

Application No: A. 08-06-002

Exhibit No.: _____

Witness: Mark F. Gaines

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In the Matter of the Amended Application of San)
Diego Gas & Electric Company (U 902 M) for)
Approval of Demand Response Programs and)
Budgets for Years 2009 through 2011.)
And Related Matters)

Application 08-06-002

REBUTTAL TESTIMONY
OF MARK F. GAINES
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
DECEMBER 15, 2008

1 **REBUTTAL TESTIMONY**
2 **OF MARK F. GAINES**

3 **I. INTRODUCTION**

4 In accordance with the November 10, 2008 Assigned Commissioner and
5 Administrative Law Judge’s Scoping Memo and Ruling (the “Scoping Memo”), and the
6 procedural schedule adopted therein at page 16, my Rebuttal Testimony responds to a
7 number of issues raised by Transphase Co. (“Transphase”), Ice Energy Inc (“Ice
8 Energy”), BluePoint Energy, The Division of Ratepayer Advocates (“DRA”) and The
9 California Demand Response Coalition (“CDRC”). Each of these parties filed their
10 Opening Testimony in this proceeding on November 24, 2008 addressing policy issues
11 related SDG&E’s Demand Response (DR) program proposals for the 2009 – 2011
12 program cycle. My Rebuttal Testimony is organized in the sections below to respond to
13 specific issues raised by each of these parties as noted in the sections below. The purpose
14 of my Rebuttal Testimony is to address the policy issues that these parties included in
15 their filed testimony.

16 **II. REBUTTAL TO TRANSPHASE AND ICE ENERGY**

17 **A. Introduction**

18 Transphase and Ice Energy each filed testimony requesting the Commission to
19 include specific Peak Load Shifting (“PLS”) programs into this proceeding. Specifically,
20 Transphase witness Douglas A. Ames states at page 7 of his testimony “...the
21 Commission should approve the proposed California Thermal Storage Standard Offer...”
22 Transphase’s testimony goes on to propose a new California Thermal Storage Standard
23 Offer, by which it would add additional programs and costs to the utilities’ DR portfolios
24 for the 2009 – 2011 program cycle.

1 Similarly, Ice Energy witness Greg Tropsa states on page 10 of his testimony
2 "...The Commission should: ...

- 3 • approve its proposal to continue, and direct SDG&E to expand and
4 extend its PLS program;
- 5 • encourage SDG&E to undertake necessary enabling and related
6 activity to support its PLS program;
- 7 • encourage SDG&E to propose specific pilot programs and other
8 measures to integrate PLS and renewable resources into the grid,
9 as PG&E has proposed in its application;
- 10 • direct SDG&E to accelerate implementation, and expand the
11 scope, of its PLS program."

12 SDG&E believes that such a new Standard Offer is beyond the scope of this
13 proceeding; and it is an inappropriate attempt to circumvent the process that the
14 Commission has established for the solicitation of PLS proposals. While the Transphase
15 proposal may be worthy of consideration in an appropriate forum, perhaps such as a
16 Resource Procurement proceeding, or may be the subject of a broader Procurement RFP,
17 SDG&E does not believe it is an appropriate consideration here.

18 Ice Energy had, in fact, provided a similar, if not identical, proposal in A.05-06-
19 017. The Commission responded to that proposal in Decision ("D.") 06-11-049 at page
20 52 stating: "Ice Energy's proposal is interesting. However, we do not support allocating
21 \$25 million to a specific company or technology, such as the Ice Energy proposal, but
22 prefer to initiate a more generic process."

1 **B. The Commission Previously Directed the Utilities to**
2 **Pursue RFP's and Bilateral Arrangements for PLS**

3 D.06-11-049, beginning at page 49, the Commission discussed the concept of
4 PLS, expressed interest in pursuing PLS opportunities in time for the summer of 2007,
5 and did so by initiating a generic PLS proceeding (see D. 06-11-049, mimeo at page 52).
6 The Decision went on to direct the utilities to pursue a Request for Proposals (RFP)
7 process for bilateral arrangements by which five-year proposals from third parties could
8 be solicited. The Commission expressed no preference for any particular technology and
9 provided direction to the utilities to consider a number of parameters in their solicitation
10 and evaluation of proposals. Finally, the Decision directed each of the utilities to file an
11 Advice Letter with their individual PLS proposals by February 28, 2007, and authorized
12 specific budget funding for PLS from existing DR budgets. For SDG&E, the authorized
13 PLS funding from existing DR budgets was \$4 million.

