

1 SAN FRANCISCO, CALIFORNIA, JUNE 7, 2004 - 10:00 A.M.

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3 ADMINISTRATIVE LAW JUDGE MALCOLM: Come to order.

4 Mr. Buchsbaum, present PG&E's next witness.

5 MR. BUCHSBAUM: Your Honor, we're pleased to
6 present our first witness of the morning, Mr. David
7 Rubin.

8 DAVID E. RUBIN, called as a witness
9 by Pacific Gas and Electric Company,
having been sworn, testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BUCHSBAUM:

12 Q Mr. Rubin, do you have before you PG&E Exhibit
13 Nos. 12, 13, and 14 marked for identification purposes
14 only?

15 A Yes, I do.

16 Q What portions of those exhibits are you
17 sponsoring this morning?

18 A I'm sponsoring the Executive Summary and the
19 Policy chapter, Chapter No. 1, of Exhibit 12. Then I'm
20 also sponsoring Chapter No. 1 of Exhibit 14.

21 Q Were these exhibits prepared by you or under
22 your supervision, these portions?

23 A Yes, they were.

24 Q Do you have any changes, corrections, or
25 additions to these portions of the exhibits at this
26 time?

27 A None that I'm aware of, no.

28 Q Are the facts contained therein true and

1 correct to the best of your knowledge?

2 A To the best of my knowledge, yes.

3 Q Do the opinions expressed therein represent
4 your best professional judgment?

5 A They do.

6 MR. BUCHSBAUM: Your Honor, Mr. Rubin is available
7 for cross-examination.

8 ALJ MALCOLM: Thank you.

9 Mr. Reiger.

10 MR. REIGER: Thank you, your Honor.

11 CROSS-EXAMINATION

12 BY MR. REIGER:

13 Q Good morning. My name is Jason Reiger, I'm
14 representing ORA in this matter.

15 A Good morning.

16 Q I just have one or two quick little questions
17 for you. In the beginning of your testimony, actually
18 page 1.2 -- excuse me, 1-2, in the first sentence, you
19 talk about a foremost responsibility being the avoidance
20 of cost shifting. Do you have that in front of you?

21 A Yes, I do.

22 Q My question to you is: Do you think avoiding
23 cost shifting and making CCA's cost effective are
24 mutually exclusive?

25 A I don't believe that they are mutually
26 exclusive. I believe that there is obviously a
27 balancing involved.

28 Q And also on page 1-7, lines 10 through 12, you

1 talk about a "basic minimum level" of CCA
2 implementation. I was just wondering if you could
3 expand on what is and what isn't basic level?

4 A There is still plenty of opportunity to
5 provide definition. What I intended by this statement
6 was a basic level is generally consistent with the straw
7 man proposal that the utilities have put together for
8 purposes of defining the implementation of community
9 choice aggregation.

10 MR. REIGER: Thank you, your Honor. I have no
11 further questions.

12 ALJ MALCOLM: Thank you, Mr. Reiger.

13 Mr. Como.

14 MR. COMO: Thank you, your Honor.

15 CROSS-EXAMINATION

16 BY MR. COMO:

17 Q Good morning, Mr. Rubin. I'm Joe Como from
18 the City and County of San Francisco.

19 A Good morning, Mr. Como.

20 Q Let's turn to page 1-3 of your opening
21 testimony. Starting on line 18 you say:

22 Capping would also violate the no
23 cost-shifting direction AB 117
24 insofar as bundled customers would
25 be required to finance the
26 undercollection.

27 Do you see that?

28 A Yes, I do.

1 Q With regard to direct access customers, isn't
2 it true that they are financing an ongoing
3 undercollection due to the direct access cost
4 responsibility surcharge cap at this time?

5 A I'm sorry. To clarify, when you say "they are
6 financing," you are starting your sentence with direct
7 access customers are financing?

8 Q Yes. Are direct access customers financing an
9 undercollection at this time?

10 A It is my understanding that bundled customers
11 are financing the direct access customers'
12 undercollection.

13 Q Thank you. That is correct.

14 A Yes.

15 Q Is there any place in CCSF's testimony that
16 does not support that CCSF customers would be financing
17 or would be willing to finance any undercollection?

18 A I apologize, I'm not clear on the question.
19 If you could direct me to a particular part of CCSF's
20 testimony, it might help.

21 Q What I'm asking you to answer is: If you
22 believe that CCSF would not be willing to finance an
23 undercollection? Is there anything in our testimony,
24 from your knowledge of reading it, that would indicate
25 to you that CCSF would not be willing to finance an
26 undercollection?

27 A Let me respond in two parts. One is I would
28 have to go back again and refresh my recollection of

1 CCSF's testimony to see if there is anything in there or
2 not that supports your presumption.

3 On the presumption itself, when you refer to
4 CCSF itself financing undercollection, are you referring
5 to some mechanism by which CCSF would seek some external
6 financing capability to be able to essentially address
7 the undercollection?

8 Q I'm not referring to a particular mechanism.
9 I'm just referring to the principle that, to the best of
10 your knowledge, is there anything in the testimony of
11 CCSF's witnesses that would lead you to believe that,
12 however the mechanism would be put in place, the CCSF
13 would not be willing to finance an undercollection if
14 one were to happen?

15 A Okay. Then, again, in response to first part,
16 I would have to go back and refresh my recollection.

17 On the second part, if CCSF itself would be
18 financing undercollection, I'm not sure that that would
19 constitute the type of cost shift that I've expressed a
20 concern about in the testimony. The cost shift I'm
21 addressing having bundled customers essentially
22 underwrite the cost of caring and undercollection
23 associated with a CRS cap.

24 So CCSF itself is able to finance the
25 undercollection, again, if the mechanism were to work in
26 a manner consistent with the basic principle articulated
27 here, we wouldn't be concerned. I would need more
28 details around how that mechanism would work.

1 Q So is it fair to say that from PG&E's point of
2 view if bundled service customers were to subsidize
3 community choice aggregation customers, even if CCA
4 customers were to finance that undercollection, that
5 would still be a cost shifting in your mind?

6 MR. BUCHSBAUM: Excuse me, your Honor. It seems
7 to me that we might have a misunderstanding about the
8 word "financing."

9 ALJ MALCOLM: I was going to ask for a
10 clarification myself.

11 MR. BUCHSBAUM: I would just ask for a
12 clarification of what you mean by the word "financing."

13 MR. COMO: Q Financing. What I mean, Mr. Rubin,
14 is that where there might be the possibility of an
15 undercollection, where in fact bundled rate customers
16 are subsidizing a cost responsibility surcharge, that at
17 some point there would be, let's say, a true-up, then a
18 finance charge would be assessed against that
19 undercollection and would be paid to the bundled rate
20 customers that would be financing.

21 ALJ MALCOLM: So it is not like a loan, it is a
22 subsidy? When you say "financing" you are not
23 considering the direct access customers would pay back
24 the undercollection?

25 MR. COMO: I am, your Honor. The cost
26 responsibility -- excuse me, the CCA customers would be
27 paying back the bundled rate customers that would be
28 financing.

1 ALJ MALCOLM: It is not a subsidy that is now and
2 for ever?

3 MR. COMO: No. I'm trying to get clarification on
4 what PG&E's position is on that.

5 Q In the case of a, say, hypothetical
6 undercollection where a true-up happens and then the
7 bundled rate customers are essentially paid back with
8 interest and made whole, do you consider that to be a
9 subsidization?

10 MR. BUCHSBAUM: My problem continues to be in the
11 word "financing." Normally a financing would be
12 provided by the party providing the cash or the loan, if
13 you will, or lender. It seems to me perhaps I have that
14 inverted in this case, and maybe Mr. Como could help me
15 on that.

16 MR. COMO: I think -- we could actually leave the
17 word "finance" out of the equation and just ask a
18 simpler question.

19 Q If bundled rate customers were to subsidize a
20 hypothetical undercollection, and then were to be made
21 whole, would that violate AB 117?

22 ALJ MALCOLM: Made whole by whom?

23 MR. COMO: By the CCA customers at some future
24 point.

25 Q Would that violate AB 117's cost-shifting
26 rule?

27 A It is my understanding that in fact the direct
28 access cap works in exactly the same fashion that you've

1 described. If there is an undercollection that is
2 carried by bundled customers in -- I don't know to what
3 extent there is interest applied to that
4 undercollection, but over time direct access customers
5 are supposed to pay those amounts back. We do believe
6 that is, again, consistent with the no cost-shifting
7 intent of AB 117.

8 Q As applied to AB -- as applied to CCA, then,
9 your opinion is that my hypothetical would violate the
10 cost-shifting rule?

11 A Yes, I do believe that is true.

12 Q If we go also to page 1-3 on line 15, you say:
13 Capping the CRS would distort
14 rates and impair informed consumer
15 choice by artificially lowering
16 CCA charges initially...

17 Do you see that?

18 A Yes, I do.

19 Q Does PG&E support one year-ahead forecast of
20 the CRS rate?]

21 A We do. I believe that is consistent with the
22 testimony of Ms. Burns.

23 Q So isn't that effectively a rate cap for that
24 first year?

25 A I don't believe I would consider that to be a
26 cap because it -- to the extent that the forecast is
27 developed based on the best available information
28 without any constraints -- a cap, in our view, is

1 constraining the number below what the best estimate
2 would be for the forecast period.

3 Q So if a cap was developed without the
4 constraints that you allude to, then you wouldn't have
5 an issue with -- with a cap; or are we just talking
6 semantics here?

7 A I think there might be a semantic issue.

8 We define "cap" as being putting a ceiling in
9 place on top of a number that otherwise would be higher.

10 Q Is there a particular forecast that you have
11 in mind for the first year?

12 A No idea.

13 Q But given that there is a forecast for the
14 first year, then at the end of the year there would
15 either be an undercollection or an overcollection;
16 wouldn't you agree?

17 A I think -- I would agree that certainly the
18 forecast is likely to be wrong in one direction or
19 another.

20 Q And to the degree that it's an undercollection
21 or overcollection, wouldn't you say that that also
22 distorts rates?

23 A I don't know that I would necessarily agree
24 with that given the fact that a significant enough
25 portion of our rates and in particular those that are
26 the subject of the CRS are based on a forecast as well
27 that ultimately is reconciled.

28 Q But if a cap is based on a forecast which is

1 reasonable, then certainly the forecast is not going to
2 exactly pin the CRS amount; isn't that true?

3 A I would say that to the extent that a forecast
4 is developed and then a cap is imposed in order to
5 essentially replace the outcome of the forecast, you
6 would be departing from your best estimate, and the
7 forecast is the best estimate; so, as a general matter,
8 I believe the cap again departs from the efforts of all
9 parties to come up with the best forecast that they can.

10 Q Okay.

11 Well, regardless of whether you call it a cap
12 or a forecast in the first year, if the cap is based on
13 a forecast, let's say, then to the extent that there is
14 an undercollection or overcollection, regardless of
15 whether it's a cap or a forecast, you would still have
16 some distortion of rates and impaired customer choice,
17 wouldn't you?

18 A If I can clarify the question.

19 Your question, if I understand it correctly,
20 is that even a forecast is going to be wrong, and to the
21 extent the forecast is wrong, there would be a
22 subsequent true-up, assuming there is a true-up, a
23 reconciliation, and then, then isn't a cap essentially
24 introducing the same dynamic of being wrong relative to
25 what actuals end up actually being and calling into play
26 a need to reconcile; and my response to the question is
27 yes, but I think it's matter of degree.

28 Once you develop a forecast. It's based on

1 the parties and the Commission's best estimate of the
2 actual events that are likely to unfold.

3 To the extent that the forecast is wrong,
4 there would need to be a true-up.

5 Imposing a cap, though, ends up again
6 distorting the extent to which there would need to be a
7 true-up.

8 Q Okay. Let's go to page 1-5. On-line 16 you
9 say:

10 A cap requires a loan or
11 subsidy from bundled customers,
12 and could produce incentives for
13 the CCA or individual customers to
14 terminate during the "recovery"
15 period, when actual costs are
16 lower than the cap;

17 Would you explain what you mean by "the recovery
18 period"?

19 A By "the recovery period" I am referring to the
20 period of time on which any underrecovery that would
21 have been created during the early years essentially
22 then be paid back by the community choice aggregation
23 customers.

24 Q So essentially the same model as what is put
25 forth for direct access customers?

26 A That's correct.

27 Q From San Francisco's testimony, are you aware
28 that we are proposing a two-year CRS which would include

1 an assessment of the undercollection some time during
2 the second year?

3 A I believe I remember having seen that in
4 Dr. Barkovich's testimony, yes.

5 Q So that in the third year, then, we would
6 begin the year with a new CRS? Would you -- do you
7 understand the way that works?

8 A I would have to refer back to the testimony to
9 refresh my recollection on the specifics. I'll take it
10 subject to check that that's your proposal.

11 Q Okay.

12 So understanding that the City only -- or
13 San Francisco only proposes a two-year CRS, do you
14 foresee this termination that you referred to by the CCA
15 as being a realistic possibility?

16 A I would say that to the extent that you adjust
17 on a more or closer to a real-time basis any
18 underrecovery amounts, you do head in the direction of
19 mitigating the possibility that there would be the type
20 of termination that I am referring to. I don't believe
21 you eliminate it.

22 Q During a two-year period, though, what would
23 be the -- what would be the risk of a -- the kind of
24 termination you're talking about?

25 A If I understand CCSF's proposal, the cap would
26 be in effect for two years, at which point, in year 3,
27 you would establish potentially a new, higher cap in
28 order to be able to recover any of the unrecovered

1 amounts that occur during the first two years; is that
2 correct?

