Application of SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) For Authority To Update Marginal Costs, Cost Allocation, And Electric Rate Design.

Application 11-10-002
Exhibit No.: (SDG&E-203)

PREPARED REBUTTAL TESTIMONY OF

WILLIAM G. SAXE

CHAPTER 3

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

JULY 17, 2012

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PREPARED REBUTTAL TESTIMONY OF

WILLIAM G. SAXE

(CHAPTER 3)

I. OVERVIEW AND PURPOSE

The purpose of this rebuttal testimony is to respond to the prepared direct testimony submitted by intervening parties in San Diego Gas & Electric's (SDG&E) 2012 General Rate Case (GRC) Phase 2 Application (A.11-10-002) on revenue allocation issues. Specifically, I will address several recommendations and assertions raised by the Division of Ratepayer Advocates (DRA) witness Lee-Whei Tan and the California Farm Bureau Federation (Farm Bureau) witness Wendy L. Illingworth. In addition, I will present the updated distribution revenue allocation that reflects changes to marginal distribution customer costs, as presented in SDG&E's Chapter 6 rebuttal testimony. My testimony is organized as follows:

- **Section II – Allocation of Miscellaneous Program Costs:** SDG&E disagrees with DRA's and Farm Bureau's proposals to modify the current revenue allocations of the various miscellaneous program costs such as Energy Efficiency (EE), Demand Response (DR), and dynamic pricing implementation costs using generation allocation factors.
- **Section III – Allocation of California Alternate Rates for Energy (CARE) Discounts Associated with CARE Tiered Rates:** SDG&E disagrees with DRA's (a) claim that SDG&E is out of compliance with state law because shortfalls associated with CARE tiered rates are only being allocated to the residential class, and (b) proposal to change the current California Public Utilities Commission (Commission) adopted allocation of these costs from an allocation to only residential customers to an allocation to all customer classes on an equal cents per kWh basis.
- **Section IV – Updated Distribution Revenue Allocation:** present updated distribution revenue allocation that reflects changes to the marginal distribution customer costs, as presented in SDG&E's Chapter 6 rebuttal testimony.
- **Section V – Summary and Conclusion:** the Commission should: (a) reject DRA's and Farm Bureau's proposals to modify the allocation of miscellaneous program costs such as EE, DR, and dynamic pricing; (b) reject DRA's proposal to modify the allocation of CARE shortfalls resulting CARE tiered rates; and (c) adopt SDG&E's updated distribution revenue allocation, as presented in Attachment A.

II. ALLOCATION OF MISCELLANEOUS PROGRAM COSTS

DRA witness Lee-Whei Tan recommends a change in the allocation of EE, DR, and dynamic pricing costs to customer classes.[1] Farm Bureau witness Wendy L. Illingworth also argues for a change in the allocation of DR and Advanced Metering Infrastructure (AMI)-Related Costs.[2] Both witnesses state that the costs of these programs should be allocated based on generation allocation factors because these programs are designed to reduce generation capacity or energy consumption needs. DRA goes on to state that EE and DR program costs, and dynamic pricing implementation costs, should be allocated to customer classes base on generation Equal Percentage of Marginal Costs (EPMC) factors.[3]

SDG&E respectfully disagrees with DRA's and Farm Bureau's proposals to modify the allocation of these miscellaneous program costs. The allocation of EE program costs was adopted in the previous EE proceeding (Decision (D.) 09-09-047). The factors used to allocate DR program costs was agreed to by parties in SDG&E's 2008 GRC Phase 2 proceeding (D.08-02-034). Finally, SDG&E proposed in its Dynamic Pricing Application (A.10-07-009) and continues to believe that dynamic pricing implementation costs should be allocated consistent with the currently adopted recovery treatment for AMI, CPP, and PTR implementation costs. The Commission has already considered the allocation of these costs and adopted reasonable allocation positions and thus, SDG&E does not see the need for the Commission to deviate from its currently adopted approach in allocating these costs.

