BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas and Electric Company (U902E) For Approval of its Proposals for Dynamic Pricing and Recovery of Incremental Expenditures Required for Implementation.	Application No. 10-07-009 (Filed July 6, 2010)

MOTION TO STRIKE AND PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rules 2 and 11 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates ("DRA") hereby submits this motion to strike San Diego Gas and Electric Company's ("SDG&E") revenue requirement request and protests the Application of SDG&E for dynamic pricing proposals and incremental cost recovery for implementation ("Application"). SDG&E's application is considered in the 2010 rate design window ("RDW") proceeding. It seeks authority to implement dynamic pricing rates for its small and medium nonresidential and residential customer classes. It also requests recovery of $118 million in capital and expenses to recover costs associated with an information technology ("IT") upgrade, and outreach and education on the new dynamic rate schedules. Notice of the filing of the Application first appeared in the Commission's Daily Calendar on July 8, 2010, and therefore, this protest is timely filed.

II. SUMMARY

SDG&E files its Application ("A.")10-07-009 to implement "PeakShift at Work" ("PSW") dynamic rates for small non-residential customers and "PeakShift at Home" ("PSH") dynamic rates for residential customers. This application also requests authority to recover $118 million in implementation costs. SDG&E states that its application is guided by Commission Decisions ("D.") 08-02-034 and D.08-07-045. In D.08-02-034, the Commission authorized SDG&E to implement a default Critical Peak Pricing ("CPP") tariff for medium and large non-residential customers and a Peak-Time Rebate ("PTR") program for small non-residential and residential customers. In D.08-07-045, the Commission provided dynamic pricing policy guidance for PG&E to implement dynamic pricing rates for small non-residential and residential customers.

SDG&E's reliance on D.08-07-045 to seek incremental cost recovery in this RDW proceeding is unfounded. In that decision, the Commission adopted a set of dynamic rate design policies for PG&E and suggested that SCE and SDG&E adhere to this rate design guidance. The decision provided PG&E an opportunity to seek incremental cost recovery in the 2009 RDW proceeding because PG&E had just completed a general rate case ("GRC"). The Commission specifically directed PG&E to seek costs incurred in or beyond 2011 in future GRCs. There was no reference in that decision that SDG&E and SCE should seek cost recovery in rate design window cases instead of the traditional GRC venues.

Furthermore, SDG&E intends to tender its Notice of Intent (NOI) for its 2012 test year GRC soon in 2010. Therefore, SDG&E does have a proper venue to submit its incremental costs associated with implementing the dynamic pricing rates in this upcoming GRC, where revenue requirements would be reviewed in a comprehensive manner to accomplish regulatory efficiency and effectiveness. The Commission probably will issue a decision approving any revenue requirement increases some time in 2011 applicable to Test Year 2012. Should SDG&E raise its cost recovery request in that upcoming GRC application it will have adequate time to augment its IT system, to calculate bills using the PSH and PSW tariffs, and implement its plans for outreach and education for the dynamic pricing schedules, which SDG&E in its RDW Application proposed to do in 2013. It is true that some consumer parties have requested a delay in SDG&E's GRC. But that delay, if actually approved, is unlikely to be detrimental to SDG&E's schedule to implement its dynamic rates because the Commission has allowed SDG&E to set its own schedule for rolling out dynamic pricing. Therefore, SDG&E has flexibility to adjust its schedule to implement dynamic pricing, which can accommodate the time needed to upgrade its IT system, and develop and deploy the outreach and education programs.

Allowing SDG&E to seek cost recovery in both the RDW and GRC creates regulatory inefficiency and potentially exposes ratepayers to paying the same costs twice. Indeed, increases in funding for IT and customer inquiry typically are also requested in the GRCs. Hence, the Commission should strike SDG&E's revenue requirements request in this RDW proceeding and direct SDG&E to seek cost recovery in its TY 2012 GRC.

In this RDW application, SDG&E proposed many dynamic rate options. DRA agrees with SDG&E that those dynamic rate options are within the scope of this proceeding. DRA will review SDG&E's proposals and present its own rate options or recommend changes to SDG&E's proposals.

III. DISCUSSION

DRA is conducting discovery on the appropriate issues that should be within the Scope of this proceeding and will make recommendations to the Commission as necessary during the course of the proceeding. DRA intends to investigate and fully analyze all aspects of SDG&E's requests that are deemed to be within the scope of this RDW Proceeding. Discovery and analysis may eliminate some of these issue areas and others may arise.