3 Q That's correct.

4 A And if that's correct, I could certainly see,
5 again under a hypothetical set of circumstances, a
6 situation where there's a significant underrecovery in
7 the first two years, and the amounts that are then put
8 in place in year 3 are significantly above the amounts
9 that bundled customers are paying, and there could be
10 pressure, based on the magnitude of the difference, for
11 the City to consider that this isn't the business it
12 wants to be in. Where customers put pressure on the
13 City in response to what they are perceiving as much
14 higher rates than their neighbors as bundled customers
15 pay.

16 Q And at that point, if PG&E's recommendations
17 on reserve margins is adopted, how -- wouldn't
18 San Francisco be obligated under long-term contracts for
19 it past that third-year period for a considerable amount
20 of time?

21 A I will defer to Ms. Burns for the details
22 around our reserve margin proposal. But if I could --
23 if the question you're asking me is to the extent that
24 San Francisco has long-term contractual commitments that
25 extend beyond year 3 in the scenario that you have
26 described, I would say, without knowing the specific
27 details, that certainly contracts can be liquidated in
28 some fashion, so I don't believe that that would, in and

1 of itself, stand as a bar.

2 Q Are you aware that PG&E is suggesting five-
3 year contracts for reserve margins?

4 A I believe PG&E is advocating a five-year
5 reserve margin -- a reserve margin set in advance for a
6 five-year period. I'm not familiar with the lengths of
7 the contracts that would necessarily be required in
8 order to produce that reserve margin.

9 Q I'd like to turn to your rebuttal testimony,
10 page 1-3.

11 One moment, your Honor.

12 On line 5 of that page you state that:

13 ... PG&E believes that any effort
14 to address load profiling as a
15 technical (and practical) design
16 matter masks the more fundamental
17 policy issue that is, or should
18 be, in question.

19 Do you see that?

20 A Yes, I do.

21 Q Just some clarification.

22 Are you recommending that cities not be
23 allowed to use city-specific load profiles for purposes
24 of scheduling and settling power transactions with the
25 ISO?

26 A That's correct. Our position is to use system
27 average.

28 Q And would PG&E also require or recommend that

1 CCAs, in meeting the future resource adequacy, use the
2 system average load profile as well?

3 A I believe that's correct. Again, I'd have to
4 go -- refer to Ms. Burns for the details.

5 Q Would you also agree that it's likely that in
6 terms of aggregate load that City of San Francisco would
7 likely have a flatter load profile than PG&E's system
8 average load profile?

9 A I don't have the specific details on CCSF's
10 load characteristics.

11 I do recall a study that was commissioned by
12 the City and was performed by R.W. Beck, and, if my
13 memory serves me well, concluded that CCSF's peak load
14 was, again, on a relative basis, flatter than PG&E's
15 system average but that the shoulder peak periods were
16 higher.

17 So, on net, I'm not sure what the balance of
18 that would produce.

19 Q Well, then, given that your understanding is
20 that we have a flatter load profile, then if
21 San Francisco were required to use a PG&E system average
22 load profile, then the City would be required to
23 actually meet a higher resource adequacy requirement
24 when compared to our true forecast load profile?

25 A If -- if I may clarify, just to be sure that
26 we're speaking the same language.

27 When you refer to "a flatter load profile"
28 again, with the caveat that I mentioned, based on my

1 understanding of the Beck study, potentially flatter
2 peak, higher shoulders; and I don't know for a fact what
3 the balance of those two different considerations are,
4 but if -- if your question then is specifically to the
5 extent that CCSF would need to meet system average load
6 characteristics and that hypothetically CCSF's load
7 characteristics are more favorable, by that, meaning
8 lower cost on average than what a system average might
9 produce, our response would be that today, as a group of
10 bundled customers, CCSF and, for that matter, all other
11 cities pay according to the same averages; so the
12 purpose of my comments in this testimony is to point out
13 the fact that allowing communities to use their own
14 local load characteristics essentially represents a
15 de- -- an unraveling of the average that is currently
16 used for ratemaking purposes, and we're highlighting
17 that point to the Commission in order to identify it as
18 a more significant policy issue than just simply a
19 technical one.]

20 Q Well then, subject to the your understanding
21 of the RW Beck report, wouldn't it be true that if fact,
22 our load profile was flatter, then at times we would be
23 overscheduling for power because we are using the PG&E
24 load profile, average load profile?

25 A I'll have to at this point defer to Ms. Burns
26 for the details. I'm not myself an expert in how
27 the scheduling occurs for power deliveries.

28 I will, though, make a general comment which

1 is, today as I understand it, system average load
2 profiles are used and that the system arguably seems to
3 work well enough with everybody, and I'll use
4 the expression "adhering to the same fiction" somewhat
5 loosely. But as long as all parties are abiding by
6 the same set of rules, I don't believe it necessarily
7 introduces a distortion.

8 MR. COMO: That's all I have. Thank you,
9 Mr. Rubin.

10 ALJ MALCOLM: Thank you, Mr. Como.

11 Mr. Fenn.

12 MR. FENN: Thank you, your Honor.

13 CROSS-EXAMINATION

14 BY MR. FENN:

15 Q Hello, Mr. Rubin. I'm Paul Fenn.

16 A Good morning.

17 Q Just one moment. I'm sorry.

18 I'm wondering, if you would be able to --
19 trying to understand your position on the use of
20 true-ups. And in particular, I'm interested in
21 understanding how many true-ups are involved in your
22 proposal. There's the true-up of the DWR commitments
23 which are in existence already. There is true-ups,
24 potential true-ups as I understand for new world
25 procurement. Is that true, are you proposing true-ups
26 for new world procurement?

27 A If the line of questioning you're heading down
28 goes into the specific level of detail, my inclination

1 would be to defer to Ms. Burns.

2 Q Ms. Burns?

3 A Yes.

4 Q So you are prepared, though, to answer
5 questions related to the relationship between utility
6 procurement and the CRS, correct, or not?

7 A It depends on what level of detail you're
8 looking for. It may well be that those questions are
9 better suited for Ms. Burns.

10 Q I see. Well, I'll just try, then.

11 AB 117 says that the Commission can make a CCA
12 wait in order to accommodate the annual electric utility
13 procurement plan of the utility.

14 A I'm sorry. Could you refer me to the specific
15 section of AB 117?

16 Q Yes. It's Section 366.2 (c)(13)(B) which
17 reads that the Commission shall establish the earliest
18 possible date for implementation of a community choice
19 aggregation program, taking into consideration
20 the impact on any annual procurement plan of
21 the electrical corporation that has been approved by
22 the Commission.

23 Do you see that?

24 A I'm sorry. It was subsection 13?

25 Q (B), yes. Subparagraph (B). Commission shall
26 establish. This is a --

27 A Which page of the bill?

28 Q Let's see if I can find it for you.

1 It's page 7. Oh, wait a minute. Is that
2 right?

3 MR. BUCHSBAUM: Excuse me. Can we go off
4 the record?

5 ALJ MALCOLM: Yes. Let's go off the record.
6 (Off the record)

7 ALJ MALCOLM: On the record.

8 Thank you, Mr. Fenn.

9 MR. FENN: Q This section is dealing with the
10 Commission's certification of a CCA's implementation
11 plan and specifies that,

12 The commission shall designate
13 the earliest possible effective
14 date for implementation of a
15 community choice aggregation
16 program, taking into consideration
17 the impact on any annual
18 procurement plan of the electrical
19 corporation that has been approved
20 by the Commission.

21 So my question is, do you believe that the
22 Commission can delay implementation of a CCA
23 implementation plan based on multi-year procurement
24 plans or utility retained generation?

25 Do you believe that this section limits
26 the authority to delay to annual procurement plans of
27 electric utilities or does it -- is there a basis to
28 argue that the delay could include multi-year

1 procurement plans of the utilities or URG?

2 THE WITNESS: Your Honor, I'm not sure that I'm
3 qualified to answer.

4 ALJ MALCOLM: Let's go off the record.

5 (Off the record)

6 ALJ MALCOLM: Let's go back on the record.

7 Let's go off the record.

8 (Off the record)

9 ALJ MALCOLM: Let's go back on the record.

10 Try again.

11 MR. FENN: Q In developing your CRS model, do you
12 believe -- reflecting on this section of code, 366.2 --
13 sorry -- it is 366.2(c)(8), that the CRS would include
14 multi-year procurement and utility retained generation
15 or might in some way be limited to annual procurement by
16 a utility?

17 A In developing PG&E's proposal, we do not read
18 the particular section of AB 117 that you referred to,
19 366.2(c)(8), as representing a limitation on the lengths
20 of say a particular procurement contracts that we would
21 have executed on the CRS.

22 And I would refer to a different section of
23 AB 117 as being more relevant for that consideration
24 from PG&E's perspective, and that is section
25 366.2(f)(2). And I'll read that for the record.

26 "Any additional" -- I'm sorry. (f) itself
27 begins with:

28 A retail end-use customer

1 purchasing electricity from
2 a community choice aggregator
3 pursuant to this section shall
4 reimburse the electrical
5 corporation that previously served
6 the customer for all of
7 the following:

8 And then skipping on to subsection 2:

9 Any additional costs of
10 the electrical corporation
11 recoverable in commission-approved
12 rates, equal to the share of
13 the electrical corporation's
14 estimated net unavoidable
15 electricity purchase contract
16 costs attributable to the
17 customer, as determined by the
18 commission, for the period
19 commencing with the customer's
20 purchases of electricity from
21 the community choice aggregator,
22 through the expiration of all then
23 existing electricity purchase
24 contracts entered into by
25 the electrical corporation.

26 So we read that section as establishing
27 the fact that any contracts we would have executed
28 prior to the community choice aggregator serving

1 the customers as being eligible for recovery on an
2 ongoing basis through the life of those contracts.
3 And the subsection that you cited refers to
4 coordination of the CCA's plans.

5 ALJ MALCOLM: Thank you.

6 MR. FENN: Thank you.

7 Q Are you able to speak to the whole issue of
8 CCA notifications, or is that off subject for you?

9 A That's not the topic of my testimony.

10 Q It's not.

11 I'd like to go to the language, the statute
12 that refers to the assignment of a CRS and ask you a
13 question about that language. So if you don't mind,
14 I'll refer you to -- this is 366.2(c)(7).

15 Within 90 days after the community
16 choice aggregator establishing
17 load aggregation files its
18 implementation plan,
19 the commission shall certify that
20 it has received the implementation
21 plan, including any additional
22 information necessary to determine
23 the cost-recovery mechanism.

24 After certification of receipt of
25 the implementation plan and any
26 additional information requested,
27 the commission shall then provide
28 the C[ommunity] C[hoice]

1 A[gggregator] with its findings
 2 regarding any cost recovery that
 3 must be paid by customers of
 4 the C[ommunity] C[hoice]
 5 A[gggregator] to prevent a shifting
 6 of costs.]

7 Do you believe that this language does not
 8 require the Commission to fully disclose the CRS to be
 9 imposed upon the CCA? Or do you believe that it would
 10 allow for the CRS to vary after that? I'm speaking to
 11 true-up.

12 Would this not, this language, that is the
 13 language that is -- says the Commission shall then,
 14 that is up to 90 days, provide the CCA with its
 15 findings regarding any cost recovery that must be paid
 16 by customers?

17 Is that not -- how can a true-up occur
 18 subsequent to this date, this 90-day date, given what
 19 appears to me to be a specific requirement that its
 20 findings be disclosed up front. This is what you must
 21 pay to leave, here is your price. How is a true-up
 22 consistent with this language?

23 A I don't read the language that you are
 24 referring to as necessarily limiting the Commission 's
 25 authority to only establishing a specific number that at
 26 that point in time can no longer be adjusted by the
 27 Commission, either as part of the true-up providing or
 28 some other mechanism.

1 Q I understand that is your belief. But I'm not
2 so much asking about your belief as much as an
3 explanation. Seems to me here the Commission shall
4 then -- it is 90 days at -- 90 days the Commission shall
5 provide CCA with its findings regarding any cost
6 recovery that must be paid by customers.

7 You are telling me that the findings need not
8 be specific? The findings could just be -- we find that
9 you shall pay whatever is necessary, according to future
10 conditions, that would qualify under the statute? There
11 is no -- any cost recovery. Maybe I'm -- that must be
12 paid, shall then provide.

13 Does that require that they shall then provide
14 its findings? The Commission shall provide its
15 findings? Does that not require that they disclose what
16 the CRS should be?

17 A It was a long question. There were a couple
18 of points where I would disagree with your
19 characterization. My prior answer, setting those aside,
20 I'll answer it again, is that I believe that this
21 particular section does not bind the Commission to have
22 to, upon certification and issuance of its findings
23 under the subsection, to specifically identify the
24 number that would be applicable to a particular set of
25 CCA's customers.

26 I read this section as standing for the
27 proposition that the Commission could in fact issue a
28 finding that says that the CCA customers will owe the

1 amounts as determined in the ongoing proceedings that
2 really have been established for purposes of coming up
3 with the CRS, generally.

4 Q Do you think that it has the same meaning as
5 under Subsection 8, no entity -- the following section:

6 No entity proposing CCA shall act
7 to furnish electricity to
8 electricity consumers until the
9 Commission determines the cost
10 recovery that must be paid by the
11 customers.

12 Do you believe that also means that if --
13 that the cost recovery --

14 MR. BUCHSBAUM: Excuse me. If you are going to
15 quote a section, can you please read the entire
16 sentence. Because it is very important, particularly if
17 you are going to ask my witness about statutory
18 interpretation. It says:

19 The cost recovery paid by the
20 customers of that proposed
21 community choice aggregation
22 program, as provided for in
23 Subdivisions D, E, and F.

24 MR. FENN: Q Did you get all that?

25 A I did. Thank you.

26 Q Do you believe that this provision, Section 8,
27 also would define the Commission's responsibility to
28 determine the cost recovery that must be paid? Can it

1 just be an open ended you pay whatever we tell you to
2 pay next year, and the year after that? Is that what
3 that means?

