

Docket No.: R.13-09-011

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

Date: May 22, 2014

Witness: Sue Mara

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

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q: Please state your name.**

3 A: My name is Sue Mara.

4 **Q: Did you submit testimony in this proceeding on May 6, 2014 on behalf of the Direct**  
5 **Access Customer Coalition (“DACC”) and the Alliance for Retail Energy Markets**  
6 **(“AReM”)?**

7 A: Yes.

8 **Q: Please summarize your rebuttal testimony.**

9 A: I summarize my rebuttal testimony as follows:

- 10 • A number of parties concur that demand response (“DR”) programs perform  
11 functions similar to generation or are substitutes for procurement of generation.  
12 Generation and procurement-related costs are properly recovered from bundled  
13 customers through generation rates, with bundled customers retaining all the  
14 benefits of that procurement. Cost allocation for utility DR programs must be  
15 consistent across the investor-owned utilities (“IOUs”), as noted by the Office of  
16 Ratepayer Advocates (“ORA”).
- 17 • This is the proper proceeding and the proper time in which to establish cost  
18 allocation principles that will be applied by the IOUs when requesting approval of  
19 DR program costs.
- 20 • The workshops on cost allocation requested by San Diego Gas & Electric  
21 Company (“SDG&E”) and the California Large Energy Consumers Association

1 (“CLECA”) are unneeded and will only further delay a decision; the requests  
2 should therefore be denied.

- 3 • The IOUs’ costs associated with procurement through the proposed Demand  
4 Response Auction Mechanism (“DRAM”) of Resource Adequacy (“RA”) capacity  
5 from DR resources are also properly recovered from bundled customers  
6 through generation rates, with bundled customer retaining all the benefits of that  
7 procurement. Each LSE has its own RA capacity requirements to meet.
- 8 • The Commission should reject proposals by which the IOUs would procure DR  
9 on behalf of non-bundled customers with CAM-like or shared cost recovery. If,  
10 despite the fact that there is no statutory authority for imposing a DR obligation  
11 on non-utility Load-Serving Entities (“LSEs”), the Commission decides to  
12 consider a DR procurement obligation for non-utility LSEs, I recommend the  
13 Commission initiate a separate phase of this proceeding to fully vet associated  
14 legal issues and implementation details.

## 15 **II. COST ALLOCATION**

16 **Q. Did parties concur that DR programs perform functions similar to generation or are**  
17 **substitutes for procurement of generation?**

18 A. Yes. A number of parties reached this conclusion. For example, Mr. Sudheer Gokhale,  
19 the witness for ORA, noted that the benefits of DR programs “primarily accrue to  
20 customers in the form of reduced generation costs.”<sup>1</sup> A witness for Pacific Gas and  
21 Electric Company (“PG&E”), Mr. Kenneth E. Abreu, explained that PG&E procures

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<sup>1</sup> ORA, p. 17.

1 supply-side DR to meet its “LSE’s obligations” and having DR as a “tool” in its portfolio  
2 allows a “more robust portfolio.”<sup>2</sup> As Mr. Abreu summarized:

3 The IOUs’ role in competitively procuring DR should be analogous to  
4 their role in *procuring generation resources. The utilities currently*  
5 *conduct the procurement of generation and manage the contracts, and*  
6 *they should similarly be able to do the same for DR. (emphasis added)*<sup>3</sup>  
7

8 Mr. Raymond Johnson, a witness for Southern California Edison Company  
9 (“SCE”), argued that the IOUs should continue to be able to provide DR services directly  
10 to its bundled customers, because they provide *generation* for those bundled customers.<sup>4</sup>

11 In addition, SCE’s witness Aldrich argued that SCE would logically recover the  
12 costs of Supply Resource DR obtained from a third-party DR provider through generation  
13 rates because the DR supply *offsets* generation:

14 For example, if SCE is procuring a Supply Resource from a third-party  
15 provider that offers its service to *all* types of customers, SCE may need to  
16 modify its cost recovery approach and apply costs only through  
17 Generation rates *because the Supply Resource would be treated as an*  
18 *offset to Generation. (emphasis added)*<sup>5</sup>  
19

20 Mr. Steven Moss, the witness for the Environmental Defense Fund (“EDF”),  
21 noted that progress has been made by the Commission in providing RA credits to Supply  
22 Resource DR, so that it “can be procured more akin to generation.”<sup>6</sup> And the Joint  
23 Demand Response Parties argued that DR participation can be encouraged if the payment  
24 structures “are more aligned with how other resources are paid.”<sup>7</sup>

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<sup>2</sup> PG&E, Witness Abreu, p. 4-15.