SDG&E disagrees with DRA and Farm Bureau's position that these miscellaneous program costs should be allocated based on generation allocation factors. While EE, DR, and dynamic pricing costs are generation-related, these costs provide much more than generation benefits which is why the Commission's current policy is to recover these costs from all customers, including direct access customers, through distribution rates. EE, DR, and dynamic pricing programs provide services to customers and thus should not be allocated based on generation allocation factors. These program costs include customer services type costs such education, training, program outreach and administration. In addition, a significant portion of the dynamic pricing implementation costs proposed in SDG&E's Dynamic Pricing Application

[1] DRA Ch. 4 (Tan), pp. 4-5 and 4-7.
[2] Farm Bureau (Illingworth), p. 7, lines 19-25.
[3] DRA Ch. 4 (Tan), pp. 4-5, lines 17-18, and 4-7, lines 17-19.

(A.10-07-009) are for Information Technology (IT) system upgrades to serve all customers.[4] Therefore, there is no basis to allocate EE, DR and/or dynamic pricing costs based on generation allocation factors.

For the reason stated above, the Commission should reject DRA's and Farm Bureau's proposals to change the current allocation of EE and DR program costs, and dynamic pricing implementation costs previously adopted by the Commission.

III. ALLOCATION OF CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE) DISCOUNTS ASSOCIATED WITH CARE TIERED RATES

DRA witness Lee-Whei Tan states that SDG&E is not completely following the Public Utilities Code Section 327(a)(7) requirement to allocate the costs of the CARE program on an equal cents per kWh basis to all customers.[5] Ms. Tan goes on to state that SDG&E properly allocates CARE shortfalls recovered through the CARE surcharge on an equal cents per kWh basis to all customers but then allocates CARE costs associated with tiered residential rates to only residential customers through the Total Rate Adjustment Component (TRAC) rate component. To comply with Public Utilities Code Section 327(a)(7), DRA recommends that all CARE costs be allocated to all customer classes on an equal cents per kWh basis. In addition, DRA proposes that the shortfalls associated with CARE rates be calculated as the difference between CARE and Non-CARE residential rates multiplied by CARE sales. Ms. Tan states that "[t]his is how CARE costs currently are calculated by PG&E and SCE, and SDG&E should do the same to comply with state law."[6]

SDG&E disagrees with Ms. Tan's claim that SDG&E is not complying with state law. The statute she references as proof of this claim is Public Utilities Code Section 327(a)(7), which addresses the programs described in Public Utilities Code Section 2790, the administration of home weatherization services programs for low-income customers. Contrary to Ms. Tan's claim, SDG&E is complying with Public Utilities Code Section 327(a)(7) by allocating these costs to

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[4] DRA witness Tan states on page 4-6, lines 5-8, of her direct testimony that both PG&E and SCE have recognized that dynamic pricing implementation costs should be allocated based on generation allocation factors. However, further conversations with Ms. Tan regarding this statement clarified that the dynamic pricing costs that she states PG&E and SCE have been allocating based on generation allocation factors are not actually implementation costs but rather incentive-related costs such as Critical Peak Pricing (CPP) under/over-collection costs and Peak-Time-Rebate (PTR) credits. SDG&E agrees that CPP under/over-collections and PTR credits should be allocated based on generation allocation factors, which is consistent with what SDG&E does today.

[5] DRA Ch. 4 (Tan), pp. 4-7 and 4-8.

[6] DRA Ch. 4 (Tan), p. 4-8, lines 9-11.

all customers (except CARE customers that are exempt from paying these costs) on an equal cents per kWh basis through the Public Purpose Programs (PPP) rate.[7]

DRA witness Ms. Tan is correct when she states that SDG&E, as required by state law, is allocating the CARE program costs funded by the CARE surcharge that is part of the PPP rate component to all customer classes (except CARE customers and lighting customers that are exempt from paying these costs) on an equal cents per kWh basis. Ms. Tan is also correct when she states that SDG&E is allocating the cost of the discounts provided to CARE customers through their tiered electric rates to only the residential class through the TRAC rate component. The Commission adopted this treatment for recovery of rate discounts associated with the Assembly Bill 1X (AB1X) rate cap in D.05-12-003. Ms. Tan implies that Senate Bill 695 (SB 695) modified the AB1X allocation treatment adopted by the Commission. However, the decision addressing the rate adjustments allowed under SB 695 (D.09-12-048) did not require changes to non-residential rates to recover costs related to these residential rate changes. For this reason, the implementation of SB 695 by SDG&E in Advice Letter 2135-E, as adopted by the Commission, changed the rates of only residential customers.