4 A If I could. I don't go along with your
5 characterization of my previous answer, so I want to
6 just correct.

7 I'm not suggesting that the Commission's
8 determination is going to be pay whatever we determine
9 to pay next year. It is not open ended. What I believe
10 this particular language refers to, consistent with my
11 answer on the previous one, is that the Commission could
12 determine that the amounts owed by CCA customers would
13 be as a result of an annual proceeding in which the
14 information would be available to all parties and offer
15 their opinions on. If the Commission would issue a
16 decision indicating CCA customers' responsibility for
17 2006 would be the following.

18 So I don't agree with your characterization
19 that that is necessarily an open-ended determination,
20 but in fact would be specific in many respects. I don't
21 believe though that it necessarily costs for them to
22 issue a number at a point in time that would no longer
23 be subject to additional consideration by the
24 Commission.

25 Q What would you say are the variables? What
26 are the factors that this cost recovery determination of
27 cost recovery, what change, what costs change?

28 A They would be those that are identified as the

1 language in the statute that refers to Subsections D, E,
2 and F, Subsection 366.2.

3 Q Do you -- are you -- do you believe that
4 procurement, utility procurement, following the transfer
5 of customers, would be included?

6 A This gets a little bit more into the subject
7 area for Witness Burns. But I will answer generally,
8 which is that our position is that if a CCA in fact
9 adheres to specific resource adequacy requirements,
10 which I understand are being developed in another
11 proceeding, that at the point of -- point in time in
12 which the CCA begins serving the customer, any
13 subsequent utility procurement would not be included in
14 the CRS. But, again, it is with that very careful
15 caveat around resource adequacy obligations.

16 Q Okay. Thank you.

17 Do you believe that it would include URG? I
18 guess one question in my mind is --

19 ALJ MALCOLM: Do you want him to answer the
20 question?

21 MR. FENN: I'm sorry?

22 ALJ MALCOLM: Do you want him to answer the
23 question?

24 MR. FENN: I wanted to explain it a little bit.

25 Q Yeah. If you could answer it with that
26 explanation.

27 A My understanding is that the indifference
28 calculation, which we agree would be a basis for

1 determining the CRS, does include utility-retained
2 generation as part of the calculation.

3 Q So if you buy a power plant, you are on a
4 30-year pay back, you are locking in CCA's exit fees 30
5 years into the future; is that correct?

6 A Could I have the question asked perhaps in a
7 less judgment- --

8 Q You are creating stranded costs, and you are
9 creating exit fees de facto simply by the act of
10 acquiring, or constructing, a power plant for 30 years;
11 is that not true?

12 A Your Honor, can I answer the question in a way
13 that I see suited? And that is that were we to acquire
14 a power plant, it would be incorporated as part of the,
15 as I understand it, the ongoing procurement proceedings
16 that the Commission will be conducting. And it will be,
17 as I understand it, again, deferring to Ms. Burns for
18 the details, that at that point in time there would need
19 to be consideration given by the Commission around to
20 what extent the cost associated with that decision would
21 be applicable to CCAs.

22 The dynamics that are established is that we
23 need to make decisions to serve bundled load. And so
24 there is clearly a need to have some form of
25 coordination between those decisions that we make and
26 decisions around communities to ultimately serve that
27 load.

28 So I don't think it is quite as black and

1 white as you portrayed it in terms of us making a
2 decision to procure power plant, therefore, establishing
3 exit fees for 30 years for CCAs.

4 Q Would URG fall under the annual procurement
5 plan of electric utility?

6 A I believe so. But, again, for those details,
7 I will defer to Ms. Burns.

8 Q Is there any specific reference to URG in this
9 statute as far as the applicability of the CRS? Which
10 is the -- is your belief that the CRS should include
11 URGs to be found in this statute, or is it from
12 somewhere else, from some other source?

13 A It is our belief that in fact utility-retained
14 generation would be eligible for recovery as part of the
15 CRS. Again, depending upon the specifics with respect
16 to how those decisions are coordinated with CCA
17 decisions to serve load.

18 Q Isn't it true that when this legislation was
19 passed that utilities were not authorized to build URG,
20 nor were you in the procurement business yet, except for
21 on a year-to-year basis; isn't that true?

22 A It was true that when this legislation was
23 passed, PG&E was not creditworthy. And, as I
24 understand, not able to engage in longer term
25 procurement or utility power plant acquisition, I don't
26 believe.

27 ALJ MALCOLM: I'll testify that there has never
28 been a prohibition on either.

1 MR. FENN: Prohibition, but during AB 1890 the
2 utilities were required to divest and did divest.

3 ALJ MALCOLM: No, they were not required to
4 divest. I think we are getting far afield of this
5 proceeding.

6 MR. FENN: I'm talking about legislative intent.

7 ALJ MALCOLM: I don't think he is prepared to
8 discuss legislative intent of AB 1890. It is beyond the
9 scope of this proceeding.

10 MR. FENN: I'll move on.

11 ALJ MALCOLM: Can you let me know when we can stop
12 to take a break?

13 MR. FENN: Sure. Now would be fine.

14 ALJ MALCOLM: Recess until 11:20.

15 (Recess taken)

16 ALJ MALCOLM: Back on the record.

17 Mr. Finn.

18 MR. FENN: Thank you, your Honor.

19 Q One last question, it has to do with the
20 true-up again.

21 Would any of the true-ups proposed by you
22 impact a CCA customer? Could a true-up, whether it is a
23 new world procurement, URG, any form of true-up that you
24 proposed, impact CCA's customers differently than it
25 would impact bundled service customers?

26 A To clarify the question, when you indicate the
27 true-up could be as a result of URG or new world
28 procurement or DWR power, are you referring in that case

1 to an annual or some other form of a true-up where there
2 has been a specific estimate of costs associated with
3 the CRS that then subsequently are re-estimated based on
4 new actuals? Or are you referring to new costs being
5 included into the CRS calculation? Because I'm not
6 clear which of the two you are referring to.

7 Q New costs being included, the latter category
8 could you explain, I don't quite understand.

9 A Well, for example, again, if a particular CCA
10 takes on the responsibility to procure power for its
11 customers in 2006, under our proposal, assuming that the
12 CCA takes on the appropriate resource adequacy
13 obligations, that those CCA customers would not see any
14 procurement decisions entered into beyond that point.
15 But that a CCA making a decision and taking on the
16 responsibility for 2008, these customers could have
17 within their CRS procurement decisions that the
18 utilities would have made during the intervening
19 two-year time period.

20 So I'm not sure if your use of the term
21 "true-up" means an ongoing population of the CRS
22 difference in calculation based on utility procurement
23 decisions that are undertaken up to the point where the
24 CCA takes on the obligations, or if you are talking
25 about a true-up in the sense of a particular group of
26 customers there would have been a forecast for CRS for a
27 given year, and after the fact there would have been a
28 true-up based on known actuals.

1 Q The former is what I had in mind when I asked
2 the question.

3 A Which is the annual true-up as we've defined
4 it?

5 Q Yes.

6 A The question, again, is whether the changes to
7 the CRS -- or changes in the various elements of the CRS
8 would also impact bundled service customers --

9 Q Yeah.

10 A -- in the same manner?

11 Q Yes.

12 A -- as they impact CCAs?

13 And my general understanding is that that
14 would be true, but I would have to defer to Ms. Burns
15 for the specifics.

16 MR. FENN: Thank you. No further questions.

17 ALJ MALCOLM: Thank you, Mr. Fenn.

18 Is there any redirect?

19 MR. BUCHSBAUM: No, your Honor.

20 ALJ MALCOLM: Thank you, Mr. Rubin. You are
21 excused.

22 THE WITNESS: Thank you.

23 ALJ MALCOLM: Mr. Buchsbaum, would you present
24 PG&E's next witness.

25 MR. BUCHBAUM: Yes. PG&E calls Ms. Sandra Burns
26 to the stand.

27 ALJ MALCOLM: Let's go off the record.

28 (Off the record)

1 SANDRA J. Burns, called as a witness
2 by Pacific Gas and Electric Company,
3 having been sworn, testified as follows:

4 ALJ MALCOLM: Mr. Buchsbaum.

5 DIRECT EXAMINATION

6 BY MR. BUCHSBAUM:

7 Q Good morning, Ms. Burns.

8 A Good morning.

9 Q Do you have exhibits marked for identification
10 purposes only Nos. 12, 13, and 14 before you?

11 A I do.

12 Q And can you tell us which portions of these
13 exhibits you are sponsoring here today?

14 A I'm sponsoring Chapter 2 of Exhibit 12,
15 Chapter 2 of Exhibit 13, Chapter 2 of Exhibit 14.

16 Q Were these portions of the exhibits prepared
17 by you or under your supervision?

18 A Yes, they are.

19 Q Do you have any corrections, changes, or
20 additions to make to those portions at this time?

21 A Yes, I have two changes.

22 In Exhibit 12, on page 2-4, lines 22 to 32,
23 there is a quotation from a Commission decision. I
24 would like to delete that quotation, but leave the
25 parenthetical reference to Decision 02-11-022, page 34
26 to 35.

27 And my second change is to Exhibit 14, page
28 2-7, line 17. I would like to delete the sentence that
begins in the middle of page 17, and runs into line 18,

1 "The Commission ended this practice by granting SCE's
2 Emergency Motion (Decision 99-06-058)." Delete that
3 sentence.

4 Those are all my corrections.

5 Q And, Ms. Burns, with these changes, are the
6 facts contained in these exhibits true and correct to
7 the best of your knowledge?

8 A Yes.

9 Q And are the opinions stated therein your own
10 personal opinions and your best professional judgment?

11 A Yes.

12 MR. BUCHSBAUM: Ms. Burns is available for
13 cross-examination.

14 ALJ MALCOLM: Thank you.

15 Mr. Reiger.

16 MR. REIGER: Thank you, your Honor.

17 CROSS-EXAMINATION

18 BY MR. REIGER:

19 Q Good morning. My name is Jason Reiger, and
20 I'm representing ORA here.

21 A Good morning.

22 Q I would like to start by asking you a question
23 I believe Mr. Como asked Mr. Rubin about the ISO
24 settlement, which he deferred to you. I have a
25 follow-up question. Perhaps you can give me some
26 background about how the ISO settlement interacts with
27 system average load profiles.

28 A Well, in general, all the load-serving

1 entities used in system average load profiles for
2 customers where there is not individual metering to do
3 scheduling and settlements.

4 Q So when you say "load-serving entity" there,
5 are you talking about a load-serving entity-wide system
6 average or an IOU system average?

7 A IOU system average.

8 Q On a different subject, do you object to a cap
9 or to just having bundled ratepayers finance any
10 undercollection caused by a cap?

11 A That is really how I'm defining a cap, as
12 setting a limit on the cost-based level of the CRS, such
13 as bundled customers would pay for it. So bundled
14 customers would finance keeping the CRS low in the short
15 term.

16 Q Do you have any opinion on a cap that wasn't
17 so financed?

18 A Do you mean if it was financed directly by the
19 CCA?

20 Q That would be one example.

21 A As long as bundled customers were paying rates
22 so that they weren't -- so that bundled customers
23 weren't subsidizing CCA customers by keeping the CRS
24 low. I think the Commission's -- or the legislation's
25 coefficient against cost shifting would be satisfied.

26 Q When direct access customers return to bundled
27 service they pay spot prizes for a period of time; is
28 that correct?

1 A That is correct, yes, for six months, I
2 believe.

3 Q That is done to protect bundled ratepayers,
4 correct?

5 A Yes.

6 Q Now, if that situation works for direct
7 access, couldn't it also work for community choice
8 aggregation?

9 A I believe you are talking about switching
10 rules that are probably more part of Phase 2 of this
11 proceeding. The rates customers would pay when they
12 return to --

13 Q I'm not so much talking about how the
14 switching rules would be implemented, but whether or not
15 the theory, theoretical basis behind them of protecting
16 bundled ratepayers, and how that works for direct
17 access, if that is applicable to community choice
18 aggregation, as a theory?

19 A I think certainly the theory would be the
20 same. That returning customers who pay spot rates, to
21 the extent that allows bundled customers to not see any
22 change in their rate, that theory would keep bundled
23 customers indifferent. Our concern with that is in
24 times of resource constraints, if that is when customers
25 are returning, the price may be very high or the power
26 may not be available.

27 Q So if there was a resource constraint it would
28 be more difficult to charge a spot price in that

1 circumstance; is that correct?

2 A It could be, yes, if the spot price is very
3 high.

4 Q If you were to put in those sorts of rules
5 such as they have to purchase spot price energy, would
6 you need new meters?

7 A I don't believe so, no. I think we would just
8 charge them a higher procurement ratebase on whatever
9 metered data we had.

10 Q For instance, based upon a monthly average
11 spot price; is that correct?

12 A You know, I'm not sure exactly the fine points
13 of how the calculation is done for DA customers. I
14 think they use a daily price that is then somehow
15 averaged depending on the group of customers.]

16 Q If I can go to Exhibit 12, page 2-9.

17 Do you believe that vintaging -- regarding
18 vintaging of a CRS, do you believe that a CCA that
19 departed in, say, 2006, should pay the same CRS as one
20 that departed in 2010?

21 A Not necessarily.

22 The way the section is written, it really
23 depends on whether or not the Commission adopts a long-
24 term resource adequacy requirement and whether CCAs are
25 meeting that requirement.

26 To the extent that CCAs are planning for and
27 acquiring resources for their customers so the utility
28 does not have to do that, then I can see -- I can

1 envision a situation where a customer that departs in
2 2006 would not be paying for procurement that occurred,
3 say, between 2006 and 2010, whereas the CCA customer
4 that departed in 2010 might be paying for those costs.

5 But that is conditioned on the assumption that
6 the Commission adopts and enforces a resource adequacy
7 requirement on CCAs.

