

1 SAN FRANCISCO, CALIFORNIA - JUNE 9, 2004 - 9:05 A.M.

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3 ADMINISTRATIVE LAW JUDGE MALCOLM: We'll please
4 come to order.

5 DAWN OSBORNE

6 resumed the stand and testified further as follows:

7 ALJ MALCOLM: Mr. Huard.

8 MR. HUARD: Thank you, your Honor.

9 CROSS-EXAMINATION resumed

10 BY MR. HUARD:

11 Q Good morning, Ms. Osborne.

12 A Good morning.

13 Q How are you today?

14 A Fine.

15 Q When last we spoke, we were moving off to
16 another topic.

17 If I could get you to look at your Exhibit 22,
18 that's your reply testimony, at page 8, beginning at
19 line 6. Do you have that reference?

20 A Yes.

21 Q The sentence that begins on line 6 says, at
22 least in my version says: SDG&E generally agrees with
23 PG&E and LGCC that past DA decisions provide the proper
24 guidance for determining incremental costs of providing
25 CCA services in this proceeding, then there's a
26 reference.

27 I'd like to ask you a succession of questions
28 and I'm going to lay some groundwork. But the basic

1 area I'd like to cover is the comparison of your
2 proposal in your testimony as it has been revised and
3 direct access and what you provide by way of direct
4 access.

5 So my first question is, you're familiar with
6 the direct access program; are you not?

7 A Yes.

8 Q Based on my prior experience with it, you're
9 intimately familiar with it.

10 Let me ask a question: What's Account 376?

11 A Account 376 was -- it's been a while ago.
12 Account 367 -- 376, Account 376 were costs, direct
13 access related costs the Commission determined would be
14 paid for by all ratepayers.

15 Q Is it fair to say that they are basically
16 program implementation costs?

17 A For the most part, they were direct access
18 program implementation costs. There were some
19 transactional costs that were also included within
20 Section 376 as well.

21 Q And just to reiterate: Those are paid for by
22 all ratepayers, not just direct access customers?

23 A Yes.

24 Q Now, the direct access charges that San Diego
25 currently has for any DA customers, are they included in
26 a tariff that's referred to as Schedule DA?

27 A Yes.

28 Q I'd like to show you what I believe is your

1 current Schedule DA, if you could confirm that this is
2 the current version.

3 (Handing document to the witness)

4 Ms. Osborne, could you confirm that this is
5 the current Schedule DA?

6 A Yes.

7 Q And this schedule includes all of the charges
8 that are assessed against a direct access customer by
9 San Diego Gas & Electric Company under this program?

10 A It would relate to charges that are either
11 assessed to the customer or to the energy service
12 provider.

13 Q So that if I were to look at Account 376 and
14 Schedule DA, I would have basically the universe of
15 costs and charges associated with direct access?

16 A Section -- my understanding is that -- I mean,
17 I'm questioning it a little bit. And the Schedule DA is
18 definitely the approved tariffs that SDG&E uses to
19 charge ESPs and customers direct access fees.

20 I'm hesitating somewhat on Section 376 because
21 my understanding is that rate recovery has expired at
22 this point for SDG&E, I believe. And I would -- I'm not
23 an expert in this area, so I don't know. So I am not
24 quite sure how to answer the combination of the two; and
25 in fact, I believe that one recovery method has expired.

26 Q I'll accept that explanation.

27 A Okay.

28 Q I didn't want to tie the two together --

1 A Okay.

2 Q -- as much as indicated that the
3 implementation costs were, in 376, have either been paid
4 for or about to be paid for, and a customer would be
5 billed under the various charges for services under
6 Schedule DA.

7 A Right.

8 I think it is safe to say that when direct
9 access was established several years ago, that the costs
10 recovered through Section 376 and the service fees
11 covered are costs.

12 MR. HUARD: Thank you.

13 Your Honor, I can either introduce this as an
14 exhibit at this point or I could have it as an item by
15 reference since it's part of their official tariff,
16 whichever you'd like to do. I've got copies. We can
17 have it introduced as an exhibit.

18 ALJ MALCOLM: I prefer to mark it as an exhibit,
19 unless there's an objection.

20 MR. HUARD: Your Honor, I'd like to have this
21 marked then as Exhibit 24.

22 ALJ MALCOLM: All right. And just to clarify this
23 is San Diego Gas & Electric's Schedule DA Sheet 16748-E
24 with seven sheets.

25 (Exhibit No. 24 was marked for
26 identification.)

27 MR. HUARD: Thank you, your Honor.

28 Q Ms. Osborne, I'd like to now turn your

1 attention to your Attachment A. And for purposes of this
2 discussion, I'd like to use the Attachment A to your
3 reply testimony because I believe you modified your
4 attachment from your direct testimony.

5 A That's correct.

6 Q Thank you.

7 Now, if I could get you just to give us a very
8 brief description of what this chart is, for the record.

9 A This chart is, at this point, SDG&E's
10 estimated transaction cost, and indicates the type of
11 fee and the amount and the cost responsibility and a
12 description of that fee. So at this point, this is
13 SDG&E's best estimate, based on many assumptions, that
14 these would be the estimated costs that would be charged
15 to a community choice aggregator for the additional
16 activities that the utility will incur.

17 Q Thank you.

18 By the way, I find this a very useful
19 document. I appreciate the fact that SDG&E put it
20 together.

21 A Thank you.

22 Q Can -- let me ask: Under the amount -- if I
23 remember correctly in your rebuttal testimony, you have
24 now indicated that your -- the amounts of -- for these
25 costs are basically something you would like to be
26 decided in another phase of this case and not in this
27 proceeding.

28 A That's true. Even the individual fees we feel

1 may change based on final rules. They're in -- if final
2 rules would eliminate what we assume would be an
3 activity, then certainly the recommended charge would go
4 away. On the other hand, if rules actually identify new
5 activities, there could actually be new fees. But we
6 were more -- it was in response to the Commission's
7 request for us to put forth estimated charges, in fact,
8 before the rules had been established.

9 Q Thank you.

10 Have you compared -- in your Attachment A
11 I should say you have a description section, which is,
12 I believe, your summary version of what that charge is
13 supposed to cover.

14 Have you studied the descriptions of services
15 by the other two investor-owned utilities to determine
16 if their descriptions are consistent with yours or in
17 any way vary from yours?

18 A No, I have not.

19 Q In looking at the cost -- the amount -- it's
20 listed as an amount to the estimated total cost column.
21 Have you looked at the methodology or amounts utilized
22 by the other utilities to compare them to yours?

23 A I have not studied the amounts.]

24 I did look in the testimony of the other two
25 utilities at their methodology for determining their
26 fees, and that methodology looked very comparable to
27 SDG&E's.

28 Q Very comparable doesn't mean exact. Are there

1 differences that you can point to where one or both the
2 utilities differ from your methodology in your
3 Attachment A?

4 A No. I think we are both using basically
5 activity-based costing methodology, or all three of us.
6 All three of us were using incremental activities. So I
7 think we are very, very -- I can't say we are exactly
8 the same, but I would say we are very similar.

9 Q When you said incremental activities, there is
10 a differentiation between the utilities as to what is an
11 incremental activity, isn't there?

12 A I think there could be. I am not sure exactly
13 if what is in our existing activities within our
14 existing rate base are the same.

15 MR. SZYMANSKI: Your Honor, I just want to observe
16 that I think Ms. Osborne testified a couple minutes ago
17 that she has some general familiarity with what the
18 other two utilities are doing. So as we drill into that
19 further and try to identify specific differences, that
20 explanation has to be understood in the context of her
21 statement of what she knows.

22 MR. HUARD: Mr. Szymanski, I think the witness is
23 doing a wonderful job of testifying on her own. Did you
24 have an objection to the question?

25 MR. SZYMANSKI: Yes. And I stated it.

26 MR. HUARD: What was the objection?

27 MR. SZYMANSKI: The objection is that the way that
28 the question was framed didn't appear to acknowledge her

1 prior testimony this morning regarding the statement of
2 her personal knowledge. And so her subsequent answers
3 and her forthcoming answers should be understood in that
4 context.

5 MR. HUARD: Your Honor, that was effectively
6 testimony by counsel. And I would move that that
7 response be stricken.

8 Clearly the statements of the witness are
9 going to be listed in the transcript one before the
10 other. They are going to be read in context. To the
11 extent she previously qualified her statements, they
12 will appear in the transcript as her qualifications.
13 They speak for themselves. I don't think they need to
14 be emphasized by statement of counsel.

15 ALJ MALCOLM: I will allow the question. The
16 witness seems very competent to qualify her answers.

17 MR. SZYMANSKI: Your Honor, I will move on, but
18 the issue isn't the witness' competence, clearly. The
19 issue is the manner in which the questions are to be
20 understood.

21 This isn't a statement of any assertion of
22 fact on my part. It is an understanding of the manner
23 in which the question was posed and the foundation for
24 counsel's question. With that we can move on.

25 MR. HUARD: This is coaching.

26 ALJ MALCOLM: I think you can make that point in
27 your brief or your reply brief if you would like.

28 I will let Mr. Huard continue.

1 MR. HUARD: Q Ms. Osborne, in a conversation
2 yesterday off the record I had indicated that I was
3 going to ask you some questions about comparisons of
4 Attachment A to other forms of service. I would like to
5 get -- have you had a chance to think about those
6 questions over the evening?

7 A Yes.

8 Q Basically, what I would like you to do is that
9 in Attachment A there are approximately 39 charges
10 listed with some subsections. I would like you to
11 basically, either with reference to schedule DA or just
12 otherwise, list which ones of these charges are
13 currently assessed on direct access customers and which
14 ones are not.

15 A Just going through the list, CCA program
16 implementation cost is certainly unique to CCAs. So
17 there is no comparable DA fee.

18 Q Can I ask a question in that regard. This is
19 CCA program implementation costs?

20 A Yes.

21 Q Didn't we discuss that DA program
22 implementation costs were included in Account 376 or
23 Order 376, and therefore billed to all customers? So
24 isn't there a comparable implementation program for
25 direct access?

26 A There is a comparable implementation but maybe
27 not a comparable cost recovery mechanism. So I'm not
28 comfortable in indicating that the program

1 implementation cost could be paid for by all ratepayers.

2 This is unique to CCA -- -- I would prefer to
3 keep my answer that this particular fee is unique to CCA
4 and it will be pending the Commission's decision on cost
5 recovery.

6 Q So it is fair to say there is no specific
7 equivalent charge on direct access customers?

8 A Yes.

9 Q Thank you.

10 A With Fee No. 2, this is specialized and
11 customizing, and there is no comparable DA fee because
12 we do not offer this service to DA customers or to ESPs.

13 Fee No. 3 is paid for by all ratepayers.

14 Fee 4 --

15 Q Excuse me. Fee No. 3, then there is no
16 specific charge on direct access customers?

17 A Right.

18 Q It is ratepayer recovery?

19 A Right.

20 Fee 4 is unique to CCA. There is no
21 comparable DA fee because there is no comparable
22 service.

23 There is a comparable DA fee for Fee 5.

24 There is no comparable DA fee for Fee 6.

25 Fee 7, 8 and 9 are unique to CCA, so there is
26 no comparable DA fee.

27 Fee 10, 11, 12 and 13 are the same, that there
28 are no comparable services to DA so there will be no DA

1 fee.

2 Q Let me ask a question. This relates to opt
3 out, but is there -- I am forgetting here. Did you have
4 a separate section on switching charges that would be
5 different than the opt out or opt in, or is this
6 effectively the switch charge for a switch from one to
7 the other?

8 A I think the following fee, Fee 14, would be
9 more comparable to the movement of customers back and
10 forth between direct access and bundled service.

11 Q Is there a DASR charge?

12 A No, there isn't. So Fee 14, there is no
13 comparable DA fee.

14 Fees 15, there is no comparable DA fee.

15 Fee 16, 17, 18, there is comparable DA fee.

16 Fee 19 --

17 Q Excuse me. In 16, 17 and 18, is your
18 methodology for the amount for CCA equivalent to your
19 methodology for the amount for DA?

20 A I'm sorry. Can you repeat that.

21 Q You said that there is a DA equivalent charge.

22 A Hm-hmm.

23 Q Without comparing the specific cost, is the
24 methodology for determining the amount of the cost the
25 same in DA as it is in this proposal for CCA?

26 A Yes.

27 Q Thank you.

28 A Fee 19 is a service that we don't offer to

1 direct access because there is no fee.

2 Fee 20 and 21, there is a comparable DA fee.

3 On Fee 22, 23, 24 and 25, there are fees that
4 are employed for ESP consolidated billing.

5 Fee 26 --

6 Q Excuse me. If I can stop you for a second.

7 So you lumped a bunch of them. I am trying to
8 write notes. So 22 through 25, there is a DA equivalent
9 but it is for consolidated billing?

10 A Yes.

11 Q And consolidated billing, I think there was
12 discussion that that's -- I can't even ask you how many
13 customers you have, can I.

14 Do you currently have customers that are
15 consolidated billing, that are utilizing your services
16 for consolidated services?

17 A For consolidated billing?

18 Q Yes.

19 A I know that the activity has decreased. I am
20 not sure at this point if we have customers on ESP
21 consolidated billing or not.

22 Fee 26 and 27 --

23 Q Could you give me one second, please.

24 A I'm sorry.

25 Q That is why I was hoping to get this in
26 writing. Thank you.

27 26 and 27.

28 A Fee 26 and 27, there are corresponding DA

1 fees.

2 Q Are they calculated using the same methodology
3 as what you propose here for CCA?

4 A Yes.

5 Fee 28 and 29 is the release of customer
6 information. There is a corresponding DA fee. It is
7 somewhat different where in fact the first two requests
8 are free and all following requests, there is a charge.

9 Q Can I ask a question on that, please.

10 A Yes.

11 Q When you say -- are they individual end-use
12 customer requests, or are they ESP requests for multiple
13 customers for the first two individual requests or first
14 two requests by the ESP, energy service provider, for
15 more than one customer?

16 A Both.

17 Q Think you are on 30.

18 A Fee 30 is unique to community choice
19 aggregation. And --

20 ALJ MALCOLM: I'm sorry, services or the service
21 and the charge?

22 THE WITNESS: For Fee 30, actually both. The
23 service has not been in existence before.

24 ALJ MALCOLM: Okay.

25 THE WITNESS: Fee 31 is -- actually, it is a
26 two-part fee. The first part is unique to areas new
27 because it is unique to CCA. The second part, there is
28 no corresponding DA fee.

1 MR. HUARD: Q As to the mass enrollment fee on
2 No. 31, you said there is no DA equivalent. Is there a
3 DA equivalent where an energy service provider submits a
4 large number of DASRs? Do you have a lump charge for
5 enrolling them as their customers?

6 A No. That would be the same as what we were
7 talking about under the CCASR fee or the DASR fee. It
8 would be the same.

9 Q So it is an individual account charge?

10 A There is no corresponding DA fee for that.

11 Q So that if an energy service provider were to
12 submit, let's say, a thousand DASRs and it was on
13 utility consolidated billing, there would be no fee to
14 enroll them as direct access customers for that energy
15 service provider?

16 A At this time that's correct.

17 Q Thank you.

18 For clarification of the record, can you say
19 what a DASR is?

20 A A DASR is an acronym for direct access service
21 request. And CCASR is acronym for a CCA service request
22 or a community choice aggregation service request.

23 Q Thank you.

24 I apologize, your Honor. Ms. Osborne and I
25 have had these conversations before, so we do switch
26 into jargon.

27 I think you are at 32.

28 A 32, there is a corresponding direct access

1 charge. It is not on Schedule DA, but in fact it is
2 imposed as a part of our service agreement requirements.
3 And with all the metering fees, which are the remaining
4 fees, although the charges between Schedule DA and what
5 we have proposed in Attachment A are not identical, all
6 metering costs for direct access customers, there is a
7 corresponding -- there is a fee imposed. So I would say
8 for all the metering fees there is a corresponding
9 direct access fee.

10 Q And if I were to refer to schedule DA, would I
11 find those charges there?

12 A Yes. Those schedules -- I mean, those fees
13 are actually encompassed within sheets 3 and 2.

14 Q Thank you.

15 Where were we?

16 A I think I'm done.

17 Q That got us to 34. 35 would be included as
18 well?

19 A All the metering fees, 33, 34 through 39.

20 Q Including the very last page of Attachment A,
21 additional time on site under metering special field
22 services? I didn't find one, but I'm not an expert on
23 this.

24 A In our -- I would say in this case that has
25 not been defined in this schedule. In our enhanced
26 metering fees for -- I believe it is a separate fee in
27 our enhanced metering services for nondirect access
28 customers. I apologize.

1 Q So it is not a DA fee but it is a fee for
2 large bundled customers?

3 A We do offer enhanced metering services for our
4 customers that are not direct access. And there are, I
5 believe, additional fees in that category that it may be
6 included in.

7 Q One last question. Of these charges, do you
8 know if any or all or subsets are assessed on bundled
9 customers; that is, someone who has received utility
10 bundled service? As you said in the last question,
11 response to the last question, that there is at least,
12 as to that last charge, there is an assessment on
13 bundled customers but not direct access. Which of these
14 charges are assessed on bundled customers to your
15 knowledge?

16 A On any and all the charges are you asking
17 about?

18 Q Yes.

19 A Certainly the --

20 Q That was the second half of what we talk about
21 yesterday.

22 A I'm sorry. Certainly we do have a late
23 payment fee for commercial bundled customers and return
24 payment fee for bundled customers.

25 Q Can you reference your numbers.

26 A Okay. Let me go back.

27 Q Late payment I have got is 26.

28 A Thank you. Late payment fee, 26, for

1 commercial customers.

