

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3913

February 10, 2005

R E S O L U T I O N

Resolution E-3913. San Diego Gas & Electric for approval of Amendment to the San Diego Gas & Electric/Comverge Contract in Compliance with D.04-06-011.

By Advice Letter 1639-E Filed on November 18, 2004.

SUMMARY

SDG&E's amendments to the SDG&E/Comverge contract are approved.

In AL 1639-E, SDG&E requested Commission approval of amendments to the SDG&E/Comverge contract, as ordered by Commission Decision (D.) 04-06-011.

The SDG&E/Comverge contract is amended to include a residential customer component in addition to the smaller commercial and irrigation customers.

Cost sharing between the two parties is modified from the original 75%/25% SDG&E/Comverge split to a 50%/50% split.

D.04-06-011 specifically ordered that the Comverge contract be amended to include a residential customer component in addition to the smaller commercial and irrigation customers, and that cost sharing between the two parties be modified from the original 75%/25% SDG&E/Comverge split to a 50%/50% split.

BACKGROUND

D.04-06-011 approved five SDG&E proposals to meet its short-term and long-term grid reliability needs. A demand response program from Comverge was one of the approved proposals.

On June 9, 2004, the Commission issued D.04-06-011, which approved a number of utility proposals to address short-term and long-term grid reliability needs. The original Comverge proposal was in response to SDG&E's May 16, 2003 Request for Proposals (RFP) and targeted commercial customers with maximum demands no greater than 100kW and irrigation customers with demands less

than 200kW. The Decision approved the contract and ordered SDG&E to amend the contract to include a residential customer component. The Commission also ordered that the cost sharing between SDG&E and Comverge be modified. Specifically, Ordering Paragraph (OP) 1 of D.04-06-011 states:

1. San Diego Gas & Electric Company (SDG&E) may execute the contract with Comverge as modified to include a residential customer component, with a cost sharing mechanism of 50/50 SDG&E/Comverge, and with the proposed price cap.

The Comverge proposal utilizes Direct Load Control (DLC) during the summer months to manage customer end-use equipment.

The purpose of the contract is to help SDG&E manage demand during the summer months. DLC is load that can be curtailed directly by a dispatcher without intervention of an operator at the end-use customer premises. Comverge would design and operate such a DLC system and SDG&E would determine the dispatch of the program. The DLC system would, on demand, provide SDG&E with the ability to achieve load reduction through control of end-use equipment at participating customer facilities. Comverge's proposal is to aggregate individual customer load by the DLC system to form a demand response capacity of up to a maximum of 40MW deliverable to SDG&E. Examples of the end-use equipment detailed by the original Comverge proposal include central air conditioning units, electric water heaters, and pump motors. The definition of qualified end-use equipment was expanded to include pool pumps.

SDG&E submitted AL 1639-E as directed by D.04-06-011. In this AL, SDG&E proposes the following amendments to the SDG&E/Comverge contract.

The Commission ordered that the Comverge contract be amended to include a residential customer component in addition to the smaller commercial and irrigation customers.

D.04-06-011 orders the amendment of the Comverge proposal to include a residential air-conditioning (AC) cycle segment in addition to the smaller commercial and irrigation customers. This amendment is consistent with the Commission's existing policy regarding AC cycling programs and concludes that the Comverge proposal will offer near term demand reductions, starting in 2005. Based on the demand reductions achieved in the Southern California Edison service territory, the Commission believes that similar (to scale) reductions are

possible in the SDG&E service territory. Also, in comments on the Comverge proposal, consumer groups advocated the inclusion of residential customers because residential air conditioner customers have a high rate of success in subscribing to and in responding to reduced load incentives. The Decision determined that the Comverge program should be an effective complement to both the Statewide Pricing Program and the Smart Thermostat Program, and will not conflict with them.

The Commission ordered that cost sharing of the proposal between SDG&E and Comverge be modified from the original 75%/25% to 50%/50%.

D.04-06-011 states, "With the addition of a residential customer component, implementation of the program is less risky, and commensurately, the cost sharing should be 50/50 SDG&E/Comverge with the same payment cap as proposed".

Overall, the maximum allowable demand response capacity of the contract is increased to 70MW from 40MW to reflect the inclusion of residential customers.

Previously, the purchase option of the proposed Comverge contract was valued at \$1.8 million for a maximum of 40MW of demand response capacity over the 10-year period of the contract. SDG&E proposes that the purchase option be restated as \$45,000/MW, which is the equivalent of \$1.8 million for 40MW in the original contract. Therefore, if SDG&E were to exercise the purchase option under the amended contract, SDG&E will pay the same dollar per MW amount as in the previous proposed contract.

Additional minor amendments were made to the contract.

Three additional minor amendments were proposed for the contract:

- Article 5 was amended to allow for monthly payments for installed capacity for the first year. The resulting monthly payments are identical to the quarterly payments (payments will become quarterly in the second year of the program, as per the original contract).
- Article 7 was amended to include reference to the Application Service Provider Agreement that must still be finalized, including details of the operating software necessary to run the program.
- Insurance and Confidentiality sections were updated.

NOTICE

Notice of AL 1639-E was made by publication in the Commission's Daily Calendar. San Diego Gas & Electric Company states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letter AL 1639-E was not protested.

DISCUSSION

Energy Division has reviewed SDG&E's AL and was guided by D.04-06-011 in its review. Energy Division recommends approving the proposed modifications based on the following reasons.

SDG&E's proposed contract amendments are in accord with D.04-06-011.

D.04-06-011 ordered the amendment of the Comverge proposal to include a residential air-conditioning (AC) cycle segment in addition to the smaller commercial and irrigation customers. This amendment is consistent with the Commission's existing policy regarding AC cycling programs and the Decision concluded that the Comverge proposal will offer near term demand reductions, starting in 2005. SDG&E has in fact proposed an amendment to the contract that includes residential AC units, and is therefore in compliance with the decision's directive.

The amended level of SDG&E/Comverge cost sharing to 50%/50% reflects less risk associated with the program with the addition of a residential customer component.

In the amendment language to the SDG&E/Comverge contract submitted by SDG&E, it is clearly stated in the Cost Sharing Mechanism and Purchase Option section that the cost sharing between SDG&E and Comverge is now 50%/50%.

The additional minor amendments do not substantially change the contract.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to reduce the 30-day waiting period required by PU Code section 311(g)(1) to 10 days. Accordingly, this matter will be placed on the first Commission's agenda 10 days following the mailing of this draft resolution. By stipulation of all parties, comments shall be filed on February 4, 2005.

No comments were filed.

FINDINGS

1. D.04-06-011 approved SDG&E's proposed contract with Comverge and ordered amendments to the contract.
2. SDG&E filed AL 1639-E on November 18, 2004, seeking Commission approval of amendments to the SDG&E/Comverge contract.
3. amendments include the addition of a residential customer component to the contract and also adjustment of the cost sharing split between SDG&E and Comverge from 75%/25% to 50%/50%.
4. SDG&E requests that the maximum allowable demand response capacity be increased from 40MW to 70MW accommodating the inclusion of a residential customer component.
5. SDG&E's proposed amendments to the SDG&E/Comverge contract should be approved.

THEREFORE IT IS ORDERED THAT:

1. SDG&E's Advice Letter AL 1639-E is approved.

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 February 10, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

Comr. Grueneich recused herself from this agenda item and was not part of the quorum in its consideration.