For the reasons stated above, SDG&E recommends that the Commission disregard DRA's proposal to allocate CARE shortfalls associated with CARE tired rates to all customer classes on an equal cents per kWh basis.

IV. UPDATED DISTRIBUTION REVENUE ALLOCATION

Attachment A reflects the updated distribution revenue allocation based on the changes to the marginal distribution customer costs, as presented in SDG&E's Chapter 6 rebuttal testimony. Attachment A.1 presents the distribution marginal cost allocation factors by customer class. Attachment A.2 presents the allocation of distribution revenues to each customer class based on the distribution marginal cost allocation factors. Attachment A.3 presents the resulting distribution EPMC rates and revenues by customer class before any capping is applied.

V. SUMMARY AND CONCLUSION

For the reasons stated above, the Commission should: (a) reject DRA's and Farm Bureau's proposals to modify the allocation of miscellaneous program costs such as EE, DR, and dynamic pricing; and (b) reject DRA's proposal to modify the allocation of CARE shortfalls resulting from CARE tiered rates. The Commission has already considered the allocation of

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[7] Revised PPP rates were adopted in SDG&E's Advice Letter 2293-E.

these costs/shortfalls and issued decisions adopting reasonable allocation positions. The Commission should not deviate from its currently adopted approach to allocate these costs/shortfalls. In addition, SDG&E recommends that the Commission adopt the updated distribution revenue allocation presented in this rebuttal testimony, along with the proposed commodity and CTC revenue allocations previously submitted in my Chapter 3 direct testimony on March 30, 2012. Attachment B provides a comparison of the combined distribution, commodity, and CTC revenue allocations proposed in this proceeding to the present allocations.

This concludes my prepared rebuttal testimony.

ATTACHMENT A

DISTRIBUTION REVENUE ALLOCATION

ATTACHMENT A.1 (REBUTTAL)

SAN DIEGO GAS & ELECTRIC COMPANY - ELECTRIC DEPARTMENT
2012 GENERAL RATE CASE PHASE 2 (A.11-10-002)
ELECTRIC DISTRIBUTION REVENUE ALLOCATION - CHAPTER 3 (SAXE)

Distribution Marginal Cost Allocation Factor by Customer Class

Line No.	Customer Class (A)	Customer Marginal Cost Revenue ($000) (B)	Percentage Allocation (%) (C)	Demand-Related Marginal Cost Revenue ($000) (D)	Percentage Allocation (%) (E)	Total Distribution Marginal Cost Revenue ($000) (F)	Distribution Marginal Cost Allocation Factor (%) (G)	Line No.
1	Residential	$173,932	60.6%	$353,460	42.3%	$527,392	47.0%	1
2								2
3	Small Commercial	$56,915	19.8%	$91,917	11.0%	$148,832	13.3%	3
4								4
5	Medium/Large C&I	$51,443	17.9%	$385,936	46.2%	$437,379	39.0%	5
6								6
7	Agricultural	$1,922	0.7%	$3,148	0.4%	$5,070	0.5%	7
8								8
9	Lighting	$2,582	0.9%	$1,570	0.2%	$4,152	0.4%	9
10								10
11	System Total	$286,794	100.0%	$836,032	100.0%	$1,122,826	100.0%	11

Note:

(1) **Customer Marginal Cost Revenue**: reflects customer-related distribution marginal costs.

(2) **Demand-Related Marginal Cost Revenue**: reflects demand-related distribution marginal costs such as Feeder & Local Distribution and Substation marginal costs.

ATTACHMENT A.2 (REBUTTAL)

SAN DIEGO GAS & ELECTRIC COMPANY - ELECTRIC DEPARTMENT
2012 GENERAL RATE CASE PHASE 2 (A.11-10-002)
ELECTRIC DISTRIBUTION REVENUE ALLOCATION - CHAPTER 3 (SAXE)