<sup>3</sup> Ibid.

<sup>4</sup> SCE. Witness Johnson, p. 23: “Also, because SCE provides generation for its bundled customers, it should have the authority to provide DR services directly to those customers”

<sup>5</sup> SCE, Witness Aldrich, p. 45.

<sup>6</sup> EDF, p. 17.

<sup>7</sup> Joint DR Parties, p. 3.

1 **Q. What do you conclude from these testimonies that acknowledge DR as functionally**  
2 **similar to generation?**

3 A. These testimonies completely align with mine, in which I pointed out that DR resources  
4 are used by the IOUs to meet their generation and procurement obligations or to provide  
5 electric services solely to their bundled customers – all of which are LSE obligations.<sup>8</sup>  
6 As a consequence, the associated costs must be recovered from bundled customers  
7 through generation rates, with bundled customers retaining the entire RA benefit  
8 associated with the DR programs that confer RA. Put simply, parties cannot credibly  
9 argue that DR helps IOUs meet their own LSE procurement obligations for their bundled  
10 customers, but then suggest that nevertheless the associated costs should be recovered  
11 from both bundled and non-bundled customers through distribution rates. Such a  
12 conclusion is completely unsupported by cost-causation principles followed in utility  
13 ratemaking and the testimony and facts presented by the parties in this proceeding.

14 **Q. Pacific Gas and Electric Company states that DR is a “customer service” function**  
15 **and that the costs should therefore be recovered through distribution rates. Do you**  
16 **agree?**

17 A. No. PG&E’s witness, Mr. Steve R. Haertle, argued that it is appropriate to continue to  
18 recover DR program costs through distribution rates, noting that DR programs are  
19 “customer-service related,” because they support programs that enable customers to  
20 reduce their electricity costs by reducing peak demands.<sup>9</sup> This is a convoluted line of  
21 reasoning that has no merit and, moreover, conflicts with the testimony of PG&E’s other

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<sup>8</sup> DACC-AReM Testimony, p. 21.

<sup>9</sup> PG&E, Witness Haertle, p. 8-3.

1 witness, Mr. Ken Abreu, who testified (as noted above) that procuring DR was analogous  
2 to procuring generation resources. Mr. Haertle offers no justification for categorizing DR  
3 programs to be “customer-service related” or why it would be reasonable to recover the  
4 associated costs through distribution rates, even if such a categorization could be justified  
5 in the first instance.

6 In fact, DR programs do not provide a service to customers; rather, they allow  
7 customers to provide a procurement service to the utility. To participate in a DR  
8 program, customers change their normal operating pattern—raising thermostats, shutting  
9 down a production line, deferring some normal activity, often at a cost (be it financial or  
10 inconvenience). In exchange for customers taking extraordinary action and by doing so  
11 reducing their demand during specific periods, the DR program sponsor provides  
12 compensation to those customers. The customer is providing a service—reduced load—  
13 to the LSE, not the other way around, and being paid for it. As such, DR cannot  
14 reasonably be seen as a “customer service.”

15 Mr. Haertle also explains that PG&E’s administration of its DR programs has  
16 always resided in the Regulatory Affairs or Customer Care organizations within PG&E,  
17 and not within the energy procurement functions of the company.<sup>10</sup> First and foremost,  
18 the internal administrative structure that PG&E chooses to oversee its DR activities is  
19 irrelevant to proper cost allocation. What *is relevant* is the function performed by the DR  
20 program and DR performs a generation- or procurement-related function. Second, the  
21 Commission has already determined that any customer-service costs related to the  
22 procurement function must be recovered through generation rates in its foundational

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<sup>10</sup> Ibid.

1 decision ordering unbundling of the utilities rates into generation, transmission and  
2 distribution rates:

3 With the introduction of direct access, utility distribution customers will  
4 continue to require a high level of customer service with attendant funding  
5 requirements. The matter for resolution here, however, is whether and the  
6 extent to which the cost of that service is appropriately assigned to  
7 distribution revenue requirements. We share TURN/UCAN's concern that  
8 the utilities have allocated more than a fair share of customer service and  
9 marketing costs to distribution. ... We therefore reduce the utilities'  
10 distribution revenue requirements to reflect customer service and  
11 marketing costs that are more appropriately allocated to generation.<sup>11</sup>  
12

13 In conclusion, when DR activities are primarily performing generation- or procurement-  
14 related functions, as my testimony has demonstrated, any associated costs, customer-  
15 service related or otherwise, must be incorporated into generation rates.