2 The return payment fee, 27, is comparable or
3 has a corresponding bundled service fee. And bundled
4 customers that request enhanced metering services, there
5 are fees to cover the incremental cost of those metering
6 services that are requested.

7 Q Would they be generally 34, 35, 36, in that
8 area?

9 A Yes. It would be all the metering category.

10 Q So that everything that appears basically
11 after advanced meter services bundled, that is your
12 No. 34, would be applicable to basically everyone?

13 A I believe that there -- I believe that all the
14 costs within that category are applicable to everyone,
15 yes.

16 MR. HUARD: Thank you, your Honor. Those are all
17 the questions I have.

18 ALJ MALCOLM: Thank you, Mr. Huard.

19 Mr. Fenn.

20 MR. FENN: Thank you, your Honor.

21 CROSS-EXAMINATION

22 BY MR. FENN:

23 Q I am Paul Fenn for Local Power.

24 A Good morning.

25 Q I want to direct you to Attachment A to your
26 reply testimony.

27 A Okay.

28 Q Going down to Fee No. 13, that's the mass

1 enrollment fee, is this -- I am actually trying to find
2 the equivalent fee for the -- sorry, that's the wrong
3 reference. Excuse me a moment.]

4 Where do I find the monthly billing fee on
5 this page?

6 A That is starting with fee 16.

7 Q 16. Here you have the amount of \$0.23 per
8 account. Is that per account per month?

9 A Yes.

10 Q What was the basis of that figure, the \$0.23?
11 Is that --

12 A That \$0.23 covers our costs -- our incremental
13 costs related to performing the community choice
14 aggregation consolidated billing. So it's
15 the activities that are in our -- are incremental to our
16 normal billing.

17 Q You told Mr. Huard that this has a corollary
18 in DA. Is it the same fee that you charge DA customers
19 or is that a premium above what you charge DA customers?

20 A Actually, the charge goes to the energy
21 service provider, not to the customer. But the fee for
22 direct access is actually \$0.25.

23 Q So slightly less.

24 A The fee for DA customers is slightly more.

25 Q Slightly more.

26 A And the difference is only that our DA fees
27 were established several years ago. And we, in fact,
28 when we put forth the community choice aggregation,

1 updated or actually looked at our activities. So the
2 cost estimated here is a more accurate reflection of
3 cost.

4 I should also note that for direct access,
5 that \$0.25 includes also the EDI VAN charges, which is
6 an additional cost. What we're proposing with community
7 choice aggregation is that we would eliminate the VAN
8 transfer, send these charges over the Internet and that
9 would eliminate that cost.

10 So we're trying to -- and if we do this for
11 CCA, in fact we would do it for DA. We would propose
12 that the DA fees change as well.

13 Q But on a cost basis, you believe that
14 the costs for processing the DA customer's bill are the
15 same as the costs for processing a CCA customer's bill
16 per customer -- on a per customer basis?

17 A For providing consolidated billing to, whether
18 it's a direct access customer or for an ESP, providing
19 that service for an ESP or a community choice
20 aggregator.

21 Actually, we're not proposing any changes to
22 the billing activities for consolidated billing, whether
23 it would be direct access or community choice
24 aggregation.

25 So the functions would -- the functions and
26 the activities are the same. The costs -- in this
27 particular case because there is no difference in there,
28 I would expect the costs to be the same as well.

1 The only reason why there's a difference between
2 Schedule DA and what we're proposing in these estimated
3 fees is the time frame that's occurred between the time
4 one fee was established than the other.

5 Q You have under the fee No. 14 CCASR. Is --
6 sorry. Under item -- or fee 13, the Mass Enrollment
7 Fee, \$3600 plus fee No. 15 which is \$0.47 per account.
8 So I'm assuming for -- that is just to cover a
9 confirmation letter.

10 Is the confirmation letter required by AB 117
11 or what's the basis for the confirmation letter?

12 A The confirmation letter is basically an
13 activity that we were perform today under direct access.
14 We keep our customers informed whenever we've received a
15 request for when their account is switching from direct
16 access to bundled service. So it's an activity
17 consistent with direct access and, as such, we would
18 retain that consistency or recommend that that
19 consistency is retained with community choice
20 aggregation.

21 Q So this is apart from the standard
22 notification? This is a separate letter --

23 A Yes.

24 Q -- from the statutorily required
25 notifications?

26 A Yes. This letter is provided to the customer,
27 keeping them informed that the utility is switching
28 their account. And in many cases, their account number

1 may change. So we have to update them on their
2 information on their new account number.

3 Q Okay. What would be the basis for charging it
4 given that it's something that you do --

5 You said you do this for DA customers.

6 A Yes.

7 Q It's not specific to CCA. What's the basis
8 for charging that \$0.47 per account?

9 A Well, as I mentioned in my testimony, our
10 direct access fees are outdated. And we believe that it
11 is a cost that should also be charged to direct access
12 customers. And when we update our direct access
13 customer -- or our direct access fees, we would be
14 recommending a charge for this activity as well.

15 Q Why couldn't you just include this information
16 or have it included -- required to be included in
17 the notification -- standard required notifications just
18 to save money, avoid the expenditures?

19 A It's two different types of activities. My
20 understanding of the notification is to advise
21 the customer of their -- of the CCA's program and terms
22 and conditions, as well as to provide any opt-out
23 requirements.

24 This notification, in fact, would advise
25 the customer of the activity that the utility is going
26 to be taking place. If they opted out of the program,
27 it would be sending them a letter confirming that, in
28 fact, we've received and processed their order to opt

1 out of the program. If they haven't opted out of
2 the program, then it's a letter confirming to the
3 customer that in fact we are switching their account
4 over to CCA service on a particular date.

5 Q But they do receive that information, both,
6 don't they, in the required notification?

7 A Not necessarily. It doesn't confirm.

8 The notification is giving them information on
9 what the community choice aggregator program is and what
10 their choices are. This letter is confirming what
11 activity's actually taking place. It just keeps the
12 customers apprised of what is happening on their account
13 and the activities that are occurring on their account.

14 Q But is the customer not informed, given that
15 the opt-out occurs halfway within the opt-out -- I mean,
16 the transfer of customers occurs halfway through the 120
17 day opt-out period, and customers are informed following
18 the transfer that they have been transferred. Wouldn't
19 that amount to the same information, or could it not
20 include any information that you have in mind?

21 A Well, this in fact is -- this is in fact what
22 tells a customer that they have been transferred.

23 Q But I'm just saying, doesn't the post-transfer
24 notification that's required by the statute also inform
25 them that the transfer has occurred?

26 A Yeah. I'm not sure what the post notification
27 will entail. This actually advises the customer as of a
28 certain date. The post notification goes out after

1 the customer has switched. This advises the customer
2 shortly before they switch that, in fact, that activity
3 is taking place on the account. So it keeps a customer
4 informed. Also provides them with information as to who
5 they should call if they have a question at that point,
6 depending upon if it's a reliability question -- such as
7 if there's an outage, or a -- if they have a question on
8 their commodity, then they would know to call the CCA
9 because they would know at that point the services have
10 changed.

11 Q I just want to go to the section of code.
12 I refer you, please, to page 10 of -- page 7 of AB 117,
13 which is 366.2(c)(13): Community choice aggregators
14 shall inform participating customers at least twice
15 within two calendar months, or 60 days, in advance of
16 the date of commencing automatic enrollment.

17 MR. SZYMANSKI: Your Honor, I would just note that
18 Mr. Fenn is paraphrasing some of the language there.

19 MR. FENN: Am I? I'll read it again.

20 The community choice aggregator
21 shall fully inform participating
22 customers at least twice within
23 two calendar months, or 60 days,
24 in advance of the date of
25 commencing automatic enrollment.
26 Notifications may occur
27 concurrently with billing cycles.
28 Following enrollment, the

1 aggregated entity shall fully
2 inform participating customers for
3 not less than two consecutive
4 billing cycles. Notification may
5 include, but is not limited to,
6 direct mailings to customers, or
7 inserts in water, sewer, or other
8 utility bills. Any notification
9 shall inform customers of both of
10 the following:

11 ... That they are to be
12 automatically enrolled and that
13 the customer has the right to opt
14 out of the community choice
15 aggregator without penalty.

16 ... The terms and conditions of
17 the services offered.

18 And then if you go down to subparagraph (C):
19 Each notification shall include a mechanism by which
20 the ratepayer may opt out of community choice
21 aggregated service.

22 So my question is if they are being, under
23 statute, informed twice prior to transfer and twice
24 after transfer and they're informed that they are to
25 be automatically enrolled, that they have the right to
26 opt out, don't these cover the CCA-specific costs
27 within the notification and render this item,
28 the customer confirmation letter, really a cost

1 associated with the utility service and not with
2 the CCA?

3 A No. That -- our costing proposal is that any
4 incremental activity that is directly attributable to
5 the CCA program be charged as a cost. That's consistent
6 with AB 117: No cost shifting.

7 The confirmation letter serves a different
8 purpose than the notification and, as such, the customer
9 needs to be kept apprised as to what activity is taking
10 place on their account. Not what they can do, but what
11 is happening. And that's what the confirmation letter
12 provides to the customer.

13 It's an incremental activity that is a part of
14 the program and, as such, would be charged to the CCA.

15 Q Is this fee 15 confirmation letter anywhere
16 mentioned or even indicated by AB 117?

17 A I'm not -- I would say it's not specifically
18 addressed. But that doesn't limit the authority for
19 the communication.

20 Also, it is -- the cost is anticipated, very
21 definitely, with the language that the -- that there is
22 no cost shifting.

23 Q So if you wanted to notify customers of
24 the stock portfolio of the ESP providing service on an
25 annual basis, should that also be paid for by the CCA's
26 customers?

27 A I'm sorry. Could you repeat your question?

28 Q If you wanted to provide other supplemental

1 information about the ESP serving the CCA customer on an
2 annual basis, should that also be paid by the CCA's
3 customers?

4 A Are you suggesting such as their stock
5 proposal?

6 Q Yeah. No, their stock portfolio. Or if you
7 wanted to say that the customer should be informed of
8 the stock performance of the ESP providing the service
9 on an annual basis, should that also be paid for by --

10 A I'm not suggesting that we communicate to our
11 customer that type of information.

12 Q But should you think that it was essential as
13 a utility to informing the customer of the nature of
14 the service they're receiving, should any kind of
15 notification that you believe to be essential, even
16 though it's not referred to in statute, be borne by
17 the CCA's customers?

18 A If there's an activity that we feel is
19 essential that is directly attributable to the CCA
20 program, yes, then I feel that cost should be recovered
21 not from all ratepayers, but from the CCA.

22 Q Thank you.

23 So the mass enrollment fee, is that \$3,600,
24 what is the basis of that number?

25 A The basis of that number is related to
26 the activities that are required to switch all
27 the accounts for the CCA en masse or to automatically
28 enroll all the accounts en masse for the community

1 choice aggregator. Incremental activities associated
2 with the program.

3 Q But I mean, how did you arrive at it? Is
4 there a breakdown? \$3,600. I mean, there's no
5 equivalent under DA, so I'm just wondering. Is that --

6 A No. We looked at the activities that we felt
7 would be necessary for the mass conversion. We've
8 listed some of those activities here. It's making those
9 changes in our billing system. It's identifying
10 the account as a community choice aggregator. It's
11 switching over. This is, now the account will be under
12 a different type of billing situation. So it's making
13 all those changes within our billing system. It's
14 providing the community choice aggregator with all
15 the customer specific information.

16 Q Okay. Thank you.

17 MS. GRUENEICH: Your Honor, I just want to see if
18 we can do a time check with Mr. Fenn.

19 My notes said that you requested 10,
20 15 minutes of cross-examination. We have been in it a
21 little over 15 minutes. And my only concern is because
22 we have three other witnesses today, that my hope is we
23 can keep people pretty much within their
24 cross-examination estimates. If I could ask you
25 about --

26 ALJ MALCOLM: Mr. Fenn?

27 MR. FENN: Yeah. Maybe about another five minutes
28 would be enough for me, your Honor.

1 MS. GRUENEICH: Thank you.

2 MR. FENN: Q I'm just trying to look at the fees
3 for which you said there's no comparable direct access
4 fee.

5 This customer contact fee, this is just for
6 when customers call. Would you have -- you say -- this
7 says here -- this is fee No. 6, customer contacts that
8 are related to a CCAs program.

9 Calls from CCA customers might also involve
10 calls regarding problems associated with distribution,
11 transmission, and default service; correct?

12 A Yes.

13 Q How would you determine -- this is a per
14 minute fee. So if you had calls coming in, how would
15 a CCA being charged these fees know that the calls were
16 in fact concerned the CCA portion of the electric bill?

17 A I believe in our testimony -- in my testimony,
18 we indicated that in fact for the -- the CCA would not
19 only be charged for the portion of the call that was
20 directly related to their program.

21 So in fact, if the customer is calling and
22 inquiring about information that was not related to
23 the CCA program as well as the CCA program, then in fact
24 the utility will have -- we will set up the system so in
25 fact we will be able to track the call, the specific
26 call. The customer service representative will
27 determine the amount of time that was related in that
28 call to the CCA's business, and that information will be

1 noted. All that information will be tracked, reported,
2 and billed to the CCA. So there would be a detailed
3 accounting of the activity.

4 Q But the accounting would be done by a utility
5 employee, not with any kind of review by the Commission?

6 A Well, I don't think the Commission is going to
7 look at each call.

8 Is that what you are talking about?

9 Q Well, I mean, could you set up a -- what I'm
10 wondering is where -- you know, where is this assurance
11 that this kind of fee would not be -- could not be
12 abused?

13 A I don't think that's an issue. Our customer
14 service representatives would be provided with
15 procedures as to how to track the CCA attributable
16 portion of the call. Our customer service
17 representatives follow those procedures. Those
18 procedures certainly could be shared with community
19 choice aggregators as well as the Commission. They
20 follow the procedure. The appropriate accounting and
21 the tracking will take place. So I think that would
22 fully ensure that in fact the appropriate charging is
23 taking place.

24 Q Now, on the opt out, in fees 10 to 12. You
25 have fees set here --

26 ALJ MALCOLM: Mr. Fenn.

27 MR. FENN: Yeah?

28 ALJ MALCOLM: You have three minutes.

1 MR. FENN: Yeah. Thank you, your Honor.

2 Q Particularly under this 3, manual opt out,
3 \$0.92 per account, and then \$0.03 for electronic opt
4 out. Under the statute it is that -- the CCA that is
5 handling the opt out and only if it requests the -- am I
6 right that only if it requests the Commission to order
7 the utility to provide opt-out notification mailings
8 will it do so; is that correct?

9 A Well, I don't know that I would agree that
10 the statute is that exact.

11 Q Well, let's refer to statute, then. I'll have
12 to refer to statute.

13 It's taking a little more time to do so, your
14 Honor, but...

15 ALJ MALCOLM: You've got one minute.

16 MR. FENN: Q 366.2(c)(13), subparagraph (B):

17 The community choice aggregator
18 may request the commission to
19 approve and order the electrical
20 corporation to provide
21 the notification required in
22 subparagraph (A).

23 So in the event that the CCA provides
24 notification and not the utility, do you -- would
25 these fees apply?

26 A Yes. The customer has to be opted out of
27 the utility records in one manner or another in order to
28 stop the account from automatically enrolling in

1 the program because we're talking about a mass
2 enrollment. And so whether or not -- I mean, we've
3 provided -- I've addressed this in my rebuttal on page
4 9. Whether or not we're providing that opt-out service
5 that the customer calls or the CCA is providing it
6 directly, the CCA -- the end result would be the CCA
7 would have to notify the utility that in fact
8 the customer is not being enrolled in the CCA program
9 the customer has opted out. And the utility would need
10 to make the necessary changes within its system to
11 prevent the account from being opted out.

12 I personally believe that the costs related to
13 the CCA to take the order and to notify the utility
14 would -- could be more expensive than the service
15 options that we've provided here. We feel that the
16 utility providing opt-out services provides a standard
17 service across all CCAs and is a very low-cost,
18 effective service.

19 MR. FENN: Just one more question, your Honor.

20 ALJ MALCOLM: No. You're done. I'm sorry. Thank
21 you.

22 MS. GRUENEICH: Your Honor, I know I hadn't
23 reserved it, but I have one question, very short, if I
24 might.

25 ALJ MALCOLM: That's fine.

26 CROSS-EXAMINATION

27 BY MS. GRUENEICH:

28 Q In your testimony with regard to what

1 I understand is the customer confirmation letter, as a
2 hypothetical, if the CCA concluded that it did not
3 believe the letter was necessary for its CCA customers,
4 would SDG&E still want to send such a letter?

5 A Yes.

6 Q And would SDG&E still insist on charging
7 the CCA or its customers for the cost of that letter?

8 A Yes, since the cost is consistent with
9 the recovery that's required under AB 117.

10 The letter is being sent due to the CCA's
11 program and the activity change; and as a result of
12 the program, then the cost is appropriately recovered
13 from the CCA in order to prevent cost shifting.

14 Q And we've agreed that that letter is not in
15 fact specified under the statute?

16 A I don't know. I would say it's not
17 specifically addressed.

18 I would not agree that -- I don't think the
19 statute limits the confirmation. And in fact,
20 the confirmation is necessary for customers to know what
21 type of activity is occurring on their account.

