. [1] Through the existing mechanism, expenditures are capped at the Commission-authorized program budget level, and only the <u>actual</u> program expenditures are recorded for ultimate cost recovery. The very nature of demand response program costs is that they are highly variable and in many ways unpredictable and, as a result, SDG&E continues to advocate its existing cost recovery mechanism as the most appropriate.

Question 3: Are there fairness issues that the Commission should consider for Commission-regulated utilities and other Load Sharing Entities? Please describe these issues in detail, with specific recommendations for resolving and/or avoiding these issues.

Response 3: In considering and addressing the myriad of issues related to DR cost recovery fairness, SDG&E believes that the Commission must remain mindful of several overarching policy considerations. These policy considerations include, but are certainly not limited to:

1. **Maintaining a transparent and level playing field amongst all participants, with no party having an unintended advantage or opportunity that could lead to market manipulation.**

To the extent that both utilities and third parties offer DR solutions to customers in retail markets, SDG&E recognizes the need for the adoption of reasonable rules to prevent cross-subsidization and ensure a level playing field. To the extent parties have concerns that existing rules do not adequately address this issue, SDG&E recommends that their concerns be addressed through workshops.

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[1] Should the CPUC adopt a DRAM mechanism, the costs of acquiring Resource Adequacy capacity would not be part of the AMDRMA.

2. Assuring equity in cost recovery responsibility. SDG&E believes that the rules should ensure that:

a. There are no unintended or inequitable cross-subsidies between ratepayer classes and market participants.

b. Costs incurred on behalf of a customer class should be recovered from that customer class and, similarly, benefits obtained must remain within that class.

c. To the best extent practical, rates are designed to recover costs on the same basis as they are incurred.

3. Assuring that there is a mechanism that accounts for changing and evolving business models, market drivers and business circumstances.

There is a need to accommodate changes as these areas evolve. There is no need to attempt to accommodate changes that we cannot possibly identify today but which we know are bound to occur.

4. The Commission must assure that issues involving cost allocation and rate recovery are dealt with in the appropriate proceedings, including the Rate Reform OIR where rate restructuring is considered, and the Long Term Procurement Plan proceeding where costs for preferred resources are addressed.

SDG&E believes that cost allocation issues need to be vetted publicly among the pertinent cost allocation stakeholders and ratepayer groups, and with an adequately-built Commission record to support ultimate Commission Decisions. These two proceedings (Residential Rate Reform OIR and the LTPP Track 4) consider the broad policy implications collectively in a comprehensive forum. Carving out discussion on cost allocation apart from the broader issues in a more narrow DR OIR risks the development a comprehensive record.

III. WITNESS QUALIFICATIONS

My name is Athena M. Besa. My business address is 8335 Century Park Court San Diego, California 92123-1257. I am employed by San Diego Gas & Electric Company as the Customer Programs Policy and Support Manager in the Customer Programs and Assistance Department for SDG&E. In my current position, I am responsible for the measurement of energy efficiency, demand response and customer assistance programs, regulatory reporting requirements, energy efficiency forecasting and the financial management of the department.

I attended the University of the Philippines in Quezon City, Philippines. I graduated with a Bachelor of Science degree in Statistics in 1983, and a Master of Science degree in Statistics in 1986. I have completed coursework at University of California, Davis towards a Doctorate degree in Statistics.

I was hired by SDG&E in 1990 in the Load Research Section of the Marketing Department. Since that time I have held positions of increasing responsibility in the Department. I have been in my present position for over 10 years. I have previously testified before this Commission in several Annual Earnings Assessment Proceedings, the PY2000/2001 Energy Efficiency Program Application Proceeding, the 2012-2014 Demand Response Program Proceeding, and A.11-05-023.