16 **Q. Did parties support addressing cost allocation consistently for all three IOUs in this**  
17 **proceeding?**

18 A. There was some difference of opinion on this point. The witness for ORA, Mr. Gokhale,  
19 agreed that the current cost allocation of utility-run DR programs was inconsistent, with  
20 the same or similar DR programs run by different utilities having differing cost recovery.  
21 He recommended that the Commission examine cost allocation mechanisms in this  
22 proceeding and require “consistency” among the utilities.<sup>12</sup> As mentioned in my opening  
23 testimony,<sup>13</sup> the Commission reached this same conclusion regarding the need for  
24 consistency in Decision (“D.”) 12-04-045 and determined that proper cost allocation  
25 should be addressed in a DR policy rulemaking.<sup>14</sup> This is that rulemaking.

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<sup>11</sup> D.97-08-056, p. 26.

<sup>12</sup> ORA, p. 17.

<sup>13</sup> DACC-AReM, p. 8.

<sup>14</sup> D.12-04-045, p. 204.



1           However, several other parties questioned the Commission’s determination that  
2 consistent cost allocation for the utilities be examined in a DR policy proceeding. For  
3 example, Ms. JoAnne Aldrich, witness for SCE, asked the Commission to “refrain from  
4 establishing a strict method” for DR cost recovery of bifurcated DR programs, so as not  
5 to “prejudge all future DR applications.”<sup>15</sup> Ms. Athena Besa, a witness for SDG&E,  
6 recommended that cost allocation for utility-run DR programs be addressed in  
7 proceedings that “consider broad policy implications collectively in a comprehensive  
8 forum.”<sup>16</sup> As examples, Ms. Besa proposed that DR cost allocation would be (or would  
9 have been) appropriate topics to take up in the Residential Rate Reform Order Instituting  
10 Rulemaking (“OIR”) (R.12-06-013) or the recently concluded Track 4 of the Long-Term  
11 Procurement Plan (“LTPP”) proceeding (R.12-03-014), which addressed replacement of  
12 the San Onofre Nuclear Generating Station (“SONGS”).

13           I completely disagree. SCE’s request to retain flexibility to establish cost  
14 recovery with each DR application will do nothing more than pave the way for unending  
15 litigation and re-litigation, and as such, would be highly inefficient and wasteful of  
16 resources. SDG&E’s proposal for moving the cost recovery questions to other  
17 proceedings is equally misplaced. The Residential Rate Reform OIR does not include  
18 cost allocation within scope and addresses only rate design for residential customers – a  
19 narrow scope. The Track 4 LTPP was also a narrow proceeding addressing replacement  
20 of a closed power plant in Southern California. Proper and consistent cost allocation  
21 policies for all utility-run DR programs are not appropriate issues for consideration in  
22 either one and would not have complied with the Commission’s directives in D.12-04-

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<sup>15</sup> SCE, p. 45.

<sup>16</sup> SDG&E, Witness Besa, p. AB-6.

1 045, which required that cost allocation be considered in a DR policy OIR “in a  
2 consistent manner across all three utilities” to “establish overall rules” and to apply those  
3 rules “in the Utilities’ respective rate design applications.”<sup>17</sup>

4 I concur with the approach set forth by the Commission in D.12-04-045. Setting  
5 uniform principles that apply consistently to all three utilities will ensure utility DR  
6 programs are competitively neutral and consistent throughout the state. Moreover, as  
7 long as the IOUs have complied with the Commission-approved uniform cost allocation  
8 principles, parties would no longer be required to address this contentious issue in  
9 litigation in multiple proceedings. I recommended specific cost allocation principles for  
10 the Commission to adopt in this proceeding in my opening testimony.<sup>18</sup>

11 **Q. Do you support holding workshops to see if parties can reach agreement on proper  
12 cost allocation for the DR programs run by the IOUs?**

13 A. No. Dr. Barbara Barkovich, the witness for CLECA, and SDG&E’s witness Besa,  
14 recommended that the Commission sponsor workshops to work through cost allocation  
15 issues and related policy concerns. First, Dr. Barkovich recommends that a “set of  
16 workshops” be convened to see if representatives of the LSEs can arrive at a “mutually  
17 agreeable solution” to cost allocation.<sup>19</sup> I respectfully but strongly disagree with her  
18 recommendation. DACC and AReM, separately or collectively, have been seeking a  
19 Commission decision to address accurate, fair and competitively-neutral cost allocation  
20 of the IOUs’ DR programs since 2004, but the Commission has either not ruled on the

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<sup>17</sup> D.12-04-045, p. 204.