22 MS. GRUENEICH: Thank you.

23 Those are all the questions I have.

24 ALJ MALCOLM: Thank you, Ms. Grueneich.

25 Off the record.

26 (Off the record)

27 ALJ MALCOLM: Back on the record.

28 Mr. Szymanski.

1 MR. SZYMANSKI: Thank you, your Honor. I have a
2 few questions in redirect.

3 REDIRECT EXAMINATION

4 BY MR. SZYMANSKI:

5 Q Ms. Osborne, yesterday you were asked some
6 questions about exception fees. Do you recall those
7 questions?

8 A Yes.

9 Q Isn't it true that exception fees, by their
10 very nature, are difficult to calculate because they are
11 associated with extra expenses that a party caused
12 the utility to incur due to the disruption of work,
13 additional supervision, or potential overtime?

14 A Yes.

15 Q And isn't it true that these additional
16 factors create additional cost to the utility that must
17 be borne by the CCA?

18 A Yes.

19 Q And isn't it true that these costs, while
20 difficult to determine and unless recovered, can impact
21 the ability of SDG&E to achieve its authorized rate of
22 return?

23 A Yes.

24 Q And I'd like to ask you some questions
25 regarding the discussion you had with parties dealing
26 with the confirmation letter.

27 First of all, Ms. Osborne, are you an
28 attorney?

1 don't believe there was any examination on straw man.

2 Is this being tied to specific questions?

3 MR. SZYMANSKI: Yes, it is. You will see it in
4 just a moment.

5 MR. HUARD: Thank you.

6 MR. SZYMANSKI: Q In fact, does the straw man
7 contain some roughly 30 or more single-spaced pages of
8 implementation details?

9 A Yes.

10 Q And don't these implementation details intend
11 to effectuate the intent of AB 117?

12 A Yes.

13 MR. HUARD: Your Honor, I'm confused.
14 Mr. Szymanski just went through questions and answers
15 that said that Ms. Osborne is not a lawyer and cannot
16 talk about the intent or text of AB 117 and then
17 proceeded to raise a matter that had not been questioned
18 about in cross-examination and then asked if she thought
19 it was consistent with the statute that he just said she
20 couldn't opine on. Under those circumstances I am going
21 to object to the question.

22 MR. SZYMANSKI: I will restate the question.

23 ALJ MALCOLM: All right. You withdraw your
24 earlier question?

25 MR. SZYMANSKI: Yes.

26 Q Is it necessary, Ms. Osborne, to have
27 implementation details to effectuate a statute such as
28 AB 117?

1 A Yes.

2 Q And is that what your straw man was intended
3 to do?

4 A Yes.

5 Q I would also like to ask you about your
6 confirmation letter in regards to the following: Is it
7 important to SDG&E to inform its customers about
8 substantial business changes that affect SDG&E's
9 business?

10 A Yes.

11 Q And isn't it important that SDG&E itself be
12 able to inform its customers about those changes rather
13 than have those changes explained by some party other
14 than SDG&E?

15 A Yes.

16 Q And isn't it important for SDG&E to be able to
17 explain to its own customers how the nature of its
18 relationship with those customers would be changed by
19 the business changes that may be directed by the
20 Commission?

21 A Yes.

22 Q Is that a substantial reason why SDG&E is
23 proposing to implement a confirmation letter?

24 A Yes.

25 MR. SZYMANSKI: Thank you.

26 That's all my redirect, your Honor.

27 ALJ MALCOLM: Thank you, Mr. Szymanski.

28 Is there any recross, Mr. Huard?

1 MR. HUARD: Just one on the last point.

2 RECROSS-EXAMINATION

3 BY MR. HUARD:

4 Q Mr. Szymanski asked you a succession of
5 questions about the importance of informing customers
6 about major business changes. Are those letters and
7 other information that is provided by SDG&E about those
8 major business changes, are they incrementally billed to
9 certain customers, or are they generally considered to
10 be a normal course of business and then recovered in
11 generates?

12 A If it is related to the utility's business,
13 normal business, it would be recovered in rates.
14 However, in the particular case of AB 117, the statute
15 indicates clearly that there's not supposed to be any
16 cost shifting.

17 ALJ MALCOLM: You are going beyond the question.

18 THE WITNESS: Okay.

19 MR. HUARD: That's the only question. Thank you.

20 ALJ MALCOLM: I have a follow-up, too, that is
21 sort of close to Mr. Huard's.

22 EXAMINATION

23 BY ALJ MALCOLM:

24 Q I recognize that you may not know the answer
25 to this question. So just let me know if you don't.
26 But are you aware of how customer service costs are
27 allocated between distribution, transmission and
28 generation rates?

1 A No.

2 ALJ MALCOLM: Is that something that would be in
3 your last general rate case order?

4 MR. SZYMANSKI: Your Honor, I don't really know.

5 ALJ MALCOLM: Q The reason I ask is that you are
6 proposing to impose an incremental charge on CCAs for
7 customer service to CCA customers. It is possible -- I
8 don't know if it is likely -- but it is possible that
9 San Diego will be getting those revenues or revenues to
10 cover those costs in rates already?

11 A I can confirm that in our revenue requirement,
12 we have not anticipated any CCA activities.

13 Q I understand that. But San Diego is receiving
14 revenues to cover the costs of customer service to its
15 existing customers. So it is going to avoid those costs
16 when those customers no longer take generation service
17 from the company.

18 A We don't see that any costs would be avoided
19 because a customer switches to CCA service. In fact, in
20 direct access our experience has been, if anything,
21 there is additional cost related to --

22 Q I understand that. You are not understanding
23 my point here.

24 Because you will no longer be providing
25 generation service to those customers, you are going to
26 avoid customer service charges associated with those
27 customers as San Diego customers. You will incur them
28 while they are customers of CCAs for their inquiries to

1 your customer service group, but you are already
2 receiving revenues today to cover the costs of that
3 customer service for those customers.

4 And I don't know where, it may be in
5 generation rates, if those costs are allocated to
6 generation rates, then you will no longer be receiving
7 those revenues and it would make sense to impose an
8 incremental charge for each call from CCA customers. Do
9 you understand what I mean?

10 A I understand.

11 Q But if they are not in generation rates, then
12 you will be sort of double dipping for those customer
13 service costs because you will be receiving them as part
14 of your revenue requirement and as part of an
15 incremental charge to CCAs?

16 A I believe that would only be true if in fact
17 there was a decrease in activities related to the
18 customers moving over to --

19 Q No, you are not understanding my point.

20 What I need to find out is how those customer
21 costs are allocated in San Diego's rates because if you
22 are receiving them in one place already and you will
23 continue to receive them, it wouldn't be fair to then
24 charge CCA customers for them incrementally.

25 A But wouldn't it be true that if in fact the
26 activities were the same, whether the customer switched
27 to CCA or not, then in fact the rates would be in fact
28 fully covering the costs because there has been no

1 decrease in activity?

2 We have looked at the customer moving over to
3 the CCA, and we don't anticipate that there would be any
4 change in activity level with the customer service
5 activities.

6 Q I am assuming that. I am assuming that the
7 customer service activity won't change.

8 A Okay.

9 Q But you are already getting money for that
10 service from your customers as a whole?

11 A So let me clarify. The only thing -- I agree.
12 But the only thing that we are looking at charging, our
13 fees are comprised of, if we are charging the CCA, are
14 incremental activities.

15 Q But they are not incremental if, as we are
16 assuming here, the activity doesn't change and you are
17 already receiving those costs in rates.

18 So what I would like to find out is how
19 customer service costs are allocated between the various
20 rates, if you can get me that information. It should be
21 in the last general rate case.

22 MR. SZYMANSKI: I will be happy to research it,
23 your Honor. How would you like that information
24 provided?

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

26 (Off the record)

27 ALJ MALCOLM: Back on the record.

28 All three utilities are going to find out for

1 me how customer service costs are allocated between the
2 various parts of the bill. If there is some controversy
3 about it, we will address how to handle or work out that
4 controversy later. Thanks.

5 Mr. Fenn, did you have recross?

6 MR. FENN: No.

7 ALJ MALCOLM: Thank you, Ms. Osborne. You're
8 excused.

9 We will be in recess until 10:30.

10 (Recess taken)

11 ALJ MALCOLM: Back on the record.

12 I would like to move into the record the
13 exhibits of PG&E and San Diego, if there are no
14 objections.

15 (No response)

16 ALJ MALCOLM: All right.

17 MR. HUARD: Your Honor, I would also like to move
18 in Exhibit 24.

19 ALJ MALCOLM: Any objection to that? This is
20 San Diego's schedule for direct access.

21 (No response)

22 ALJ MALCOLM: All right, hearing no objection, we
23 will enter into the record Exhibits 12 through 24, which
24 is the testimony of PG&E's witnesses, San Diego's
25 witnesses and then those tariff sheets.

26 (Exhibits Nos. 12 through 24 were
27 received into evidence.)

28 ALJ MALCOLM: Mr. Como, you may present your first

1 witness.

2 MR. COMO: Thank you, your Honor.

3 City and County of San Francisco would like to
4 call Dr. Barbara Barkovich to the stand.

5 Barbara Barkovich, called as a
6 witness by The City and County of San
7 Francisco, having been sworn, testified
8 as follows:

9 MR. COMO: Your Honor, can we mark the exhibits
10 for reference.

11 ALJ MALCOLM: Yes. Let's go off the record.

12 (Off the record)

13 ALJ MALCOLM: Back on the record.

14 We will identify as Exhibit 25 the opening
15 testimony of Dr. Barbara Barkovich.

16 (Exhibit No. 25 was marked for
17 identification.)

18 ALJ MALCOLM: We will mark as Exhibit 26
19 Dr. Barkovich's reply testimony.

20 (Exhibit No. 26 was marked for
21 identification.)

22 ALJ MALCOLM: And we will mark Exhibit 27
23 Dr. Barkovich's rebuttal testimony.

24 (Exhibit No. 27 was marked for
25 identification.)

26 MR. COMO: We also have reply testimony.

27 ALJ MALCOLM: Her reply is Exhibit 26.

28 MR. COMO: Reply should be 26?

ALJ MALCOLM: Yes. And rebuttal is 27.

1 MR. COMO: And opening is 25?

2 ALJ MALCOLM: Yes.

3 DIRECT EXAMINATION

4 BY MR. COMO:

5 Q Dr. Barkovich, do you have Exhibits 25, 26 and
6 27 that were marked before you right now?

7 A Yes, I do.

8 Q Were those exhibits prepared by you or under
9 your direction?

10 A Yes.

11 Q Do you have any corrections to make to any of
12 those exhibits?

13 A A few minor corrections.

14 In Exhibit No. 25, on page 12, line 18, the
15 third word is "ability." The word "to" should follow
16 before the word "reopen."

17 On page 8, on the end of line 24 and the
18 beginning of line 25 refers to delivered gas prices
19 being in the mid \$5 per million Btu range. Most of this
20 year, and I would like to note that since this testimony
21 was written, the delivered price of natural gas has been
22 over \$6 pretty consistently. It's been almost two
23 months.

24 On Exhibit 26, on page 17, there is a
25 quotation from Mr. Magill's testimony, and on the
26 seventh line at the end, that is the line which begins
27 "in the quotation universal access," the third word
28 should be "customers," plural.

1 MS. SHIGEKAWA: Line 9?

2 THE WITNESS: Because it is single spaced, it
3 didn't exactly match up with the number, but it is the
4 seventh line down in the quotation.

5 Then in Exhibit 27, I would like to extend my
6 apologies to Mr. Hansen for misspelling his last name.
7 I don't know how I got it right the first two times and
8 wrong the last time, but it wasn't meant.

9 MR. SZYMANSKI: That eliminates 10 minutes of our
10 cross.

11 (Laughter)

12 MR. COMO: Q Are those the extent of your
13 corrections, Dr. Barkovich?

14 A Yes.

15 Q And within those exhibits, do your opinions
16 represent your best professional opinion, other than the
17 spelling of Mr. Hansen's name?

18 A Yes.

19 MR. COMO: Thank you.

20 Your Honor, Dr. Barkovich is available for
21 cross.

22 ALJ MALCOLM: Thank you, Mr. Como.

23 Mr. Reiger.

24 MR. REIGER: Thank you, your Honor.

25 CROSS-EXAMINATION

26 BY MR. REIGER:

27 Q Good morning.

28 A Good morning.

1 Q My name is Jason Reiger, and I am representing
2 ORA in this matter.

3 I would like to focus on your rebuttal
4 testimony, Exhibit 27.

5 On page 3, I believe you call Southern
6 California Edison's alternative proposal a, quote,
7 unquote, interim proposal?

8 A Yes.

9 Q My question is: Depending on the size of the
10 cap on residential distribution rates, couldn't the cap
11 potentially last into the next GRC, which would be about
12 three years away?

13 A It depends on what happens in Phase 2 of
14 Edison's current general rate case where the issue of
15 the revenue that is not recovered in the first two
16 residential tiers is actually an issue.

17 So it could be resolved in this Phase 2. If
18 it is not resolved in this Phase 2, which is the point
19 that Dr. Jazayeri makes, then the resolution would be
20 delayed. But it could be resolved by next year.

21 Q If it was delayed, in all likelihood that
22 would be until the next GRC, correct?

23 A Well, that's generally when rate design
24 changes are made. However, rate design proposals do
25 periodically show up in other proceedings. So it is not
26 impossible that it could be addressed elsewhere. But it
27 would normally be addressed in a GRC.

28 Q Isn't it true that by definition a cap has an

1 absolute ceiling?

2 A It depends on the way the cap is defined. A
3 cap in essence is a ceiling, but if you have a cap, for
4 example, in revenue allocation, which is system average
5 percentage change plus X percent, then you have to know
6 what the system average percentage change is before you
7 can figure out what the absolute cap is. And sometimes
8 that is not known until the end of a proceeding.

9 Q On page 5 of your rebuttal testimony you argue
10 that a no-cap proposal taken literally would require
11 only conservative forecasts to be used; is that correct?

12 A I think this needs to be read in the context
13 of the larger point that I was trying to make, and that
14 is if the concern is that there be absolutely no
15 undercollection, then the only way to accomplish no
16 undercollection is to use the set of assumptions that
17 makes sure there is an overcollection.

18 We are dealing with a situation here where we
19 are required to make a forecast of the CCA CRS. We
20 don't know until 18 months later -- I say 18 months -- I
21 believe that this was also addressed in Mr. Como's
22 cross-examination of Dr. Jazayeri -- we only know 18
23 months later because that's when we get the final
24 numbers from DWR. So we don't know until 18 months
25 later whether the forecast is correct or not.

26 The arguments made against having any cap were
27 directed towards a concern that there be no possible
28 undercollection on the part of the CCA customers that

1 would lead to the need for revenue recovery from bundled
2 customers which would then presumably subsequently be
3 repaid by the CCA customers at a later time.

4 In order to assure that there will be no
5 undercollection, you have to guarantee an overcollection
6 by using a series of extremely conservative assumptions
7 because otherwise, since you are forecasting, you are
8 never going to know exactly what the right answer is.

9 I believe that's the matter that I was
10 addressing here.

11 Q Are you aware of any party that is
12 specifically proposing that we only use conservative
13 forecasts?

14 A Frankly, what surprised me in this proceeding
15 is that we haven't gotten into this forecasting issue
16 more. We had two workshops with the Department of Water
17 Resources witnesses from Navigant. We were given a
18 computer model. And I personally spent a fair amount of
19 time trying to forecast what a CCA CRS would be with and
20 without the inclusion of other charges in with the CRS
21 and recommended a cap on the basis of that number.

22 In the testimony from the other parties, in
23 particular the utilities, there was just general
24 language about the concern that there be no
25 undercollection and that therefore there be no cap, but
26 nobody else seems to have gone to the trouble of
27 actually attempting to do a calculation of a potential
28 CRS or to talk about what would be required in order to

1 avoid an undercollection.

2 This surprised me because I thought that the
3 model was made available to us and that Navigant was
4 made available to us so that we could actually look
5 seriously at what a potential CRS would look like.

6 I took that information, then, and calculated
7 a number that I called the cap. It was in fact an
8 attempt on my part based on running the Navigant model
9 and using all five scenarios and using my best judgment
10 as to which were the most realistic scenarios to come up
11 with what I thought was an appropriate starting point
12 CRS.

13 I called it a cap because I suggested that it
14 not be trued up for two years, and that meant that it
15 could indeed result in an undercollection.

16 And I said that I thought it was fine to fix
17 it for two years as long as the potential
18 undercollection was modest.

19 Now I indicated in response to an earlier
20 question of yours that we don't know what the actual
21 number is for 18 months. So my suggestion to wait two
22 years and do a true-up is both not much longer than the
23 18 months it would take to find out what the real number
24 was anyway and consistent with the decisions that the
25 Commission made in the DA CRS case in which the
26 Commission decided that barring anything very unforeseen
27 it would be trued up and potentially adjusted every two
28 years.

1 Q You mentioned Navigant providing a number of
2 scenarios. Isn't Navigant-based scenario supposed to be
3 its most likely forecast?

4 A Well, in the past when we have had Navigant
5 scenarios, Navigant has been very careful to indicate
6 that it isn't necessarily its most likely forecast.

7 What Navigant did indicate was that
8 Scenario 1, which was based on Prosym 44, was reasonably
9 consistent with Navigant's -- I'm sorry -- with the
10 calculation of DWR's revenue requirement with which
11 Navigant was involved.

12 We know that since then Navigant has produced
13 its Prosym 45 runs, and I specifically asked Navigant if
14 they would affect these calculations since I intended to
15 use them in my testimony, and I was told that the
16 variables that are important in the calculation of the
17 CRS were not significantly changed.

