DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I. D. #5908

ENERGY DIVISION RESOLUTION E-4011

August 24, 2006

R E S O L U T I O N

Resolution E-4011. San Diego Gas & Electric (SDG&E) is authorized to modify Schedule 20/20-TOU, also known as the Commercial & Industrial (C&I) Peak Day 20/20 Program as requested.

By Advice Letter (AL) 1811-E Filed on July 27, 2006.

SUMMARY

This Resolution approves SDG&E's proposal to modify its Peak Day 20/20 Program as requested.

SDG&E's three modifications will enable greater customer participation, ensure the program will be available for the rest of the summer, and allow SDG&E to use it when it is most needed.

Energy Division recommends approval of SDG&E's proposals because the proposals not only ensure that the program remains viable this summer but could also lead to an increase in demand response MWs. Energy Division believes that solidifying and expanding an existing demand response program for the remainder of this summer is a high priority as electricity demand reached unprecedented levels in the July heat wave.

SDG&E's modifications were not evaluated for cost-effectiveness as that issue is beyond the scope of this resolution.

Intervenors who opposed SDG&E's advice letter raised the issue of cost-effectiveness, citing the program costs and savings from 2005 as evidence that the program is too expensive, and provides too few benefits. Energy Division recommends that the Commission defer the issue of cost-effectiveness to a more appropriate forum, and that the Commission focus on whether the proposed changes can increase the amount of MWs this summer.

SDG&E's proposal does not require an increase to SDG&E's demand response budget.
SDG&E will cover any additional costs of its proposals by shifting funds within its existing demand response three-year budget.

BACKGROUND

SDG&E's C&I 20/20 Peak Day Program (Peak Day 20/20 program) is a part of SDG&E's three-year ('06-'08) demand response budget application which the Commission approved recently in D.06-03-024.[1]

The Peak Day 20/20 Program compensates customers if they are able to reduce electricity usage during the peak hours on critical days.
The Peak Day 20/20 Program is open to customers with a minimum demand of 20 kW. Participants receive a 20% discount on their energy and demand charges if they are able to reduce an average of 20% of their electricity usage (between the hours of 11 am and 6 pm) each time they are notified by SDG&E of a Peak Day 20/20 event. SDG&E notifies the participants one day in advance, and will trigger a Peak Day 20/20 event if: (1) the local temperature is forecast to reach 84 degrees or higher and when system load is at 3,620 MWs, or (2) there are extreme conditions such as an alert from the California Independent System Operator (CAISO).

The program has a limit of 15 events per summer, and summer is defined as May 1 through September 30. Participants receive a 20% discount to their peak-energy and demand charges only if they can meet, on average, the minimum 20% reduction in use for each event (per billing period). In other words, an average reduction of 19% per event by the participant during the billing period does not qualify for the discount. If no events are called, the participants receive no discounts. The program has been in place since 2005.

SDG&E proposes changes to the Peak Day 20/20 Program with intention of increasing operational flexibility and attracting more participation this summer.

[1] The decision adopted an amended settlement which reduced SDG&E's original budget proposal.

Via AL 1811-E, SDG&E requests Commission approval for three modifications to the program that it believes will result in additional demand response MWs this summer. The proposed modifications are only for the summer of 2006. The three modifications are:

(1) **Modify the incentive structure by lowering the minimum load reduction threshold from 20% to 10% and reward participants in proportion to what they reduce.** Customers who reduce load by 10% would receive a 10% discount. Reductions between 10% and 20% will be rewarded with a discount equivalent to the amount reduced (e.g. a 15% load reduction receives a 15% discount). SDG&E states that this modification will enable customers who are unable to reach the 20% threshold an opportunity to participate.

(2) **Eliminate the maximum on the number of Peak Day 20/20 Events.** The current program has a limit of 15 events per summer. SDG&E states that it has used 9 events to date and is therefore concerned that it could exhaust the remaining 6 program events well in advance of September 30.