Distribution Revenue Allocation by Customer Class

Line No.	Customer Class (A)	Updated Distribution Revenue Allocation: Distribution Allocation Factors (%) (B)	Non Marginal Distribution Revenue ($000) (C)	Marginal Distribution Revenue Allocation ($000) (D)	Total Distribution Revenue Allocation ($000) (E)	Current Total Distribution Revenue Allocation ($000) (F)	Percentage Change (%) (G)	Line No.
1	**Residential**	47.0%		$481,590	$481,590	$573,261	-16.0%	1
2								2
3	**Small Commercial**	13.3%		$135,907	$135,907	$119,152	14.1%	3
4								4
5	**Medium/Large C&I**	39.0%	6,536	$399,394	$405,930	$330,455	22.8%	5
6								6
7	**Agricultural**	0.5%		$4,630	$4,630	$5,189	-10.8%	7
8								8
9	**Lighting**	0.4%	4,600	$3,791	$8,391	$8,391	0.0%	9
10								10
11	**System Total**	100.0%	11,136	$1,025,312	$1,036,448	$1,036,448	0.0%	11
12								12
13	Distribution Revenue Requirement ($000):	$1,036,448						13
14								14
15	Non Marginal Revenue Requirement Components ($000):							15
16	Lighting Facilities Charges:	$4,600						16
17	Standby Revenue:	$4,183						17
18	Distance Adjustment Fees:	$2,353						18

Note:

(1) **Updated Allocation of Total Distribution Revenue**: allocation of the current distribution revenue requirement based on the marginal Distribution Allocation Factors presented in this Application.

(2) **Current Total Distribution Revenue Allocation**: allocation of current distribution revenue requirement based on the current class distribution allocation percentages reflected in current rates; rates . effective January 1, 2012, pursuant to SDG&E Advice Letter 2323-E.

(3) **Distribution Revenue Requirement**: the $1,036,448,000 Distribution Revenue Requirement reflects the current distribution revenues being collected in rates effective January 1, 2012, excluding Self Generation Incentive Program (SGIP) and Demand Response costs which have separate allocation treatment.

(4) **Lighting Updated Total Distribution Revenue Allocation**: as stated in footnote 3 of the direct testimony of William G. Saxe (Chapter 3), circuit and substation load data is not available for the lighting class. For this reason, the Updated Total Distribution Revenue Allocation for lighting is set equal to its Current Distribution Revenue Allocation, using the Goal Seek Factor in Cell O26.

ATTACHMENT A.3 (REBUTTAL)

SAN DIEGO GAS & ELECTRIC COMPANY - ELECTRIC DEPARTMENT
2012 GENERAL RATE CASE PHASE 2 (A.11-10-002)
DISTRIBUTION REVENUE ALLOCATION - CHAPTER 3 (SAXE)

Distribution Equal Percentage of Marginal Cost (EPMC) Rates and Revenue by Customer Class

Line No.	Customer Class (A)	Determinants (B)	Marginal Distribution Rate (C)	EPMC Distribution Rate (D)	EPMC Distribution Revenue Allocation ($000) (E)	Line No.
1	Residential					1
2	Customer Marginal Cost ($/Customer-Month)	14,935,485	$11.65	$10.63	$158,827	2
3	Demand-Related Marginal Cost ($/Non-Coincident kW)	55,240,653	$6.40	$5.84	$322,763	3
4	Total				$481,590	4
5						5
6	Small Commercial					6
7	Customer Marginal Cost ($/Customer-Month)	1,497,825	$38.00	$34.70	$51,972	7
8	Demand-Related Marginal Cost ($/Non-Coincident kW)					8
9	Secondary	10,151,416	$9.05	$8.26	$83,887	9
10	Primary	5,753	$9.00	$8.22	$47	10
11	Total				$135,907	11
12						12
13	Medium/Large Commercial & Industrial					13
14	Customer Marginal Cost ($/Customer-Month)					14
15						15
16	Secondary					16
17	< 500 kW	292,944	$162.10	$148.03	$43,363	17
18	> 500 MW	7,177	$478.98	$437.39	$3,139	18
19						19
20	Primary					20
21	< 500 kW	1,765	$27.59	$25.20	$44	21
22	500 kW - 12 MW	2,817	$32.97	$30.11	$85	22
23	> 12 MW	36	$237.55	$216.92	$8	23
24						24
25	Transmission					25
26	< 500 kW	212	$573.04	$523.28	$111	26
27	> 500 kW	231	$1,065.31	$972.79	$225	27
28						28
29	Demand-Related Marginal Cost ($/Non-Coincident kW)					29
30	Secondary	22,696,420	$14.14	$12.91	$293,061	30
31	Primary	4,620,852	$14.07	$12.85	$59,358	31
32	Transmission	1,436,702	$0.00	$0.00	$0	32
33	Total				$399,394	33
34						34

