Proceeding: R.20-11-003

Exhibit No.: SDGE-6

Witness: E Bradford Mantz

PREPARED REPLY TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
REGARDING DEMAND RESPONSE PROPOSALS

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

July 21, 2021

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PREPARED REPLY TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
REGARDING DEMAND RESPONSE PROPOSALS

I. INTRODUCTION

In accordance with the June 14, 2021 ruling of Administrative Law Judge ("ALJ") Brian Stevens, the purpose of this reply testimony is to respond to the supplemental testimony of the California Environmental Justice Alliance ("CEJA") regarding its proposed Just Flex Rewards ("JFR") demand response ("DR") program.

CEJA's supplemental testimony provides additional detail regarding its proposed JFR program, originally described in CEJA's opening testimony dated January 11, 2021.[1] The proposed JFR program is designed to incent participation in the Emergency Load Reduction Program ("ELRP") pilot approved by the Commission in Decision ("D.") 21-03-056 by customers located in disadvantaged communities ("DACs") and low-income ("LI") households.[2] The program would "pay community members to reduce energy consumption during the specific hours when the ELRP is called using a text alert and self-verification process."[3] Although program participation is voluntary, eligible households would be automatically enrolled in the JFR program. The notification process would leverage the investor-owned utilities' ("IOUs'") existing text platforms used to notify customers of outages and Public Safety Power Shutoff ("PSPS") events.[4] CEJA proposes a statewide budget of $20 million to implement the proposed JFR program.[5]

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1 *See* Exh. CEJA-1.

2 Exh. CEJA-3, p. 1.

3 *Id*. at p. 2.

4 Exh. CEJA-1, p. 8.

5 Exh. CEJA-3, p 12.

As explained below, while SDG&E supports the goal of increasing participation in DR programs and agrees with CEJA that DAC and LI customers should be encouraged to be "part of the solution" and "empower[ed] . . . to make decisions to lower their energy consumption when the grid is stressed,"[6] it does not support adoption of the proposed JFR program. First, the proposed JFR program is essentially a solution in search of a problem – DAC and LI customers are already encouraged to participate in existing DR programs in SDG&E's service territory and it is unlikely that adopting the JFR program would result in significant additional load reduction by these customers. Second, requiring SDG&E to engage in the type of unsolicited text messaging that is contemplated under the proposed JFR program raises policy and potential legal concerns. Finally, several aspects of the JFR proposal are technologically infeasible or otherwise problematic.

II. ADOPTION OF THE JFR PROGRAM IS NOT NECESSARY TO ENCOURAGE DR PROGRAM PARTICIPATION BY DAC AND LI CUSTOMERS

SDG&E supports the laudable goal expressed by CEJA of encouraging participation by DAC and LI customers in DR. This aligns directly with SDG&E's objective of increasing participation by all customers in the DR programs offered in its service area. As a practical matter, however, the proposed JFR program is not the optimal approach for achieving the desired outcome. To the extent DAC and LI customers are even eligible to participate in ELRP and the proposed JFR program (*e.g.*, residential customers have limited ability to participate in ELRP), it is not clear that a strong incentive would exist to do so.

As discussed below, DAC customers in SDG&E's service territory are located in coastal areas with a generally temperate climate, which means that the load reduction potential (and the

[6] *Id*. at p. 1.

corresponding compensation) for this sub-set of customers would be relatively low. For LI customers who may be located in higher-heat areas, SDG&E's existing Technology Deployment and AC Saver programs offer attractive participation options at every price point. Indeed, SDG&E submits that if the Commission's goal is to generally encourage increased participation in DR programs by DAC and LI customers, directing the additional funding proposed by CEJA to marketing efforts aimed at boosting enrollment in SDG&E's existing DR programs would be a better course of action than requiring it to implement the burdensome and technologically infeasible (as discussed below in Section IV) JFR program proposed by CEJA.

A. SDG&E DACs Generally Have a Low Energy Burden

As explained by CEJA witness, Dan Sakaguchi, the JFR program is premised on the assumption that "**[b]ased on their relative energy burden**, these are the customers who are likely to respond to straightforward financial incentives by taking action to reduce load in a grid emergency, and they are the customers who could most benefit from this type of program."[7] While this assumption may be correct in other IOUs' service territories, it is erroneous in the context of SDG&E's DACs.

