



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company (U 39-E) for Approval Demand Response Programs, Pilots and Budgets for 2012-2014	)	Application 11-03-001 (Filed March 1, 2011)
Application of San Diego Gas & Electric Company (U 902-M) for Approval of Demand Response Programs and Budgets for Years 2012- 2014	)	Application 11-03-002 (Filed March 1, 2011)
Application of Southern California Edison Company (U 338-E) for Approval of Demand Response Programs, Activities and Budgets for 2012-2014	)	Application 11-03-003 (Filed March 1, 2011)

**REPLY OF SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) IN SUPPORT  
OF ITS APPLICATION FOR APPROVAL OF DEMAND RESPONSE PROGRAMS,  
GOALS AND BUDGETS FOR 2012-2014**

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Dated: **April 14, 2011**

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**I.**

**INTRODUCTION**

Southern California Edison Company (SCE) submits this reply to the protests and responses filed by various parties<sup>1</sup> to SCE's Application for Approval of Demand Response

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<sup>1</sup> The following parties filed protests to SCE's Application: The Division of Ratepayer Advocates (DRA) and the Alliance for Retail Energy Markets and Direct Access Customer Coalition (AReM/DACC). The following parties filed responses to SCE's Application: the California Independent System Operator Corporation (CAISO), the Joint Aggregators (EnerNOC, Inc., EnergyConnect, Inc., and Comverge, Inc.), North America Power Partners, LLC (NAPP), the California Energy Storage Alliance (CESA) and Ice Energy, Inc. (Ice Energy).

Programs, Activities and Budgets for 2012-2014 pursuant to the March 30, 2011 Ruling by Administrative Law Judge Hymes (consolidating the applications of the energy investor owned utilities (IOUs)) and Rule 2.6(e) of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure.

SCE responds to issues and specific parties' protests and responses below.

## II.

### DISCUSSION

#### A. **The Commission Should Adopt the Schedule Proposed By the IOUs and Issue Its Final Decision By December 2011.**

SCE looks forward to working with the Commission and interested parties to implement successful reliability and price-responsive demand response programs for 2012-2014, but urges the Commission to maintain the expedited schedule proposed by the IOUs to ensure that programs are up and running in 2012. SCE requests a final Commission decision on its Application in 2011 to allow time for implementation of program modifications for 2012.

SCE disagrees with providing time much beyond that proposed in the IOUs' schedule for intervenor testimony. DRA recommends that the Commission modify the IOUs' proposed applications by delaying its testimony until June 15, 2011.<sup>2</sup> The Joint Aggregators propose that intervenor testimony file even later – July 1, 2011 – four months after the IOUs' testimony!<sup>3</sup> In light of the need for a final decision by December 2011, it is reasonable to require intervenor testimony be filed on May 23 – the parties will have had approximately 12 weeks to respond to IOU testimony.

AReM suggests conducting two workshops instead of hearings.<sup>4</sup> SCE does not oppose workshops, but it is unclear from AReM's protest what the specific topics of the workshops

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<sup>2</sup> Protest of DRA, p. 13.

<sup>3</sup> Joint Response of DR Aggregators, p. 30.

<sup>4</sup> Protest of AReM/DACC, p. 15.

should be and whether such workshops would resolve issues. Hearings should also remain on the calendar in the event that workshops do not resolve all issues.

If the Commission deems workshops necessary, SCE would request that they be scheduled after intervenor testimony and when the issues have been narrowed so that workshops can be productive. If the Commission schedules workshops or allows additional time for intervenor testimony, SCE urges the Commission to strictly adhere to the remainder of the schedule so that SCE's proposals set forth for 2012 are not impacted and so that bridge funding is not required.

**B. Issues That Should be Rejected or Are Out of Scope of this Proceeding**

Parties raise numerous issues in their protests or responses to the IOUs' applications. In addition, parties presented recommendations for the Commission to consider. Three recommendations in particular should be rejected and one recommendation is out of scope for this proceeding.

**1. Reject As Premature the Request by CESA and Ice Energy To Increase IOU Funding for Permanent Load Shift Incentives**

CESA and Ice Energy recommend that the Commission direct the IOUs to refile their applications increasing the already proposed total IOU incentive amount of approximately \$50 million to a level of \$120 million.<sup>5</sup> This recommendation should be rejected as premature. In its proposal, CESA offers no factual justification for its recommended \$60 million for mature technologies, and the Commission does not yet have a record before it to consider making such a finding.