A. The Commission Should Strike SDG&E's Cost Recovery Request in this Application.

In this proceeding, SDG&E requested total costs of $118 million for 2010 through 2015 to implement its dynamic pricing proposals. The break down of the cost components is shown in the following table.

SDG&E's Proposed Cost Components

Costs	2010 ($1,000)	2011 ($1,000)	2012 ($1,000)	2013 ($1,000)	2014 ($1,000)	2015 ($1,000)	Total ($1,000)
Capital							
Outreach & Education	-	954	1,071	-	-	-	2,025
IT	2,560	18,444	16,632	7,228	-	-	44,864
Operations	115	313	319	42	-	-	789
Facilities	-	4,036	-	-	-	-	4,036
AFUDC	56	1,261	2,020	603	-	-	3,940
Total Capital	$2,731	$25,008	$20,083	$7,831	-	-	$55,653
O&M							
Outreach & Education	290	3,001	4,297	7,318	6,366	4,572	25,844
IT	844	96	1,389	3,592	4,163	4,341	14,425
Operations	464	1,268	3,173	5,397	4,900	4,068	19,270
Facilities	102	714	734	755	288	295	2,888
Total O&M	$1,700	$5,079	$9,593	$17,062	$15,717	$13,276	$62,427
Total Cost	$4,431	$30,087	$29,676	$24,893	$15,717	$13,276	$118,080

DRA recommends that the Commission strike SDG&E's revenue requirement request in this proceeding for the reasons set forth below.

1. SDG&E Improperly Cites Commission Decision for Authority to Include Revenue Requirements in its RDW Proceeding

SDG&E appears to justify its inclusion of cost recovery in its dynamic pricing application (A.10-07-009) based on the following two notions:

- In D.08-07-045, the Commission adopted a mechanism to allow PG&E recovery of incremental expenditures required to implement dynamic pricing incurred before PG&E's next general rate case.[1]

[1] SDG&E A.10-07-009, at 4.

- The Commission noted that "the policies adopted for PG&E could be applied to [Southern California Edison] and SDG&E in their future rate design proceedings."[2]

In reality, the Commission was very specific about allowing incremental cost recovery in RDW proceedings. The Commission stated:

> For expenditures that occur in 2011 and later, PG&E should seek recovery in general rate cases. In the meantime, to the extent PG&E believes it needs authority to incur incremental expenditures to implement specific dynamic pricing rates, PG&E should seek recovery in the application in which PG&E proposes the rates. If PG&E plans to start spending before the Commission has issued a decision on a dynamic pricing rate proposal, PG&E is authorized to record the incremental expenditures in a memorandum account and seek recovery in the related rate design proceeding.3

The Commission granted PG&E authority to seek incremental cost recovery merely for expenditures that occur prior to its TY 2011 GRC. In that proceeding, PG&E was just completing one GRC and the next GRC, for TY 2011, would have been three years away. The Commission emphasized that cost recovery requests regarding expenditures incurred in 2011 and later should be sought in GRCs. Furthermore, when giving specific guidance to SCE and SDG&E about the decision regarding PG&E's Rate Design Window application, the Commission stated:

> We make clear that we are not ordering SCE and SDG&E to adhere to the timetable or rate design guidance adopted herein. However, we recommend that SCE and SDG&E take this decision into consideration.[4]

The Commission was referring to rate design guidance where it states that SCE and SDG&E should "take this decision into consideration". That guidance is set forth in Attachment A of that decision, which included policies directed towards implementing rates that promote efficient customer decision-making and reflect marginal costs, etc.

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[2] Id., at 5.

[3] D.08-07-045, mimeo, at 79, emphasis added.

[4] Id., mimeo, at 80, emphasis added.

None of this guidance relates to incremental cost recovery mechanisms.[5] Therefore, SDG&E's reliance on D.08-07-045 to justify its cost recovery request is misplaced.

2. GRCs are the Proper Venue to Seek Recovery of Dynamic Rate Expenditures

The Commission developed the Rate Case Plan ("RCP")[6] to allow the utilities to file GRCs to seek revenue requirements for their operation and return on its investments. The Commission's RCP objectives were to promote regulatory efficiency and consistency, to allow the provision of an effective tracking methodology, and to prevent IOUs from double cost recovery. The RCP allows for a more integrated approach to collecting the utilities' revenue requirements in rates, which is important because of the large sums of ratepayer money at stake. SDG&E has the opportunity to include its cost recovery proposals in its upcoming GRC application. Instead, SDG&E raises its cost recovery proposals in its RDW application, which runs contrary to the goals of an integral review and regulatory efficiency. Such a piecemeal revenue requirement approach creates unnecessary and wasteful use of all the parties' resources, including those of the Commission. This approach may also potentially result in ratepayers paying the same costs twice because different personnel are often involved in the GRC Phase I and in rate design proceedings.