By most commonly applied definitions of a DAC, SDG&E's DACs represent a very small and urban section of the SDG&E service territory located near the coast. DACs in SDG&E's territory that register within the top 25th percentile of most disadvantaged census tracts statewide using the California EnviroScreen tool[8] constitute a comparably small number of census tracts located in only a handful of neighboring municipalities, which generally stretch from the San Diego's Port district southward to the US / Mexico border. The illustration below

[7] *Id*. at p. 2 (emphasis added).

[8] Available at: https://oehha.ca.gov/calenviroscreen/report/draft-calenviroscreen-40.

demonstrates this fact.

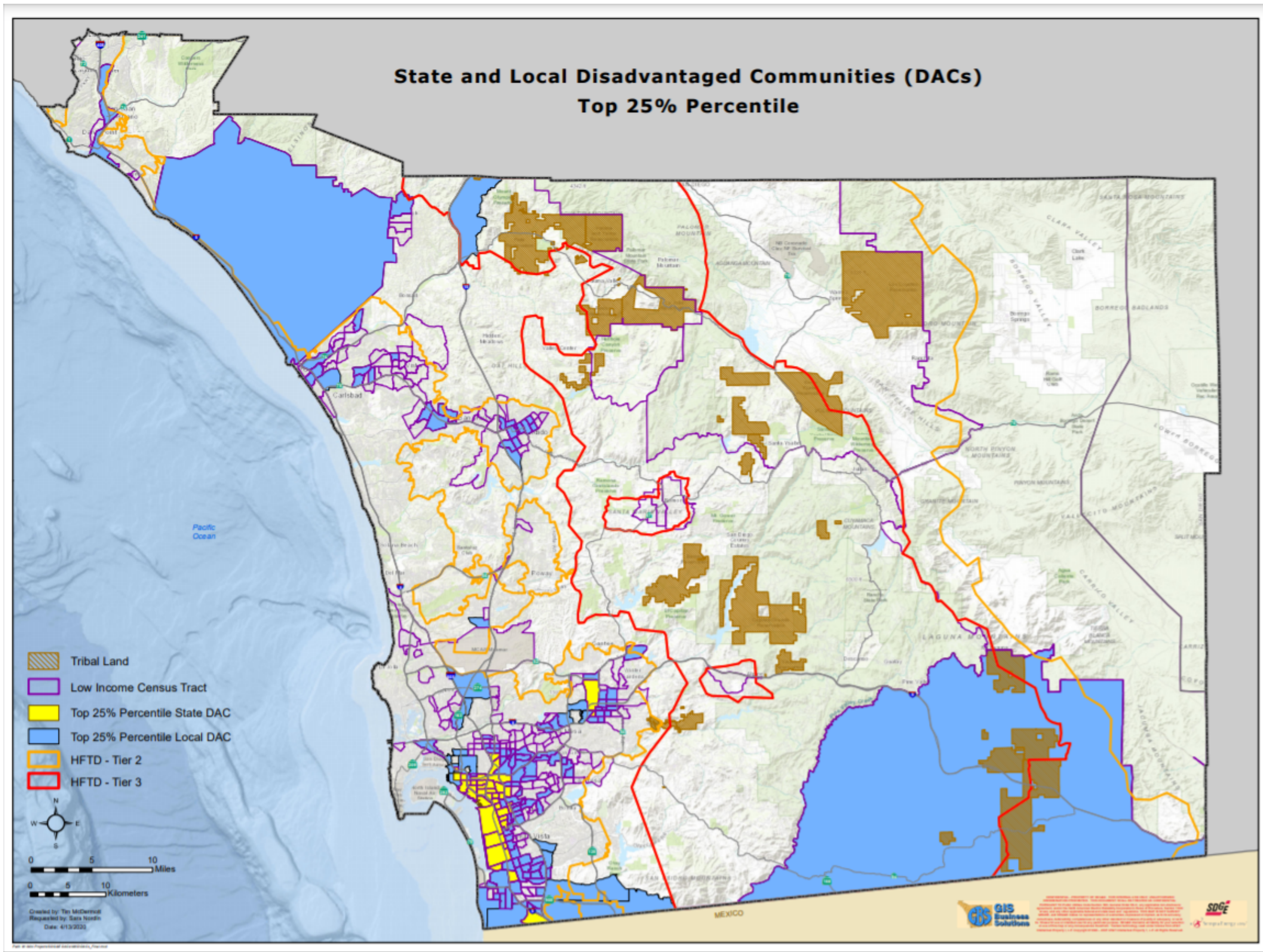

Illustration 1 – Top 25% Census Tracts to Identify DACs in SDG&E's Territory

In the illustration, the yellow areas denote DACs, and the purple outlined zones have a high proportion of LI customers. Thus, using the CalEPA tool definition of DACs, it is clear that SDG&E's DACs are materially different from the other IOUs' DACs, which are mostly inland and located in portions of the California Central Valley, and have significantly higher temperatures during the summer. SDG&E's DACs are mostly located near the coast where load reduction through reduced use of air conditioning (a typical source of load reduction) is not as viable. Given this fact, SDG&E does not believe that customers located in SDG&E's identified DACs would have significant load to shed during a DR event.