<sup>18</sup> DACC-AReM, pp. 14-21.

<sup>19</sup> CLECA, p. 46.

1 request or simply chosen to defer a decision.<sup>20</sup> The positions of the parties have not  
2 materially changed over the years and I see nothing fruitful to be gained from workshops  
3 on the topic.

4 Second, SDG&E witness Besa’s testimony with respect to the need for workshops  
5 should be disregarded. She states:

6 To the extent that both utilities and third parties offer DR solutions to  
7 customers in retail markets, SDG&E recognizes the need for the adoption  
8 of reasonable rules to prevent cross subsidization and ensure a level playing  
9 field. To the extent parties have concerns that existing rules do not  
10 adequately address this issue, SDG&E recommends that their concerns be  
11 addressed through workshops.<sup>21</sup>  
12

13 I completely concur with Ms. Besa’s sentiment that there is a need for rules to “prevent  
14 cross subsidization and ensure a level playing field.” That is the primary reason DACC  
15 and AReM engaged in this proceeding and why I have proposed DR cost allocation  
16 principles that will be accurate, fair and competitively neutral. However, the suggestion  
17 that the Commission should hold workshops to determine whether any parties have  
18 concerns about cost allocation methodologies will simply further delay any meaningful  
19 resolution of these issues. Put simply, SDG&E prefers the existing cost allocation  
20 methodologies to stay in place,<sup>22</sup> while DACC, AReM and others want those cost  
21 allocation methodologies significantly changed. The Assigned Commissioner and  
22 Administrative Law Judge identified cost allocation as a “foundational issue” for Phase  
23 Two of this proceeding in the November 14, 2013 Scoping Memo<sup>23</sup> at the request of

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<sup>20</sup> See discussion of earlier requests by DACC and AReM for proper cost allocation of IOU-run DR programs in the testimony filed by DACC and AReM in A.11 -03-001 *et al*, June 15, 2011, pp. 14-15.

<sup>21</sup> SDG&E, Witness Besa, p. AB -5.

<sup>22</sup> SDG&E, Witness Besa, p. AB-5.

<sup>23</sup> Joint Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo, R.13-09-011, November 14, 2013, p. 9.

1           DACC and AReM. There is no mystery that an issue exists and no need to discuss it in  
2           workshops. SDG&E's request for workshops on this topic should be rejected.

3                     That the call for workshops by SDG&E is little more than a delay tactic is  
4           supported further by the fact that, SDG&E also advocates that cost allocation policies  
5           should really be addressed in other proceedings, as noted above, such as the LTPP or  
6           Residential Rates proceedings, neither of which is an appropriate venue for these issues,  
7           as I have explained.<sup>24</sup> SDG&E's suggestions appear to be intended to avoid dealing with  
8           the issue altogether and maintain the *status quo* of improper cost allocation. Moreover, if  
9           an attempt were made to address DR cost allocation issues in the scope of either of those  
10          proceedings, parties would undoubtedly argue that DR cost allocation policy issues  
11          should be dealt with in a DR proceeding.

12                     In summary and as explained in my opening testimony, this is the proper  
13          proceeding and the proper time for the Commission to decide on accurate, fair and  
14          competitively-neutral cost allocation for the IOUs' DR programs. The Commission will  
15          have sufficient information on the record to render its determination without holding  
16          workshops on the matter.

17   **Q.    Do you wish to comment on your understanding of SCE's current cost allocation**  
18   **method for DR?**

19   A.    Yes. I noted in my opening testimony that SCE did not address cost recovery in its  
20          March 3, 2013 Bridge Funding request.<sup>25</sup> SCE provided greater detail on its cost  
21          recovery in its opening testimony.<sup>26</sup> In particular, SCE finds the current DR cost

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<sup>24</sup> SDG&E, Witness Besa, p. AB-6.

<sup>25</sup> DACC-AReM, p. 10.

<sup>26</sup> SCE, Witness Aldrich, pp. 43-45.