SCE's application provides significant incentives for emerging PLS technologies.<sup>6</sup> SCE, along with the other IOUs, have presented a statewide incentive level that

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<sup>5</sup> Response of CESA, pp. 2, 4; Response of Ice Energy, p. 2.

<sup>6</sup> See A.11-03-003, SCE-1, Vol. 2, pp. 79-82.

aligns with the Commission-directed report on PLS technologies. Furthermore, SCE's proposals for PLS were informed by the report with its proposal for two incentive levels; (1) for mature technologies at \$545/kW; and (2) up to \$3,000/kW for emerging technologies.

To date, Commission guidance has been that the IOUs include proposals within this proceeding to expand the use of PLS, informed by the December study. SCE proposals are consistent with that guidance. SCE cautions the Commission to also consider additional regulatory actions that are occurring in other proceedings with respect to PLS (i.e., Storage OIR).

**2. Reject the Joint Aggregators' Request to Require SCE to Execute Contract Amendments Before the 2011 Summer Season**

SCE seeks Commission approval to use the advice letter process to inform the Commission of amendments to its demand response aggregator contracts before the summer of 2012.<sup>7</sup> The Joint Aggregators request that the Commission should promptly *direct* SCE to execute its proposed amendments with aggregators to incorporate the baseline and dual participation rules adopted in D.09-08-027.<sup>8</sup> The Commission should reject this request.

SCE never intended the proposed amendments to be ready in time for the summer 2011 season as suggested by the Joint Aggregators. The Joint Aggregators' request is unreasonable and should be rejected simply because negotiations are still in development and even if their expedited schedule were approved, the advice letter process would likely take nearly the entire summer season for approval.

SCE requests the Commission reject the Joint Aggregators' request to require SCE to negotiate amendments by summer 2011. SCE requests instead that the Commission approve the advice letter process SCE described for SCE to seek Commission approval on its negotiated amendments, which it hopes to complete in time for summer 2012. SCE's proposal to

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<sup>7</sup> See SCE-1, Vol. 2, p. 71.

<sup>8</sup> See Joint Response of DR Aggregators, p. 7.

file an advice letter *once* negotiations are complete, and amendments are signed, should be authorized as proposed, along with the rest of its proposals, by December 2011.

**3. Reject Applying PG&E's Pre-Qualification Process For BIP To SCE**

PG&E proposes to include a pre-qualification process for new enrollment to the Base Interruptible Program (BIP), which CAISO supports.<sup>9</sup> DRA also notes that it will investigate if similar provisions need to be included for SCE.<sup>10</sup> Because SCE already has procedures for new customer enrollment including a curtailment plan and monthly notification tests, PG&E's proposal is an unnecessary measure for SCE. In addition, SCE's BIP program includes higher penalties for non-performance than PG&E's program. And with the planned implementation of the CAISO's Reliability Demand Response Product (RDRP) next year, there is an anticipation of more frequent events so customers will need to ensure they have the ability to drop load to avoid penalties. Lastly, this year, SCE will begin to issue a test event if an actual event does not occur. Financially, the test event is treated as a normal event where penalties apply. Therefore, SCE does not believe a PG&E-styled prequalification test is necessary and requests that the Commission not require SCE to implement PG&E's proposal for BIP.

**4. AReM/DACC's Proposal to Limit the Development of IOUs' Demand Response Programs Is Out of Scope of This Application and Contradicts State Energy Policy**

SCE has one of the largest and most diverse utility DR portfolios representing more than seven percent of SCE's system peak. Under the Commission's guidance and leadership, SCE has accomplished much over the current DR program cycle (2009-2011). During this period, SCE has grown DR MW by more than 25 percent, from approximately 1,200 MW to 1,530 MW.<sup>11</sup> In the 2012-2014 funding cycle, SCE plans to grow its demand response

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<sup>9</sup> See Response of CAISO, p. 7.

<sup>10</sup> See Protest of DRA, p. 7.

<sup>11</sup> SCE-1, Vol. 1, p. 1.

portfolio to nearly 1,900 MW by 2014.<sup>12</sup> AReM/DACC characterize the IOUs DR efforts as anti-competitive and assert that the IOUs should reduce their role in providing demand response services and, instead, allow third-party DR providers and energy service providers to assume an increasing role.<sup>13</sup> AReM/DACC propose to spend a “significant amount of time” on this policy issue during this proceeding.<sup>14</sup> This issue is one of energy policy and compliance with state law and cannot be reopened in this proceeding. It is beyond the scope of the proceeding to change state energy policy to decrease the amount of demand response resources in the IOUs’ portfolios, as AReM/DACC suggests.