8 Q Is that a position you support, a long-term
9 resource adequacy plan?

10 A Yes.

11 We propose that the Commission impose a five-
12 year requirement on all load-serving entities.

13 Q If I could go to the table on 2-12, Table 2-1.
14 Do you have that table in front of you?

15 A I do.

16 Q Do you think that the assumptions for the
17 direction of change in the variables in Scenario 2 --
18 that would be gas price increases, generation addition
19 decreases, and load growth higher than normal -- are
20 mutually consistent?

21 A So when you say "Scenario 2" you are talking
22 about the -- the low case, Navigant Case 2?

23 Q Correct.

24 A All right.

25 And your question was?

26 Q Do you think the assumptions for the direction
27 of change in the variables are mutually consistent?

28 A I'm sorry. And those were high -- high gas

1 price and --

2 Q High gas prices, generation addition
3 decreases, and load growth higher than normal.

4 A They could be.

5 I mean, I think it's a reasonable -- the point
6 of these scenarios was just to capture the range of the
7 CRS, you know, a potential low case and a potential high
8 case.

9 The actual low result or high result could
10 come about from any com- -- you know, any number of
11 combinations of market conditions.

12 Q So "They could be" was your answer; correct?

13 A They could be, yeah.

14 Q Do you think it's more likely that the
15 variables will all move in the same direction?

16 A The variables?

17 Q The three very variables that we talked about:
18 gas prices, generation additions, and load growth?

19 A I -- I don't know. I haven't really studied
20 the correlation between those factors.

21 Q Do you think the Scenarios 2 through 5 were
22 intended to be illustrative or actual projections?

23 A I think they were illustrative to just give
24 the parties an idea of a potential range of CRS and, you
25 know, the -- the potential impact of different
26 assumptions.

27 Q If I could go to your reply testimony,
28 Exhibit 13, on page 2-6, the question and answer for

1 Question 13.

2 Do you have that in front of you?

3 A Yes.

4 Q Do you think CCAs are customers or are they
5 market participants?

6 A Just let me clarify.

7 This question and answer was referring to
8 confidential utility procurement data only. I'm in no
9 way talking about customer-specific information --

10 Q Okay.

11 A -- which has been addressed by other
12 witnesses.

13 But I do believe that CCAs are market
14 participants, yes. That was the point of this question
15 and answer.

16 Q Do you believe that they could be viewed as
17 customers representing themselves within the market?

18 A That's not how I view them.

19 I view the City as someone who's providing
20 power to its customers, buying and selling power in the
21 market, and a market participant.

22 Q If the Commission were to find that they were
23 customers, do you think you would be required to give
24 them their own data, the data that would otherwise be
25 excluded under the 15/15 rule?

26 A And this really goes beyond the scope of my
27 testimony.

28 What I said, I'm not talking about utility

1 customer data subject to the 15/15 rule here; I'm
2 talking about utility procurement planning data, and
3 that -- the definition of "market participant" was used
4 in the procurement proceeding to discuss -- to address
5 what types of procurement planning data were provided to
6 market participants.

7 Q Well, perhaps this next question is beyond
8 your testimony, but let me just ask it anyway, but do
9 you think PG&E is more or less willing -- or more or
10 less able to provide confidentiality of data than a CCA
11 is?

12 A What kind of data are you referring to?

13 Q Customer-specific data: load, contact
14 information.

15 A That -- that really goes beyond the scope of
16 my testimony. Ms. Buller was the witness on
17 information -- customer information issues.

18 Q If I could draw your attention to 2-15, and
19 there's a discussion there about load factors under
20 Section H, and I have a general question about whether
21 PG&E would be prepared to assist the CCA in creating
22 specific load profiles.

23 A That is really beyond the scope of my
24 testimony, too.

25 The point of this section -- question and
26 answer here was to basically say we're not proposing to
27 use customer-specific load profiles; that the variation
28 in the CRS by community would be a function of when the

1 community departed for community aggregation.

2 Our -- as testified to by other witnesses, our
3 position is that we should be using system average load
4 profiles.

5 MR. REIGER: No further questions, your Honor.
6 Thank you.

7 ALJ MALCOLM: Thank you Mr. Reiger.

8 Mr. Como?

9 MR. COMO: Thank you, your Honor.

10 CROSS-EXAMINATION

11 BY MR. COMO:

12 Q Ms. Burns, with regard to system average load
13 profiles I asked Mr. Rubin some questions, so you
14 probably have an idea what I'm going to ask you, but
15 PG&E's recommending that CCAs use system average load
16 profiles; is that correct?

17 A Yes, that's correct.

18 Q And that would you agree that San Francisco is
19 likely to have a flatter system load profile than PG&E's
20 system average load profile?

21 A I don't have any new information other than
22 what Mr. Rubin testified to earlier this morning.

23 Q If you accept that as an assumption, let's
24 say, then wouldn't that lead to a situation where, in
25 order for the City to -- to meet its resource adequacy,
26 it would have to purchase power -- it would have to
27 purchase more power than it would otherwise need to
28 under its own forecast?

1 Correction: power at peak times?

2 A I don't know exactly how the resource adequacy
3 requirement is going to be imposed upon the CCAs.

4 At this point there isn't any mechanism
5 adopted by the Commission or -- for enforcing the
6 resource adequacy requirement or verifying how the CCAs
7 meet their requirement.

8 But it is true that the higher the peak
9 forecast, the more peak capacity, all else being equal,
10 will be purchased.

11 Q So PG&E's not recommending that CCAs use the
12 system average load profile for resource adequacy?

13 A I don't know -- I haven't been that involved
14 with the resource adequacy proceedings. I don't know if
15 we've gotten to that level of detail in those workshops.

16 Q Well, let's just talk about scheduling of
17 power.

18 If we did have -- if a CCA does have a flatter
19 load profile than PG&E's load profile, then wouldn't we
20 have situations where both the CCA and PG&E would be
21 overscheduling for power at certain times?

22 A I don't think so. No.

23 If everyone's using the same system average
24 load profile for scheduling, then the expectation would
25 be that the total scheduled power would -- would balance
26 the total load.

27 Q PG&E would still be purchasing power based on
28 its system average load profile; isn't that correct?

1 A Yes.

2 Q And if San Francisco has a flatter load
3 profile and it is also purchasing power based on PG&E's
4 system average load profile, then wouldn't there be
5 excess energy being purchased both by PG&E and
6 San Francisco?

7 A I don't think so. No.

8 I believe that if everyone is using the same
9 average load profile for purchasing, then there won't be
10 an aggregate overscheduling.

11 Q Okay. I'd like to turn to your opening
12 testimony, page 2-2, starting on line 30. I believe it
13 says that you believe that the ultimate calculation for
14 the CRS should be done with load and resource
15 assumptions that are consistent with those that are
16 adopted in the utility's long-term plan; is that a fair
17 assumption -- a fair summary?

18 A Yes.

19 Q Now, it wasn't clear to me whether you're
20 recommending that the Commission actually adopt the CRS
21 number now for the year 2005 or any other year in this
22 proceeding or some other proceeding.

23 Would you recast that for me?

24 A Sure. I'm recommending that the Commission
25 adopt a policy here and that the number be calculated in
26 some other proceeding.

27 And I should clarify this testimony here: The
28 CRS should be set based on assumptions that are

1 consistent potentially with -- that come out of a lot of
2 proceedings, not just the long-term plan. So there may
3 be assumptions that also come from the DWR proceeding or
4 the ERRA proceeding, for instance.

5 Q So you're not recommending a particular
6 proceeding; you're just saying that whatever proceeding
7 may affect the CRS as assigned to CCAs?

8 A I think a logical place to implement it would
9 be in the DWR revenue requirement proceeding, but we
10 would certainly include assumptions that come out of the
11 long-term plan proceeding as well as the ERRA
12 proceeding.

13 So the whole point of this is that I don't
14 think we should be litigating planning assumptions in
15 this proceeding because they are going to be litigated
16 in a multitude of other proceedings.

17 Q In terms of timing, how do you see that
18 feeding into this proceeding so we can actually get a
19 calculation of a CCA CRS?

20 A Well, I think we could do the calculation --
21 the forecast of CRS calculation initially as part of the
22 DWR revenue allocation proceeding, which is done on an
23 annual basis.

24 Conceivably you could add a short phase to the
25 2005 proceeding, after that proceeding is filed, to set
26 the initial level for 2005, and then it would be trued-
27 up the following year.

28 Q So you're suggesting it only be done on a

1 year-ahead basis?

2 A Yes.

3 Q And that also is consistent with your
4 recommendation that it be done -- to take into account
5 your -- your long-term resource plan on an annual basis
6 only; is that correct?

7 A I'm not sure I understood the distinction in
8 your question.

9 Q One is based on the DWR proceeding, which is
10 done annually; but your long-term procurement plans are
11 also updated annually.

12 In other words, it's that you're recommending
13 that it be updated annually based on both your long-term
14 planning and the DWR proceeding?

15 A Right. I think different assumptions would
16 come from different proceedings. Certainly the
17 assumptions about DWR costs would come from the DWR
18 proceeding; assumptions about long-term procurement
19 would more likely be litigated in the long-term plan.

20 Q I want to get your understanding going back to
21 the issue of subsidization.

22 Is it your opinion that it -- it is or is not
23 a subsidy from bundled ratepayers to community choice
24 aggregation customers if there is a true-up and through
25 whatever finance mechanism is ultimately decided that
26 the bundled service customers be made whole from
27 whatever undercollection might occur or overcollection?
28 I don't mean overcollection but an undercollection?

1 A A true-up that's done to sort of correct
2 forecast error -- I don't view that as a subsidy.

3 What I view as a subsidy is sort of
4 artificially setting the CRS below the cost-based
5 forecast.

6 Q If we can accept the fact or the premise that
7 a cap is essentially set at a forecast rate, then is it
8 a fair -- fair to say that the difference between PG&E's
9 recommendation and San Francisco's is that we recommend
10 the two-year period rather than a one-year period for a
11 cap?

12 A Well, as I understand your testimony, you are
13 recommending a particular number independent of what the
14 cost-based forecast would be, so I would view that as a
15 difference between the PG&E and San Francisco proposals.

16 Q But if our cap is based on a forecast by DWR,
17 then would you agree that the only difference between
18 the City's recommendation and PG&E's is the length of
19 time?

20 A I think if that -- if that is the only
21 difference -- if your -- and I don't know that I'm
22 the -- I'm fully understanding your testimony because my
23 understanding, when I read your testimony, was that you
24 were proposing a \$15 a megawatt-hour limit on the
25 indifference calculation.

26 If -- if your testimony is just that -- and
27 that you wanted the Commission to adopt that number here
28 in this proceeding.

1 If your propos- -- and that's contrary to what
2 I'm proposing here.

3 If your proposal is simply that in the DWR
4 revenue allocation proceeding, as part of setting the
5 CRS, that number be set for two years and the true-up
6 occur in year three, then the only difference between
7 your proposal and my proposal would be the length of the
8 initial forecast period.

9 Q Okay. Let's turn to page 2-15 of your reply
10 testimony, and on line 13 you state that:

11 For each CCA group, the
12 indifference calculation would
13 reflect the aggregate customer
14 load profiles of the group.

15 A question: Are you proposing that the aggregate
16 customer load profile be based on system average load
17 profiles for the different customer classes, or rate
18 schedules?

19 A That's what I had in mind there when I said
20 the aggregate profile, that it will reflect the -- the
21 customer mix in each CCA group, based on the system --
22 and based on the system average load profiles for those
23 customers groups.

24 Q I want to turn your attention to page 2-7 of
25 your reply testimony, lines 20 to 21, where we -- we get
26 into the idea of a negative CRS situation.

27 Is that it?

28 Just a second.

1 I'm sorry. I'm mixed up.

2 I am referring to your rebuttal testimony,
3 page 2-7, line 12.

4 You are referring -- you say the Commission
5 should reserve judgment regarding whether the CRS should
6 be negative.

7 Just to be clear, if the Commission adopts a
8 forecast CRS, whether one year or two years or whatever,
9 and then there's a true-up at the end of the period, and
10 rather than an undercollection we have an over-
11 collection, how do you suggest the situation be handled
12 in the next CRS period or -- or whatever?

13 A Well, I don't view an overcollection from a
14 previous year as a negative CRS.

15 I think that's just getting the accounts in
16 balance.

17 Q Okay.

18 So what you're arguing is that the CRS rate
19 itself on a forecast basis should not ever be allowed to
20 go negative?

21 A Right. Well, the -- right. The Commission
22 should not determine now that a negative CRS is within
23 the range of potential --

24 THE REPORTER: I'm sorry. Is within the range
25 of --

26 THE WITNESS: -- within a potential range for the
27 CRS; that the Commission should not adopt a principle of
28 setting a negative CRS at this time on a forecast basis.

1 MR. BUCHSBAUM: Your Honor, the -- I am wondering
2 if the question could be reread or restated.

3 ALJ MALCOLM: Well, maybe we can just clarify.

4 Do you mean even if there's an overcollection
5 which would otherwise require a negative CRS, in the
6 case where PG&E actually owed money to that community of
7 customers?

8 THE WITNESS: Well, an overcollection could occur
9 because the CSR was set at a level in one year that was
10 too high.

11 ALJ MALCOLM: Right.

12 THE WITNESS: So the CRS was set at a positive
13 number, it was just too high, and so that amount is
14 getting returned the following year. That wasn't the
15 kind of negative CRS I was talking about here.

16 ALJ MALCOLM: (Nodding head)

17 THE WITNESS: I was talking about a negative CRS
18 where potentially what happened in 2001 -- 2000-2001
19 could happen where customers were actually getting bill
20 credit and not even paying for their transmission and
21 distribution expenses because of the high negative DA
22 credit.

23 ALJ MALCOLM: Okay. But that wouldn't eliminate
24 from consideration that -- the possibility that there
25 could be an overcollection returned to a CCA or CCA's
26 customers?