Moreover, as SDG&E categorizes the dynamic pricing costs as "incremental costs", it is even more important to include them in the GRC. SDG&E does encounter and routinely requests recovery in GRCs for the types of costs, such as those to cover IT upgrades/revisions and customer outreach, which it now seeks in the RDW, and which it now wants to track in its new memorandum account. Incorporating the RDW cost items into the GRC will ensure that SDG&E accomplishes economies of scale and scope of its various resources and minimize redundancy.

DRA recognizes that including the RDW costs in the GRC will mean that a Commission decision, authorizing these costs on a forward test year basis, will not be

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[5] D.08-07-045, mimeo, at Attachment A. The guidance is recited in footnote 16 of this protest.

[6] D.89-01-040, D.94-08-023.

issued until near the end of 2011. However, SDG&E's plan to apply the new dynamic rate tariffs in mid-2013[7] will provide almost eighteen months to perform the necessary IT upgrades and to begin customer outreach. Evidence submitted in PG&E's 2009 Rate Design Window indicated that a major IT system upgrade required about 15 months.[8] Furthermore, DRA does not believe the potential benefits of beginning customer outreach two years in advance of the release of the actual new rate design is the most cost effective use of ratepayer money. Finally, SDG&E does not have a Commission-established schedule and deadline to implement dynamic rate programs as does PG&E in D.08-07-045, Attachment B. It has substantial flexibility to make adjustment to the implementation schedule that is cost-effective and practical.[9]

B. Other Ratemaking Issues

SDG&E has made other ratemaking proposals, which include requesting authority to establish a dynamic pricing balancing account ("DPBA") to record and recover costs associated with both nonresidential PeakShift at Work (PSW) and residential PeakShift at Home (PSH) customers rate programs and to transfer the balance from the dynamic pricing memorandum account (DPMA) to the proposed balancing account; to recover 2010-2015 implementation costs through the distribution base margin; and, to include ongoing post-2015 O&M costs related to PSW and PSH in the Demand Response Programs & Budgets program cycle filing or as determined by the Commission.[10] These issues become moot based on DRA's recommendation to strike SDG&E's revenues in this RDW proceeding.

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[7] A.10-07-009, Chapter 2, at WGS-8.

[8] A.09-02-022, DRA Opening Brief, p. 3.

[9] Even the timetable in D.08-07-045 for PG&E was characterized as "illustrative", and PG&E was given some flexibility in implementing that timetable.

[10] SDG&E, A.10-07-009, Chapter 7, p. YML-4.

C. Rate Design Issues

1. General Rate Design Issues

DRA anticipates the need to examine SDG&E's proposed rate schedules as shown below[11]:

- Schedule EECC-PSW – a default dynamic pricing commodity tariff for small nonresidential customers (with average monthly demand of less than 20 kW);
- Schedules EECC-AS-TOD and EECC-PA-TOD – simplified two-period TOD commodity tariffs for small nonresidential customers who opt-out of PSW when defaulted;
- Schedule EECC-PSH – an opt-in dynamic pricing commodity tariff for residential customers;
- Schedule EECC-DR-TOD-C – an optional TOD commodity tariff for residential customers;
- Schedules DR-TOD-C – new Utility Distribution Company ("UDC") tariff that will apply to residential customers served on EECC-PSH or EECC-DR-TOD-C.
- Schedules AS-TOD, A-TOD, AD-TOD and PA-TOD – new UDC tariffs that will apply to non-residential customers currently served on A, A-TOU, AD and PA, respectively.
- A reduction in the residential Peak Time Rebate ("PTR") credit level in 2013 to incent customers from PTR to the PSH rate, from $0.75 per kWh and $1.25 per kWh for customers without and with qualifying enabling technology (respectively, to $0.50 per kWh for customers without enabling technology and $0.75 per kWh for customers with enabling technology);
- SDG&E's implementation of its approved default Critical Peak Pricing ("CPP-D") to approximately 22,000 medium-sized nonresidential customers;
- Modifications to SDG&E's existing commodity rates for medium and large nonresidential customers, for consistency with SDG&E's TOD rate design proposal.