AReM/DACC’s proposal contradicts the Commission’s long-standing support for demand response programs as well as the Energy Action Plan, which places demand response first in the loading order in meeting California’s needs.<sup>15</sup> State law requires the IOUs to fill unmet resource needs with energy efficiency and demand response response resources that are cost-effective, reliable and feasible.<sup>16</sup>

It is beyond the scope of this proceeding to alter the State Energy Policy to decrease IOU demand response program, as AReM/DACC suggest. The amount of demand response resources needed to meet portfolio requirements, moreover, should be determined in connection with the long-term procurement plan proceedings.

### **C. SCE’s Reply to DRA**

In its protest to SCE’s Application, DRA raises many issues and states that it intends to conduct additional review and discovery. However, as DRA noted, it is still exploring the IOUs’ application and has provided only a limited outline. SCE believes that its testimony adequately

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<sup>12</sup> SCE-1, Vol. 1, p. 2.

<sup>13</sup> See Protest of AReM/DACC, p. 6.

<sup>14</sup> *Id.*

<sup>15</sup> See SCE-1, Vol. 1, p. 7.

<sup>16</sup> Pub. Util. Code §454.5(b)(9)(C).

addresses the issues raised by DRA so far. Nevertheless, SCE looks forward to working with DRA to address specific questions or concerns and to come to a reasonable resolution.

**D. SCE’s Reply to CAISO**

SCE is pleased that CAISO generally supports SCE’s proposals. However, CAISO presents several design issues to which SCE responds below.

**1. DR Program Event Hours.**

In its response, the CAISO suggests that programs, such as Capacity Bidding Program (CBP) and Demand Bidding Program (DBP), should expand their hours of dispatch to include weekends.<sup>17</sup> Such an expansion is not only premature, but also presents significant challenges in dispatch, customer notifications, and baselines, among other challenges. SCE believes the goal in this program cycle is to maximize the resources and their effectiveness when most needed, while reducing customer confusion. Many of CAISO suggestions come from a failure to recognize that unlike generation resources, consumer behavior is a driving force behind demand response resources.

**2. Telemetry and Metering Infrastructure for Ancillary Services.**

A barrier to demand response participation in Ancillary Service wholesale products is the cost of metering telemetry required by existing market rules. SCE believes that the cost of implementing metering and telemetry to support Ancillary Services is about \$70,000 per participating service account, which is prohibitively high for most customers.<sup>18</sup> SCE’s cost estimates are based on technology approved by CAISO to participate in Ancillary Services. CAISO stated in its response that it believes that SCE’s estimate is “extremely high” and that its efforts on cost-effective telemetry may yield cost estimates lower by a factor of 10 or more.<sup>19</sup>

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<sup>17</sup> See Response of CAISO, p. 11.

<sup>18</sup> See SCE-1, Vol. 2, p. 21.

<sup>19</sup> See Response of CAISO, p. 12.

SCE welcomes such information and has already had discussions with CAISO on ways to explore more cost-effective technologies to provide PDR Ancillary Services while complying with CAISO market requirements. Furthermore, if discussions with the CAISO provide approved telemetry options at a lower expense, SCE would then be open to lowering the proposed 1 MW eligibility threshold.

### **3. Temperature-Based Triggers.**

CAISO contends that temperature-based triggers for programs should be replaced with economic triggers because “succeeding years have rendered temperature-triggers an inefficient and outmoded proxy for stressed system conditions that call for demand response resources to be dispatched.”<sup>20</sup> CAISO’s request should be rejected. As market participants, the IOUs have the flexibility to bid and make PDR programs available in the CAISO market at their own discretion. Moreover, triggers should not only consider market prices but also market signals.

Customers respond to market signals (e.g., heat waves) as much as they do to market prices. Although sophisticated customers can effectively respond to daily market prices, including those with Auto-DR enabled Energy Management Systems, most retail customers, especially those now eligible because of SmartConnect metering, require simple trigger messaging to manage their electricity usage. As SCE expands its DR portfolio to allow all five million of its customers to participate (including smaller commercial customers and residential customers), it is important to provide simple notification and messaging for active participation.

The Commission should reject the CAISO’s request that SCE remove its temperature-related pricing.

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<sup>20</sup> See Response of CAISO, p. 8.