27 THE WITNESS: No.

28 MR. BUCHSBAUM: (Nodding head)

1 MR. COMO: Q On the same page, on lines 9 and
2 10, where you're -- you are referring to an unexpected
3 increase in the market price of electricity, if there
4 was such an event, then are you saying that the CCA
5 should not get credit for having -- let me rephrase
6 that.

7 Do you believe that the CCA could get credit
8 for reducing the load that must be procured by the
9 utility because the CCA is no longer part of the
10 utility's load?

11 A That's in general how the indifference
12 calculation works.

13 Both the positive and negative essentially
14 benefits of the CCA departure are offset in the total
15 portfolio indifference calculations.

16 Q So you believe that the indifference
17 calculation will take care of that situation?

18 A That's the -- the indifference calculation
19 will capture the benefits that accrue to the bundled
20 customers because they have access to, say, the cheaper
21 parts of the procurement portfolio as well as the
22 expensive parts.

23 MR. COMO: Thank you, Ms. Burns.

24 That's all I have, your Honor.

25 ALJ MALCOLM: Thank you, Mr. Como.

26 Let's be in recess until 1:30.

27 (Whereupon, at the hour of 12:03 p.m.,
28 a recess was taken until 1:30 p.m.)]

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AFTERNOON SESSION - 1:35 P.M.

* * * * *

ALJ MALCOLM: We'll be back on the record.

SANDRA J. BURNS

resumed the stand and testified further as follows:

ALJ MALCOLM: Good afternoon. Ms. Grueneich.

CROSS-EXAMINATION

BY MS. GRUENEICH:

Q Good afternoon, Ms. Burns. I'm Dian Grueneich representing the Local Government Commission Coalition.

If you could turn to your -- actually, before I begin, I had a couple of follow-up questions based upon your testimony this morning. And I think at one point you were discussing setting the CRS, and you had talked about using the DWR 2005 revenue requirement I think as an example.

I just wanted to clarify: If the Commission were to use as an example the DWR 2005 revenue requirement, in your mind, would it be available to use in the calendar year 2005 or do you envision it would be used in the calendar year 2006?

A I think it would be used in 2005. The intent of the DWR 2005 proceeding is to set the DWR remittance rate for the calendar year 2005. So as soon as we got some policy guidance in this proceeding, we could run the numbers through the DWR revenue requirement model to come up with the indifference piece of the calculation

1 for 2005.

2 Q And would you be recommending that
3 the Commission use the approved DWR 2005 revenue
4 requirement in which it has specified of that revenue
5 requirement what is -- how that is allocated among
6 the utilities?

7 A Yes, that's the idea. So you would have
8 the total DWR revenue requirement, and then in addition
9 to allocating it between the three utilities, you would
10 allocate it between the bundled customers and the CCA
11 customers.

12 Q Thank you.

13 In other area this morning, there was a
14 discussion of the system average versus actual load
15 profiles. And am I correct in understanding that your
16 testimony was that for scheduling purposes, PG&E
17 recommends that both the utility and the CCA use system
18 average load profiles rather than actual load profiles?

19 A Well, you use actual load profiles to the
20 extent they are available for customers that have
21 interval meters. And for the customers where you don't
22 have that data available, you use the system average
23 load profile.

24 Q So for a CCA, to the extent that its customers
25 had interval meters and the CCA had that information
26 available, you would recommend that that actual data be
27 used in the scheduling?

28 A Yes. The scheduling and settlements.

1 Q Now, if I could ask you to turn to your
2 opening testimony, page 2-1. And looking on lines 12
3 through 17 you state that PG&E's recommendation on cost
4 responsibility is an attempt to reconcile and harmonize
5 two legislative objectives: facilitating
6 the opportunity of communities to aggregate; and
7 maintaining bundled customer indifference.

8 Is that your testimony?

9 A Yes.

10 Q And with regard to the second principle,
11 maintaining customer indifference, you address that
12 factor explicitly in your testimony looking at pages 2-1
13 to 2-2; correct?

14 A Yes. And throughout the rest of the testimony
15 as well.

16 Q When I reviewed your testimony over
17 the weekend, I could find no explicit discussion of
18 the first principle, facilitating the opportunity to
19 aggregate, other than this one mention on 2.1. Is there
20 any explicit discussion of how that principle has
21 factored into your testimony?

22 A The primary thrust of my testimony is
23 the indifference calculation and setting the cost
24 responsibility. I didn't explicitly talk about
25 facilitating community aggregation.

26 Q So the answer to my question was that it was
27 not explicitly discussed in the latter parts of this
28 testimony?

1 A No.

2 Q On your reply testimony, page 2-10, down
3 towards the bottom, I'm looking at line 29, you state
4 that even if a CCA achieved double its RPS minimum
5 obligation, there would not be any lessening of
6 the legal obligation on the utility to achieve its
7 minimum RPS and therefore you saw no benefit to bundled
8 customers coming from this CCAs RPS achievement; is that
9 correct?

10 A Yes.

11 Q And in looking at your analysis, am I correct
12 that your focus was on specifically the utility's RPS
13 requirement rather than any statewide benefit from a CCA
14 pursuing renewables beyond what the minimum standard
15 might be?

16 A My focus was on the costs that would be borne
17 by bundled ratepayers to meet the RPS obligation.

18 Q And you didn't focus on more general benefit
19 that might occur on a statewide policy basis; is that
20 correct?

21 A Well, only to the extent that I discussed here
22 that there might not even be an increase in overall
23 renewable generation to the extent that CCAs might be
24 competing for the same public goods charge funds.

25 Q Assuming that were not the case, am I correct
26 that you didn't look at my statewide benefit from a CCA
27 surpassing its minimum renewable requirement?

28 A Right. My focus was not on shifting any costs

1 to bundled ratepayers.

2 Q I wanted to just give you a hypothetical --
3 first of all, which is -- first of all, a foundation
4 question. It is correct, is it not, that CCA customers
5 would remain distribution customers of the utility?

6 A That's correct.

7 Q Now, purely as a hypothetical, if the RPS
8 standard were based upon the utility's distribution
9 customers and you had a situation in which a CCA doubled
10 its RPS and under my hypothetical the rule was that
11 could essentially be netted out against the RPS that had
12 to be achieved by the bundled utility customer. In that
13 hypothetical, would you agree there could be a benefit
14 to the bundled customers?

15 A I just want to make sure I understand --

16 Q Sure.

17 A -- your hypothetical. And maybe it would be
18 clearer if you gave me some numbers so I --

19 So you're -- let's say there's a hundred units
20 of distribution load.

21 Q Okay. Fine.

22 A Okay. And so the utility is supposed to get
23 20 units or 20 percent as RPS --

24 Q A hundred units -- let's just -- a hundred
25 units of distribution load. Let's just say 10 percent
26 was -- 10 units are CCA 90 units are bundled. And
27 overall in the aggregate, you had to end up with
28 20 percent RPS. But in my hypothetical, if the CCA RPS

1 instead of just being 20 percent was 40 percent and it
2 could count against the remaining RPS, that those
3 80 units had to achieve, my question was in that
4 situation, if the rules were set up that way, would you
5 agree that there could be a benefit to the 80 units of
6 bundled customer?

7 A So if what you're saying then, those 80 units
8 wouldn't have to get to be 20 -- wouldn't have to buy
9 20 percent; they could buy less?

10 Q Yes.

11 A I think I would agree then that there might be
12 a benefit to bundled customers.

13 Q If a CCA built new generation that reduced
14 the need for transmission additions by a utility, would
15 the reduced transmission costs for that utility be
16 captured in the CRS?

17 A Not -- I -- the CRS calculation as it
18 currently stands is generation and generation only.

19 Q So it would not be captured?

20 A Well, to the extent that it changed
21 the generation portfolio, it could be captured in
22 the indifference.

23 Q And that would be the extent to which it would
24 be captured?

25 A Yes.

26 Q Does the CCA in/out methodology proposed by
27 PG&E account for improvements in reliability that might
28 result from a CCA's addition of local generation?

1 A I think it could. To the extent that you do
2 the in/out run and costs that would have been in
3 the utility-in run for new generation no longer need to
4 be there, you could reflect that savings in
5 the indifference calculation.

6 Q Is there any specific accounting for an
7 improvement in reliability?

8 A The accounting comes in the form of capturing
9 the difference in the cost of generation additions. We
10 assume that both the CCA and the utility will plan to
11 meet the same standard 15 percent reserve requirement.

12 Q My question was a little more focused.
13 I apologize if I wasn't clear.

14 I'm talking about if you actually had an
15 improvement in reliability due to the addition of local
16 generation. Is that a factor that is currently captured
17 in the in/out methodology?

18 A Well, what you would capture would be any kind
19 of savings that would result from the utility not having
20 necessarily to make a local area generation addition
21 because the CCA did it instead as part of their resource
22 planning. You could capture that in the in/out
23 calculation.

24 Q And it's your testimony that that is in fact
25 now captured?

26 A It could be. The CCA-in calculation, as it's
27 done now, is only -- assumes that the difference between
28 the CCA-in and the CCA-out is short-term spot purchases.

1 But I think going forward as we make longer term
2 commitments, you would reflect longer term differences
3 in procurement between the in and the out runs.

4 Q So it could be it would need to be a
5 modification to the current methodology that's used, but
6 it could be captured?

7 A Yes.

8 MS. GRUENEICH: Those are all the questions
9 I have, your Honor.

10 ALJ MALCOLM: Thank you, Ms. Grueneich.

11 Mr. Fenn.

12 MR. FENN: Thank you, your Honor.

13 CROSS-EXAMINATION

14 BY MR. FENN:

15 Q Hi. I'm Paul Fenn representing Local Power.

16 I asked a question of Mr. Craig earlier that
17 he referred me to you on and it had to do with
18 the impacts of true-ups on aggregated -- on CCA
19 customers versus bundled service customers, the annual
20 true-up that you are proposing.

21 Would the true-up have any disproportionate
22 impacts on bundled service customers versus CCA, or
23 could it?

24 A The impacts might not be identical, but they
25 would capture the same changes and the same parameters.
26 For instance, when you did a true-up going forward, you
27 might capture changes in spot purchases which might have
28 a bigger impact on bundled customers because

1 the purchases were made on behalf of bundled customers
2 and not for CCA customers or -- but the intent would be
3 you would do the true-up at the same time and true-up
4 bundled rates and CRS rates and reflect the same
5 changes.

6 Q So they shouldn't cause any disadvantage --
7 you don't think that it could cause a disadvantage in
8 the relationships between the affected electric bill
9 prices that they're paying?

10 A No. We set bundled rates and CCA CRS rates on
11 a forecast basis at the same time, and then we would
12 true them up at the same time for the same factors.

13 Q Okay. In your reply testimony on page 2-5,
14 you indicated that CCAs -- CPUC includes CCAs in its
15 definition of load-serving entities according to a
16 recent decision. That was the electric procurement
17 decision of January 22nd, I believe; is that correct?

18 A Yes. The long-term planning decision.

19 Q In which it was indicated that an ESP or
20 community choice aggregator has an obligation to acquire
21 sufficient reserves for its customers load.

22 And so at the time, you were stating that CCAs
23 are not customers but rather are market participants; is
24 that correct?

25 A Yes.

26 Q So you believe them to be market participants
27 in the same sense that a electric utility or a merchant
28 generator or ESP is a market participant?

1 A They're a market participant, yes.

2 Q So you see no distinction by the fact that
3 they are purchasing and not selling electricity?

4 A I think the Commission's defined a market
5 participant as anyone that's engaged in either
6 the purchase or the sale of energy.

7 Q It defines a DA customer as a market
8 participant?

9 A I would have to check, but I believe it's --
10 I'm relying on a definition of market participant that
11 was adopted in the procurement OIR.

12 Q Mm-hmm.

13 A And I believe that does cover any -- anyone.
14 It's any private, municipal, state or federal
15 entity that engages in the purchase, sale or marketing
16 of energy capacity.

17 Q Okay. So do you believe that -- or does PG&E
18 believe that CCAs are its competitors?

19 A I believe they're competing with us to serve
20 load, yes. And I believe that's what other parties have
21 said, too. As well, as I pointed out in my reply
22 testimony that LGC, for instance, said that the CCAs
23 will operate in a competitive environment and compete
24 with IOUs to provide commodity energy.

25 Q So you would endorse that statement?

26 A I believe they're competing with us to provide
27 service, yes.

28 Q Were you to deliberately overprocure, would

1 that not prevent them from taking your customers away
2 from you as a company if you could get away with it?

3 A That's not something we would do. We wouldn't
4 set out to deliberately overprocure.

5 Q I'm just saying if the Commission were to
6 allow you to overprocure -- I mean, if they are
7 competitors, I assume that you'd do what you can to
8 prevent your competitors from taking your customers.

9 A The CCAs are competing with us to provide
10 procurement service. We're indifferent to whether that
11 load goes to CCA service as long as our costs are
12 recovered and there's no shifting of costs to bundled
13 ratepayers. We don't have an interest in and of itself
14 to retain bundled service customers.

15 Q But you will, am I incorrect, you will receive
16 a return on investment for the contracts for the power
17 that you sell to those customers? So would you not lose
18 money were you to lose those customers?

19 Are your officers not under a legal obligation
20 to minimize those losses in order to maximize the return
21 on the investment to the shareholders?

22 ALJ MALCOLM: Let's first establish that they lose
23 money. Then get to your second question.

24 MR. FENN: Okay.

25 THE WITNESS: What was the first question?

26 MR. FENN: Q Wouldn't you lose money, you would
27 lose profit if you lost these customers to CCAs?

28 A I don't think so, necessarily. We pass

1 through our costs to our ratepayers.

2 Q But on the gross, if your gross declines, then
3 your gross profits decline, don't they, under a
4 cost-plus ratemaking?

5 ALJ MALCOLM: That would depend on -- a lot of
6 PG&E's costs are a straight flow through to ratepayers;
7 there's no profit.