18 I want to note that what I have done is
19 completely consistent with what the Commission did in
20 the DA CRS case because in Decision 03-07-030,
21 ALJ Pulsifer wrote a decision which was subsequently
22 accepted by the Commission in which he indicated that
23 whereas it was absolutely appropriate to use the
24 assumptions underlying the DWR revenue requirement for
25 the purpose of calculating the actual CRS, that in
26 setting a cap it was appropriate to use the most
27 realistic scenario.

28 And so in essence what I did is I looked at

1 the five scenarios presented by Navigant. I looked at
2 what I thought was the most realistic combination of
3 those scenarios, which was in fact not based on the
4 scenario that was used to underlie the DWR revenue
5 requirement, and based my analysis on that, being
6 completely consistent with Decision 03-07-030 with
7 respect to the DA CRS.

8 Q On pages 5 and 6, the same exhibit we have
9 been talking about, you discuss ORA's use of algebra.

10 If I can paraphrase your argument, you argue
11 that ORA's algebra is suspect because it relies on
12 Navigant's simplifying assumptions; is that correct?

13 A That is one of the reasons it is suspect, yes.

14 Q Aren't these same assumptions the very basis
15 for the CRS itself and such that to the extent that
16 these assumptions are wrong, the CRS is wrong, too?

17 A I don't disagree with that.

18 It is true that these simplifying assumptions
19 basically rule out the possibility that the dispatch of
20 a utility, of the resources under its control, would
21 change as the result of a loss of customers to CCA or to
22 direct access. Unfortunately, the only model we have to
23 use is the Navigant model because that's the only way
24 that we can get access to the utility data. We can't do
25 our own calculations. Indeed, I don't have access to
26 Prosym. But even if I did, the utilities have argued
27 that their data for the purpose of calculating the CRS
28 are confidential. And so we can only use that model if

1 we want to include the utility costs. And we have to
2 include the utility costs to do the indifference fee
3 calculation.

4 So, yes, I agree it is suspect. It is the
5 best we've got.

6 Q Would it be fair to say that your mistrust of
7 these assumptions, for lack of a better word, drives
8 your proposal for a cap on the CRS?

9 A No. It is a different set of assumptions.

10 The assumptions that I used to develop the cap
11 were the ones that are used to do the calculations;
12 namely, the price of gas, the coming on line of new
13 generation, et cetera.

14 The assumptions that I was referencing here
15 were the ones having to do with any potential changes in
16 the dispatch order. But I readily agreed that the
17 Navigant model isn't perfect. I just think that using
18 the simplified algebra led to some conclusions on the
19 part of Mr. Ross that I thought were too facile.

20 Q On page 6 of your exhibit, the bottom
21 paragraph, which carries over to page 7, you discuss
22 decision or you reference Decision 02-11-022 and you
23 argue -- once again I am paraphrasing, and correct me if
24 I'm wrong -- that this decision rejected a methodology
25 based on bundled portfolio price minus market clearing
26 price.

27 Is that correct?

28 A Yes.

1 Q Didn't that methodology use an annual average
2 bundled portfolio price -- an annual average market
3 clearing price rather than hourly values for the market
4 clearing price as the Navigant model does use?

5 A I believe that Mr. Beach's proposal, which is
6 the one that I think you are referring to, did make some
7 simplifications. On the other hand, I think the
8 critical difference here is the fact that that
9 methodology does not involve an indifference fee
10 calculation, which is what the Commission adopted in
11 02-11-022.

12 Q If you were to introduce hourly values, does
13 that allow you to calculate an indifference fee?

14 A I'm not sure it does.

15 If you are talking about taking a weighted
16 average hourly calculation of the bundled portfolio and
17 subtracting the market clearing price on an hourly
18 basis, I'm not sure that gives you precisely the same
19 answer as the Navigant model. I will have to think
20 about the math.

21 MR. REIGER: One second, your Honor.]

22 Q The Navigant model put forth in this
23 proceeding doesn't calculate an indifference free --
24 fee -- excuse me while I'm tongue tied on that word.
25 Does that mean it would be in violation, in your
26 opinion, of Decision 02-11-022?

27 A I'm not sure I follow the question. Could you
28 please rephrase it?

1 Q Let me try again. The Navigant model put
2 forth in this proceeding, if it doesn't calculate an
3 indifference fee, does that mean that it is not valid
4 for the use in D.02-11-022?

5 A I didn't say that the Navigant model doesn't
6 calculate an indifference fee. I said that taking
7 the formula that's presented on the bottom of page 6 in
8 Exhibit 27 on an hourly basis and comparing that to what
9 the Navigant model does, I can't say off the top of my
10 head if they are identical.

11 It is true that the Commission in Decision
12 02-11-022 adopted an indifference fee methodology. And
13 I am recommending that that methodology be used for CCA
14 as well. So if the model were applied to DA and if it
15 did not calculate an indifference fee, then it would not
16 be what the Commission adopted. I haven't said that
17 that's what the model does, though.

18 And if I haven't answered your question,
19 I apologize, and I'll try again.

20 Q In ORA's algebra that you discuss in your
21 testimony, you think ORA is applying it to an hourly
22 basis?

23 A I don't have a copy of ORA's testimony with me
24 to look at, but I will make the assumption that ORA was
25 not intending to use a broad average of some sort.

26 I can't check the language because I don't
27 have it with me.

28 Q Isn't it possible to look at a CCA's cost of

1 purchased power on an hourly basis?

2 A That depends on whether or not the CCA wants
3 to share that information with you.

4 Q Assuming they did, would it be possible?

5 A I would assume that a CCA, for billing
6 purposes, would be tracking its costs on an hourly
7 basis. I don't know that I can say any more than that.
8 I don't believe they are obligated to share that
9 information.

10 Q On page 7 of the same exhibit, lines 1 through
11 3, you indicate that if the math were correct, there
12 would be no interest in direct access or community
13 choice aggregation; is that correct?

14 A I believe the statement reads that if the math
15 were correct there would be no interest in DA or CCA,
16 unless there is a policy goal that is unrelated to
17 price.

18 By that, I mean if you always add the -- if
19 the CRS is always the bundled portfolio price less the
20 market price, and I believe if we include what
21 the testimony said elsewhere, which is that the -- I'll
22 have to find the equation -- but basically it is that
23 the market price is what the CCA pays, then, in essence,
24 the customer ends up paying the same price under either
25 scenario.

26 Q So if we were to set aside the question of
27 policy goals, would it be fair to say that in order for
28 CRS -- excuse me -- in order for CCA to be attractive,

1 we need put a discount into the CRS?

2 A I didn't say that.

3 Q I'm asking you a question. I'm not asserting
4 that you said that.

5 A I have indicated I do not agree with
6 Mr. Ross's conclusions and with his application of
7 the mathematics. So I would not draw a conclusion from
8 something with which I don't agree.

9 Q Same page, lines 17 through 21, you argue that
10 some limited level of stability and costs and revenue
11 for a year or two will increase the feasibility of a
12 CCA; is that correct?

13 A All else being equal, yes.

14 Q What would happen if that -- or let me put it
15 another way. What would happen when the undercollection
16 has been paid off -- or excuse me. What happens when
17 the undercollection has to be paid off and the CCA rates
18 are rendered higher than the investor utility rates?

19 A Well, first of all, looking at the Navigant
20 runs under all the different scenarios, under all
21 the forecasts, the expectation is that absent an
22 undercollection, the CRS would actually be lower each
23 year. Therefore, the concept that an undercollection
24 would lead to a rate that was higher than the bundled
25 rate, you can't necessarily conclude that, because it
26 depends on the amount of the potential undercollection
27 and the amount of reduction in the CRS absent any
28 undercollection to be brought forward.

1 It is possible that if there is a sizable
2 undercollection and it is brought forward and amortized
3 over a certain period of time, that you could end up
4 with a rate that is higher than the bundled rate. It's
5 just not a foregone conclusion that that would be
6 the case.

7 And so, it is not impossible that you could
8 end up with a generation rate that would be higher than
9 the generation rate for the bundled customer. It's
10 possible.

11 Q And if that does happen such as that the rate
12 is higher for the CCA, what do you think would be
13 the outcome of that?

14 A I'm sorry I didn't bring my crystal ball with
15 me. But I think that if the rate were higher and
16 expected to be higher for a substantial period of time,
17 then the CCA might potentially lose some load. However,
18 as I indicated, I think absent any undercollection,
19 the CRS is actually going to go down. I don't know that
20 one can conclude that.

21 And I also think that if you told customers,
22 Well, yes; your rate is going to be higher, but we've
23 got 40 percent renewables versus 20 percent renewables
24 and we think this is worthwhile socially, a lot of
25 customers might agree to pay a higher rate.

26 I certainly, when I was a DA customer, paid a
27 lot more money to have a renewable portfolio, and
28 I thought it was worth it.

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

2 ALJ MALCOLM: Thank you, Mr. Reiger.

3 Mr. Fenn.

4 MR. FENN: I have no questions. Thank you.

5 ALJ MALCOLM: Mr. Buchsbaum.

6 MR. BUCHSBAUM: Yes. I would ask that the CCA
7 community go before with questions before the utilities
8 ask questions.

9 ALJ MALCOLM: They have.

10 MR. BUCHSBAUM: They've all waived?

11 MR. HUARD: Yes.

12 ALJ MALCOLM: Thank you.

13 CROSS-EXAMINATION

14 BY MR. BUCHSBAUM:

15 Q Good morning --

16 A Good morning.

17 Q -- Dr. Barkovich. I'm Craig Buchsbaum, and
18 I'm representing PG&E in this proceeding on cost
19 recovery issues.

20 Just to establish comparisons between PG&E's
21 customer and your own, I would say that it's remarkable
22 the degree of agreement generally throughout our
23 testimony; would you agree with that general statement?

24 A I think I indicated in my testimony that there
25 was actually quite a lot of agreement in general on
26 the part of those parties who addressed this the CRS
27 issue.

28 Q So I'd like to turn to the one area where

1 I don't know if we have a nomenclature problem or
2 whether we are actually in agreement, but you have
3 indicated in terms of the "cap," that a reasonable
4 forecast should be used in determining the level of
5 the credits; is that correct?

6 Or, to restate the question, that in
7 determining the CRS, reasonable inputs based on data
8 that's reasonable should be used?

9 A I think I've indicated that reasonable data
10 should be used in order to forecast the CRS. And I have
11 also indicated that insofar as what I am proposing can
12 be considered a cap, that it should be based on the most
13 reasonable set of assumptions available, consistent with
14 what the Commission has done with the DA CRS.

15 Q Well, my difficulty is whether a reasonable
16 forecast governs or whether some arbitrary standard
17 should govern.

18 A I'm not sure what you mean by an arbitrary
19 standard.

20 We have been presented with five scenarios
21 from DWR through its consultants, Navigant Consulting.
22 And for the purpose of calculating the CRS and truing up
23 the CRS -- obviously, truing up the CRS we use actuals.
24 For the purpose of calculating the CRS, it has to be
25 determined ultimately using the DWR revenue requirement.

26 But as the Commission indicated in Decision
27 03-07-030 for the purpose of determining a cap -- and
28 what I'm calling a cap here is basically a number to be

1 used for the first two years' worth of the forecast of
2 the CRS -- it is also appropriate to use what one
3 considers to be the most realistic set of assumptions
4 given that we have multiple scenarios. And I think what
5 it comes down to is my reading of those scenarios and
6 the ones that are most realistic quite conceivably could
7 be different from somebody else's.

8 Q Thank you.

9 Approximately how long did it take you -- you
10 said you had spent a significant amount of time.
11 Approximately how long did it take for you to analyze
12 the various scenarios and put together your
13 recommendation of 1.5 cents per kilowatt as a
14 recommendation, just in general terms? I'm not --

15 A It wasn't a huge amount of time. The model
16 that was presented by Navigant is actually extremely
17 straightforward to use. I played around with it because
18 I was trying to come up with a cap -- that is, a
19 number -- that I thought was an appropriate number that
20 resulted in what I considered to be sufficiently modest
21 undercollections. And the only way you can calculate an
22 undercollection is by running scenarios.

23 I also looked at the various assumptions where
24 there were toggles and noted that the original Navigant
25 proposal -- or their model, without adjusting any
26 variables, assumed 10 percent CCA in 2005. And I just
27 thought that that was not realistic.

28 I thought that given that we probably won't be

1 finished with Phase 2 by then, and then parties will
2 have to -- I didn't mean by the end of 2005. I meant by
3 the beginning of 2005, given -- this is -- no offense
4 meant to the ALJ -- but rather, that the Commission
5 moves in mysterious ways, and that parties would then
6 have to submit plans, and those plans would then have to
7 be approved, that the idea that there was going to be a
8 lot of CCA in 2005 just struck me as being unrealistic.
9 I therefore adjusted that assumption.

10 So I -- anybody can make any assumptions that
11 they want and put them into the model. In fact, I was
12 rather surprised that nobody else did it. But the ones
13 I put in, and I think I discuss them in my testimony,
14 were ones that I thought were realistic. And I spent
15 more time looking at what natural gas prices had been in
16 2003 and today in 2004, and at EIA and Energy
17 Commission, et cetera, forecasts, than I probably did
18 running the model because I wanted to decide which
19 scenarios I thought were most appropriate.

20 But it didn't take me a week, you know. It
21 probably took me all together, if you add up all
22 the hours, a couple of days. And it didn't have to take
23 that long if I hadn't spent so much time looking at gas
24 forecasts.

25 Q Thank you.

26 Now, you are aware of the fact that other CCA
27 representatives are proposing alternatives to the
28 Navigant model; is that correct?

1 A When you say "alternatives to the Navigant
2 model," I understand that some parties are recommending
3 that there be credits for certain purposes against some
4 potential CRS, and that there were proposals for
5 levelization, et cetera.

6 It's been awhile since I read all of
7 the testimony, but I don't remember anybody presenting a
8 formal quantitative model in some way.

9 Q Well, have you reviewed the testimony of Local
10 Government Commission Coalition?

11 A Yes, although it's been probably a month since
12 I read it.

13 Q Are you aware that they are proposing a method
14 that involves a market price referent for purposes of
15 computing the CRS that is quite different than
16 the indifference method that has been proposed with
17 respect to direct access?

18 MS. GRUENEICH: I will object and ask for
19 clarification in that you're making some assumptions as
20 to what the LGCC testimony is proposing that I'm not
21 sure we necessarily agree with your characterization.
22 So maybe we can narrow the difference.

23 I don't mind you asking questions about it,
24 but --

25 MR. BUCHSBAUM: Let me rephrase it. Rephrase the
26 question.

27 Q Do you believe that the LGCC proposal which
28 discusses market reference for purposes of developing a

1 CRS is the same as the indifference calculation that's
2 currently used for direct access?

3 MS. GRUENEICH: I'm going to object again with
4 your reference to the market reference.

5 Could you perhaps -- maybe it would be better
6 if we can get to a specific portion of the LGCC
7 testimony and Dr. Barkovich could then be asked if she
8 agrees with it or whatever your question is.

9 MR. BUCHSBAUM: Sure.

10 Can I go off the record?

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

12 (Off the record)

13 ALJ MALCOLM: Back on the record.

14 MR. BUCHSBAUM: Q Let me read from the testimony.
15 The first question --

16 MS. GRUENEICH: Excuse me. Do we have a page?

17 MR. BUCHSBAUM: Page 43.

18 MS. GRUENEICH: Of the opening testimony?

19 MR. BUCHSBAUM: Of the opening testimony. Line
20 14.

21 Q The question is:

22 Is the CCA-In/CCA-Out approach
23 required to be used for
24 determination of the CRS?

25 The answer is "No." I don't think I need to
26 go into the rest of it. But rather, turn to the next
27 question. On the top of page 44, it said:

28 How would you propose to determine

1 CRS for CCA customers?

2 I believe that the CRS should be
3 determined as a set of unbundled
4 charges. Some or all of these
5 unbundled charges could apply to
6 CCA customers.

7 MS. GRUENEICH: Excuse me. The word was "would."
8 I believe you said "could."

9 MR. BUCHSBAUM: Q And then so on. At the top of
10 page 43 -- oh, I'm sorry. Let me continue on that
11 answer.

12 These components would include
13 the DWR Bond Charge,
14 the out-of-market portions of
15 the DWR Power Charge, the above
16 market (or below market) portion
17 of the IOU's retained generation,
18 and, in the case of PG&E, the
19 bankruptcy charge.

20 Do you see that sentence?

21 A Yes, I do.

22 Q Do you consider that methodology to be
23 the same as the indifference methodology that is used
24 for direct access?

25 A Well, I'm not sure what is meant by
26 "the out-of-market portions of the DWR Power Charge" or
27 by "the above market (or below market) portion of
28 the IOU's retained generation."

1 Those certainly factor into the calculation of
2 an indifference charge, but I don't know how to take
3 that in and compare it to what one would calculate in an
4 indifference charge.

5 I mean, certainly, it would be inappropriate
6 to only take the above market parts of both charges that
7 would be inconsistent with an indifference charge.
8 There is a reference here, however, to "below market."
9 So I'm just not sure how the math would be done.

10 Q Can you turn to Exhibit 1, page 19 of
11 the second workshop report.

12 And I have several additional copies to
13 handout in case you don't have it.

14 (Handing document to the witness)

15 Do you have that before you?

16 A I do.

17 Q And if I understand your proposal correctly,
18 you believe that the \$15 per megawatt-hour charge should
19 apply for 2005 and 2006; is that correct?

20 A That is correct. It would not include
21 the bond charge. It would not include the PG&E
22 bankruptcy charge. It would not include the Edison HPC
23 charge. It would only be the indifference fee.

