BEFORE THE PUBLIC UTILITIIES COMMISSION
OF THE STATE OF CALIFORNIA

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)

JOINT OPENING BRIEF OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) AND THE UTILITY REFORM NETWORK ON COST ALLOCATION ISSUES

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I. INTRODUCTION

Pursuant to the Electronic Ruling of ALJ Hymes issued August 13, 2014, San Diego Gas & Electric Company (SDG&E) and The Utility Reform Network (TURN) hereby submit their Opening Brief on cost allocation issues (SDG&E and TURN are collectively referred to herein as "Parties"). SDG&E and TURN also respectfully submit that the Settlement Agreement previously submitted herein should be approved for the reasons set forth in the Motion for Approval of Settlement Agreement submitted on August 4, 2014 , but will not repeat the arguments set forth in that Motion herein.[1]

II. DEMAND RESPONSE COSTS SHOULD BE ALLOCATED TO THE CUSTOMERS THAT BENEFIT FROM THOSE COSTS

In this proceeding, Direct Access Customer Coalition/Alliance for Retail Energy Markets (DACC/AReM) argue that the Commission has no authority to require non-investor owned utility (IOU) load serving entities (LSEs) to acquire supply-side Demand Response (DR) or participate in the DRAM absent legislation granting the Commission this level of authority. (See DAC-01, Mara, page 27, lines 8-15; MCE-01,Waen, page 8, line 21 to page 9, line 6.) At the same time, these parties argue that they should not be allocated any

[1] SDG&E reserves the right to submit responses to arguments of parties opposing the Settlement Agreement through Reply Comments to be submitted herein on September 8, 2014.

associated costs, even when they benefit from those expenditures. These parties cannot have it both ways. To the extent all LSEs are not required to procure a proportionate share of DR but nevertheless benefit from these expenditures, the costs associated with this procurement should be allocated to all benefitting customers, which include customers of energy service providers (ESPs) and community choice aggregators (CCAs), thereby justifying recovery through Utility Distribution Company (UDC) rates.

In support of DACC/AReM's contention that DR costs should not be recovered through utility delivery rates that are paid by Direct Access (DA) customers, witness Mara argues, "[p]rocurement by the IOUs of DR capacity and energy consumption reduction services through their DR programs substitutes for procurement of capacity and energy from a generating plant, which the IOUs own or contract with for the output." (Mara, page 12, lines 4-6.) On this basis, DACC/AReM argue that DR costs are equivalent to, and should be allocated in the same manner as electricity commodity costs under the theory that cross-subsidies occur, "when direct access customers are forced to pay a portion of the IOUs' generation-related costs in their distribution rates." (See DAC-01, Mara, page 12, lines 2-4)

These arguments are based on a flawed analysis that fails to reflect the differences in the types of DR that are being considered herein, the circumstances under which that DR will be procured, and the customers that will benefit from these DR costs. As is explained in the testimony of Cynthia Fang (SGE-06), cost allocation issues associated with DR should be evaluated on the basis of who benefits from DR expenditures. In the words of TURN witness Kevin Woodruff:

> Briefly, if the utilities procure DR capacity pursuant to state policy goals or other criteria that are not related to their obligations to procure capacity and energy for their bundled customers cost-effectively, some means must be implemented to allocate the benefits and costs of such procurement among all customers.
>
> (See, TURN-01, Woodruff page 4, lines 2-6.)

The appropriate cost allocation can differ, depending on whether the DR is load modifying or supply resource DR, but in all cases, the goal should be to allocate DR costs in a manner such that all benefitting customers pay, which would be consistent with cost causation principles.

a. Load Modifying DR Benefits All Customers

As is demonstrated in the testimony of Cynthia Fang, Load Modifying DR benefits all customers, including DA customers. This is because, rather than only reducing utility generation costs, Load Modifying DR reduces peak demand, and as a result, reduces the generation costs incurred by all customers in at least two ways.

First, reducing system peak reduces the RA requirements imposed on all LSEs operating within the IOU service territory. In that regard, Ms. Fang testified as follows:

> Ms. Mara concludes cross-subsidies occur "when direct access customers are forced to pay a portion of the IOUs' generation-related costs in their distribution rates." (Mara, page 12, lines 2-4) This erroneous conclusion is based on the incorrect statement that the avoided procurement is from an investor-owned utility (IOU)-owned or contracted generation plant. On the contrary, load modifying DR reduces the system peak and therefore reduces the Resource Adequacy (RA) requirements of all Load Serving Entities (LSEs). Load-modifying DR does indeed lower procurement from generation, but it lowers it for all entities with RA obligations, both IOUs and other LSEs.
>
> (See, SGE-06, Prepared Rebuttal Testimony of Cynthia Fang, at pp. 2, line 22-25 – 3, line 1-4.)

Second, lowering the peak load tends to reduce wholesale market clearing prices. Ms. Fang's testimony also points out that FERC has previously found that DR programs benefit all customers by reducing market prices when that DR is dispatched:

> In addition, load modifying DR lowers energy prices for all entities in the relevant market. As stated in Federal Energy Regulatory Commission (FERC) Order 745, it is just and reasonable to allocate demand response costs proportionally to all LSEs that benefit— all entities that purchase energy from the relevant market.
>
> > We therefore find just and reasonable the requirement that each RTO and ISO allocate the costs associated with demand response compensation

> proportionally to all entities that purchase from the relevant energy market in the area(s) where the demand response reduces the market price for energy at the time when the demand response resource is committed or dispatched. (FERC Order 745, page 78.)[2]
>
> It does not matter whether a direct access (DA) customer participates or not in load modifying DR program, or whether DA customers form the bulk of participants in a DR program. The fact that load-modifying DR reduces the system peak for all customers and reduces energy market prices for all customers, is the reason all customers should provide proportional support for the load-modifying DR through delivery rates (also known as Utility Distribution Company (UDC) rates)." (See, SGE-06, Prepared Rebuttal Testimony of Cynthia Fang, page GK-3, lines 5-20.)