**E. SCE's Reply to AReM/DACC**

SCE would first like to clarify two points made by AReM/DACC in their protest. First, they state that SCE is proposing to eliminate third-party contracts.<sup>21</sup> This is incorrect. Most of SCE's third party contracts extend through 2012 and SCE is not proposing in this application to eliminate these contracts. There are at least two options for third-party contracts including bidding directly into the wholesale market once the rules for Direct Participation are established and continued participation in SCE's Capacity Bidding Program. Second, AReM/DACC argue that the utilities' tariffs should clearly identify which programs are open to DA customers, including notification to the customer's ESP.<sup>22</sup> SCE makes no mention of this in its application because it has already included these provisions as a result of the settlement agreement filed in A.08-06-001 et al.

SCE has already addressed the issue AReM/DACC raise of the IOUs' demand response portfolios, which is out of scope of this proceeding. SCE next addresses other issues raised by AReM/DACC.

**1. Allocating Costs and Benefits of IOU Programs to Customer Classes That Can Participate in Those Programs.**

AReM/DACC, in their protest, appears to suggest that portfolio costs which support multiple programs should be applied to the programs they support in rate recovery to provide additional rate relief to DA customers for portfolio support costs.<sup>23</sup>

When all customer groups are allowed to participate in system reliability programs and these programs benefit all customers, the program costs should be paid for by all customers. Difficulties arise however, when price-responsive programs provide transmission and distribution cost benefits in addition to generation benefits. In such cases, it may be appropriate

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<sup>21</sup> See Protest of AReM/DACC, p. 4.

<sup>22</sup> See Protest of AReM/DACC, p. 14.

<sup>23</sup> See Protest of AReM/DACC, pp. 7-8.

for program costs to be paid by all customers. It is convention to allocate such costs on a distribution cost allocator in recognition that the program benefits all customers.

SCE believes that this issue is within the scope of these proceedings. The CPUC should establish consistent cost-allocation methodologies wherever possible and this particular issue is an example where the same types of costs are being treated differently across utilities.

## **2. Cost Recovery for Dynamic Rates**

AReM/DACC propose to “eliminate categorizing dynamic pricing and time-of-use rate tariffs as demand response programs and to require that costs associated with these tariffs are recovered through the generation cost function.”<sup>24</sup> SCE has proposed in its application to recover bundled only program costs through generation.<sup>25</sup> This includes Real Time Pricing and Critical Peak Pricing, which are recovered through a Generation sub-account in SCE’s Demand Response Program Balancing Account. Therefore, AReM/DACC’s proposal should be rejected.

## **F. SCE’s Reply to the Joint Aggregators and NAPP**

In their responses to SCE’s Application, the Joint Aggregators and NAPP highlight the need for certainty regarding the future of demand response participation in California. SCE is pleased that these parties recognize how SCE planned for uncertainty within SCE’s Application. SCE addresses below a few of the specific issues raised by the Joint Aggregators and NAPP.

### **1. Demand Response Contracts**

The Joint Aggregators urge the Commission to authorize the IOUs to procure new DR contracts that can be bid into the CAISO market as PDR.<sup>26</sup> SCE has not included in its application a request for future DR resource contracts. SCE recognizes the role that third-party

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<sup>24</sup> See Protest of AReM/DACC, p. 16.

<sup>25</sup> See SCE-1, Volume 4, p.43.

<sup>26</sup> See Joint Response of DR Aggregators, pp. 14-15.

DR contracts can play and recognizes that the current contracts have developed a potential sustainable demand-side resource. However, prior Commission guidance has given deference to CAISO market products as a vehicle for third-party contracts. If there are flaws or deficiencies in the CAISO offerings such that third-party contracts are not economically viable, then the Commission can explore whether a new direction should be taken.

## **2. Dual Participation**

The Joint Aggregators request that the dual participation rules established in D.09-08-027 be revised to remove the event notification timing provision.<sup>27</sup> In other words, it recommends that a Day-Ahead program be allowed to dual participate with another Day-Ahead program so long as one is an energy-based program and the other a capacity-based program.<sup>28</sup> In addition, the Joint Aggregators argue against San Diego Gas & Electric's (SDG&E's) proposal to disallow dual participation in Critical Peak Pricing (CPP) with BIP, Capacity Bidding Program (CBP), or its demand response resource. Overlapping events are the primary driver for SDG&E's proposal.<sup>29</sup>

Although SCE's application is limited in its discussion of the dual participation rules adopted in D.09-08-027, it does highlight dual participation issues with respect to participation of programs in CAISO's wholesale markets. SCE has determined a fair balance between allowing market participation of DR resources while at the same time allowing for dual participation in these programs.<sup>30</sup> SCE will be evaluating the merits of both the Joint Aggregators proposal along with SDG&E's proposal.