B. SDG&E's Existing DR Programs Enable and Encourage Participation by DAC and LI Customers

To the extent DAC and LI customers wish to participate in DR programs, SDG&E currently offers programs that are open to not only to DAC and LI customers, but to all customers in the service territory. Thus, economic segmentation is not a barrier to participation in SDG&E's DR programs.

SDG&E currently offers its Technology Deployment Program, which pays an incentive to customers that buy and install a smart programable thermostat, as well as its AC Saver Program, which sends signals to customers enrolled thermostats on days of high heat and grid load and pays customers an annual incentive for participation. These signals are sent to the customer's thermostats with a message on the device announcing the event as well as notification that their thermostat will be adjusted during the event at the customer's request. Thus, the program provides the added benefit of helping customers use less energy and lower their energy costs and monthly utility bill. The AC Saver program also provides an annual incentive payable once per year in December to customers that are active in the program to further encourage load reduction. Thus, these existing programs offer clear incentives and benefits to LI and DAC customers:

<u>Technology Deployment:</u>

The Technology Deployment program is a “bring your own device” structure for residential customers that allows them to earn an enrollment incentive by agreeing to allow SDG&E to signal their thermostat during demand response events. The Technology Deployment program has the following characteristics:

- The program is open to all customers regardless of size.
- The program is a “Bring Your Own Device” offer for all customers.
- The program is open to technologies that can curtail load in residential and small commercial customer locations.
- The program provides an incentive of up to $50 per device once the customer has registered the device with the manufacturer and also joins an IOU or third-party DR program.
- The customers technology may be signaled either by the utility or by the vendor for events.
- Customers will have the option to enroll in DR programs such as AC Saver or a third-party DR program under Rule 32.

Currently the Technology Deployment Program provides incentives payable to customers that purchase, install and register a smart programable thermostat and the program includes many different thermostat models from ecobee, Nest and Honeywell. These thermostats have many different price points and are available to all customers eligible to receive the incentive.

This allows all classes of customers, including LI and DAC customers, to purchase and install a device of their choice that 1) can be used for a DR event and 2) helps them to save energy and lower their bills for the remainder of the year.

An additional benefit of using smart thermostats is the customer has the ability to utilize their mobile phone to manage their thermostat or device as well as to opt out of an event if necessary.

AC Saver Program

The AC Saver Program is SDG&E's thermostat program available to both residential and commercial customers. AC Saver participants have either a direct load control switch installed on their air-conditioner or a thermostat with settings that can be adjusted by the manufacturer. Events last between two and four hours and may be called between April and October. The maximum number of annual events is 20 with 5 additional events that may be called by the California Independent System Operator ("CAISO") or SDG&E during grid emergencies only.[9] The current AC Saver program design meets the CAISO guidelines as a supply resource product that can be bid into the CAISO market and meet the minimum load requirements.

The combination of the Technology Deployment incentive and the AC Saver annual incentive payment offers all customers an opportunity to participate in a DR program. These programs are available at any price point. They are mature programs that offer the additional benefit of helping customers to manage their energy use. SDG&E believes that these existing programs provide DAC and LI customers with ample opportunity to be "part of the solution" related to DR.

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9 D.21-03-056, Attachment 1, p. 19.

III. POLICY AND POTENTIAL LEGAL CONCERNS

CEJA's proposal to automatically enroll DAC and LI customers in the ELRP program and to subject them to related unsolicited communications is highly problematic. First, SDG&E's DR programs are, by design, voluntary and require proactive participation by customers. As a practical matter, it makes little sense to impose the significant burden associated with implementation of a mandatory enrollment and an opt-out process (discussed in more detail below) if customers are disinclined to participate. CEJA fails to make the case that the public interest would be served by doing so.