14 As was described in SDG&E's Advice Letter 1878-E, filed in February 28, 2007,
15 SDG&E undertook the required RFP process to solicit and receive bids for five-year PLS
16 proposals. Initially, SDG&E selected three vendors for review and scoring as reflected in
17 Advice Letter 1878-E. Subsequent review by the Commission's Energy Division led to
18 the issuance of Resolution E-4098 on July 26, 2007, which directed SDG&E, among
19 other things, to complete a re-evaluation and re-scoring of the PLS proposals. SDG&E
20 did so, and filed Supplemental Advice Letter 1878-E-A, dated September 24, 2007.
21 Advice Letter 1878-E-A replaced Advice Letter 1878-E in its entirety, and presented
22 SDG&E's revised selection of two vendors to provide PLS services. Supplemental
23 Advice Letter 1878-E-A was approved by the Commission by letter dated October 29,
24 2007.

1 SDG&E subsequently entered contract negotiations with the selected vendors,
2 resulting in the signed contracts that are attached as Appendix E to my original testimony
3 in this proceeding. As described on page MWW-64 of Witness Ward's Prepared Direct
4 Testimony, at lines 12 and 13, those contracts are included therein as required by the
5 February 28, 2008 Guidance Ruling. These contracts are not submitted in this
6 proceeding for approval or for the proposition that further PLS proposals should be
7 considered in this proceeding.

8 Finally, in reading the discussion in D. 06-11-049 regarding the nature of the five-
9 year PLS proposals, it is clear the Commission intended the framework within which they
10 were to be experimental, i.e. conducted as pilots. Specifically, at page 49, the
11 Commission indicated that the precise classification of PLS is not clear, noting that
12 these: "...technologies are generally not considered energy efficiency programs if they do
13 not reduce overall energy consumption...[and]...generally not considered demand
14 response programs is they are not dispatchable or price responsive on a day-ahead or day-
15 of basis." SDG&E believes that the intent behind the establishment of the five-year PLS
16 programs is to study and evaluate just how these programs can operate and fit into an
17 overall portfolio of programs. Further, the fact that the Commission determined a
18 specific budget allocation for the PLS programs, taken from existing DR budgets (as
19 opposed to creating new funding) is a strong indication to me of the intended limited and
20 experimental pilot program nature of the initial foray into PLS programs.

1 **C. The Existing Five-Year PLS Program and Contracts**
2 **Should be Allowed to be Completed and be Evaluated**
3 **Before New PLS Proposals are Considered**

4 Consistent with the directives of D. 06-11-049, SDG&E's two PLS agreements
5 are for five-year programs. The programs are brand new, have not yet run the prescribed
6 five-year cycle, and have not yet produced the results and experience on which a program
7 Measurement and Evaluation (M&E) study can be undertaken. Any expansion,
8 contraction or modification of PLS should be forward-looking and based on the results of
9 the program and the M&E work. Expanding the PLS program prior to considering and
10 understanding the results of the PLS program vitiates the purpose of the PLS decision.

11 In reviewing the information available concerning SDG&E's PLS RFP process,
12 SDG&E can find any indication that Transphase participated in SDG&E's PLS proposal
13 solicitation process. For reasons unknown to SDG&E, Transphase missed the
14 opportunity to have done so through the RFP process. Other vendors, in particular at
15 least one which promoted the Ice Energy technology, did participate. Therefore, SDG&E
16 believes that the Transphase and Ice Energy proposals presented here constitute an
17 inappropriate and unfair effort to circumvent the RFP process and to obtain, outside the
18 prescribed PLS process, what amounts to a Commission approved sole-source product
19 endorsement and have it injected into the existing PLS portfolio. The incremental
20 addition of any new PLS projects at this time is premature and should properly be
21 considered at the conclusion of the existing, authorized five-year pilot programs, and the
22 evaluation of those programs to determine whether or not a continuation or expansion of
23 PLS is warranted in the future.

1 In this regard, it is also worth noting that SDG&E issued on March 9, 2007 a
2 Request for Offers (“RFO”) for new local and off-system capacity, which included
3 solicitations for a DR component.¹ That process could have been another opportunity by
4 which Transphase and Ice Energy could have introduced their proposals as part of a
5 broader solicitation, rather than herein as unsolicited proposals which avoided the
6 competitive PLS process.