8 It depends on what you mean by revenues.
9 Which revenues? There's some where PG&E makes money and
10 some where they don't.

11 MR. FENN: Okay.

12 Q If San Francisco has, May 11, passed an
13 ordinance that it wants to develop 360 megawatts of
14 renewable capacity and conservation load reductions. If
15 it succeeds, will PG&E lose money? Will it lose
16 profits, annual profits?

17 A I don't think that's a logical outcome of that
18 situation.

19 Q Well, will its sales decline?

20 A Our bundled sales would decline, yes. And
21 that would mean that -- right now, it means we'd procure
22 less power.

23 Q Okay.

24 A Which is a pass-through expense. So we would
25 be passing through, potentially, a smaller pool of costs
26 to a smaller group of ratepayers.

27 Q Wouldn't your officers be under a legal
28 requirement to prevent that from happening to its

1 shareholders?

2 A I think I just testified that there wouldn't
3 necessarily be any kind of shareholder loss just because
4 we lose bundled ratepayers.

5 Q Reduced sales wouldn't cause loss -- in
6 the case of San Francisco, reduced throughputs on
7 the distribution and transmission system and reduced
8 retail sales?

9 A As I understand community aggregation, those
10 customers remain transmission and distribution customers
11 of the utility. Yes.

12 Q Yes?

13 A But they would continue to pay generation
14 transmission rates.

15 Q But if they were to build 360 megawatts of
16 solar, they would reduce the amount of use of
17 the distribution system as a result of local
18 generations, as Ms. Grueneich described, where
19 the cities that want to double the RPS, they would --
20 through the development of local generation, they would
21 reduce the use of your systems at all levels. Would
22 that not result in a loss of profit?

23 A Not necessarily. And I'm not an expert on
24 distribution ratemaking right now, but I know
25 traditionally we've had revenue recovery mechanisms that
26 make us indifferent to sales. So rates are adjusted to
27 recover the revenue requirement independent of sales.

28 ALJ MALCOLM: Would your answer change if

1 the Commission adopted incentives for procurement or
2 energy efficiency programs?

3 THE WITNESS: As far as I know, in general, when
4 the Commission has adopted incentives for energy
5 efficiency, the goal has been to make it so we are
6 indifferent to revenue losses that result from
7 reductions in sales exactly for that reason because they
8 don't want us discouraging conservation.

9 ALJ MALCOLM: Right. But if you -- well, putting
10 aside energy efficiency for a minute, if you had
11 incentives for procurement that were tied to sales, your
12 answer might change?

13 THE WITNESS: It's possible, yes. I mean, not
14 understanding what the incentive would be. But to the
15 extent that there was an incentive mechanism that
16 encouraged us to retain load, bundled load, that might
17 create an incentive for us to want to retain the bundled
18 load and not be indifferent to customer departure.

19 ALJ MALCOLM: Okay. Thank you, Mr. Fenn.

20 MR. FENN: Thank you, your Honor.

21 Q My concern here is that utilities might have
22 an incentive to overprocure in order to block -- in
23 order to deliberately create stranding costs and exit
24 fees which might block CCAs from departing.

25 So you believe that that is an ill-conceived
26 concern; I need not have any such concern?

27 A That's correct.

28 We're also concerned about maintaining rates

1 for our bundled customers, too. So we wouldn't go out
2 and deliberately overprocure and create a burden that
3 had to be paid for by bundled customers or CCA
4 customers.

5 Q But haven't you claimed that CCA customers
6 would have to pay for all such costs in order to hold --
7 in order that their load departures would hold your
8 remaining bundled service customers indifferent?

9 A I'm not sure I understand your question.

10 Have we claimed that CCA customers are
11 responsible -- for what costs?

12 Q For any stranded costs that might occur as a
13 result of their load departure within the context of
14 366.2(d)(e)(f).

15 A We have claimed that CCA customers should pay
16 their share of stranded costs. But that in no way
17 implies that we're planning to go out and procure more
18 than is needed to meet our loads.

19 Q Under Section 366.2(d)(1) the section that
20 refers to the DWR contracts:

21 It is the intent of
22 the Legislature that each retail
23 end-use customer that has
24 purchased power from an electrical
25 corporation on or after
26 February 1, 2001, should bear a
27 fair share of the Department of
28 Water Resources' electricity

1 purchase costs, as well as
2 electricity purchase contract
3 obligations incurred as of
4 the effective date of the act
5 adding this section, that are
6 recoverable from electrical
7 corporation customers in
8 commission approved rates. It is
9 further the intent of
10 the Legislature to prevent any
11 shifting of recoverable costs
12 between customers.

13 That last sentence, it's further the intent
14 of the Legislature to prevent any shifting of
15 recoverable costs between customers, do you believe
16 that that principle of avoiding cost shifting protects
17 bundled service customers or all customers?

18 A I believe the intent of this section is
19 referring to the shifting of costs onto bundled service
20 customers as a result of CCA departure.

21 Q Well, if you look at other sections in
22 the statute that refer to protecting bundled service
23 customers. But this section refers to protecting any
24 shifting of recoverable costs between costs without
25 specification. Wouldn't that imply that all customers
26 deserve such protection under statute?

27 A I don't know exactly what the legislature had
28 in mind when they wrote this line of testimony here, but

1 I believe the purpose of this legislation was designed
2 to prevent the shifting of costs to bundled ratepayers
3 to keep them indifferent to CCA.

4 Q Do you believe that under statute, utilities
5 are authorized to shift costs onto CCA customers?

6 A I don't know whether it's specifically
7 prevented by the statute or not. That's not the intent
8 of our proposal. Our proposal is simply to keep bundled
9 customers indifferent.

10 Q But is it to keep them indifferent at the risk
11 of exposing CCA customers to cost shifting?

12 Do you accept that, do you consider that risk
13 to be statutorily allowed?

14 A I don't know what costs you're talking about.
15 We might be shifting from bundled customers to CCA
16 customers.]

17 Q Which kinds of costs? Costs resulting from
18 CRS for new world procurement or URG?

19 A Our proposal is that everyone should bear
20 their fair share of costs. And to the extent that CCAs
21 are doing their own resource planning and are
22 responsible for resource adequacy, they would not be
23 paying for any subsequent utility new world procurement.
24 So I don't see how there would be a cost chip.

25 Q Well, let's see, am I correct in that a
26 citation that is saying that you've indicated that the
27 transfer of -- either the transfer of customer or the
28 end of the opt-out period, which you accept a release of

1 the customer of the CCA, therefore an end to CRS
2 obligations, minus the true-ups and so on; is that
3 accurate?

4 A I'm not sure. I'm not sure I followed your
5 question.

6 Q At what point, in your view, does a CCA
7 customer become a CCA customer?

8 A Okay. They become a CCA customer when the CCA
9 starts delivering power to them, and the utility stops
10 delivering power to them.

11 Q Okay. Now, in the case of San Francisco,
12 they, May 11th, passed an ordinance under statute -- one
13 moment, sorry, let me find it here. 366.2(c)(10),
14 Subparagraph A: The City and County implements a
15 community choice aggregation program with jurisdiction
16 pursuant to this chapter shall do so by ordinance.

17 They just passed an ordinance. And within
18 that ordinance they gave pretty specific information
19 about their intentions. And right now PG&E is
20 proposing procurement for next year.

21 So the question is: Do you believe that
22 PG&E has any responsibility to respect the ordinance
23 and to prevent overprocurement basically based upon
24 that ordinance prior to a transfer and prior to an opt
25 out? Or do you believe it holds any weight as far as
26 the CRS obligation of next year's procurement now
27 being deliberated upon?

28 A Well, this issue will be taken up in the

1 procurement proceeding where they specifically asked us
2 to look at scenarios associated with community choice.
3 So we will be looking at different portfolios based on
4 different scenarios of community aggregation or no
5 community aggregation. So we won't be deliberately
6 setting out to overprocure.

7 On the other hand, we do have an obligation to
8 meet our customers' needs. And until the point where
9 the cities actually demonstrate they do have resources
10 and they are intending to serve load, we are obligated
11 to consider that load in our planning process.

12 I wouldn't say at this point today we can
13 assume all the customers in San Francisco are going to
14 be community aggregation customers. And we have no
15 responsibility at this point going forward to consider
16 their loads in our resource planning.

17 Q You are familiar with the provision -- the
18 cooperation provisions in this -- in AB 117, or should I
19 find them?

20 A You should find them, please.

21 Q The first one is 366.2(c)(9): All
22 corporations shall cooperate fully with any CCAs that
23 investigate, pursue, or implement community choice
24 aggregation programs.

25 I just read you a statute that says that CCAs
26 are formed through an ordinance. So here we have a city
27 that has passed an ordinance, that is not a CCA, it is
28 telling you it wants to leave. Wouldn't full

1 cooperation include attempting to negotiate this -- what
2 is really an inherent concern -- let me restate.

3 Given that they've gone through the process,
4 giving you that notification and -- is this sort of time
5 lag between the ordinance, the notification of the
6 ordinance, and submission of the implementation plan,
7 which is in the statute, then the signing of a
8 contract -- the assignment of a CRS, signing of a
9 contract, aren't those inherent components of
10 implementing a community choice aggregation not
11 specifically attributable to a single community choice
12 aggregate?

13 Isn't that time lag and the risks associated
14 with that time lag not intrinsic to the process rather
15 than specific as a cost to one community choice
16 aggregate? Is there any way to avoid it or is it not
17 inherent?

18 A I'm not sure what "it" is --

19 Q The cost.

20 A -- we are trying to avoid.

21 Q The cost, the risk. Just the fact where -- I
22 don't want to preach here, so I'll back up in proper
23 form.

24 Under the process outlined in the statute
25 there is no alternative. Given that a CCA must first
26 submit the plan, must first pass an ordinance, then must
27 submit a plan, then must receive a CRS before they can
28 physically transfer customers satisfying PG&E's

1 criterion, the customers are actually transferring, we
2 are actually not responsible for these people.
3 Understanding that is where you need to get to be -- to
4 protect your bundled service customers, isn't that time
5 lag in between, and the volatility associated with it,
6 which is uncertainty about procurement, isn't that an
7 inherent component of community choice aggregation and
8 not a cost specifically attributable or reasonably
9 attributable to a single community choice aggregate?

10 A Well, I'm a little confused by your question.
11 Because you have referred me to a section of the statute
12 that talks about providing metering and billing data,
13 which was discussed by other witnesses when we talked
14 about cooperation and talked about providing data.

15 Q Well, but it also says below -- it is not only
16 about data. It says it is about billing, it is about
17 services down below. It is not just about data, that
18 section: The bills set by the electrical corporation
19 and retail customer shall identify the community choice
20 aggregators providing electrical energy component of the
21 bill. The Commission shall determine the terms and
22 conditions under which the electrical corporation
23 provides services, in general, to community choice
24 aggregators and retail customers.

25 So it is not only about data, it is about
26 cooperation in general. Am I not correct? It is
27 about the various services that utilities provide to
28 CCAs as they implement CCA?

1 ALJ MALCOLM: Let's assume that it is so we can
2 get to your question.

3 MR. FENN: Q Well, the last question that I had
4 was: Isn't this time lag between the moment of passing
5 an ordinance and activating the statute becoming a CCA,
6 and the transfer of customers at the end of the opt-out
7 period, isn't that an inherent time lag? And are not,
8 therefore, the risks and uncertainties --

9 ALJ MALCOLM: Let's take the first thing first.
10 Are you asking her is there an inherent time lag --

11 MR. FENN: Yeah.

12 ALJ MALCOLM: -- associated with switching over
13 customers? Because --

14 MR. FENN: Yes. Between the moment -- yes.

15 Q Between the moment that the a CCA forms and
16 requires cooperation under statute is entitled to it,
17 and the moment that they are able to transfer customers,
18 isn't that time lag an inherent part of the process?

19 A Sure, it is part of the process. The CCA has
20 to decide to form, and it has to present a procurement
21 plan for the Commission's review, and has to acquire
22 resources to serve load.

23 Q So, therefore, aren't the uncertainties and
24 the risks associated with that time lag also inherent to
25 the process of community choice aggregation?

26 ALJ MALCOLM: First let's find out if she agrees
27 there are uncertainties and risks associated with that
28 time lag.

1 MR. FENN: Oh, sorry.

2 THE WITNESS: I believe you are really talking
3 about risks associated with procurement planning --

4 MS. FENN: Q Yes.

5 A -- and the acquisition of resources?

6 Q Exactly. Thank you.

7 A And speaking of cooperation -- and certainly
8 we are not trying to overprocure. And our proposal is,
9 once we know for sure that the CCA will be departing and
10 has demonstrated they have adequate resources to serve
11 their load, then the utility can stop acquiring
12 resources on their behalf.

13 So it is conceivable that the utility will
14 stop acquiring resources on behalf of long-term
15 resources on behalf of CCA load before power is flowing
16 to the CAA customers as part of the planning process.

17 Q Okay. Wouldn't it -- couldn't also a utility
18 also use short contracts in order to mitigate the risk,
19 to make the risk lesser, rather than you are either
20 procuring, or not procuring, instead you are procuring
21 on a short-term basis rather than long-term basis?

22 A To some extent that is possible, yes. The
23 Exhibit has basically given us some guidance that our
24 portfolio should have a mix of short-, mid-, and
25 long-term resources. So we can't rely on short-term
26 contracts, but they would be one part of the portfolio.

27 Q Thank you.

28 There are several different sections that

1 refer to the kinds of costs that must be paid by CCA and
2 the kinds of the costs that must be made by bundled
3 service customers. I think rather than getting into --
4 I'll just read one section which is 366.2(f)
5 subparagraph -- Paragraphs 1 and 2, electrical
6 corporations unrecovered pass -- I'm sorry: Retail
7 end-use customer purchasing electricity from a community
8 source aggregator pursuant to this section shall
9 reimburse the electrical that previously served the
10 customer for all of the following, one, the electrical
11 corporations unrecovered pass undercollections for
12 electricity purchases including the financing costs
13 attributable to that customer that the Commission
14 lawfully determines may be recovered in rates.