Moreover, CEJA ignores the potential negative impact of its proposal on the relationship between SDG&E and its customers. SDG&E strives to meet its customers' service and communication expectations and aims to support its customers' preferences to the greatest extent possible. It communicates with customers through the customer's preferred designated messaging channels and *for the reasons* they have approved (*e.g.*, alerts related to outages or other programs in which they may have enrolled). Some customers elect to opt out of *all* messaging – CEJA's proposal would have the effect of reversing those customers' election. Adoption of CEJA's proposal and issuance by SDG&E of multiple and repeated unsolicited text messages could result in customer confusion and result in a negative customer experience. Customers may be frustrated and upset to receive text notifications they did not approve – particularly where data rates apply to incoming text messages.

In addition, it may be the case that CEJA's proposal regarding automatic opt-in to ELRP and unsolicited text messaging would violate the Telephone Consumer Protection Act ("TCPA").[10] The TCPA is a federal law pertaining to telephone calls and text messaging to

[10] 47 U.S.C. § 227.

residential lines and mobile phones. The TCPA generally restricts text messaging unless the text message recipient has given express prior approval to receive those messages. This makes CEJA's automatic enrollment and unsolicited text messaging proposal legally suspect (especially where a DAC/LI customer had previously opted-out of receiving all text messaging). Given the substantial penalties for willful violation of the TCPA – $1,500 per incident[11] – adoption of CEJA's proposal could have major negative financial impacts. Further legal analysis is required to determine whether CEJA's proposal is consistent with the TCPA.

IV. IMPLEMENTATION CONCERNS

While well-intentioned, CEJA's proposed JFR program would be extremely challenging to implement. Significant information technology ("IT") system changes would be required to accommodate the proposal and costs would likely be considerable. The following examples illustrate this point:

- The existing ELRP program is a voluntary "opt-in" program. Thus, IT system changes would be required to allow customers to "opt out" of the ELRP program.
- If a customer located in a DAC census tract is automatically opted-in to the program and then moves out of the DAC census tract, the system would need to be configured to recognize that movement, track it, and unenroll that customer from the program. To address the customer confusion that would potentially result, SDG&E would also need to communicate with that customer regarding their unenrollment from the program (a program that they never actually enrolled in to begin with). While CEJA implies that the logistics would be relatively

[11] 47 U.S.C. § 227(b)(3) and (g)(1).

simple,[12] suggesting that the IOUs can use the existing communication platforms used for PSPS events, this ignores the fact that such systems would need to be reconfigured to communicate with different sets of customers who would be fluid, moving into or out of DAC census tracts, and flagged by some indicator such as being on a California Alternate Rates for Energy ("CARE") rate discount program.

- Under CEJA's proposal, customers automatically enrolled in ELRP would be ineligible to participate in other DR programs.[13] Thus, IT system changes would be required to identify DAC and LI customers who are already enrolled in other DR programs (as well as in third party DR programs) and unenroll (without permission) them from their existing DR programs or alternatively to determine that they are ineligible for ELRP. This would require a multi-layer filtering of customer for DAC/LI and program eligibility. It would also be necessary for SDG&E to build system changes into its Electric Rule 32 automation to accommodate the requirement to prevent automatic ELRP enrollment for customers enrolled in a third-party DR program participating in the CAISO markets directly, or to unenroll such customers from Rule 32.[14]
- CEJA proposes a text message script to be used that includes the days and times of the event, the actions that the customer should take, the reward, and the

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12 Exh. CEJA-3, p. 2.

13 *Id*. at p. 6.

14 SDG&E's Electric Rule 32 governs the obligations of SDG&E and the related activity of Demand Response Providers and customers in the CAISO market. Information regarding SDG&E's Electric Rule 32 can be found here: https://www.sdge.com/electric-rule-32.

requirement that the customer press a keypad number to indicate their participation (or non-participation) to enable the IOU to anticipate the load shed. SDG&E does not currently possess technology that allows customers to indicate via pressing a keypad number response to a text message to indicate if they will participate in a demand response event. The record contains no information regarding estimated cost or rate impact related to procurement, implementation and/or maintenance of such functionality.

- CEJA proposes that customers who are spot checked and are found to have not dropped load when called upon to do so should then be excluded from the program.[15] IT system changes would be required to facilitate the additional step of unenrolling customers (from a program they did not ask to participate in in the first place).