(3) **Modify the triggering mechanism so that SDG&E has greater flexibility in determining when to call the program.** The current tariff language ***requires*** SDG&E to trigger the program if the triggering conditions as described above exist. SDG&E requests that the tariff be modified so that it may exercise discretion on when to trigger the program after considering other operational and market factors. SDG&E claims that this change will enable it to better utilize the program.

SDG&E does not request additional funding for the changes proposed. SDG&E states that the additional costs that result from the proposed changes (such as incentive payments) can and will be covered by SDG&E's existing three-year budget. D.06-03-024 enables SDG&E to shift funds between programs[2] and therefore SDG&E states that no additional funding is necessary.

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[2] Section II.D.3 of the Amended Settlement adopted by D.06-03-024 enables the utilities to shift as much as 50% of funds between programs within a budget category.

NOTICE

Notice of AL 1811-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A as well as the parties in A.05-06-017 et. al.

PROTESTS

SDG&E's AL 1811-E was protested by The Utility Reform Network (TURN) on August 1, 2006. Protests were also filed by the Utility Consumers Action Network (UCAN) and the Division of Ratepayer Advocates (DRA) on August 2, 2006, one day after the accelerated protest deadline.[3] A letter of support was filed by EnerNOC, a demand response provider.

SDG&E responded to the protests of all three parties on August 3, 2006.

DISCUSSION

TURN, UCAN and DRA (the intervenors) argue that the Peak Day 20/20 Program is not cost-effective and that SDG&E's request to eliminate the event cap will exacerbate this problem.
The intervenors cite the 2005 evaluation[4] of the Peak Day 20/20 Program as evidence that the program is too expensive, and provides too few benefits. TURN states,

> "The Wirtshafter Report calculates the cost of SDG&E's C&I 20/20 program at $30 to $80 per kW of demand reduced per event, or a cost of **between $450/kW-yr to $1200/kW-yr** based on calling the maximum number of 15 events contained in the current tariff. SDG&E's proposal to

[3] SDG&E requested an accelerated protest period of 5 days. The Commission's Executive Director granted SDG&E's protest on July 28, 2006.

[4] "Evaluation of the California Statewide 20/20 Demand Reduction Programs" by Wirtshafter Associates, dated June 6, 2006.

eliminate this maximum limit would increase the costs even more. In comparison, the Commission recently adopted a capacity value of $52/kW-yr for PG&E's advanced meter project[5] and SDG&E itself uses a capacity value of $85/kW-yr for its current proposal to deploy an advanced metering infrastructure."

DRA states that the program costs as reported by the 2005 evaluation are not justified. Both TURN and UCAN express skepticism that the Peak Day 20/20 program provides meaningful load reductions during extreme heat waves.

In its response, SDG&E states that the findings of the 2005 evaluation reflect the program a year ago. SDG&E provides evidence to show that the overwhelming majority of the program's enrollment in 2006 (in terms of MWs) is from large customers (300+ kW). SDG&E provides this information as evidence that the cost-effectiveness problem identified in 2005 is less of an issue in 2006.[6]

SDG&E also attempts to rebut the intervenors' skepticism of the program's value by stating that the program delivered 11.7 MWs on June 29 and 13.1 MWs on June 30.

The issue of cost-effectiveness is outside the scope of this resolution.
The issue of cost-effectiveness is usually a relevant one as the Energy Action Plan favors demand response programs that are cost-effective. However Energy Division believes that this resolution is not the proper forum for parties to debate the cost-effectiveness of SDG&E's proposal for the following reasons:

- D.06-03-024 approved SDG&E's three-year ('06-'08) demand response budget, which includes funding for the Peak Day 20/20 program. That decision defers the question of cost-effectiveness for the demand response

[5] D. 06-07-027, p. 49.

[6] The Wirtshafter report concluded that the program's recruitment of small customers may have caused the program's cost-ineffectiveness (since demand response deductions provided by small customers are not significant enough to offset the costs to recruit, educate and sign up these customers). Pg. xxii of the Executive Summary.

programs that it approved to a process outlined in D.05-11-009.[7] That process has been initiated, and therefore should be the proper forum to determine a cost-effectiveness method for demand response programs.