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<sup>27</sup> See Joint Response of DR Aggregators, p. 8-9.

<sup>28</sup> See Joint Response of DR Aggregators, pp. 22-24.

<sup>29</sup> See Joint Response of DR Aggregators, p. 24.

<sup>30</sup> See SCE-1, Vol. 2, Figure I-2, p. 10.

### **3. Auto-DR Technology Incentives**

The Joint Aggregators argue that SCE's proposed incentive mechanism for Auto-DR Technology Incentives should be rejected.<sup>31</sup> SCE disagrees. SCE's proposal to adjust the current incentive payment structure should be authorized to protect ratepayers. SCE currently provides up to 100 percent of the eligible incentive payment (not to exceed \$300/kW) after the technology has been installed and a load test conducted. However, as shown in the Auto-DR Report that was filed pursuant to D.09-08-027, there was a variance between the load test and actual program performance. Therefore, SCE's proposal seeks to reduce this variance in the incentive payments. SCE's proposed incentive model will act similar to other ratepayer subsidy incentive programs whereby actual performance is factored into the total incentive payment (i.e., the California Solar Initiative's Performance Based Incentives mechanism provides a \$/kWh incentive for 5 years after installation).

### **4. SDG&E's CPP Premium Incentive Mechanism**

The Joint Aggregators support SDG&E's proposal to provide capacity incentive payments to aggregators to facilitate load drop from CPP-D customers and to help automated CPP-D customers reduce energy use with short day-of notification.<sup>32</sup> SCE is currently evaluating SDG&E's CPP Premium Incentive Mechanism and has not yet developed a position on the matter.

### **G. SCE's Reply to the CESA and Ice Energy**

SCE has already addressed the issues of CESA and Ice Energy above and as stated their proposal should be rejected. SCE addresses a specific issue raised by CESA below.

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<sup>31</sup> See Joint Response of DR Aggregators, p. 19.

<sup>32</sup> See Joint Response of DR Aggregators, pp. 18-19.

1. **SCE Should Not Be Required To Establish a PLS Incentive Structure Similar to PG&E**

CESA suggests that the Commission direct SCE to provide a PLS incentive similar to PG&E.<sup>33</sup> SCE is in the process of evaluating PG&E's proposed incentive structure and requests that CESA provide more details on how it proposes to modify SCE's incentive structure to provide cost-effective PLS.

SCE notes, however, that while it is open to exploring structural uniformity in its PLS offering, PLS incentives must vary by utility to preserve ratepayer neutrality, as acknowledged in E3's Statewide Joint IOU Study of Permanent Load Shifting.<sup>34</sup> Because utilities' specific rate design structures are a factor that contribute to demand response incentives, having a consistent statewide incentive is problematic. For example, SCE's rate designs, approved in D.09-08-028, included capacity valuations at \$114/kW-year. This capacity valuation is higher than both PG&E and SDG&E. Thus, PLS projects in SCE's service territory already receive higher capacity-driven rate benefits compared to the other IOUs.

**III.**

**CONCLUSION**

SCE appreciates this opportunity to reply to parties' interests and concerns. For the sake of program continuity, SCE urges the Commission to adopt a schedule that will result in a final decision this year.

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<sup>33</sup> Response of CESA, p. 7.

<sup>34</sup> See Statewide Joint IOU Study of Permanent Load Shifting dated December 1, 2010, with Errata dated March 30, 2011, Section 6.4.1, Table 19 available at <http://www.ethree.com/documents/SCEPLS/PLS%20Final%20Report%20with%20Errata%203.30.11.pdf> [last visited April 14, 2011]. See also SCE-1, Vol. 5, Appendix F, Statewide Joint IOU Study of Permanent Load Shifting dated November 29, 2010, Section 6.4.1.

Respectfully submitted,

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April 14, 2011

**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the Commissioner's Rules of Practice and Procedure, I have this day served a true copy of REPLY OF SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) IN SUPPORT OF ITS APPLICATION FOR APPROVAL OF DEMAND RESPONSE PROGRAMS, GOALS AND BUDGETS FOR 2012-2014 on all parties identified in the attached service list(s).

Transmitting the copies via e-mail to all parties who have provided an e-mail address.

First class mail will be used if electronic service cannot be effectuated.

Executed this 14<sup>th</sup> **day of April, 2011**, at Rosemead, California.

*/s/ Alejandra Arzola* \_\_\_\_\_  
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