1 recovery policy adopted for SCE to be sufficient and equitable.<sup>27</sup> My understanding is  
2 that the primary cost recovery criteria SCE uses is customer eligibility. If the program is  
3 open to direct access customers, the costs associated with the program are recovered  
4 through distribution-related accounts so that direct access customers pay. If the program  
5 is not open to direct access customers, then the costs of that program are recovered  
6 through generation-related accounts.

7 While this is preferable to indiscriminately assigning all DR program costs to  
8 direct access customers, the approach fails to accurately assign all costs where they truly  
9 belong – in generation rates as procurement costs. SCE-run DR programs allow  
10 customers to provide procurement -- a service to SCE. Differentiating cost recovery  
11 based upon the provider of the procurement service is inappropriate. Procurement costs,  
12 no matter the provider, should be collected through generation rates.

13 In fact, bundled and direct access customers participating in utility-run DR  
14 programs are providing a resource to the utilities and should be treated like any other  
15 resource provider and paid appropriately for that resource. Similarly, the costs of these  
16 DR resources must also be treated like other procurement-related costs and recovered  
17 through generation rates paid for by the bundled customers. The associated benefits,  
18 such as RA allocations, accrue to those same bundled customers, who pay for the DR  
19 procurement through their generation rates.

20 **Q. Do you have any final comments on cost allocation?**

21 A. Yes. Recovering utility-run DR program costs through distribution rates or other non-  
22 bypassable charges undermines competitive markets, discourages participation in DR

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<sup>27</sup> SCE, Witness Aldrich, p. 45.

1 markets by competitive third-party providers, and confers an unfair competitive  
2 advantage on the IOUs. I have proposed cost allocation principles in this proceeding that  
3 would remedy this inequitable situation and apply uniformly to each of the IOUs.<sup>28</sup> They  
4 are summarized as follows:

- 5 • Supply Resource DR is integrated into the CAISO’s wholesale energy  
6 markets,<sup>29</sup> thereby performing the same function as generation resources and  
7 the associated costs must be recovered the same way as costs are recovered  
8 for generation resources – through generation rates.
- 9 • Load Modifying Resource DR “reshapes or reduces the net load curve”<sup>30</sup> and  
10 the associated costs should be allocated depending on: (a) the customers to  
11 whom the program is available and applicable; and (b) whether the program  
12 functions as a substitute for generation by providing a RA capacity credit or  
13 other generation-like function, such as peak-shifting. Specifically, Load  
14 Modifying DR programs that are (a) solely available and applicable to  
15 bundled utility customers and/or (b) function as a substitute for generation  
16 must be recovered through generation rates.
- 17 • Finally, when DR costs are properly recovered from bundled customers  
18 through generation rates, bundled customers should retain all the benefits of  
19 that procurement.

20 Once adopted, the IOUs would be required to comply with these cost allocation  
21 principles for all of their DR programs and procurement. Setting such uniform principles

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<sup>28</sup> DACC-AReM, pp. 14-22.

<sup>29</sup> D.14-03-026, Ordering Paragraph 3, p. 28.

<sup>30</sup> D.14-03-026, Ordering Paragraph 2, p. 28.

1 will ensure utility DR programs are competitively neutral and consistent throughout the  
2 state, as well as encourage participation in the DR market by third-party providers. I  
3 recommend that the Commission adopt my proposals and move forward with rapid  
4 implementation. Improper cost allocation has been in place for more than a decade and  
5 now is the time to correct this long-standing inequity.

6 **Q. Is there any justification for allocating the costs associated with IOU procurement**  
7 **using the proposed DRAM in any manner other than through the utilities'**  
8 **generation rates?**

9 A. No. DRAM is being proposed as a mechanism by which the IOUs would competitively  
10 procure RA from DR resources aggregated by DR Providers. As such, this is performing  
11 a procurement function to meet the IOU's RA requirements and the associated costs  
12 belong in generation rates. All LSEs have RA requirements to meet for their own  
13 customers. The DRAM would be one way the IOUs could meet their RA requirements  
14 and the associated RA capacity credit should apply solely to the bundled customers.

15 **Q. Did any party address cost allocation for DRAM procurement?**

16 A. Yes. SDG&E's witness Besa explained that, if DRAM procurement is approved by the  
17 Commission, the costs of acquiring the RA capacity should not be recovered through  
18 SDG&E's existing distribution-rate mechanism. However, she did not offer a proposed  
19 alternative cost allocation mechanism.<sup>31</sup> Nonetheless, SDG&E recognizes that cost  
20 allocation mechanisms must be reviewed and established as part of this proceeding.  
21 DRAM procurement that involves RA capacity should have its costs recovered through  
22 generation rates.