15 But then they go to Subparagraph 2, they go
16 to utility procurement: Any additional costs of the
17 electrical corporation recoverable in
18 Commission-approved rates equal to the share of the
19 electrical corporation's estimated net unavoidable
20 electricity purchase contract cost attributable to the
21 customer as determined by the Commission for the
22 period commencing with the customers purchase of
23 electricity through the expiration of all
24 then-existing electricity purchase contracts entered
25 into by the electrical corporation.

26 If the time lag between the moment when a
27 CCA has, through an ordinance, created itself and the
28 day that it actually transfers customers to the CCA is

1 inherent, and if the risks are inherent then aren't
2 those -- isn't that component not attributable to the
3 customer? Isn't it attributable to the transaction
4 itself, to the process itself?

5 ALJ MALCOLM: Did you mean is there a
6 structural -- I don't understand the question.

7 MR. FENN: The question of the attribution of a
8 cost. In this case, it seems to me -- what I'm asking
9 is: Because the process that is created by community
10 choice outlines the steps fairly specifically, and the
11 steps inevitably involve a time lag between a moment of
12 creating a CCA and writing the plan, signing --
13 submitting the plan for CRS contract, signing a contract
14 then starting the opt-out period, and then ending the
15 opt-out period. There is no way to avoid that.

16 And so is that not simply a cost attributable
17 to maintain the option of CCA for all ratepayers as
18 opposed to a cost that could be attributable to a single
19 customer as is construction of Subparagraph 2?

20 A Well --

21 MR. BUCHSBAUM: Your Honor, I think I've got to
22 object finally. This is getting into possible
23 interpretations of the statute that involve comparing
24 one section of the statute with another section and
25 reading, for example, 366.2. And I always try to get
26 these right. There is -- it looks like a 17 in the
27 context of 366.2(d), (e), and (f).

28 And what we are getting into is more than just

1 reading sentences and asking whether the witness is --
2 whether the witness's proposals are in accordance with
3 it. We are getting into actually -- I think we are
4 crossing the line into asking the witness to legally
5 determine, based upon various sections of the statute,
6 how they apply. It is just getting too far afield for
7 the witness, I think, to continue on this particular
8 line.

9 So I would object to the question as phrased.

10 ALJ MALCOLM: Let's go off the record.

11 (Off the record)

12 ALJ MALCOLM: Back on the record.

13 MR. HUARD: Your Honor, can we go off the record?

14 ALJ MALCOLM: Off the record.

15 (Off the record)

16 ALJ MALCOLM: Back on the record.

17 We will be in recess until 2:40.

18 (Recess taken)

19 ALJ MALCOLM: Back on the record.

20 Mr. Fenn.

21 MR. FENN: Thank you, your Honor.

22 Q Ms. Burns, one last question: Did you
23 consider the lag we discussed today as an inherent
24 component in community choice aggregation in your
25 testimony, or as a cost specific to a specific community
26 choice aggregate?

27 A I didn't consider it as a cost attributable to
28 any particular community choice aggregator. I

1 considered it to the extent I considered the concept
2 that new world procurement should be part of the CRS,
3 basically up until the point that the CCA takes over
4 resource planning responsibility for the CCA customers.

5 So to the extent they state their intent and
6 demonstrate resource adequacy prior to CCA formation, my
7 proposal would take into account that fact by not making
8 CCA customers responsible for any costs that are
9 incurred after the CCA takes over resource adequacy
10 responsibility.

11 Q With the transfer of customers or with the end
12 of the opt-out period?

13 A I think the responsibility for planning
14 resource adequacy could be demonstrated before the
15 actual opt out -- before the actual transfer of
16 customers.

17 Q How would that be demonstrated or how could it
18 be?

19 A The CCA could demonstrate, say, in 2006, that
20 they had acquired resources to meet load, say, for CCA
21 beginning in 2008. And they had signed contracts for
22 load to begin serving load, say, in 2008.

23 Q I see. So they could preacquire the resource
24 adequacy requirement prior to soliciting the rest of
25 their -- is that what you are saying?

26 A Yes. I mean I think CCA is going to have to
27 demonstrate that they have the resource adequate to
28 serve their load before the power starts flowing. If

1 the requirement is anything like it is for utilities
2 where we have to demonstrate resource adequacy, say, a
3 year in advance. But once that demonstration had been
4 made, the utility would factor it into the planning
5 process. If the CCA in, say, 2006 had demonstrated they
6 had the resources to serve load in 2008, the utility
7 would stop acquiring resources going forward for this
8 CCA customer.

9 Q Sorry to continue. I intended that to be my
10 last question, your Honor, that leads me to one more
11 question.

12 Wouldn't that though introduce a difficulty
13 because the CRS plays such a major role in negotiating
14 contracts, particularly for CCAs that don't want to pay
15 their own insurance, they want their ESP to pay their
16 insurance? Wouldn't they not need to know their CRS
17 prior to negotiating contracts?

18 A That was a compound question about ESPs and
19 insurance.

20 Q I'm sorry. I'll simplify the question: Just
21 as a part of the process, in order for a CCA governing
22 board, a city council, to compare their options to what
23 their ratepayers are now paying electric utility, they
24 would need to know what the CRS is going to be because
25 it will be a significant factor in the comparison cost;
26 is that not true?]

27 A The CRS might be one factor, and the -- for
28 the CCA to determine whether it's cost-effective for

1 them to serve customers, but there's a whole host of
2 other factors associated with how the CCA plans to serve
3 load and the types of resources it's considering
4 building.

5 The CRS is only one factor in, I would assume,
6 the community's decision about whether to form an
7 aggregation program.

8 MR. FENN: Okay. No further questions.

9 Thank you, your Honor.

10 Thank you, Ms. Burns.

11 ALJ MALCOLM: Thank you.

12 Is there any redirect?

13 MR. BUCHSBAUM: Yes, your Honor. I have a few
14 questions.

15 REDIRECT EXAMINATION

16 BY MR. BUCHSBAUM:

17 Q Ms. Burns, you may recall earlier today that
18 Mr. Como asked you certain questions concerning
19 overcollections and the CRS potentially going negative;
20 is that correct?

21 A Yes.

22 Q And can you please turn to page 2-7 of your
23 rebuttal testimony, heading D labeled The CRS Should Not
24 Be Negative.

25 Do you have that in front of you?

26 A Yes, I do.

27 Q And do you see in lines 20 through 22 where
28 you state.

1 ... the Commission should reserve
2 judgment regarding whether the CRS
3 should be negative, and if so, how
4 to calculate the CRS in such
5 circumstances.

6 Do you see that sentence?

7 A Yes.

8 Q Now I would like to ask you several questions
9 regarding the potential of an overcollection that
10 Mr. Como asked you earlier, just for purposes of
11 clarifying the record.

12 First of all, if the overcollection for a
13 given year -- and let's throw out a number -- was four,
14 what is your position regarding how much money should be
15 credited to customers in the following year?

16 A Let's say the CRS was set at \$4 per megawatt-
17 hour for a given year and then we did a true-up, I would
18 say that the actual CRS should not go below zero, and we
19 could return up to \$4 a megawatt-hour that was collected
20 in that year as part of the next year's CRS.

21 Q I'm sorry. As usual on these math questions,
22 I think I messed that up, so let me try again.

23 If the CRS paid for a given year -- and let's
24 just take a total -- was 100 and the overcollection
25 turned out to be 110, your testimony is how much could
26 be credited as an overcollection based upon your current
27 testimony?

28 Do you have that question in mind?

1 A Yeah. We would return 100 in your example.

2 Q So the extra 10 would not -- would be subject
3 to this clause which says the Commission should reserve
4 judgment; but the 100, which was the overcollection,
5 would not necessarily be subject to that sentence; am I
6 correct?

7 A Yes.

8 Q Now, are there conditions in terms of period
9 that you put on the notion of an overcollection?

10 In other words, as I understand it, your
11 testimony was that this should be limited to an annual
12 concept.

13 A Right. The CRS would be set annually and
14 trued up annually, and you would be returning one year's
15 overcollection in the next year.

16 Q And what components are included in the CRS
17 under your proposal or your testimony?

18 A The components would include the bond charge,
19 the historical procurement charge, the DWR power charge,
20 and the CTC; and when I'm talking about truing up, I'm
21 talking about the ongoing costs that are part of the
22 indifference rate, which would be the power charge and
23 the CTC.

24 Q Now I'd like to turn to several questions that
25 Ms. Grueneich asked you.

26 First, do you recall questions regarding
27 potential renewable portfolio standard requirements that
28 could apply to either the load-serving entity or the

1 utility distribution company?

2 Do you recall that line of questioning?

3 A Yes.

4 Q What is your expectation regarding how the
5 renewable portfolio standards will apply?

6 Will they apply to load-serving entity or
7 utility distribution companies, in your opinion?

8 A My understanding is that they will apply to
9 load-serving entities.

10 The hypothetical assumed that the standard
11 applied to distribution companies, but that's not my
12 understanding of how the standard is expected to apply.

13 Q Now, you also received some questions about
14 various generation additions that could lower
15 transmission costs, and I have a question for you
16 regarding any utility procurement that would lower
17 transmission costs.

18 Is it true that that would tend to lower or
19 reduce the utility's transmission rate?

20 A Right. Transmission-cost reductions would
21 benefit all ratepayers in the form of lower transmission
22 rates.

23 Q And that would include, obviously, CCA
24 customers who pay a transmission component?

25 A That's correct.

26 Q And similarly, if the CCA were to lower
27 transmission costs, it would be reflected in terms of
28 lower costs in an overall transmission rate similarly;

1 isn't that correct?

2 A That is correct.

3 Q And so it would be reflected for the benefit
4 of bundled customers and CCA customers alike as part of
5 their transmission rate; isn't that correct?

6 A Yes.

7 MR. BUCHSBAUM: That's all I have, your Honor.

8 ALJ MALCOLM: Thank you.

9 Is there any recross?

10 Ms. Grueneich?

11 RE CROSS-EXAMINATION

12 BY MS. GRUENEICH:

13 Q Just responding to the hypothetical- -- or
14 posing this as a hypothetical, if a single CCA undertook
15 an activity that did result in reduced transmission
16 costs, the benefit in terms of lower cost would be
17 spread out across all customers that took transmission
18 service, both CCA and bundled customers, and not accrue
19 solely to the CCA customers; is that correct?

20 A That's correct.

21 MS. GRUENEICH: Those are all the questions.

22 ALJ MALCOLM: Thank you.

23 Mr. Como?

24 Yes, Mr. Como?

25 MR. COMO: Yeah, I have one question. I am just
26 trying to understand the hypothetical.

27 MR. BUCHSBAUM: I am, too.

28 (Laughter)

1 MR. COMO: Let me just put it in my own words and
2 see if it's correct.

3 RECROSS-EXAMINATION

4 BY MR. COMO:

5 Q If you charged 100 in total for a CRS one
6 year -- sorry. Let me start that over.

7 If the CRS one year were actually 100 and --
8 as determined by the true-up but during that year you
9 collected 110, then in the third year you would adjust
10 the CRS by 10?

11 Is that --

12 A That's correct.

13 Q -- correct?

14 A That wasn't how Mr. Buchsbaum used the 100 and
15 110, but you're hypothetical is correct.

16 If we collected \$110 and upon true-up we
17 should have only collected 100, we would return the 10
18 the following year.

19 Q Okay. Would you explain to me what
20 Mr. Buchsbaum's hypothetical was and how it differed?
21 Because I just didn't understand it. Or how you believe
22 it was supposed to be.

23 A The way I understood his hypothetical was we
24 set -- we forecast the CRS and we collected 100, then
25 when we did the true-up, because the prices had
26 skyrocketed, you might get an indifference rate that
27 resulted in, say, a negative 10 when you did the
28 indifference calculation, so you -- you would have been

1 potentially overcollected by 110.

2 So if you don't let the CRS go to zero --
3 below zero, you would return the 100, but you wouldn't
4 return the last 10.

5 MR. COMO: I understand.

6 Thank you.

7 ALJ MALCOLM: Thank you.

8 Do you have any?

9 MR. FENN: (Shaking head)

10 ALJ MALCOLM: Thank you, Ms. Burns. You're
11 excused.

12 Let's go off the record.

13 (Off the record)

14 ALJ MALCOLM: Back on the record.

15 Mr. Buchsbaum?

16 MR. BUCHSBAUM: Yes. Thank you, your Honor.

17 PG&E calls its next witness, Mr. Andrew Bell.

18 ALJ MALCOLM: Good afternoon.

19 ANDREW BELL, called as a witness by
20 Pacific Gas and Electric Company, having
been sworn, testified as follows:

21

22 ALJ MALCOLM: Be seated.

23 DIRECT EXAMINATION

24 BY MR. BUCHSBAUM:

25 Q Good morning -- good afternoon, I should say.

26 Mr. Bell, do you have before you PG&E Exhibits
27 12, 13, and 14 marked for identification purposes?

28 A Yes, I do.

1 Q And can you tell us what portions of these
2 exhibits you're sponsoring this afternoon?

3 A I'm sponsoring Chapters 3 of Exhibit 12,
4 Exhibit 13, and Exhibit 14, each chapter being titled
5 Rate Design Issues.

6 Q And now were these portions of the exhibits
7 prepared by you or under your supervision?

8 A Yes.

9 Q Do you have any changes, corrections, or
10 additions to make at this time?

11 A On the table -- there's some labeling on Table
12 3-1 at page 3-6 of Exhibit 12.

13 In the notes to that table --

14 ALJ MALCOLM: Can you give us the page again? I'm
15 sorry.

16 THE WITNESS: Page 3-6.

17 Note -- Footnote 1 to that table has three
18 sentences. The last sentence I tried to reword and move
19 into Footnote 2, and unfortunately when we edited we
20 didn't strike the sentence that was being reworded; so
21 simply the last sentence of Footnote 1 beginning
22 "Generation rates" should be stricken because the
23 content of that footnote has been replaced with what's
24 in Footnote 2.