7 In sum, SDG&E has not evaluated the technical aspects of the Transphase and Ice
8 Energy proposals, and would urge the Commission to reject those proposals as both are
9 beyond the scope of this proceeding and are an untimely attempt to circumvent an open
10 access PLS RFP process. At the appropriate time, and following the completion of the
11 just-approved PLS five-year programs, it may be appropriate for Transphase and Ice
12 Energy to renew their proposals for consideration outside this proceeding

13 **D. SDG&E’s Default Critical Peak Pricing (CPP-D)**
14 **Tariff Provides an Opportunity For Customers to**
15 **Derive Benefits Through Load Shifting Strategies**

16 An immediately-available strategy for customers to employ PLS strategies and
17 shift load away from critical peak periods is SDG&E’s newly-adopted CPP-D program,
18 which is described by SDG&E Witness Ward, at page MWW-18 of his Prepared Direct
19 Testimony. The CPP-D tariff provides customers with a clear financial incentive to shift
20 their energy consumption from the critical peak period to an off-peak period during a
21 CPP-D program event period. This is accomplished through use of the significantly
22 higher critical peak period energy rate, during critical peaks while during all other non-
23 critical peak periods, the CPP-D tariff reflects a lower rate.

¹ Chapter 1 Amended Prepared Direct Testimony of Mark Gaines, September 19, 2008, at page 15.

1 While this may not be the specific solution or option that Transphase seeks
2 through its proposal, it nevertheless does provide an existing rate-based program by
3 which customers can explore and develop their particular peak load shifting strategies
4 and through doing so, receive financial benefits.

5 **III. REBUTTAL TO BLUEPOINT ENERGY**

6 Blue Point requests (at page 4 of its testimony) that the Commission: “lift backup
7 generation to the same level as other behind the meter resources by allowing the use of
8 TA/TI funds for BVEC. To preserve market incentives, these resources would earn
9 nodal energy and ancillary service prices.” SDG&E believes its Blue Point’s burden to
10 prove to the Commission that its proposal adequately addresses the Commission’s
11 concerns regarding back-up generation. Should the Commission determine that such
12 technology adequately addresses those concerns, then SDG&E agrees that such
13 technologies could be funded through TA/TI if such technology meets all other program
14 requirements.

15 **IV. REBUTTAL TO THE DIVISION OF RATEPAYER** 16 **ADVOCATES**

17 **A. Introduction**

18 DRA witness Sudheer Gokhale, at page 12 of his testimony, proposes a ranking of
19 utilities’ DR programs considering three criteria: 1) cost effectiveness; 2) certainty of
20 load impacts; and 3) potential to transition to CAISO’s MRTU. He then uses these
21 criteria to rank the utility programs in categories to reflect greater value (Rank 1) to least
22 valuable (Rank 4). DRA proposes that programs Ranked 1 and 2 should be approved for
23 the entire 3 year cycle, programs with Rank 3 should be approved for only one year and
24 reevaluated at that the end of that year and, programs with Rank 4 should not be

1 approved. For SDG&E, DRA ranked SDG&E's Capacity Bidding Program, Critical
2 Peak Pricing and Technical Assistance/Technical Incentives as Rank 2 while SDG&E's
3 Base Interruptible Program is listed as Rank 3.

4 **B. DRA's Ranking Policy is Not Consistent with**
5 **Current Commission Policy on DR Programs.**

6 DRA's proposal to create a ranking system to approve DR programs is not
7 appropriate. The Commission has not approved appropriate policy rules (similar to
8 Energy Efficiency Programs) that impose cost effectiveness requirements for individual
9 DR programs or portfolios as a prerequisite for Commission approval. Neither did the
10 Commission, by means of the February 27, 2008 Administrative Law Judge's Ruling
11 Providing Guidance on Content and Format of 2009-2011 Demand Response Activity
12 Applications, provide specific metric requirements for the 2009-2011 DR programs as
13 prerequisites for programs/portfolios approval.

14 Furthermore, DRA's recommended rating scheme ignores, i.e. fails to consider,
15 Marketing, Education, and Outreach programs that are essential in promoting customer
16 understanding and participation in DR programs.

17 Notwithstanding SDG&E's objection to DRA's recommendation for determining
18 which programs should be approved and which programs require more Commission
19 oversight, SDG&E supports the idea that there should be metrics used to determine
20 whether programs should be approved or not, foremost should be cost effectiveness.
21 SDG&E encourages the Commission to finalize the cost effectiveness framework and
22 methodology currently the subject of another Commission proceeding.

23 This concludes my Rebuttal Testimony.
24