As the forgoing testimony demonstrates, load modifying DR benefits all customers by reducing RA requirements and energy prices during peak hours. For this reason, the costs of these programs should be allocated to all customers through utility delivery rates.

b. Supply Resource DR

Depending on the Commission's decision in this proceeding, Supply Resource DR could serve several purposes. For example, Supply Resource DR could serve the purpose of meeting an LSEs Resource Adequacy requirement at competitive cost based on market prices for resource adequacy capacity products. In this case, the procuring LSE and its customers would be the beneficiaries of the DR procurement and costs should be allocated accordingly. On the other hand, the Commission could require utilities to procure Supply Resource DR at above-market prices (based on a comparison to the market price for comparable resource adequacy capacity products); or on the basis of a cost effectiveness test that determines cost effectiveness in a way that includes consideration of the benefits created by avoiding the need for new generation capacity; or to provide reliability for all customers

[2] While FERC Order 745 was vacated by the Court of Appeals for the District of Columbia Circuit in Electric Power Supply Ass'n v. FERC et al.,(2014 U.S. App. LEXIS 9585), Order 745 was vacated on jurisdictional grounds and FERC has indicated that it will challenge the Court's decision.

in their service area. In these situations, benefits would accrue to all customers, not just bundled customers, and the costs should be allocated accordingly. As TURN witness Kevin Woodruff testified:

> As it has with regard to other types of resources, the Commission is placing the utilities in the role of procuring DR resources in pursuit of the state's energy policy goals. If the utilities are not procuring DR for their bundled customers on a "least-cost, best-fit" basis but instead procuring to meet some broader need, some allocation of the benefits and costs of such procurement to customers of other Load-Serving Entities (LSEs) is necessary. Such DR procurement may be directed to meet the state's environmental goals or reliability needs. One approach to ensuring all customers share equally the benefits and costs of such efforts would be the use of a mechanism like the Cost Allocation Mechanism (CAM) to allocate the benefits and costs of DRAM-procured DR among LSEs that serve all customers. Another option is to impose equivalent procurement requirements on LSEs that serve unbundled customers to procure similar amounts of DR, as was implemented for storage resources. (Citing, D.13-10-040, Section 4.8.3 (pp. 46-48).)
>
> (See, TURN-01, Prepared Direct Testimony of Kevin Woodruff, page 13, lines 5-16.)

SDG&E witness Fang explained the purposes for which supply resource DR could be procured and the cost allocation methodology appropriate for each as follows:

> If supply-side DR is simply a replacement of a RA purchase from a generator, the cost of the supply-side DR should be in generation rates for which ever LSE procures the supply-side DR. Supply-side DR with this characteristic would only be cost effective if the price of supply-side DR was equal to or less than other supply resources. If the supply-side DR is competing with existing generation capacity and is being paid prices similar to prices in the bilateral RA market, the costs should be recorded in the Energy Resource Recovery Account (ERRA) balancing account and recovered through generation rates. In the case where the cost-effectiveness of DR capacity is measured by the cost of alternate resources in RA markets, the procuring LSE should incorporate the cost in generation rates.
>
> However, DR has been treated in the cost effectiveness protocols in the past as deferring or avoiding <u>new</u> generation capacity that would be needed for reliability. If supply-side DR going forward uses cost effectiveness based on avoiding new generation capacity and the California Public Utilities Commission (Commission) requires the IOU to procure DR supply resources to provide reliability for all customers in its service area that would have been provided by new generation, then it is benefitting all customers, not just bundled customers. If the new supply resource is required by the Commission for reliability, the Commission orders the IOU to

procure it and all benefitting customers to pay for it.

(See, SGE-06Prepared Rebuttal Testimony of Cynthia Fang, page 4, lines 1-17.)

As has been suggested in the testimony of witness Fang (SGE-06, at p. 5) and TURN witness Woodruff (TURN-01, at p. 13), to the extent equivalent supply DR procurement obligations are not imposed on non-IOU LSEs, above market costs and costs that provide capacity benefits to all customers can be allocated through a Cost Allocation Mechanism (CAM). Indeed, the Commission has also used a CAM-like mechanism for procurement of preferred resources that meet State policy goals:

> Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall procure combined heat and power resources on behalf of electric service providers (ESPs) and community choice aggregators (CCAs) and shall allocate the resource adequacy benefits and net capacity costs associated with this procurement to the ESPs and CCAs…
>
> (See, D.10-12-035, at Ordering Paragraph 5, pp. 68-69.)

For the forgoing reasons, the "parties" respectfully request that the Commission reject the arguments of DACC/AReM. Because load modifying DR benefits all customers by reducing peak demand and the energy prices that all customers pay, load modifying DR costs should be allocated to all customers. To the extent IOUs are required to procure supply resource DR at costs above the market value of comparable resource adequacy capacity products or for the purpose of providing reliability benefits to all of the customers within their service territories, all customers benefit from those costs and they should be allocated accordingly.

V. CONCLUSION

SDG&E and TURN appreciate the opportunity to submit the forgoing Opening Brief herein.

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Respectfully submitted

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