25 Also Footnote 3 refers to Table 3-1, which
26 would be a self-reference; that should actually refer to
27 Table 2-1. Footnote 3 refers back to the table at the
28 end of Ms. Burns' chapter.

1 With those corrections on the face of
2 Table 3-1, my testimony is true and correct.

3 MR. BUCHSBAUM: Q And, Mr. Bell, are the opinions
4 that are expressed in the -- in your prepared
5 testimony -- do they represent your best professional
6 judgment?

7 A Yes, they do.

8 MR. BUCHSBAUM: Your Honor, Mr. Bell is available
9 for cross-examination.

10 ALJ MALCOLM: Thank you.

11 Mr. Reiger?

12 MR. REIGER: Thank you, your Honor.

13 CROSS-EXAMINATION

14 BY MR. REIGER:

15 Q Good afternoon.

16 A Good afternoon.

17 Q My name's Jason Reiger, and I'm representing
18 ORA.

19 I'd like to start off with your opening
20 testimony, Exhibit 12, page 3-1.

21 At lines 17 through 19 you talk about PG&E
22 recommending a CRS rate.

23 Am I correct in recalling that you also have
24 an alternative proposal with a vintage CRS, or am I
25 incorrect in that?

26 A I haven't recommended a vintaged CRS; I have
27 described towards the end of the chapter an alternative
28 pro rata or equal percent CRS as an alternate

1 recommendation.

2 Q If you're not recommending a vintage CRS, does
3 that mean that PG&E wishes to always procure energy for
4 the CCA loads?

5 A I -- I have explained actually as part of the
6 primary recommendation -- and it was what Ms. Burns
7 sponsored -- that CCAs that do meet Commission-
8 established procurement standards would qualify for a
9 lower CRS.

10 When I refer to an alternate rate design
11 recommendation, I keyed off with the word "alternate"
12 when you asked me the question.

13 The alternate recommendation is something else
14 altogether where we talk about applying an equal percent
15 to the generation rate for individual customers.

16 Under PG&E's primary recommendation of a
17 single CRS rate, what that would do is it would take an
18 indifference rate and apply it to each CCA participant.

19 What I understand is that those CCAs that do
20 meet the procurement standards, it's Ms. Burns'
21 testimony, that an different indifference rate would be
22 calculated for those customers than under our primary
23 recommendation.

24 The indifference rate applicable to a
25 particular group of CCA corresponding to formation in a
26 particular open season would all pay the uniform CRS.

27 Q Depending upon the time in which the CCA met
28 its load requirements such that your -- such that you --

1 they have guaranteed satisfactorily that they are going
2 to meet their load requirements, depending on which year
3 they met that requirement, would the reduction in the
4 single CRS change?

5 A My understanding of Ms. Burns' testimony is
6 that a calculation would be performed for the -- to
7 produce an indifference rate applicable to whichever
8 group of CCAs formed and met the procurement standards
9 in any given year.

10 MR. BUCHSBAUM: Your Honor, I'm somewhat concerned
11 because the questioning -- and maybe it will change, but
12 it seems to be primarily addressing the computation of
13 the CRS which was the subject of Ms. Burns' testimony.

14 Mr. Bell is primarily our witness on the rate
15 design issues.

16 So, with that, I would -- I would not object
17 to the continuation of the cross-examination but it is a
18 little bit risky from our standpoint.

19 MR. REIGER: Understood.

20 That's all I had in that line of questioning.

21 ALJ MALCOLM: Okay. Thank you.

22 MR. REIGER: Q If I could draw your attention to
23 page 3-3, line 8 through 10, where PG&E states its
24 opposition to an exemption for baseline usage because of
25 cost-shifting; do you see that?

26 A Yes.

27 Q My question is what harm, if any, would PG&E
28 suffer if there was no cost shift of bundled ratepayers

1 due to a tiered CCA rate?

2 A In lines 8 through 10 on that page I was
3 specifically addressing the hypothetical of not a tiered
4 CCA rate but a zero CCA rate for a -- a rate that was
5 zero in exemption. I was anticipating that some parties
6 might propose excluding residential usage in the first
7 two tiers from paying the CCA at all, and I was
8 concluding that that would create an undercollection
9 that would have to be made up either from bundled
10 ratepayers or perhaps in other ways from CCA customers.

11 PG&E would suffer no harm as long as there was
12 no cost-shifting. Bundled ratepayers would suffer no
13 harm from a -- a tiered CCA rate per se.

14 I have had some concerns in this proceeding
15 that we not make the CCA rate too complicated.

16 Implicitly, my alternate recommendation, which
17 is described later in my primary testimony, would
18 implicitly be a tiered CCA rate because by applying an
19 equal percent of a customer's generation rate --
20 otherwise applicable total generation rates, to the
21 extent that that reflects tier differentials, that the
22 otherwise applicable generation rate reflects tiered --
23 reflects tier differentials.

24 Customers paying a percentage of the otherwise
25 applicable generation charges as a CRS would be paying a
26 tiered CCA rate.

27 Q Thank you.

28 If I could bring your attention to Table 3-1

1 on page 3-6, does the table distinguish between above-
2 and below-baseline usage?

3 A No, because at this level of detail I've shown
4 the average current generation rate for each rate
5 class.]

6 And so for example, the 6.58 cent current
7 generation rate shown in the first row for
8 the residential class is an average across all
9 residential customers. Customers who stay within Tier 1
10 and Tier 2 currently pay a significantly lower
11 generation rate than 6.58 cents. And conversely, a
12 customer with usage -- significant amounts of usage in
13 Tiers 3 and 4 will pay a generation rate somewhat higher
14 than 6.58 cents. This is a weighted average for each
15 rate class.

16 Q In your scaled CRS proposal, would you
17 distinguish between above and below baseline usage?

18 A Yes; for example, if a residential customer
19 had a \$100 monthly bill of which \$60 represented
20 generation charges, which under current rates, do vary
21 by tier. But if \$60 was their current rate, their
22 currently applicable generation rate out of a \$100 total
23 utility bill, and if a uniform CRS percentage for that
24 year was one-third, that would determine their CRS for
25 that month as being \$20 because the \$60 portion of their
26 bill would be reflecting the tiers. So I am treating
27 one-third of that as -- CRS implicitly be a tiered CRS
28 rate.

1 Q So would that be on a per-customer basis?

2 A Yes.

3 Q If we can go to your reply testimony, page
4 3-1. You have that in front of you now?

5 A I do.

6 Q Thank you.

7 In section B, there's a discussion about how
8 broad rate changes are beyond the scope of this
9 proceeding in your opinion, and they're best handled in
10 the GRC; is that correct?

11 A I'm sorry. I just want to make sure: Are we
12 referring to my reply testimony or my rebuttal?

13 Q I believe I'm referring to your reply
14 testimony, but I can ask you more broadly.

15 A I definitely recall making that statement.

16 Q Okay.

17 A And I believe it was in my rebuttal rather
18 than my reply.

19 Q I that's fine, as long as you recall that in
20 your testimony.

21 My question is, could those sorts of changes
22 also happen in a rate design window proceeding as
23 opposed to a general rate case proceeding?

24 A Yes. I mention general rate cases first
25 because, first of all, we do have one upcoming; in fact,
26 we'll be filing it at the end of next week. The Phase 2
27 for our 2003 general rate case will be filed next week,
28 and that will provide an opportunity for broad

1 reconsideration of our rates.

2 Generally, rate design windows are a little
3 bit narrower than full-blown general rate cases, but
4 there would still be opportunity to consider rate
5 changes on a utility-specific basis in a
6 utility-specific rate design window.

7 Q And rate design windows happen in between
8 GRCs; correct?

9 A They have historically. We haven't had one
10 for a great number of years now. But historically, we
11 have had rate design windows in between GRCs.

12 Q On page 3-4 of your reply testimony, you talk
13 about ORA's load factor adjustment proposal.

14 A Yes.

15 Q Specifically on pages -- excuse me, line 19
16 through 22, you talk about what ORA has recognized; is
17 that correct? Excuse me. What ORA has identified, to
18 use your language; is that correct?

19 A Yes.

20 Q Do you agree with ORA in its identification?

21 A I believe what they've identified and
22 described in the ORA witness's testimony is plausible
23 and might be a small effect that would be known as a
24 function of load factor, yes.

25 Q Regardless of the size of the effect, do you
26 agree the effect may be there?

27 A I agree that it's possible it could be there.

28 Q On the following page which would be page 3-5,

1 on lines 16 through 19, you say that PG&E opposes
2 certain rate determinations; is that correct?

3 A Yes. It explains that PG&E opposes, at least
4 for the purposes of the current phase, of getting ready
5 to do community choice implementation.

6 Q Okay. My question --

7 A That adding that load factor calculation is a
8 additional complication to the initial implementation.

9 Q So when you say you oppose for this current
10 proceeding, when would you not oppose it?

11 A As I understand PG&E's position and as shared
12 by several of the parties to the proceeding, we will
13 have annual updates in the future after community choice
14 aggregation starts. We will have annual updates when
15 the indifference calculations are updated.

16 In addition to questioning the size of
17 the effect, I also had concerns that would need to be
18 addressed with how the load factor adjustments were
19 defined. And I think it would also get into questions
20 if one applies different load shapes to different groups
21 of community choice aggregators.

22 I think I raised the same kind of questions
23 that PG&E witness Rubin talked about this morning about
24 having different load profiles applying to different
25 customers.

26 But with those qualifications, I would think
27 that once community choice is up and running, in a
28 future annual update proceeding, ORA certainly would be

1 welcome to raise this question again.

2 Q Are you generally familiar with Edison's and
3 San Diego Gas & Electric's proposal about baseline and
4 how to handle that?

5 A I have reviewed the rate design testimony for
6 both utilities, yes.

7 Q So subject to check, you would agree that
8 Edison wants to use distribution rates regarding
9 baseline, and San Diego Gas & Electric would like to use
10 public purpose rates regarding baseline? Would you
11 accept that subject to check?

12 A I accept that subject to check.

13 Q Would PG&E be able to implement a proposal
14 similar to either of those where the baseline usage
15 protection costs are recovered through a nongeneration
16 rate component?

17 A Yes. I think that that is entirely
18 appropriate. And I think that the significant movement
19 to flatten generation rates and put as much as possible
20 of these distortions into nongeneration components will
21 be reflected in the rate design proceedings that we are
22 going to be filing next week.

23 The proposals that I made here in this case
24 are predicated on the idea that what we're adopting in
25 this case is a cost responsibility surcharge rate for
26 CCA customers. And I've put an alternate proposal out
27 in case community choice aggregation starts before other
28 changes can be made to our rates in our pending general

1 rate case.

2 To the extent that cross-class differences in
3 generation rates can be moved out of generation
4 components before community choice aggregation begins,
5 a lot of these questions will be moot as far as
6 the distortion is then caused by different generation
7 rates paid by different classes.

8 Q Would you support specifically using
9 the public purpose program when you move them out of
10 the generation rates?

11 A I think to a large extent what we're going to
12 be proposing will be a combination of distribution and
13 public purpose program rates. To the extent public
14 purpose program rates are the vehicle through which
15 revenue undercollection associated with the California
16 Affordable Rates For Electricity, or CARE, program
17 undercollections are recovered from all the ratepayers
18 who are not CARE program participants, however, the CARE
19 program discounts are historically assigned to
20 distribution rates as far as they -- AB 1X related
21 undercollections.

22 I think that our proposal will primarily be to
23 assign those to generation rates -- rather, to
24 distribution rates rather than to public purpose program
25 rates.

26 I think that given the overall magnitude of
27 the portion of the bill represented by distribution
28 rates versus the portion of the bill and the purposes

1 set aside for public purpose program rates, that it
2 would be tough for us to fit the AB 1X undercollections
3 and overcollections to the public program rates. But
4 I do agree with the principle to the extent that it
5 should be reflected in nongeneration rate components.

6 And I've indicated in both my reply and my
7 rebuttal testimony that I think you get into very much
8 utility-specific considerations when you try and
9 reallocate existing rates. And that's why a general
10 rate case makes more sense to address rates that will be
11 paid by all customers.

12 Q What is your opinion of TURN's proposal to use
13 PG&E's method in the short term and the Edison/San Diego
14 Gas & Electric method, if I can combine those two, in
15 the long term and implementated [sic] in a GRC?

16 A I think that PG&E and TURN and Edison and
17 San Diego are all moving towards a common goal in that
18 regard, trying to ensure that we have generation rates
19 that are not artificially distorted if those are being
20 opened to competition via community choice aggregation.

21 And to the extent that TURN is endorsing our
22 alternate CRS recommendation in the short term and
23 acting on individual utilities' generation rates --
24 individual utility GRCs in the future, that's perfectly
25 consistent with my position.

26 ALJ MALCOLM: Let's go off the record.

27 (Off the record)

28 ALJ MALCOLM: Back on the record.

1 Off the record.

2 (Off the record)

3 ALJ MALCOLM: Back on the record.

4 You're done, Mr. Reiger?

5 MR. REIGER: No further questions, your Honor.

6 ALJ MALCOLM: Okay. Thank you.

7 Mr. Como.

8 MR. COMO: Can we go off the record?

9 ALJ MALCOLM: Off the record.

10 (Off the record)

11 ALJ MALCOLM: Back on the record.

12 We'll be in recess until tomorrow morning at
13 9:00 a.m. Thanks.

14 (Whereupon, at the hour of 3:30 p.m.,
15 this matter having been continued to
16 9:00 a.m., June 8, 2004, at
San Francisco, California, the Commission
then adjourned.)

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