24 I believe the numbers on page 19 that you've
25 just shown me do not represent the same calculation.

26 Q Can you look at the top part of the page
27 labeled "PG&E Indifference Rate."

28 A Yes.

1 Q And then below it, it says "PG&E CRS Accrual
2 Rate."

3 A Yes.

4 Q Isn't the PG&E indifference rate columns
5 consistent with your \$15 per megawatt-hour charge?

6 A I haven't looked at this in a while, but what
7 I can do, if you would like, is to look at my own runs
8 using the model and make a comparison and see if we're
9 in the same ballpark.

10 Q Can we assume for the sake of argument that it
11 can be proved up that this is comparable; that this
12 includes the same components as you included in your \$15
13 charge, subject to check?

14 A Fine.

15 Q Now, if I look at the various cases on 2005
16 and 2006, I see some numbers below \$15, but most of them
17 look to be greater than \$15; isn't that correct?

18 A Yes.

19 Q In fact, when I look at 2005, they're all
20 above \$15; aren't they?

21 A Yes. That's not inconsistent with my
22 testimony.

23 Q I just want to ask a few more questions about
24 directionality because it's something that is very
25 confusing in the case of the CRS. It kind of reminds me
26 in a way of interest rates and bond prices moving
27 inversely to each other. And so I'd like to ask: If
28 gas prices go up, the CRS goes down; is that correct?

1 A I would have to say all else being equal,
2 which it rarely is.

3 Q But holding the other variables constant, if
4 gas prices go up, the CRS goes down?

5 A If gas prices go up, all else being equal, in
6 general, the CRS goes down. That is correct.

7 Q And if there's a shortage -- if there are
8 fewer generation additions, all else being equal, one
9 would expect the CRS to go down?

10 A That is correct.

11 Q Can you please turn to page 12, line 25 of
12 your opening testimony.

13 Excuse me. I meant page 12, line 2 of your
14 opening testimony.

15 Can you read that sentence?

16 A The sentence actually begins on page 11, or
17 unless you're talking about the sentence that begins at
18 the end of line 2.

19 MR. COMO: Well, Mr. Buchsbaum, just read the
20 sentence.

21 MR. BUCHSBAUM: Q It begins with the phrase:

22 For this reason, I believe that
23 it is unlikely that a major
24 undercollection problem will
25 develop in less than two years,
26 unless an event happens like
27 natural gas prices doubling or
28 major shortages of generation or

1 huge amounts of new CCA in a short
2 period of time.

3 Do you have that sentence before you?]

4 A Yes. I see your concern. It appears that I
5 should have said natural gas prices having or massive
6 new increments of generation, neither which I consider
7 to be remotely likely. But I did misstate myself. On
8 the other hand, the third "or" is correct.

9 MR. BUCHSBAUM: Q I now how difficult it is, so I
10 wasn't trying to be critical. I was just trying to
11 correct the record.

12 A It was a misstatement.

13 MR. HUARD: Your Honor, could I ask how are you
14 correcting that statement?

15 THE WITNESS: To put it in context, an increase in
16 natural gas prices or a shortage of generation would,
17 all else being equal, decrease the CRS. Therefore, it
18 would not lead to a major undercollection.

19 It should read: Unlikely that a major
20 undercollection problem will develop in less than two
21 years unless an event happens like natural gas prices
22 falling dramatically or major increases in new
23 generation.

24 I just got it backwards.

25 MR. BUCHSBAUM: Q Easy to do.

26 The last questions that I have relate to the
27 issues of rate design, and in particular, PG&E's
28 alternative proposal, which I know you were somewhat

1 critical of; is that correct?

2 A That is correct.

3 Q In my example, and this is a hypothetical, one
4 customer pays a gen rate of \$0.10 and the other
5 customer, let's call him Mr. Baseline, pays \$0.05 for
6 the generation component. And assume -- and this is as
7 a bundled customer, by the way -- and assume a flat CRS
8 of \$0.02.

9 Now, when I looked at your testimony, you
10 mentioned that the CCA itself could adopt block rates to
11 reflect the rate differential that would apply in
12 bundled rates; is that correct?

13 A Specifically, I mentioned that with respect to
14 the difference in the residential rate between the
15 capped first two tiers and the subsequent residential
16 tiers. I indicated that a CCA could have an increasing
17 block rate structure for its generation rate for
18 residential customers to mimic the increasing block rate
19 for bundled residential customers.

20 Q Is there any legal requirement for the CCA to
21 do that?

22 A I believe I indicated in my testimony that
23 there isn't but that I expected that there will be an
24 incentive to do so.

25 Q Now also assume for sake of argument that the
26 market price of electricity is \$0.05 and that the system
27 average rate, I guess then, would be \$0.07.

28 A I don't follow that.

1 Q Okay. Let's scratch that question. But just
2 assume the CCA's cost of power under my example is
3 \$0.05.

4 A The CCA's cost of power is \$0.05.

5 Q And in the example, the CRS is \$0.02 and the
6 bundled rate for Customer A is \$0.10 and Mr. Baseline is
7 \$0.05.

8 There is nothing that prevents the CCA in my
9 scenario from offering, or is there in your opinion,
10 something that would prevent the CCA from offering a
11 flat rate of \$0.07 to all customers?

12 A It --

13 Q If their cost is \$0.05 and the CRS is \$0.02 --

14 A They could, if they were indifferent to how
15 many customers that went over to CCA service.

16 Q I understand. Mr. Baseline is paying \$0.05 as
17 a bundled customer and now would be paying \$0.07 as a
18 CCA customer. It would be unlikely to want CCA service
19 unless there were other attributes other than economics
20 that he or she was interested in; would you agree with
21 that?

22 A All else being equal, if somebody is currently
23 paying \$0.05 and is offered the opportunity to pay
24 \$0.07, if there isn't some offsetting social or other
25 benefit that the customer perceives is important, the
26 customer would certainly prefer to pay \$0.05, if it were
27 a, quote, unquote, a rational, economic customer, if
28 there is any such thing.

1 Q Thank you.

2 Now the \$0.10 customer that would be offered
3 power if he or she switched to the CCA for \$0.07, all
4 else being equal, would view that as a good deal; is
5 that correct?

6 A All else being equal and assuming that that
7 was not a temporary inducement rate which was imminently
8 to be succeeded with a higher rate, if somebody pays
9 \$0.10 and they are offered \$0.07 and they think that
10 that is going to last for a while, all else being equal,
11 it would be attractive, assuming that they were a
12 classic, rational economic purchaser.

13 Q Now under the PG&E alternative, isn't it
14 correct that the CRS for the \$0.05 customer would be
15 half on a per-kilowatt basis the rate that would apply
16 to the \$0.10 customer?

17 A PG&E's proposal is that the CRS be
18 proportional to the -- I believe it is proportional to
19 the bundled generation rate. So insofar as the bundled
20 generation rate for one customer is twice the other, the
21 CRS would be twice the other, subject to the fact that
22 when you add it all up you have to collect the right
23 amount of money.

24 Q Thank you.

25 And that would tend to ameliorate to some
26 extent the rate differential that a customer -- the rate
27 discrepancy that the customer would see between bundled
28 service and CCA service, assuming that the CCA does

1 offer a flat rate; is that correct, all else being
2 equal?

3 A All else being equal, it doesn't eliminate the
4 difference. It somewhat ameliorates the difference.
5 But it also creates different treatment for each CCA in
6 terms of its average CRS, as I pointed out in my
7 testimony. And personally, I find that difficult to
8 accept.

9 MR. BUCHSBAUM: I have no further questions.

10 ALJ MALCOLM: Thank you, Mr. Buchsbaum.

11 Ms. Shigekawa.

12 CROSS-EXAMINATION

13 BY MS. SHIGEKAWA:

14 Q Good morning, Dr. Barkovich. I'm Jennifer
15 Shigekawa from Edison.

16 A Good morning.

17 Q Dr. Barkovich, you have been representing
18 businesses that are large energy consumers in Commission
19 proceedings for a number of years; isn't that correct?

20 A Far too many years, yes.

21 Q What is your opinion, if any, on whether those
22 businesses would be concerned about the utilities'
23 release of their identity and historical usage and rate
24 information to a CCA without the prior consent of those
25 customers and before they had an opportunity to opt out
26 of the CCA program?

27 A My experience is that -- and this goes back to
28 discussions that took place at the time the issue came

1 up of providing access to customer specific information
2 to potential ESPs -- that the customers want to be able
3 to make the decision as to whom the information should
4 be released. They want to have control over that.

5 Q Mr. Buchsbaum asked you a question earlier,
6 and I want to make sure I understood your response. It
7 was regarding the 1.5 cent cap that you recommended or
8 that CCSF was recommending.

9 If I understood your testimony, that
10 recommendation was based on a reduction in the amount of
11 the indifference rate forecast by DWR based on your
12 estimate that DWR overstated the percent of load that
13 would go to CCA in initial years. Is my understanding
14 correct?

15 A The calculations that were done by Navigant,
16 which are presented in the table that Mr. Buchsbaum used
17 in his cross-examination, made certain assumptions, that
18 there were two sets of assumptions, I sort of think of
19 them as horizontal and vertical.

20 There were five different cases which involved
21 different assumptions about the availability of new
22 generation and natural gas prices and things like that.
23 And then within each of the cases, the model had to make
24 assumptions about how much load would switch over to CCA
25 every year.

26 So I came up with my 1.5 cents based on both
27 my opinion based on looking at recent natural gas prices
28 and forecasts of gas prices, my assumptions as to which

1 of the cases seemed most realistic based on what has
2 been going on in the last year.

3 And in addition, I made adjustments to the
4 assumptions that were built into the model as to how
5 rapidly the transition to CCA took place. And I made
6 those changes in all five scenarios.

7 Is that clear?

8 Q Kind of. Maybe I can ask you more directly.

9 Did the amount of the CRS that you are
10 forecasting to be about 1.5 cents, did you lower that
11 DWR assumption based on your assumption that less than
12 10 percent of CCA load would be migrating in the early
13 years?

14 A I don't think that's an accurate statement.
15 Let me try again, because I am not trying to be
16 confusing.

17 When Navigant did its calculations of the
18 indifference fee, it had to make a bunch of assumptions
19 in order to do that. And as I said, it ran these five
20 scenarios which had different assumptions about the cost
21 of gas and the amount of new generation, et cetera.
22 That's what Cases 1 through 5 are.

23 Then in addition, in order to be able to
24 calculate the CRS, it had to make an assumption about
25 how much usage went to CCA over time. And it made an
26 assumption -- I think it just made an assumption and it
27 told people that they could fiddle with the assumptions
28 if they wanted to because it said it didn't have a

1 crystal ball either -- it made the assumption that there
2 would be a 10 percent -- 10 percent of the bundled
3 customers would go to CCA start nothing 2005. And it
4 kept that 10 percent fixed.

5 I thought that was an unrealistic assumption
6 for the reasons I mentioned earlier. So what I did is I
7 changed those assumptions and started with a very, very
8 small amount in 2005. Putting in zero doesn't work, I
9 discovered, in the model, so I put in a small amount.
10 You just end up with division by zero.

11 Then I phased into the 10 percent over several
12 years.

13 So I did that because I thought that that was
14 a more realistic set of assumptions.

15 The 1.5 cents came from a combination of
16 choosing the cases that I thought were most realistic
17 and making those adjustments in terms of the phasing in
18 over time of CCA rather than jumping to 10 percent in
19 the first year.

20 And all those variables affect the
21 calculation.

22 Q Now my understanding of the DWR model is that
23 DWR has stated it is linear. So what I took from that
24 statement was that if you have a smaller percentage of
25 CCA load going, you are going to be spreading -- it does
26 accumulate a smaller amount of undercollection but you
27 are spreading that over a lesser amount of kilowatt-hour
28 sales?

1 A Right. Thank you. I should have clarified
2 that.

3 I noted in my testimony that one of the things
4 I was looking at was the maximum amount of
5 undercollection, if there were an undercollection, how
6 big would it end up being.

7 And if you assume that there's a lot of CCA
8 and you pick a certain number, you can get a big
9 undercollection, but I didn't think it was a realistic
10 big undercollection because I just didn't think that
11 amount of transition to CCA was going to happen.

12 So it is true that by assuming that CCA phases
13 in over time you end up with a smaller undercollection,
14 and one of the issues that came up in the discussions
15 about the cap for the DA CRS was how big was the
16 undercollection and how long would it take to pay off.

17 Well, it was very different situation in the
18 case of the DA CRS because customers were already DA
19 when we started doing the calculations. I thought that
20 in order to determine what the maximum amount of
21 undercollection would be and to make sure it wasn't a
22 big number, I didn't want it to be overstated just
23 because of an assumption that I thought was unrealistic
24 about how much conversion to CCA would occur in the
25 early years.

26 So thank you for allowing me to clarify that.

27 Q Thank you.

28 If we can turn to page 5 of your opening

1 testimony. In Answer and Question 15 you state that one
2 of the benefits of a cap is that it gives customers
3 sufficient predictability to allow for planning and
4 early implementation; is that right?

5 A Well, by early implementation, if you mean
6 that they would know what the CRS was for the first two
7 years, that's pretty much what I meant, that they would
8 then have a number that they could plan around.

9 Q Could a CRS that was set at a level higher
10 than the forecast cost-based level also provide that
11 same predictability for planning purposes?

12 A Any number would provide more predictability
13 than no number, that is absolutely true.

14 Q And it was unclear to me in your testimony
15 earlier how long you propose a cap to be in place. Is
16 it just the two years and then we will move to the
17 forecast level in Year 3, or would we continue to
18 forecast a level and then put a cap below that level for
19 two years until we looked at it again?

20 A Well, first of all, the intent was not that
21 the cap necessarily just be automatically below the
22 forecast level. So that was not the intent.

23 I proposed a cap for the first two years with
24 the possibility of an adjustment after that time, just
25 like in the case of the DA CRS. So at that time another
26 cap could be imposed or the Commission could decide to
27 eliminate the cap. I'm only making a recommendation for
28 the first two years.

1 I think that if there were another cap
2 imposed, it would obviously take into account what had
3 happened in the first two years and it would be higher
4 if there were a significant undercollection.

5 So the intent was not to say that we are
6 always going to make the cap below the forecast.

7 I seem to be the only one who took the numbers
8 seriously now to begin with, but I thought we were
9 supposed to actually talk about what the CRS might be.
10 And I thought based on the information that that was a
11 good cap.

12 Q So we will look at whatever the situation is
13 for Year 3 when we had some actual numbers and decide --

14 A But I don't rule out the possibility of
15 another cap.

16 Q Okay. I would like to ask you a few questions
17 about your proposal for the 1.5 cent per kilowatt-hour
18 cap. I think, in PG&E's territory; is that correct?
19 Did you base that cap on any particular DWR scenario,
20 the Scenarios 1 through 5 that it discussed in its
21 testimony?

22 A I believe I discuss that in my testimony. I
23 said that I thought Scenario 3 was quite unrealistic,
24 and I still feel that way. I think those gas prices are
25 just -- we may return to those low gas prices, but I am
26 not expecting it to happen any time soon for all the
27 reasons I indicated in my testimony. I just didn't
28 guess.

1 I thought that Scenario 4 was maybe a little
2 bit on the high side but realistic. It is actually not
3 that -- it is not that different from where gas prices
4 have been recently.

5 I thought that Scenario 2 basically resulted
6 in no -- virtually no undercollection, but I also
7 thought the gas prices in Scenario 2 were a little on
8 the high side because there's that peak that occurs.

9 And I thought that some combination of 4 and 5
10 was not unreasonable.

11 I thought that Scenario 1, which is the base
12 case -- I actually thought the gas prices were a little
13 bit low. So I will say that I pretty much rule out Case
14 3 because I just don't think it is realistic. And I had
15 some skepticism about Case 1 being a little on the low
16 side and Case 2 being on the high side.

17 Q And that would make sense because DWR has
18 identified Case 3 as the stress high case and Scenario 2
19 as the stress low case. So it sounds to me like
20 Scenario 3 and 4 was kind of what you used to form the
21 basis?

22 A Actually, what I did was I went behind the
23 scenario. DWR sent everybody their natural gas price
24 forecast and their generation forecast, their new
25 generation forecast, that underlie the modeling that
26 they did. And I looked at those gas price forecasts and
27 I thought the numbers just -- we haven't seen anything
28 like them in quite a while, so I thought they were too

1 low.

2 Now I understand that you can never predict
3 the future based on the recent past, but I tried to
4 explain in my testimony all the reasons why I thought
5 gas prices were not likely to go down significantly any
6 time in the next several years.

7 Q And then those were the reasons -- the gas
8 prices were the reason you deviated from Scenario 1?

9 A Combination of the gas prices and expectations
10 on new generation, right.

11 And I tried to spell all that out. Somebody
12 else could have a different forecast, but they seem
13 realistic to me.

14 Q If you could turn to page 8 of your rebuttal
15 testimony, which I believe is Exhibit 27.

16 You have a discussion there that the argument
17 for no cap really becomes an argument to assure that CCA
18 customers subsidize bundle customers, which is unfair;
19 is that correct?

20 A Yes.

21 Q So if a cap is set too high such that an
22 overcollection accrues, CCA customers would be, in your
23 words, subsidizing bundled service customers?

24 A Right. They will have overpaid for their
25 appropriate share of the generation costs of the
26 utility.

27 Q Can you explain what you mean by a levelized
28 CRS and how it would differ from a cap CRS?

1 A You are going back to my original testimony
2 now?

3 Q Yes.

4 A In order to have a levelized CRS, you need to
5 have the same CRS every year. And that means if you
6 have an undercollection or an overcollection, you have
7 to reflect that in the subsequent years.

8 And if you are trying to keep the number
9 level, basically instead of changing the level of the
10 CRS, you have to either collect it for a longer period
11 of time or a shorter period of time.