DRA will evaluate whether the above-mentioned rate schedules are properly designed, assess the potential rate impact on customers, and determine whether

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[11] SDG&E Application 10-07-009, pp. 9-10.

SDG&E's proposals meet the Commission's dynamic rate design policies as set forth in D.08-07-045.[12] If necessary, DRA may propose its own rate options.

2. PTR Proposal

SDG&E has proposed to transition the small nonresidential segment directly onto the new PSW tariff and bypass PTR completely. SDG&E states that its request is in accordance with the Commission's guidance from the PG&E RDW decision (D.08-07-045).[13]

PTR provides customers an opportunity to gain exposure to dynamic pricing rates without facing the risk of substantial bill increases. DRA will evaluate whether SDG&E's decision to bypass PTR for this customer segment is in the public interest.

IV. CASE CATEGORIZATION AND SCHEDULING

DRA agrees with SDG&E that the proceeding should be categorized as Ratesetting. DRA believes that hearings may be necessary and presents below its proposed schedule. DRA proposes modifications to SDG&E's recommended schedule to

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[12] D.08-07-045, Attachment A. The Commission established the following dynamic rate design policies:

- Rate design should promote economically efficient decision-making.
- To promote economically efficient decision-making, rates should be based on marginal cost.
- Other objectives, such as energy efficiency, and legal requirements, such as baseline allowances, should be addressed when designing specific rates, and any deviation from marginal cost should be minimized.
- Rates should also seek to provide stability, simplicity and customer choice.
- If customers on a particular rate reduce their usage in a manner that reduces a utility's costs then the customers on that rate should see a commensurate reduction in their bills.
- Dynamic pricing rates should include a capacity reservation charge, or a similar feature, that allows a customer to pay a fixed charge for a predetermined amount of its load and pay the dynamic price for consumption in excess of the reserved capacity.
- Customers should have the opportunity to opt out of a default dynamic pricing rate to another time-variant rate.
- Utilities should offer optional bill protection to customers on default dynamic pricing rates.
- The utilities should bid demand reductions due to dynamic pricing into the California Independent System Operator's (CAISO's) day-ahead market.

[13] SDG&E Chapter 2, p. GCB-5.

allow adequate time for DRA to perform its investigation, conduct discovery and present its testimony. The rest of the schedule should be changed accordingly.

SDG&E had been speaking with DRA about its RDW filing for almost one year. SDG&E proposes to give DRA and interveners, who tend to have limited resources, three months to submit their testimony. However, DRA requests more time because it is currently involved in two significant PG&E rate design cases – the 2010 RDW and 2011 GRC Phase 2 proceedings. These rate proceedings will heavily encumber DRA's rate design staff through February 2011. Furthermore, SCE is expected to file an application proposing dynamic rates for its customers no later than September 1, 2010,[14] and, PG&E plans to file a default residential Critical Peak Pricing proposal in August 2010. The same four to five DRA staff are working on all of these cases including the SDG&E RDW application.

These rate design proceedings require staff expertise in marginal cost allocation, revenue allocation and rate design, and such expertise is not easily transferrable from staff to staff.

Additional time is necessary for DRA to perform effective analysis in this proceeding to provide the Commission a complete record to make an informed decision. The following table presents DRA's proposed schedule:

DRA's Proposed Schedule

DRA & Intervener Testimony	February 16, 2011
All Parties - Rebuttal Testimony	March 16, 2011
Evidentiary Hearings	April 4 - 8, 2011
Opening Briefs	May 2, 2011
Reply Briefs	May 23, 2011
ALJ Proposed Decision (PD)	July 2011

V. RECOMMENDATIONS

Based on the above-mentioned discussion, DRA recommends the Commission:

[14] See D.09-08-028, mimeo, pp. 45-47.

- Strike SDG&E's $118 million cost recovery request.
- Categorize this proceeding as ratesetting proceeding.
- Confirm that rate design issues associated with SDG&E's dynamic rate schedules are properly within the scope of this proceeding.
- Adopt DRA's proposed schedule.

Respectfully submitted,

/s/ Nicholas Sher

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August 9, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **MOTION TO STRIKE AND PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES** in **A.10-07-009** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on August 10, 2010 at San Francisco, California.

/s/ JOANNE LARK

Joanne Lark

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