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<sup>31</sup> SDG&E, Witness Besa, footnote 1, p. AB-5.

1 **III. DR PROCUREMENT OBLIGATION FOR NON-IOU LSES**

2 **Q. Did some parties propose that non-utility LSEs should be obligated to procure DR?**

3 A. Yes. Witnesses for both SCE and SDG&E argued that non-utility LSEs should have the  
4 same DR procurement obligations as the IOUs. Mr. David Barker, SDG&E’s witness,  
5 stated that non-IOUs “should have the same obligations as the IOUs to procure DR RA  
6 capacity.”<sup>32</sup> SCE’s witness, Mr. Carl Silsbee, argued that IOUs and non-IOUs “should be  
7 treated the same,” and that a DRAM procurement obligation is “consistent with how RPS  
8 and energy storage mandates are assigned and may be appropriate for resources that are  
9 procured to meet policy objectives rather than system needs.”<sup>33</sup> Also, Mr. Kevin  
10 Woodruff, the witness for The Utility Reform Network (“TURN”), makes a similar  
11 argument regarding utility procurement to meet state policy goals.<sup>34</sup>

12 **Q. How do you respond?**

13 A. There is no statutory requirement for the IOUs to obtain any portion of their procurement  
14 from DR resources. Instead, to date the Commission has authorized utility-run DR  
15 programs under its general regulatory authority and the utilities are assured full recovery  
16 of their costs to operate the programs. There is also no statutory authority for the  
17 Commission to approve non-utility LSE procurement. Public Utilities Code Section  
18 394(f) in fact specifically enjoins the Commission from regulating, “rates or terms and  
19 conditions of service offered by electric service providers.”  
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<sup>32</sup> SDG&E, Witness Barker, pp. DTB-9 – DTB-10.

<sup>33</sup> SCE, Witness Silsbee, p. 41.

<sup>34</sup> TURN, Witness Woodruff, p. 13.



1 Nor is there a statutory requirement that the Commission treat non-utility LSEs  
2 the same as the IOUs with regard to DR issues.<sup>35</sup> In short, there is no statutory basis for  
3 the IOUs' requests to impose a DR procurement requirement on non-IOU LSEs.

4 **Q. Did parties also propose a DR procurement obligation for non-IOUs as an option**  
5 **for addressing cost allocation?**

6 A. Yes. CLECA's witness Barkovich<sup>36</sup> and TURN's witness Woodruff<sup>37</sup> both argued that  
7 imposing a DR procurement obligation on non-utility LSEs was one option for  
8 addressing cost allocation. Dr. Barkovich noted, however, that the Commission has no  
9 jurisdiction to impose a DR procurement obligation on non-IOU LSEs and proposed, as  
10 an alternative, cost-sharing of DR procurement by all LSEs with the best DR programs  
11 chosen from a "pool" or through an auction.<sup>38</sup> Mr. Woodruff proposed a "CAM-like"  
12 mechanism to recover the DRAM procurement costs from all customers if the  
13 Commission decided not to impose a DR procurement obligation on non-IOU LSEs.<sup>39</sup>

14 **Q. How do you respond to proposals to apply shared cost recovery or a CAM-like**  
15 **mechanism to DR procurement by the IOUs?**

16 A. DACC and AReM strongly oppose any shared cost recovery or use of the CAM or any  
17 "CAM-like" mechanism to recover the costs of utility-run DR programs, including  
18 recovering DR costs through non-bypassable distribution charges as is done today. First,  
19 DR procurement is ineligible for CAM treatment. The Commission has authority to

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<sup>35</sup> Public Utilities Code Section 365.1(c)(1) refers to the "same requirements" for IOUs and ESPs only with respect to RA, Renewable Portfolio Standards and Greenhouse Gas.

<sup>36</sup> CLECA, p. 46.

<sup>37</sup> TURN, Witness Woodruff, p. 13.

<sup>38</sup> CLECA, p. 46.

<sup>39</sup> TURN, Witness Woodruff, p. 13.