12 Does that make sense?

13 Q How would that differ from the two-year cap
14 proposal?

15 A Because I am not proposing that the cap be
16 kept at 1-1/2 cents indefinitely. In other words, I
17 indicated that the Commission could either decide it
18 didn't want any cap or it could set a higher cap or a
19 lower cap if it turned out there was a big
20 overcollection.

21 So what I am indicating is that the amount
22 that is collected from the CCA customers can be adjusted
23 over time to track whether there is an undercollection
24 or an overcollection.

25 My understanding of a levelized CRS is that it
26 is sort of like a mortgage payment. You pay the same
27 amount every year, and if it turns out you have an
28 undercollection, then you have to pay two more years to

1 make up the shortfall plus interest.

2 And if you have overpaid, then you get to stop
3 paying at it two years earlier. That is how I
4 interpreted it, and that was the difference.

5 Q And if you can turn to page 12 and 13 of your
6 opening testimony where you discuss vintaging.

7 A Yes.

8 Q You propose that all CCAs that would depart in
9 the same year would pay the same CRS; is that right?

10 A Yes. I think I was thinking of something
11 along the lines of the open season that was proposed by
12 San Diego. I mean, I thought that having a different
13 CRS for every single CCA depending on when it made the
14 definitive -- when it gave the definitive indication of
15 departure would be administratively cumbersome. It is
16 not impossible.

17 It might be strictly more accurate depending
18 on whether there were resource decisions made by the
19 utilities.]

20 But since the utilities are -- I believe are
21 supposed to go through an annual procurement process, it
22 seemed to me that those decisions would sort of be made
23 at one time. And then during the subsequent year, all
24 the customers who went CCA would not be responsible for
25 any subsequent procurement decisions.

26 Q Now, I don't know if you had a chance to look
27 at the transcript, but I think it was Ms. Grueneich who
28 posed a hypothetical the other day about two CCAs whose

1 predicted the amount of the load that would leave, and
2 one was correct in the amount of megawatts that would
3 leave and the other was incorrect.

4 Have you given any thought to whether you
5 would propose any differences in the CRS based on the
6 accuracy of the CCA's forecast of how much load would
7 depart and the CCA would serve?

8 MR. COMO: Objection, your Honor. Is that -- are
9 you asking two questions? Are you asking whether she's
10 familiar with the statement made by Ms. Grueneich in
11 your hypothetical? If we can establish that first.

12 MS. SHIGEKAWA: Q Yeah. Were you --

13 A I read through the transcript on the quickly
14 side, but I did read through it.

15 Q Do you have any recommendation on whether you
16 think it would be appropriate for those two CCAs to pay
17 the same CRS or different CRSs?

18 A I guess I see two issues here, so I'm a bit
19 confused. One is that what I've proposed is that the
20 CRS be the same in dollars per kilowatt-hour for
21 everybody within a year, and, in fact, that we not play
22 around with multiple CRSs for different kinds of
23 customers or different tiers, or what have you, so it
24 would be more like DA and be relatively straightforward.

25 As far as somebody misforecasting, nobody ever
26 forecasts perfectly, but there should be -- unless
27 they're -- I'm trying to figure out why they would
28 misforecast. I mean, if the -- I think some of this

1 came up in the transcript. But obviously, if it's a
2 cold summer or a hot summer and they're using historical
3 information and people use different amount of
4 electricity because of weather or something like that,
5 or a business shuts down or a business starts up, those
6 are things that is just sort of the luck of the draw.

7 If you are suggesting that they deliberately
8 would misforecast, I don't know why they would do that,
9 because you also have those customers' records. And I'm
10 sure if they said that their load was going to be X and
11 you thought it was going to be three times X, you'd
12 bring that up to somebody.

13 So the only variable I can think of besides
14 those would be if they thought they were going to get
15 70 percent of the load in a community and they only got
16 30 percent. But I would also assume that -- I mean, at
17 some point there's a decision made as to who is CCA and
18 who is not CCA, and I would assume that that would be
19 taken into account.

20 Ultimately, you've got customers in one box or
21 the other. So unless a forecast was made well before
22 that and had to be corrected for the actual customers
23 who signed up, I don't know why there would be a big
24 mismatch.

25 So I'm just confused, I guess, about
26 the hypothetical. Those are the kinds of things that I
27 can think of that would make a difference.

28 And we all deal with things like weather and

1 businesses closing down, that's just part of normal
2 forecasting. And I can't see anything deliberate
3 happening and the utility not saying, whoa; wait a
4 minute. So it seems to me it would be a misestimate of
5 what would happen.

6 And I guess at that point, then the issue
7 would be, at what point does -- is the determination
8 made that that load will no longer be served by
9 the utility; and you could find out later that that CCA
10 didn't get nearly the amount of load that they thought
11 they were going to get. And I would think there would
12 be some sort of adjustment process for that.

13 I'm sorry if I'm not being coherent, but I'm
14 thinking out loud.

15 Q Okay. I just want to know whether you had any
16 thoughts.

17 In my hypothetical, I understood it didn't
18 assume any deliberate over- or underforecasting; just
19 the fact that they misforecast the amount that would
20 leave, where if one CCA hit it right on the money and
21 the other didn't, whether there would be any difference
22 in the CRSs paid by those CCAs if they both leave in
23 the same year?

24 A I guess it would come down to when that
25 decision is made, compared to when customers declare
26 whether they're going to be CCA or not and whether there
27 would be any needed adjustment. And I don't have
28 the timelines in my mind sufficiently clear to know

1 whether there would have to be a subsequent adjustment.

2 Q Okay. That's fine.

3 If we can assume that a phase-in of a CCA
4 program is allowed, and also assume that if a CCA phases
5 in its program over a few years, should all the CCA
6 customers pay the same CRS regardless of when they begin
7 receiving the energy from the CCAs?

8 A I didn't address phase-in in my testimony, so
9 I haven't really thought about this.

10 MS. GRUENEICH: Your Honor, I guess at this point,
11 if we are asking witnesses outside of the scope of their
12 testimony, I think that it's probably improper. She
13 just testified she didn't address it in her testimony.
14 So normally, the rule is that she should not be
15 cross-examined on that area.

16 ALJ MALCOLM: Well, let's see --

17 MS. SHIGEKAWA: I was just asking with respect to
18 the CRS, if she had a recommendation I think.

19 MS. GRUENEICH: Okay.

20 MR. COMO: Is there a particular place in
21 the testimony that Ms. Shigekawa is referring to that
22 she wants to cross-examine Dr. Barkovich?

23 MS. SHIGEKAWA: No. I've asked her a hypothetical
24 in that the Commission approves a phasing in of a CCA
25 program, and that phase-in occurs over two years where
26 the customers who receive energy on day one pay the same
27 CRS as the customer within that CCA jurisdiction who
28 receives energy on day 700.

1 MS. GRUENEICH: And just as one point of
2 clarification, should she be assuming the cap that she's
3 recommended or what should she be assuming as far as the
4 CRS during that time period?

5 MS. SHIGEKAWA: I don't think a cap is relevant to
6 the hypothetical.

7 ALJ MALCOLM: You're just referring to this
8 vintaging idea.

9 MS. SHIGEKAWA: Right. Whether vintaging would
10 apply within a CCA program.

11 THE WITNESS: Well, I think a cap might actually
12 be relevant, but I'll try to puzzle it through, letting
13 you know that I didn't address this in my testimony. I
14 didn't think phase -- I didn't realize that phase-in was
15 an issue.

16 Strictly mathematically, if a customer -- if a
17 CCA phases in its load and that phasing is worked out
18 with the utility in terms of what resources are planned
19 to serve those customers, then I think it would depend
20 on how that was done. In other words, you would --

21 I mean, let's just try to make it simple.

22 If half my load is going this year and half my
23 load is going in two years, and so for the first half
24 I get that year's CRS, then what happens two years from
25 now?

26 Well, it can be done a couple of different
27 ways. One is, those customers could be served on a
28 default short-term basis for those two years and pay

1 monthly market prices or something like that, such that
2 there would be no accrued responsibility for any new
3 generation the utility committed to; in which case, they
4 would ultimately pay the CRS that would not differ from
5 the CRS the other customers were paying because
6 utilities added resources to serve them because the
7 utility would not add resources to serve them, and there
8 would be understanding that those customers would be
9 served out of sort of a default portfolio.

10 It would be different if the CCA told
11 the utility we're going to start these customers up in
12 two years, and you, Utility, serve them and do whatever
13 you want in terms of resource planning on a long-term
14 basis to serve them.

15 Now, if you know they're going in two years,
16 I don't know why a utility would buy a five-year
17 resource to serve them. It would seem to me that if
18 there were good coordination, then the utility, knowing
19 that they were going to leave in two years -- and
20 assuming that this was agreed to, not just they were
21 told that it might be true and it might not be true.
22 But if it was agreed to, then the utility could serve
23 those customers with the two-year resource and it
24 wouldn't impose any costs on anybody else.

25 So I think what it really would come down to
26 is what the agreement was, what the timing was, what
27 resources the utility added to serve that load, and
28 trying to do it in a way that didn't any negative

1 consequences for the remaining customers.

2 And that's probably about as good as I can do
3 because I don't know what any of those factors would be.

4 MS. SHIGEKAWA: Thank you.

5 One final question. On page 10 of your reply
6 testimony, line 20, you state that "the Indifference Fee
7 for a departing CCA customer should reflect the status
8 of the utility's resource mix *at the time that the CCA*
9 *announces its intention to depart.*

10 Do you see that?

11 A Yes.

12 Q Can you explain what you mean by "announces
13 its intention to depart"? Does that include
14 demonstration of the ability to serve the load that the
15 CCA anticipates will depart and demonstration of
16 resource adequacy for that load?

17 A I don't actually know that it has to do that.
18 I think it has to be a binding commitment. But if it
19 was a binding commitment that we're leaving in two years
20 and in the meantime the CCA is acquiring all the
21 resources it needs to serve that load in two years, it
22 could subsequently prove its resource adequacy. It
23 depends on what the rules are around when the binding
24 commitment is made.

25 I agree that it can't just be, oh, yeah; we're
26 leaving in two years. It has to be a firm commitment to
27 do to so that the utility can do resource planning about
28 it. But it's not obvious to me that, depending on

1 the amount of notice given, the CCA should be required
2 to have already met all its resource adequacy
3 requirements. I think it would depend on the timing.

4 MS. SHIGEKAWA: Thank you.

5 I don't have any other questions.

6 ALJ MALCOLM: Thank you.

7 We'll be in recess until 1:30.

8 (Whereupon, at the hour of 12:04 p.m.,
9 a recess was taken until 1:30 p.m.)]

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AFTERNOON SESSION - 1:30 P.M.

* * * * *

ALJ MALCOLM: We will be back on the record.

BARBARA BARKOVICH

resumed the stand and testified further as follows:

ALJ MALCOLM: Mr. Szymanski.

CROSS-EXAMINATION

BY MR. SZYMANSKI:

Q Good afternoon, Ms. Barkovich.

A Good afternoon.

Q As you know, I am representing SDG&E in this proceeding.

I would first like to follow up on some questions asked this morning.

When a bundled utility customer is considering opting out of a CCA program, what factors do you think that customer should consider?

A You said "should consider." Would "would consider" do? Are you saying what would I advise them -- are you asking what I would advise them to consider?

Q That would work, sure.

A Okay.

MR. COMO: Could I just say one thing. With clarification, what exactly about this morning was Dr. Barkovich responding to that your question is addressing?

I believe that the opt-out thing had to do

1 with a numerical calculation and an economic decision.
2 Is that what you are referring to?

3 MR. SZYMANSKI: This question and the next few
4 questions really don't have necessarily a basis in a lot
5 of the questions that were already asked, but I think
6 they follow from them. They deal with how customers
7 view information that would be relevant for their
8 decision on whether or not they are opting out. And ORA
9 asked some questions and I think PG&E also asked some
10 questions that kind of go to those general areas.

11 MR. COMO: I think Dr. Barkovich's testimony is on
12 the CRS calculation, though, and only commented that
13 there are other noneconomic decisions they may make, but
14 her testimony has nothing to do with noneconomic
15 decisions.

16 MR. BUCHSBAUM: I have to --

17 MR. SZYMANSKI: It goes squarely to the issue of
18 economic decisions.

19 ALJ MALCOLM: I will allow the question.

20 MR. SZYMANSKI: Thank you.

21 Q Do you have the question in mind?

22 A Yes. I believe the question was if a customer
23 were making a decision about, I guess it would be,
24 participating in or opting out of a CCA alternative what
25 would they take into account; is that a reasonable
26 paraphrase? If it isn't, please repeat the question.

27 Q My question was very close to what you just
28 stated, which is what factors do you think the customer

1 should consider in deciding whether or not to opt out?

2 A Some of those factors clearly would be
3 economic, as you just mentioned. I am sure the customer
4 would and should consider what the customer's rate would
5 be with a different generation supplier. And that would
6 mean that the customer would have to have some
7 information from the supplier in terms of what the
8 expected rates would be for that customer with that
9 customer's usage pattern.

10 The customer should also take into account, if
11 possible, forecasts that might be available of what the
12 rates would look like over some period of time.

13 And if the customer had concerns about some
14 issues that went beyond strict short-term economics, the
15 customer should look at whether there are aspects of the
16 resource mix or the type of service that is being
17 provided by the CCA that might appeal to the customer,
18 more energy efficiency services, more renewables,
19 because that is important to some people. It is not
20 important to other people. Those sorts of things.

21 Q Thank you.

22 And would it be important for the customer to
23 be able to compare costs between the utility and the
24 CCA?

25 A I think most customers would be very
26 interested in knowing what their rates would be in the
27 two cases when it comes to costs and when you have to
28 take into account the usage pattern. But, yes, given a

1 usage pattern they would want to know what it would cost
2 them to be served by either of the suppliers.

3 Q And would it be important for the customer to
4 have an apples-to-apples comparison of the relevant
5 costs?

6 A Well, the customer would certainly prefer, I'm
7 sure, to have the cost estimates on a comparable basis.
8 And I guess that would mean, since the CCA basically
9 provides generation service, they can be told that their
10 delivery service charges would be the same.

11 Q Right. And it is your understanding that
12 under AB 117 the utility will continue to provide the
13 transmission and distribution services?

14 A That's my understanding.

15 Q And as you just mentioned, regarding
16 generation costs, would it be important for a customer
17 to have an apples-to-apples comparison of the applicable
18 generation costs?

19 A When you say applicable generation costs, I
20 want to be sure I understand you. Do you mean
21 essentially all the nondelivery costs which would
22 include the generation costs and the CRS? I am not sure
23 whether you are referring to the CRS as being a
24 generation cost.

25 Q Yes, that is the way I inferred the term
26 generation costs.

27 A Okay. Obviously, the customer would pay both
28 of those if the customer were a CCA customer. So the

1 customer should know about both of those.

2 Q Would you also agree with SDG&E that it is
3 important for the Commission to implement a baseline
4 proposal that avoids distortions in generation rates?

5 A Well, I think that the existence of the
6 baseline program combined with the AB1X limitation on
7 rate increases for usage up to 130 percent of baseline
8 creates distortions in rates, period.

9 Under the decisions of the year 2001, those
10 distortions took place in the generation rates. If they
11 are moved somewhere else, they will create distortions
12 somewhere else.

13 There's no question that they result -- that
14 there are rates that are currently not cost based as a
15 result of a variety of factors.

16 Q So is it your answer that, yes, you would
17 agree with SDG&E that the Commission should adopt
18 policies that avoid distortions in generation rates?

19 A Well, it depends on what other rates get
20 distorted. Insofar as the rates are not based on cost
21 of service and there are explicit subsidies in the
22 rates, some component of the rate is going to be
23 distorted.

24 I'm sure that if that distortion does not take
25 place in the generation rate, then it has to take place
26 in some other rate. But there's going to be a subsidy
27 regardless.

28 I am not trying to avoid your question. I

1 don't think that there should be distortions in any of
2 the rates.

3 Q So when a customer is doing the type of
4 comparisons we were just talking about a few moments
5 ago, would it be important to that customer to know if
6 the generation rates are distorted?

7 A I think there are two ways of doing this. If
8 the customer is going to compare the generation rate
9 versus the generation rate, then that would -- what I am
10 having trouble with is basically the customer is going
11 to compare the total rate to the total rate. Customers
12 don't -- even if they know that the delivery rates are
13 the same, they usually look at their total bill compared
14 to their total bill.

15 Clearly, if they are just looking at the
16 generation component and there is some sort of, quote,
17 unquote, distortion in the generation component that
18 applies to one rather than the other, then that would
19 make a generation-only comparison difficult. That can
20 be addressed by having the customer look at the total
21 rate in either case and making that decision just as
22 well as by adjusting the rates such that part of the
23 cost that was in generation goes somewhere else. It is
24 really still the total to the customer that matters.

25 Q Are you saying that customers will not be
26 interested in the generation components between the
27 utility and CCA's proposed rates?

28 A I think what I said was that I think the

1 customer is interested in the total bill; that is, the
2 aggregate rate. And that is what they are interested
3 in.

4 If they want to compare only the generation
5 part, then obviously they would like to know what the
6 basis is of the generation rate in both cases. But the
7 other thing is that they can be presented information on
8 the total rate in both cases and they will still know
9 what it means to them.

10 Q I guess what I am having a little difficulty
11 with and you are giving some very thoughtful answers,
12 but what I am having difficulty with is understanding
13 just the question that I asked -- the answer to the
14 question I asked, which was are customers disinterested
15 in the generation component.