- The issue of measuring cost-effectiveness of demand response programs is a complex undertaking and deserves an evaluation much more comprehensive than what can be provided via an advice letter under expedited review. For example, a typical approach to valuing demand response programs is comparing the cost of the program to the cost of building a peaker on a dollar per MW basis. The intervenors appear to be taking this approach in their opposition to SDG&E's proposals. However, that comparison does not capture the potential benefits of a demand response program in a situation where demand has suddenly and unexpectedly increased to a point where available resources are straining to meet that demand. In such a situation there is not enough time to construct a peaker plant but it may be possible to modify an existing demand response program so that it provides more demand response to avert rolling blackouts. In this situation, the value of a demand response program rises significantly, but how to quantify that value remains unclear.

The heat wave that hit California in late July caused unprecedented demand that strained the state's electrical grid for several days. Because prolonged hot weather can occur in August and September, Energy Division's chief concern is ensuring that demand response programs are available if needed. Rather than engage in a debate about the cost-effectiveness of either the program or the proposed modifications to the program, Energy Division believes it is more important for the Commission to focus on whether SDG&E's proposed modifications have the potential to deliver more demand response MWs this summer or at least preserve what the program is currently delivering.

[7] See discussion under "Cost Benefit Issues" in D.06-03-024. The process initiated by D.05-11-009 includes a cost-effectiveness scoping workshop (held in March 2006) and the release of a draft set of load impact protocols for public comment (distributed in April 2006). Energy Division staff (along with staff from the California Energy Commission) has prepared a next step recommendation which is under consideration by the Commission.

Lowering the minimum load reduction threshold from 20% to 10% and rewarding participants in proportion to what they reduce could increase the amount of MWs delivered by the program.
Energy Division concludes that SDG&E's proposed modification to the incentive structure (as described in (1) in the Background Section) will encourage more participation in the program. Energy Division reaches this conclusion based on information in the 2005 evaluation which found that of the 1,265 accounts that were enrolled in the program, only 332 of those accounts (26%) were able to reach the minimum 20% threshold.[8] This information appears to validate SDG&E's claim that many participants in 2005 were frustrated by the design of the program because several had attempted to reduce their loads, but were unable to meet the 20% threshold (and thus received no incentive). Modification of the incentive structure as proposed by SDG&E would obviously address this problem and could even attract new participants leading to an overall improvement in program performance.

Eliminating the maximum on the number of Peak Day 20/20 events ensures SDG&E the use of the program for the remainder of the summer.
SDG&E requests that the current maximum of 15 events be eliminated since it has already used 9 events as of July 27, thereby leaving only 6 events for the remaining two months of the summer.

DRA argues that SDG&E's proposed third modification (enabling SDG&E more flexibility on when to trigger an event) should be a sufficient remedy for the problem (assuming SDG&E acts judiciously), and therefore it is not necessary to eliminate the event cap. Energy Division concludes that authorizing SDG&E more flexibility in triggering the program certainly helps the situation, but does not ensure that the program will be available through September 30. Energy Division agrees with SDG&E's proposal to eliminate the 15 event cap.

[8] "Evaluation of the California Statewide 20/20 Demand Reduction Programs" by Wirtshafter Associates, dated June 6, 2006. See Table ES-9.

Modifying the triggering mechanism so that SDG&E has greater flexibility in determining when to call the program better ensures that the program will be used when most needed.
SDG&E requests that the tariff language be modified so that it will be able to consider operational and market conditions in addition to the triggering conditions listed in its tariffs. The current tariff language requires SDG&E to trigger the program when temperatures reach 84 degrees and when system load is 3,620 MWs. In its advice letter, SDG&E states that even if these conditions arise, it may not be necessary to trigger the program because of off-setting operational and market factors. Energy Division concludes that by allowing SDG&E more discretion for triggering the program, it could better utilize the resource when it is most needed.

