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June 17, 2008

California Energy Commission
1516 Ninth Street
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DOCKET
08-DR-1
DATE JUN 17 2008
RECD. JUN 17 2008

RE: Efficiency Committee Load Management Standards Workshop on Rates, Incentives, and Market Integration (Docket #08-DR-01)

Dear Commissioners:

Introduction

SDG&E appreciates the opportunity provided by the California Energy Commission (CEC) to present SDG&E's perspective on demand response and dynamic rates at the June 10, 2008 workshop on Rates, Incentives and Market Integration within the Load Management Standards proceeding (Docket #08-DR-01). The workshops have facilitated a public forum for parties to actively participate and establish a record for the CEC Efficiency Committee to establish load management standards. The cooperation between the CEC and California Public Utilities Commission (CPUC) is especially noted with the active engagement of CPUC Commissioner Chong, CEC Commissioner Rosenfeld, and CEC Chairperson Pfannenstiel.

Statewide consistency in policy and guidance governing demand response and dynamic rate structures are important steps to establishing dynamic rates for all customer classes as the advanced metering infrastructure (AMI) deployment becomes a reality across electric utilities under CPUC jurisdiction (Pacific Gas & Electric, Southern California Edison, and SDG&E), and other electric municipal utilities. The workshop transcript and witness presentations have already been established as part of the public record in CEC Docket #08-DR-01. SDG&E will not repeat the positions of the various parties.

Residential Voluntary Critical Peak Price (CPP) and Peak Time Rebate (PTR)

SDG&E comments pertain specifically to the question raised by CEC Commissioner Rosenfeld and CPUC Commissioner Chong regarding the viability and their desire to have concurrent or co-existing voluntary dynamic rates for residential customers, while AB1X rate cap constraints are still in effect. Specifically, Commissioner Rosenfeld asked why SDG&E did not propose a voluntary critical peak pricing (CPP) rate and the peak time rebate (PTR) as a choice for residential customers.[1] The implication is that by having a multitude of voluntary dynamic rate options or an expanded customer "choice set", residential customers would be better off.[2]

[1] SDG&E has a voluntary TOU rate for residential customers, but did not propose a voluntary CPP rate during its General Rate Case Phase 2 Rate Design and Cost Allocation application, A.07-01-047

[2] SDG&E representative, Mr. Fong responded that a PTR rate and a voluntary CPP rate are in conflict with one another and are incompatible.

A concurrent PTR and voluntary CPP would not be as effective a PTR by itself.

SDG&E had contemplated a voluntary CPP for residential customers, but concluded that a voluntary CPP rate and PTR would be working at cross purposes. First, the PTR is a transition dynamic rate that is AB1X compliant since the AB1X tiered structure is preserved. SDG&E believes that PTR will introduce the concept of dynamic rates to residential customers. By introducing a voluntary CPP rate, residential customer education on the concept of and focus on dynamic rates may be diluted because of the multiple rate offerings.

Second, if both a voluntary CPP and PTR were in effect, and if both rates provided the same incremental cents per kWh proxy for incremental electric energy use (e.g. an incremental $0.75/kWh CPP and a $0.75/kWh PTR credit for each kWh decrease), then the most likely outcome would be greater costs related to per kWh of demand response (the combination of PTR pay-outs and CPP revenue shortfalls) and no greater demand response. The existence of both a PTR and voluntary CPP would most likely lead to CPP "structural benefiters" migrating to CPP.

To illustrate this argument, assume a group of residential structural benefiters with monthly usage in tiers 3 and 4. These CPP structural benefiters are customers with relatively flat load profiles who will benefit from the lowered non-CPP period rates (underlying TOU structure for off-peak, semi-peak and on-peak during non-CPP days) and avoid the higher tiers 3 and 4 rates inherent in the capped AB1X rate structure. The structural benefiters, by definition, are customers who will benefit from the CPP rate structure even with no change in their usage profile (i.e., provide little or no demand response during CPP hours). In this case, the CPP rate will lead to an under-collection of revenue requirements (since the CPP rate design assumes an average class load profile). Conversely, customers who have more opportunity to provide demand response or who have "peakier" load profiles will not select the voluntary CPP, but rather respond to PTR and the "no-lose" characteristic of this rate, respectively.

Conclusion

Therefore, for the aggregate residential customer class, a concurrent PTR and voluntary CPP rate for residential customers will most likely result in approximately the same demand response, but "structural benefiters" will migrate to the voluntary CPP rate, thereby causing a revenue shortfall.

Should you have any questions regarding these comments, please feel free to contact Lance DeLaura, Market Strategy/Codes Standards Manager, at (213) 244-3678.

Yours sincerely,

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