16 You said again, as you had said a moment ago,
17 that they are interested probably in the total rates.
18 But my question was really as to the specific issue, the
19 specific component of the rates that we have been just
20 talking about.

21 MR. COMO: Your Honor, I have to object because
22 Mr. Szymanski is asking whether Dr. Barkovich knows what
23 the customer is interested in, and that is really not
24 something that she is testifying to, what the customer
25 is interested in.

26 She has already answered a question which goes
27 to the issue of what the customer in her opinion is
28 interested in, which is the total rate. So I think to

1 the extent that the question has been asked and
2 answered, we should move on.

3 MR. SZYMANSKI: Your Honor, I think she is
4 answering questions, but they are not necessarily the
5 questions I've asked. So I appreciate the thoughtful
6 answers, but I will ask that the question that I asked
7 be answered, unless there is an objection to it.

8 MR. COMO: I do object because I think the
9 question has been answered.

10 ALJ MALCOLM: Let's just ask Dr. Barkovich whether
11 she has an opinion about whether customers care
12 specifically about the generation rates.

13 THE WITNESS: I suspect that there are some
14 customers that do, and I suspect that there are a lot of
15 customers who don't because they don't look at the -- I
16 am mostly familiar, actually -- I don't pay a whole lot
17 of attention to my bill, my residential bill. I am
18 mostly familiar with industrial bills where all the
19 different components are unbundled. I can't remember
20 whether the generation component is unbundled on a
21 residential bill. It is sort of embarrassing, but I
22 just can't.

23 I would say --

24 ALJ MALCOLM: 97-08-056.

25 THE WITNESS: I think they are supposed to be
26 unbundled, but I also remember to this day I have to
27 explain to my industrial clients how their PG&E bills
28 work because the PG&E unbundled bill is so confusing

1 that nobody can understand it.

2 So when it takes me two hours to demonstrate
3 to somebody that their bill is correct, it is kind of
4 awkward. But that was an aside.

5 (Laughter)

6 THE WITNESS: My experience is when I talked to
7 people about their bills, that most of them look at the
8 bottom line and they don't look at the components of the
9 bill. That is just my experience.

10 Now having said that, that's true of most
11 people. Yes, there are customers who do specifically
12 look the generation components of the bill. I would say
13 they are definitely the minority.

14 MR. SZYMANSKI: Q To the extent there are or may
15 be distortions in the generation rates, wouldn't that
16 create at least the potential for customers to make
17 uneconomic decisions or uninformed decisions at least
18 about whether or not to participate in a CCA program?

19 A If they are only presented with the
20 information on the generation rates and if there is a
21 form of distortion in the generation rate for the
22 bundled customer that would not be present for the
23 alternative, let's say CCA in this case, then there will
24 be confusion.

25 On the other hand, if they were presented the
26 total rate in both cases, then they ought to be able to
27 make the comparison without being confused.

28 Q Thank you.

1 I would like now to please turn to your reply
2 testimony, which I believe has been marked as
3 Exhibit 26, and page 14 of that exhibit.

4 I have a question about your answer to
5 Question 21 that appears at the bottom of page 14.
6 There you say on lines 26 and 27 that the relevant
7 provisions in Section 80110 of the water code that
8 authorizes this temporary ceiling on these rates refers
9 to action by this Commission.

10 Do you see that text there?

11 A Yes, I do.

12 Q Can you please explain what you mean by the
13 term "temporary."

14 A The statute says that the rates for usage up
15 to 130 percent of baseline will not be increased until
16 DWR has been paid for all its power, or something like
17 that. So by temporary, I mean that there is an end
18 point in the legislation. It is not open ended. That's
19 what I meant.

20 Q And isn't it true that the DWR power charges
21 may last through the duration of the DWR contracts which
22 could be as long as 2013?

23 A That's true.

24 Q Isn't it also true that the expected duration
25 of the bond charge would be as long as the year 2022?

26 A That is true. I do not know whether the
27 130 percent of baseline provision in the statute would
28 encompass the bond charge as well as the power charges.

1 I don't know that I have ever heard anybody say anything
2 definitive on that.

3 Certainly, if those rates could not be
4 increased until the bonds were paid off, that would
5 substantially increase the amount of time.

6 Q Thank you.

7 Now I would like to move a few more pages into
8 the reply testimony. If you would please turn to your
9 same exhibit at pages 17 and 18.

10 On these pages you were making some assertions
11 regarding SDG&E's positions as it relates to the
12 130 percent of baseline issue. I have some questions
13 about this section of your testimony.

14 Do you understand that SDG&E is proposing that
15 all exempt, bundled and CCA customers, that is, those
16 that receive the AB1X subsidy and do not pay the charges
17 for that subsidy, would receive the same cents per
18 kilowatt-hour subsidy?

19 A Yes, it is my understanding that -- it is
20 SDG&E's intent that that subsidy be made available to
21 bundled, CCA and DA customers. That is its proposal.

22 Q And do you also understand that SDG&E is
23 proposing that all nonexempt, bundled and CCA customers
24 pay the same cents per kilowatt-hour rate to pay for
25 that subsidy?

26 A It is my understanding that San Diego would
27 have all nonexempt usage pay for that subsidy. And I
28 must confess, I inferred that would extend to DA as well

1 from reading the testimony.

2 Q Well, you are right that our testimony
3 indicated that. Although you may not have been here a
4 day or two ago. We indicated that with respect to DA,
5 SDG&E would consider the proposal as it relates to DA to
6 be only a recommendation and not a proposal that
7 necessarily had to be acted upon in this proceeding.

8 A That would be good because obviously DA
9 customers wouldn't necessarily know that the issue had
10 come up in this case.

11 Q Yes. We went through that.

12 ALJ MALCOLM: I will confirm I stated it was
13 outside the scope of the proceeding to increase those
14 rates.

15 THE WITNESS: Thank you, your Honor.

16 Thank you, Mr. Szymanski.

17 MR. SZYMANSKI: Q So based on the understanding
18 of the previous two points that we just discussed, do
19 you understand further that under SDG&E's proposal a
20 current bundled customer that decides to participate in
21 CCA would be subject to the same costs and benefits as
22 that same customer experienced as a bundled customer?

23 A If you mean the costs and benefits
24 associated -- do you mean the costs and benefits
25 associated with the 130 percent of baseline cap?

26 Q Right. We are talking just about that issue
27 right now.

28 A Okay. Yes, I understand that to be your

1 proposal. And in my testimony I pointed out that that
2 result could be accomplished in a different way without
3 requiring the CCA customer to take either the burden --
4 the CCA customers to take on either the burdens or the
5 benefits of that rate design.

6 Q For the time being -- I know you have your
7 testimony and we have our questions, and we will let
8 your testimony speak for itself, but for right now I
9 would rather focus on my questions rather than restate
10 your testimony, if that's okay.

11 A Okay.

12 Q Isn't it true, then, that under SDG&E's
13 proposal nonexempt, bundled customers that go to CCA
14 that would not pay for the subsidy would be escaping the
15 costs that the same customer would be paying if it
16 remained a bundled customer?

17 A I'm sorry. I didn't follow you.

18 Q In other words, if we have essentially parity
19 between the treatment of bundled and CCA customers for
20 the purposes of who pays and who receives the subsidy
21 and if all are subject to the same requirements, if a
22 customer went to CCA, it did not pay the subsidy,
23 wouldn't the remaining bundled customers essentially be
24 responsible for the subsidy that that CCA customer was
25 not paying?

26 A Let me make sure I have your question correct,
27 because I think it depends on the kind of customer that
28 goes to CCA.

1 If a customer with usage below 130 percent of
2 baseline goes to CCA under your proposal, they would
3 continue to have the rate on that usage capped.

4 If a customer, let's take a nonresidential
5 customer, under your proposal if a commercial
6 customer -- a commercial customer would currently be
7 paying part of the shortfall caused by the capping of
8 the residential usage. And I thought that under your
9 proposal that customer would also be paying it if it
10 went to CCA. That's why I was confused by your question
11 because I thought your intent was they would pay it in
12 both cases.

13 Did I get your question correct?

14 Q I think you have it basically correct, but
15 when you talk about the topic of capping, do you
16 understand we are talking not about a cap as we would
17 refer to that term, for example, in the context of
18 capping the CRS, which was the subject of other
19 discussions today and earlier, but we are talking about
20 a rate, a cents per kilowatt-hour rate, that would be
21 applicable to those customers who are the nonexempt,
22 bundled or CCA customers. Do you understand that part?

23 A I think I only used the term cap because I
24 think it was used elsewhere to describe the limitations
25 on the rate for the customers in the first two
26 residential tiers.]

27 I think what you are saying is that insofar as
28 nonexempt customers were paying for the shortfall

1 associated with the inability to raise rates on
2 the usage the first two tiers of usage for residential
3 customers as bundled customers, and there was an
4 incremental cost associated with that shortfall that was
5 imposed on the nonexempt customers, then that
6 incremental charge, under your proposal, would also be
7 imposed on the nonexempt customers if they joined
8 the CCA. That is my understanding of your proposal.

9 (Cell phone rings)

10 MR. SZYMANSKI: That's right. The --

11 Could we go off the record?

12 (Off the record)

13 ALJ MALCOLM: Back on the record.

14 MR. SZYMANSKI: Q And so my question then was
15 kind of confirming our -- before we were confirming our
16 understandings of the proposal, isn't it true that under
17 SDG&E's proposal, the nonexempt bundled customers that
18 go to CCA that do not pay for that subsidy, would not
19 pay for the cents per kilowatt hour rate, would be
20 avoiding or escaping those costs that the same customer
21 would be paying if the customer remained a bundled
22 customer?

23 A I apologize; maybe lunch has deadened my
24 brain. But we were just talking about fact that the
25 nonexempt customers will pay something because the first
26 two tiers of residential customers basically produce an
27 undercollection. So that means that they would pay
28 something as bundled customers. And we agreed that

1 they -- under your proposal, that they would pay
2 something if they were CCA customers.

3 So when you talked about nonexempt customers
4 not paying something, I thought they all did. So I must
5 be missing something.

6 Q Our proposal is that all of these customers
7 who are nonexempt pay the cents-per-kilowatt-hour
8 nonbypassable charge. And it's not reserved to a
9 particular subset of those customers, but it would be
10 applicable uniformly. And so those customers who do not
11 pay that charge by migrating to CCA would be shifting
12 costs.

13 Do you understand that point?

14 A You are giving me a hypothetical which is that
15 these -- you're now talking about what is not your
16 proposal. Maybe that's why I'm confused.

17 You're saying that under your proposal, they
18 would pay the charge. But that under another set of
19 circumstances, if they went to the CCA, they would not
20 pay the charge.

21 MS. GRUENEICH: Your Honor, at this point, given
22 our timing -- I have two questions. One, my memory is,
23 Mr. Szymanski, your original estimate was maybe about
24 15 minutes. I'm wondering if we could have a time
25 check. And two: To facilitate this, maybe there could
26 be a cite to a specific part of SDG&E's testimony where
27 the proposal is so that -- because I think we've been
28 going back and forth for 10 minutes as to what is

1 SDG&E's proposal or not their proposal. But I think it
2 would help if we could have a cite.

3 One, if I could just ask you, as a courtesy,
4 how much longer you think you have; and two, if there is
5 going to be questions about SDG&E's proposal, maybe to
6 point the witness to some testimony.

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

8 (Off the record)

9 ALJ MALCOLM: Back on the record.

10 MR. SZYMANSKI: Q To try to clarify, yes, there
11 was a hypothetical stated just a moment ago. We didn't
12 think of it as a hypothetical, but I think it's
13 appropriate that we could do it as a hypothetical. That
14 nonexempt bundled customers that go to CCA that do not
15 pay for the subsidy would be escaping those costs that
16 would be incurred by the same customer that the same
17 customer would be paying if that customer remained a
18 bundled customer.

19 A That's the question, I'm sorry, that I have
20 difficulty with.

21 Let me try this: If a customer did not pay
22 for the undercollection as a bundled customer, then that
23 customer would not pay for the undercollection as a CCA
24 customer, just as previously we agreed that if the
25 customer did pay for it before the customer would pay
26 for it afterward.

27 I believe that's my understanding of your
28 proposal. It was just the wording of the question

1 I didn't understand.

2 Q That's fine. And I appreciate that
3 clarification because that does capture the -- some of
4 the basic elements of our proposal.

5 Let me move on to the next question.

6 Given that understanding of our proposal, if a
7 customer --

8 I want to get this right so we're not back and
9 forth.

10 Isn't it true also that under that scenario
11 that -- where a customer doesn't pay the charges by
12 migrating from bundled service to CCA, that that
13 customer's departure to CCA would shift costs to
14 the remaining customers who are subject to the subsidy
15 through the cents per kilowatt hour charge?

16 A If the customer didn't pay it before and
17 the customer doesn't pay it after moving, then it
18 shouldn't make any difference.

19 If the customer did pay it before and is not
20 paying it once the customer leaves, then there would be
21 a shortfall compared to the previous situation.

22 Q Okay. Now, I'd like to switch gears once
23 more.

24 And I am nearing in the end.

25 If you please turn to your rebuttal testimony,
26 Exhibit 27, near some questions at the bottom of page 2
27 and the top of -- and the statement at the top of page 3
28 that I want to ask a couple questions about. In your

1 answer on page 2, line 21, this is your answer to your
2 question No. 5, you state that,

3 ... SDG&E addresses
4 the applicability in this instance
5 of the AB 1X requirement that
6 there be no rate increases (aka a
7 "rate cap") for residential usage
8 up to 130% of baseline as long as
9 DWR procurement costs for retail
10 customers are not yet recovered.

11 Do you see that text there?

12 A Yes.

13 Q And my question to you is --

14 And furthermore, I would note just at the top
15 of page 3, without reading the three or four lines there
16 to save time, that those rate caps are referred to there
17 as well.

18 Does Mr. Hansen, in his proposal, refer to
19 this cents per kilowatt-hour charge as a cap as you do
20 in your text here?

21 A I do not remember. Somebody referred to it as
22 a rate cap. It actually wasn't my initial use of
23 terminology. I mentioned that because somebody else had
24 referred to it.

25 In essence, the total rate for those customers
26 cannot be increased. That is, in a sense, a cap for a
27 period of time.

28 But I don't remember who used the term right

1 now.

2 Q Is it your understanding that SDG&E is
3 proposing a rate cap for CCA customers?

4 A No. The use of the term "rate cap" was taken
5 from somebody else's testimony to indicate that
6 the rates for the first two tiers of residential usage
7 could not be increased pursuant to language in AB 1X
8 until certain things happened. That's all that it
9 means.

10 Q I see.

11 Finally, I'd like to refer you, please, to
12 the bottom of that same testimony, page 3, your
13 Footnote 1. And there on pages 3, and the footnote
14 spills on to page 4, on what basis are you claiming that
15 SDG&Es proposal for a nonbypassable charge would be
16 allocated in the same manner as the PPP?

17 A My recollection is that a proposal was made to
18 include it in the PPP. Therefore, I assumed it would be
19 allocated the same way as the PPP. Perhaps that was an
20 extension. Perhaps you intended a bifurcated PPP which
21 would be allocated in two different ways. But that was
22 my interpretation.

23 Q Is it conceivable that this nonbypassable
24 charge could be included with the PPP but not allocated
25 under this particular SAPC methodology?

26 A It is extremely unusual to take a charge with
27 the same name and allocate it two different ways, unless
28 it was a fixed and a variable component to it. It seems

1 to me that if it were going to allocated differently,
2 the logical thing to do would be to create a different
3 charge.

4 This is wearing my rate design hat.

5 Q So you wouldn't have a problem if that charge
6 were listed separately from the PPP charge?

7 A Well, I've indicated that I think that the
8 utilities can dispute among themselves how many
9 different charges they want to have and how many they
10 can fit on the bill. Because this has been an issue
11 with respect to the DA, because I'm familiar with the
12 discomfort associated with additional charges.

13 I do not believe one should have a charge
14 which is allocated volumetrically two different ways.
15 All else being equal, I think it's extremely confusing
16 for cost allocation and rate design purposes.

17 Q Are you familiar with the method for
18 the allocation of SDG&E's procurement energy efficiency
19 surcharge?

20 A I am not. And I can only say that if you
21 allocated the same charge there two different ways, and
22 I were in your rate cases, I probably wouldn't like it.

23 Q So do you have any other basis for assuming or
24 inferring that SDG&E is allocating or proposing to
25 allocate its cents-per-kilowatt-hour nonbypassable
26 charge that we've been discussing in the same manner as
27 it does the current PPP charge?

28 A I thought it was a logical inference. If it

1 was an incorrect inference, I'm sure you will point it
2 out.

3 MR. SZYMANSKI: Thank you, Ms. Barkovich.

4 That's all I have.

5 ALJ MALCOLM: Thank you, Mr. Szymanski.

6 Mr. Como, do you have any redirect?

7 MR. COMO: Could I have just a minute with
8 Dr. Barkovich?

9 ALJ MALCOLM: Off the record.

10 (Off the record)

11 ALJ MALCOLM: Back on the record.

12 Mr. Como.

13 MR. COMO: Thank you, your Honor.

14 REDIRECT EXAMINATION

15 BY MR. COMO:

16 Q Dr. Barkovich, you were asked a question about
17 confidentiality by the attorney for Edison and the gist
18 of it was whether in your experience large customers
19 would want to have their confidential information
20 released. I believe you indicated that they -- there
21 would be some apprehension about that or that they would
22 want some signed release or something of that nature.

23 Do you remember that?

24 A Yes, I do.

25 Q With regard to the confidential information
26 that they would be apprehensive about releasing, does
27 that, in your opinion, include name, address or phone
28 number of a contact for those customers?