35	**Agricultural**					35
36	**Customer Marginal Cost ($/Customer-Month)**	**40,176**	**$47.84**	**$43.68**	**$1,755**	36
37	**Demand-Related Marginal Cost ($/Non-Coincident kW)**	**588,979**	**$5.35**	**$4.88**	**$2,875**	37
38	**Total**				**$4,630**	38
39						39
40	**Lighting**					40
41	**Customer Marginal Cost ($/kWh)**	**114,788,000**	**$0.02249**	**$0.02054**	**$2,358**	41
42	**Demand-Related Marginal Cost ($/kWh)**	**114,788,000**	**$0.01368**	**$0.01249**	**$1,434**	42
43	**Total**				**$3,791**	43
44						44
45	**System**					45
46	**Customer Marginal Cost ($/Customer-Month)**				**$261,887**	46
47	**Demand-Related Marginal Cost ($/Non-Coincident kW)**				**$763,425**	47
48	**Total**				**$1,025,312**	48
49						49
50	GRC Phase 1 Distribution Revenue Requirement:	1,036,448				50
51	Non-Marginal Revenue Requirement	11,136				51
52	Marginal Distribution Revenue Requirement Allocation	1,025,312				52
53						53
54	Marginal Customer Distribution Revenue Requirement	286,794				54
55	Marginal Demand-Related Distribution Revenue Requirement	836,032				55
56	Total Marginal Distribution Revenue Requirement	1,122,826				56
57						57
58	EPMC Allocation Factor	91.32%				58

Note:

(1) **Determinants**: sum of the 2012 determinants by class.
(2) **Marginal Distribution Rate**: equals the marginal cost by class and by voltage level for demand-related margin cost divided by the class determinants.
(3) **EPMC Distribution Rate**: equals the Marginal Distribution Rate multiplied by the EPMC Distribution Allocation Factor.
(4) **EPMC Distribution Revenue Allocation**: equals the EPMC Distribution Rate multiplying by the applicable determinants.

ATTACHMENT B

COMBINED DISTRIBUTION, COMMODITY, AND CTC REVENUE ALLOCATIONS

ATTACHMENT B (REBUTTAL)

SAN DIEGO GAS & ELECTRIC COMPANY - ELECTRIC DEPARTMENT
2012 GENERAL RATE CASE PHASE 2 (A.11-10-002)
DISTRIBUTION, COMMODITY, AND CTC REVENUE ALLOCATIONS - CHAPTER 3 (SAXE)

Distribution, Commodity, and CTC Revenue Allocations by Customer Class

		Present 1/01/12				2012 GRC Phase 2 Proposals				Total		
		Distribution Revenues	Commodity Revenues	CTC Revenues	Dist, Comm & CTC Revenues	Distribution Revenues	Commodity Revenues	CTC Revenues	Dist, Comm & CTC Revenues	Dist, Comm & CTC Change		
Line No.	Customer Class (A)	($000) (B)	($000) (C)	($000) (D)	($000) (E)	($000) (F)	($000) (G)	($000) (H)	($000) (I)	($000) (J)	(%) (K)	Line No.
1	Residential	$573,261	$531,773	$23,985	$1,129,019	$481,590	$568,111	$28,937	$1,078,638	-$50,381	-4.46%	1
2												2
3	Small Commercial	$119,152	$152,868	$8,784	$280,804	$135,907	$141,059	$8,217	$285,183	$4,378	1.56%	3
4												4
5	Medium/Large C&I	$330,455	$556,203	$37,705	$924,364	$405,930	$532,270	$33,328	$971,528	$47,164	5.10%	5
6												6
7	Agricultural	$5,189	$6,238	$312	$11,739	$4,630	$5,529	$286	$10,445	-$1,294	-11.02%	7
8												8
9	Lighting	$8,391	$5,593	$0	$13,985	$8,391	$5,708	$17	$14,117	$132	0.94%	9
10												10
11	System Total	$1,036,448	$1,252,676	$70,786	$2,359,910	$1,036,448	$1,252,676	$70,786	$2,359,910	$0	0.00%	11