COMMENTS

Public Utilities Code section 311(g) and Rule 77.7 of the Commission's Rules of Practice and Procedure generally require a 30 day public review and comment period on draft resolutions. However, pursuant to section 311(g)(3) and Rule 77.7(f), this period may be reduced where "public necessity" requires reduction of the 30-day period. "Public necessity" refers to circumstances in which the public interest in the Commission adopting a resolution before expiration of 30 days clearly outweighs the public interest in having the full 30-day period for review and comment.

Here the public interest in adopting this resolution before expiration of a 30-day review and comment period is the potential avoidance of rotating outages, which can impact public health and welfare. The resolution addresses changes to a demand response program, which could lead to higher amounts of available demand response this summer. The heat wave in July 2006 resulted in unprecedented demand and strained the electrical grid. Demand response programs lower system demand during critical periods like the July heat wave and can play a role in averting rotating outages. This clearly outweighs the public interest in having a full 30-day period for review and comment. Having a full 30-day period for review and comment will delay the Commission’s action on this resolution which is not in the public interest as there is the possibility of heat waves for the remaining summer months. Furthermore, the resolution addresses one pre-existing voluntary program and the changes do not negatively impact participants on that program.

Accordingly, this matter was placed on the Commission's agenda of August 24, 2006, the same day it was served on the parties and released for public comment. Comments were due on August 16, 2006 and reply comments on August 21, 2006.

FINDINGS

1. The additional costs that result from SDG&E proposed changes (such as incentive payments) to the Peak Day 20/20 program can and will be covered by SDG&E's existing three-year budget.

2. This resolution is not the proper forum for parties to debate the cost-effectiveness of SDG&E's proposal because (1) there is another Commission process to address cost-effectiveness, and (2) the issue of cost-effectiveness is inherently complex and deserves an evaluation much more comprehensive than what can be provided via an advice letter under expedited review.

3. Lowering the minimum load reduction threshold of the Peak Day 20/20 Program from 20% to 10% and rewarding participants in proportion to what they reduce could increase the amount of MWs delivered by the program.

4. Eliminating the maximum on the number of Peak Day 20/20 events ensures SDG&E the use of the program for the remainder of the summer.

5. Modifying the program's triggering mechanism so that SDG&E has greater flexibility in determining when to call the program better ensures that the program will be used when most needed.

THEREFORE IT IS ORDERED THAT:

1. The request of San Diego Gas & Electric to modify its Schedule 20/20-TOU as requested in Advice Letter AL 1811-E is approved.

2. The proposed modifications are approved only for the remaining summer months (August and September) of 2006.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 24; the following Commissioners voting favorably thereon:

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STEVE LARSON
Executive Director

August 8, 2006

RESOLUTION E-4011
August 24, 2006

TO: PARTIES TO SDG&E ADVICE LETTER 1811-E:

Enclosed is draft Resolution Number E-4011 of the Energy Division. It is in response to SDG&E AL 1811-E and will appear on the agenda at the next Commission meeting held 16 days after the date of this letter. The Commission may vote on this Resolution at that time or it may postpone a vote until a later meeting. When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

All comments on the draft Resolution are due by **August 16, 2006**. Comments shall be served on parties, as outlined below.

1) An original and two copies, along with a certificate of service to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

2) Parties described above (attached).

3) Bruce Kaneshiro
Energy Division

California Public Utilities Commission
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Email: bsk@cpuc.ca.gov

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution.

Replies to comments on the draft resolution may be filed (i.e., received by the Energy Division) on **August 21, 2006**, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

An accompanying declaration under penalty of perjury shall be submitted setting forth all the reasons for the late submission.

Please contact myself at 415-703-1187 if you have questions or need assistance.

Sincerely,

Bruce Kaneshiro

Program and Project Supervisor
Energy Division

Enclosure: Service List

CERTIFICATE OF SERVICE

CERTIFICATE OF SERVICE

I certify that I have by electronic mail this day served a true copy of Draft Resolution E-4011 on all parties on the service list for SDG&E Advice Letter 1811-E or their attorneys as shown on the attached list.

Dated August 8, 2006 at San Francisco, California.

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Bruce Kaneshiro

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Parties to SDG&E Advice Letter 1811-E

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