CEJA also offers implementation-related recommendations that are not workable. For example, CEJA suggests that text messages sent to DAC and LI customers remind customers of upcoming events and how to coordinate with community-based organizations ("CBOs") in order to sign customers up for such event notification.[16] CEJA proposes that the IOUs work with the CBOs with whom they are already working for PSPS events. However, none of SDG&E's DACs are in high-risk fire areas. Thus, the marketing efforts for DACs in SDG&Es service territory could be considerable as they would not presumably leverage PSPS efforts at all.

In addition, CEJA proposes a "self-certification" process to verify load shed from participants for purposes of incentive payment, again by using their phones and pressing a

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[15] Exh. CEJA-3, p. 8.

[16] *Id*. at p. 6.

number on the keypad to confirm they took steps to conserve.[17] In additional to the technology-related barrier that exists to this proposal, CEJA fails to propose any ratepayer protection mechanism. CEJA proposes merely that "spot checking" be employed to check samples of customers to confirm that load shed occurred. Practically speaking, this is unlikely to deter customer fraud. Moreover, it makes little sense to implement this burdensome and expensive program design. If the Commission were to adopt CEJA's proposal, SDG&E possesses all meter data of all its distribution system customers and can calculate actual load drop based on its meter data. Indeed, this is the approach used in all other SDG&E DR programs. Thus, CEJA's proposed self-certification process and "spot checks" are ill-conceived and should not be adopted.

CEJA suggests that implementation and administration costs for all three IOUs would be covered by approximately $4 million "for initial outreach and administration costs." It bases this estimate on the expectation that "outreach and administration costs will be low."[18] This assumption is deeply flawed; the JFR program could not use existing SDG&E infrastructure without extensive system additions and changes. Implementation costs are likely to be much higher than $4 million for SDG&E alone. Thus, if the Commission adopts CEJA's proposal, it should direct that appropriate costing options be developed prior to any budgets being allocated in this matter.

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[17] *Id*. at p. 7.

[18] Exh. CEJA-3, p. 12.

V. CEJA OFFERS MINIMAL SUPPORT FOR ITS PROPOSAL

As support for its proposal, CEJA points to programs offered by out-of-state utilities and within California by OhmConnect.[19] CEJA fails to address whether the referenced out-of-state utilities operate under the same constraints as California IOUs and offers no analysis or comparison of these other utilities' rates with electric rates in California. It is not clear, for example, whether the out-of-state utilities referenced are subject to the same type of rate pressure that California IOUs face. Indeed, CEJA provides no analysis of rate impact whatsoever.

Similarly inapposite is CEJA's discussion of OhmConnect. OhmConnect is a non-regulated, for-profit company; it is not a program. SDG&E acknowledges that OhmConnect operates throughout California, however as a private company rather than a regulated entity, information regarding OhmConnect's costs, budget, debt, profitability, etc. is generally not publicly available. OhmConnect's specific focus, if any, on DAC and LI customers, or its effectiveness in this area, is also not discussed. Thus, CEJA's reference to OhmConnect's activities is misguided and not particularly relevant.

CEJA proposes a $2 (and higher) per kWh payment for load shed to customers.[20] This incentive is twice as high as the current ELRP incentive of $1 per kWh that is available for verified load shed. However, CEJA cites no analysis or other evidence to support the assumption that the doubling of the ELRP incentive rate for DAC and LI customers will encourage significantly higher participation by these customers and materially increase levels of customer load shed. Rather, CEJA relies on speculation that fails to account for specific circumstances present in SDG&E's service territory (*e.g.*, that DACs are not located in high-heat areas, as

[19] *Id*. at p. 8.

[20] Exh. CEJA-3, p. 11.

discussed above). Also, CEJA presents no data regarding how much load a customer situated in a DAC might shed versus a non-DAC residential customer. Similarly, CEJA fails to address the discriminatory effect of its proposal, which provides an enhanced incentive to only a sub-set of ELRP customers and denies the incentive to other customers in SDG&E's service area who are also enrolled in the ELRP. Thus, CEJA fails to make the case that the significant burden and cost associated with its proposal is warranted and will further the public interest– for this reason, CEJA's proposal should not be adopted.

VI. CONCLUSION

CEJA's proposed JFR program would be costly and extremely challenging to implement and there exists no record evidence to suggest that it would result in materially increased levels of customer load shed. The proposal fails to consider important policy and legal issues, ignores relevant aspects of SDG&E's service territory, and is presented without critical analysis. Accordingly, CEJA's proposal should not be adopted.

This concludes SDG&E's prepared reply testimony.