1 approve CAM only under certain restrictive circumstances,<sup>40</sup> which do not apply to  
2 procurement of DR either separately or through the DRAM. Second, procurement by the  
3 IOUs “on behalf of” direct access customers through a “CAM-like” mechanism or other  
4 non-bypassable charge, such as recovery through distribution rates, raises significant  
5 competitive concerns, which have been well documented in other proceedings and were  
6 highlighted in my testimony<sup>41</sup> as well as by Mr. Jeremy Waen, the witness for Marin  
7 Clean Energy (“MCE”).<sup>42</sup> In short, improper recovery of generation-related costs  
8 through distribution rates or other non-bypassable charges is inaccurate, unfair, and anti-  
9 competitive, and compromises the ability of direct access customers to participate in  
10 programs designed by their ESPs and third-party DR providers. As a result, the  
11 Commission’s goals for expanded DR participation would be similarly compromised.  
12 Instead, the utility DR programs should have their costs recovered through generation  
13 rates, and when direct access customers choose to participate in the utility programs and  
14 get paid for doing so, the RA benefits that the DA customers’ participation confers  
15 should accrue solely to the utilities’ bundled customers.

16 **Q. Is there an alternative to DR procurement by the IOUs on behalf of non-bundled**  
17 **customers?**

18 A. An alternative to “on behalf of” DR procurement is necessary only if the Commission  
19 should determine that it is appropriate to impose DR procurement obligations on both the  
20 IOUs and non-utility LSEs. If, despite the lack of statutory authority, the Commission is  
21 choosing between (a) “on behalf of” procurement by the IOUs with CAM-like non-

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<sup>40</sup> Public Utilities Code Section 365.1(c)(2).

<sup>41</sup> DACC-AReM, pp. 11-14.

<sup>42</sup> MCE, pp. 5 and 8.

1 bypassable charges or (b) a directly-imposed DR procurement requirement on the non-  
2 utility LSEs, I would recommend the directly-imposed DR procurement requirement and  
3 reject any “on behalf of” CAM-like procurement. If the Commission is convinced in this  
4 phase of this proceeding that it should consider imposing a direct DR obligation on non-  
5 utility LSEs, the full vetting of such an approach should be scheduled for inclusion in a  
6 future phase of this proceeding. This separate phase could address the myriad issues that  
7 would accompany such a proposal, including (i) a determination of the Commission’s  
8 legal authority to pursue this approach, (ii) the appropriate level of DR obligation that  
9 should be imposed on non-utility LSEs, and (iii) the appropriate compliance flexibility  
10 non-utility LSEs must be afforded.

#### 11 **IV. CAISO MARKET INTEGRATION**

12 **Q. CLECA’s witness Barkovich raised a concern that the CAISO’s requirement that**  
13 **DR Providers reach agreement with the LSE before registering a DR resource may**  
14 **limit development of such Supply DR, particularly when direct access customers are**  
15 **involved.<sup>43</sup> Do you have a response to this concern?**

16 A. Yes. I believe Dr. Barkovich’s concerns are unfounded. First of all, I was directly  
17 involved in developing these rules jointly with other parties for direct participation of  
18 retail customer load in CAISO markets, which was undertaken in conjunction with  
19 Rulemaking 07-01-041. This requirement was developed by and agreed to by all those  
20 participating in the effort at the time. The intent was not to limit participation, but to be  
21 sure that the LSE serving the customer, be it an IOU or an ESP, is aware that its customer  
22 is enrolling as part of a Proxy Demand Resource (“PDR”) at the CAISO and can make

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<sup>43</sup> CLECA, p. 10.

1 arrangements with the customer, if needed, to ensure that the customer's participation in  
2 the program is consistent with their tariffed service or retail choice service, as the case  
3 may be. The CAISO does not dictate the type or form of the agreement, or even whether  
4 it is oral or written.<sup>44</sup> I know of no instance in which an ESP refused to allow one of its  
5 customers to participate in a PDR. Also, the CAISO requires that each PDR include  
6 customers of only one LSE. Thus, if an IOU elects to form a PDR using direct access  
7 customers, it would be required to construct PDRs consisting of customers all served by  
8 the same ESP. So, only one agreement with one ESP would be needed, which could  
9 presumably make the process of reaching an agreement simpler.

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

11 A. Yes, it does.

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<sup>44</sup> See CAISO's PDR Frequently Asked Questions for PDR, Qualifications, Question 4, p. 2, stating that the CAISO "does not define the specific agreements needed between the DRP and the Load Serving Entity;" available on CAISO's web site at: <http://www.caiso.com/participate/Pages/Load/Default.aspx>