1 A I don't believe that a customer would
2 object -- that the customers that I deal with would
3 object to having their names released as being located
4 in a specific area or the name of a contact.

5 The question was directed toward confidential
6 information, and by that I inferred usage information.
7 And I know the customers feel very strongly about having
8 the right to approve the release of that information.

9 Q Would you go so far as saying that those
10 customers would actually appreciate having that
11 information given to a potential CCA so they can choose
12 for themselves what their options are for future energy
13 consumption?

14 A I think that a customer in an area which is
15 considering CCA would like to know that a CCA is being
16 considered and would like to know what kind of service
17 that CCA might be able to provide to the customer so
18 that the customer could decide whether it had an
19 interest in pursuing it further.

20 Q I wanted to ask you about -- there was
21 interest from various parties about the 1.5 cent
22 calculation you made on the potential CRS.

23 To your knowledge, did any other parties
24 propose any particular numbers as a suggestion for a
25 CRS?

26 A To my knowledge, there were no other specific
27 numbers proposed. I had thought that that was to be an
28 issue in Phase 1 and that that was the reason why we had

1 been provided with a model and the information from
2 Navigant.

3 And as I indicated earlier, I was somewhat
4 surprised that nobody else pursued that. I thought that
5 would be very useful information to get some resolution
6 on that point so that communities could decide whether
7 or not they wanted to pursue CCA service.

8 Q And lastly, Mr. Szymanski was asking you
9 about -- he asked if you have a problem with a separate
10 listing for the AB 1X surcharge in the customers'
11 billing. Do you remember that?

12 A Yes.

13 Q In your answer, are you in any way -- if you
14 agree that a separate listing is reasonable, does that
15 mean in any way that you're accepting SDG&E's treatment
16 of the CRS?

17 A I don't endorse SDG&E's proposal. I think
18 that there are other ways of accomplishing the goal, and
19 I don't inherently endorse adding an additional charge.

20 I just pointed out that I don't believe you
21 should have a charge which is allocated two different
22 ways.

23 MR. COMO: Thank you, Dr. Barkovich.

24 That's all I have, your Honor.

25 ALJ MALCOLM: Thank you, Mr. Como.

26 Any recross?

27 MR. BUCHSBAUM: I have just a series of short
28 questions.

1 utilities' 2005 URG costs or its own 2005 supplemental
2 revenue requirement determination?

3 MR. COMO: Your Honor, I think this is getting
4 beyond the scope of my redirect. I asked if any other
5 parties produced a number. We're getting back into
6 the substance of the DWR calculation here.

7 MS. SHIGEKAWA: The question goes to the modeling
8 on which she based her 1.5 cent recommendation on.

9 MR. COMO: I didn't ask anything about that.

10 ALJ MALCOLM: Yeah, I agree. I think it goes
11 beyond the scope of the redirect.

12 MS. SHIGEKAWA: Okay.

13 ALJ MALCOLM: No other questions?

14 MS. SHIGEKAWA: No.

15 ALJ MALCOLM: Anybody else?

16 (No response)

17 ALJ MALCOLM: Thank you, Dr. Barkovich.

18 THE WITNESS: Thank you.

19 ALJ MALCOLM: Let's take a break until 2:30 and
20 not later.

21 (Recess taken)

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

23 Ms. Grueneich, you may present your first
24 witness.

25 MS. GRUENEICH: Thank you.

26 At this time, the Local Government Commission
27 Coalition would like to call William Monsen, Bill Monsen
28 to the stand.

1 ALJ MALCOLM: Good afternoon.

2 Please stand. Raise your right hand.

3 WILLIAM A. MONSEN, called as a
4 witness by Local Government Commission
Coalition, having been sworn, testified
5 as follows:

6 ALJ MALCOLM: Thank you.

7 MS. GRUENEICH: And your Honor, I'd like to have
8 Mr. Monsen's two pieces of testimony marked as the next
9 exhibits in order. We have the opening testimony dated
10 April 15 and the reply testimony dated May 7th. There
11 is no rebuttal testimony.

12 ALJ MALCOLM: Okay. We will mark Mr. Monsen's
13 testimony as Exhibit 28 and his reply testimony as
14 Exhibit 29.

15 (Exhibit Nos. 28 and 29 were
16 marked for identification.)

17 MS. GRUENEICH: Thank you.

18 DIRECT EXAMINATION

19 BY MS. GRUENEICH:

20 Q Mr. Monsen, do you have before you the two
21 documents we've identified as Exhibit 28 and 29?

22 A Yes, I do.

23 Q Do you have any changes or corrections to make
24 to those documents at this time?

25 A Yes. I have a couple of small changes to make
26 to Exhibit 28.

27 On page 11, line 19, the sentence that starts
28 "However, merely receiving Commission approval for an

1 implementation plan" should be changed to "However,
2 Commission review of an implementation plan."

3 So you strike "merely receiving" and strike
4 approval of -- or "approval for" and insert in place of
5 "approval for" "review of."

6 On page 14, line 17, strike the word
7 "neutrality."

8 Page 17, line 18, the fourth word in is
9 "should." That should be changed to "could."

10 MR. COMO: Which line was that?

11 THE WITNESS: Page 17, line 18.

12 And then on page 17, line 21, the second word
13 in that question is "should." That should be changed to
14 "could."

15 MR. OUBORG: I'm sorry. What line on 21?

16 THE WITNESS: Page 17, line 21.

17 And then finally, on page 44, line 21, in that
18 answer it says "Yes. Ordering Paragraph 9." That
19 should be changed to "Yes. Conclusion of Law 9."

20 Those are all my changes.

21 MS. GRUENEICH: Thank you.

22 Q Were Exhibits 28 and 29 prepared by you or
23 under your direction and supervision?

24 A Yes, they were.

25 Q And with the changes that you have made today,
26 are the facts contained in those documents true and
27 correct to the best of your knowledge, and the beliefs
28 expressed therein your own?

1 A Yes.

2 MS. GRUENEICH: Mr. Monsen is now available for
3 cross-examination.

4 ALJ MALCOLM: Thank you, Ms. Grueneich.

5 Mr. Reiger.

6 MR. REIGER: Thank you, your Honor.

7 CROSS-EXAMINATION

8 BY MR. REIGER:

9 Q Good afternoon. I'm Jason Reiger and I am
10 representing ORA in this matter today.

11 A Good afternoon.

12 Q I'd like to start by going to page 36 of your
13 opening testimony. And in the sentence that starts on
14 line 19, it reads: Assume that the CRS is based on
15 the difference between DWR costs and market prices.
16 Period.

17 My question is, do you believe that "DWR
18 costs" in your sentence should be changed to "bundled
19 portfolio costs"?

20 A Not in this context, no.

21 Q What is it about this context that is
22 different?

23 A Because I'm assuming that the CRS is based on
24 the difference between DWR costs and market prices in
25 this context.

26 Q Do you have Exhibit 1, which is the prepared
27 testimony of James McMahon for DWR with you?

28 A I think I do. Yeah I've got it.

1 Q Could you turn to page 9, please.]

2 A Okay.

3 Q Do you agree with Equation 2 on that page?

4 A I don't understand what you mean by agree
5 with.

6 Q Do you think the formula is a valid
7 representation?

8 A Well, I don't because there's nothing on the
9 left side of the equal sign. There is no equal sign
10 there even. So I don't know in fact what Equation 2 is
11 representing.

12 Q On the same page, lower down, it states,
13 Equation 2 states that the indifference shortfall in any
14 given hour is the difference between the market clearing
15 price and the average portfolio price when a CCC is on
16 bundled service multiplied by the amount of migrating
17 load.

18 Do you agree with that statement?

19 A It is his testimony.

20 Q Do you agree with it?

21 MS. GRUENEICH: Just for clarification, you are
22 saying do you agree that that is what Equation 2 states?

23 MR. REIGER: To start off, yes, I am asking that.

24 THE WITNESS: That is his testimony, yes.

25 MR. REIGER: Q Do you agree that that is how the
26 indifference shortfall should be calculated?

27 A I would have to go back and review his
28 testimony. I haven't read it in probably a month. So

1 subject to check, it sounds like that is what he is
2 testifying is that is how the indifference shortfall is
3 calculated. But I can't, without reviewing the
4 testimony, I can't really say that.

5 Q Subject to check, if that is how he is saying
6 the indifference shortfall is calculated, do you agree
7 that that is how it should be calculated?

8 A That is not my testimony. I didn't testify to
9 how the indifference shortfall should be calculated or
10 not calculated.

11 Q But on page 36 of Exhibit 28, your opening
12 testimony, do you not say that the CRS is based upon the
13 difference between the DWR cost and market prices?

14 A I think maybe I can simplify this a little
15 bit.

16 My testimony -- my proposal is to unbundle the
17 CRS into a number of different components. And so
18 that's why -- that is why I am having a little bit of
19 trouble here because the CCA-in and CCA-out approach
20 that I believe the DWR witness is testifying to is not
21 what I'm -- I am not testifying to that. I am
22 testifying to a completely different approach.

23 Q Okay. Thank you.

24 On page 4 of your opening testimony, line 20,
25 you state CCAs will operate in a highly competitive
26 environment; is that correct?

27 A In part, yes. It follows on.

28 Q Do you believe CCAs and IOUs are competitors?

1 A I believe that they are going to be in
2 competition for customers. So in that regard they will
3 be competitors given that a CCA customer has the
4 opportunity to opt out from the CCA and return to the
5 investor-owned utility.

6 Q If I can have you turn to page 8 of your
7 testimony, line 8, there is a sentence that talks about
8 the benefits of greater negotiating power through
9 aggregation of load; is that correct?

10 A Yes.

11 Q My question is if aggregating is good for
12 procurement negotiations, then wouldn't the best
13 procurement policy be to have a utility negotiate --
14 procure for its whole territory?

15 A No.

16 Q Explain why.

17 A The utility -- there's a lot of factors that
18 would enter into whether a particular entity would be a
19 better procurement agent for customers. Those factors
20 could include the types of products that the procurement
21 agent is procuring for those customers, the degree of
22 certainty to which -- the ability for those customers to
23 get other types of services from the procurement agent.
24 And so there's a number of reasons that it is not clear
25 that the utility would be the best procurement agent.

26 Q If you were to hold all those other factors
27 constant, such that all other things being equal, would
28 you still agree that the better the procurement, the

1 larger the aggregated load, then the better policy of
2 procurement would be for an IOU to procure its whole
3 service territory?

4 A I don't think that -- the marginal benefit
5 that would be achieved by a utility that is procuring
6 several thousand megawatts or the marginal benefit
7 associated with procuring a couple of hundred or maybe
8 50 additional megawatts is negligible in my mind. So I
9 don't see that there is any great benefit in that
10 regard.

11 Q If I could draw your attention to page 12 of
12 your opening testimony, the bottom few lines of that
13 page. You talk about a legislative mandate such that
14 the CRS charged to CCA customers must not be set in such
15 a way as to preclude the economic viability of CCAs; is
16 that correct?

17 A That is what it says, yes.

18 MS. GRUENEICH: I'm sorry. I am going to object.
19 Between legislative mandate and CRS charge, I will note
20 that there were some other words there. But we can all
21 read that.

22 MR. REIGER: Okay.

23 Q I would like to know, the phrase legislative
24 mandate, does that refer to economic viability of CCAs?

25 A No. It refers to the legislative mandate to
26 allow the establishment of CCAs.

27 Q So would you agree that there is no
28 legislative mandate regarding the economic viability of

1 CCAs?

2 A I didn't see anything in AB 117 that would say
3 that.

4 Q Okay. Lastly, if I can draw your attention to
5 page 24 of your opening testimony, line 10. It starts a
6 sentence -- there is a sentence that starts: Therefore,
7 the Commission has to ensure that a reasonable balance
8 is found between the dual goals of ensuring that
9 remaining utility -- excuse me -- the remaining utility
10 retail customers are not unduly burdened through cost
11 shifting. And the sentence goes on from there.

12 My question is do you believe some cost
13 shifting is allowed if that does not cause, quote, undue
14 burden, end quote?

15 A I guess consistent with my testimony regarding
16 the netting of potential benefits associated with CCA
17 against gross CRS obligation, it seems that the
18 Commission is in a position to decide.

19 If there are benefits that are associated with
20 the establishment of CCAs that would result in some
21 small cost shifting, then yeah, I think you could do
22 that.

23 Q Okay. Thank you.

24 No further questions, your Honor.

25 ALJ MALCOLM: Thank you, Mr. Reiger.

26 Mr. Fenn.

27 MR. FENN: I have no questions.

28 ALJ MALCOLM: Ms. Shigekawa, do you want to go

1 first?

2 MS. SHIGEKAWA: Sure.

3 CROSS-EXAMINATION

4 BY MS. SHIGEKAWA:

5 Q Good afternoon, Mr. Monsen. I am Jennifer
6 Shigekawa for Southern California Edison.

7 A Good afternoon.

8 Q If you could turn to page 2 of your opening
9 testimony, please.

10 A Okay.

11 Q You state that LGCC is an ad hoc coalition,
12 including cities, counties, suppliers and service
13 providers.

14 What do you mean by those last two categories?

15 A You mean suppliers and service providers?

16 Q Yes.

17 A There are members of the LGCC that are
18 entities that provide suppliers and service. They are
19 service providers and suppliers.

20 Q Do those entities you are referring to include
21 ESPs that are active in the DA market?

22 A Yes.

23 Q If you could turn to page 8 of your opening
24 testimony. I am referring to lines 22 and 23.

25 There you discuss CCAs contributing to
26 statewide renewable resource goals and local generation
27 development which you say could provide benefits to all
28 customers.

1 Do you see that at the bottom of the page?

2 A Yes. That is in part what it says.

3 Q If you can suppose a hypothetical where five
4 CCAs are formed in SCE's service territory and SCE has
5 the highly renewable portfolio standard percentage of
6 all of them. Do CCA customers also receive a benefit
7 from SCE's portfolio under that hypothetical?

8 MS. GRUENEICH: I'm sorry. One clarification.
9 When you said the highest of all of them, were you
10 meaning SCE's portfolio, renewable portfolio, was higher
11 than the other five?

12 MS. SHIGEKAWA: Correct.

13 THE WITNESS: Could you restate that again. I'm
14 sorry.

15 MS. SHIGEKAWA: Q We are assuming there are five
16 CCAs that are formed in SCE's service territory.

17 A Okay.

18 Q And SCE has the highest RPS percentage of all
19 those entities, including those five CCAs in SCE's
20 portfolio. Do CCAs' customers also receive a benefit
21 from SCE's portfolio?

22 A Benefit in which way?

23 Q The same way that you argue that bundled
24 service customers benefit if the CCAs' renewable
25 portfolio standards are higher. Is the reverse true?

26 A So the benefits we are talking are just with
27 regard to the renewable portfolio standards?

28 Q Correct.

1 A It would, yes. Yes, they will, because of the
2 air quality benefits that would be received by those
3 citizens and businesses in the CCAs.

4 However, I would note that the CCAs have at
5 least expressed some interest in trying to procure
6 renewable resources to a significantly greater extent
7 than what the investor-owned utilities are required
8 under the state's RPS.

9 Q But assuming the facts that I laid out in the
10 hypothetical are the case where SCE's renewable
11 portfolio standard percentage is higher, should the CCA
12 CRS for CCA customers be increased based on the benefits
13 that they are receiving from SCE's higher percentage?

14 A No.

15 Q Could you look at page 25 of your opening
16 testimony.

17 A Okay.

18 Q You are suggesting an exemption for CCA
19 customers that bundled service customers benefit from
20 the higher renewable portfolio standards of CCAs. But I
21 think your testimony was that, you just stated, was the
22 reverse would not be true where the CCA CRS would be
23 increased if CCA customers were benefitting from SCE's
24 higher renewable portfolio standards in its portfolio.
25 Is that your testimony?

26 A Yes.

27 Q If you can turn to page 16 of your opening
28 testimony.

1 At the bottom of page 16 and continuing on to
2 the top of page 17 you state that finally CCAs will not
3 be able to pick and choose high value customers but must
4 offer universal access service to all customers in their
5 jurisdiction.

6 Do you see that?

7 A Yes.

8 Q Did you have any particular customers in mind
9 when you referred to high value customers?

10 A Not specifically, no.

11 Q In your opinion can a CCA be formed only to
12 serve only the city or county accounts consistent with
13 the statute?

14 A Could you help me out here a little bit.
15 Could you fill in your hypothetical a little bit because
16 I think I am not following exactly what you're saying.

17 Q Okay. We are discussing your testimony that
18 acknowledges that CCAs must offer universal access
19 service to all customers in their jurisdiction.

20 A Okay.

21 Q Under that scenario would you think it would
22 be allowable for a CCA to serve only its city or county
23 accounts?

24 A The only way that that would be allowed
25 overall would be if those were the only accounts that
26 the city -- that were within the city's jurisdiction.
27 But that would be a very unusual case, I think.

28 However, I think I did talk further on in my

1 testimony about potentially phasing in or allowing the
2 CCA to propose to the Commission in its implementation
3 plan that certain customers might go first and then
4 other customers would follow afterwards. And that would
5 be consistent with the concept of universal access
6 service.

7 Q Do you think it would be appropriate for that
8 phase-in to include just the city accounts in the first
9 wave of the phase-in?

10 A I don't know specifically what different CCAs
11 are going to try to propose. Consistent with my
12 testimony, the Commission would ultimately make that
13 decision.

14 And if it was beneficial in terms of providing
15 a slower implementation of CCA to make sure there wasn't
16 a gold rush of some variety, then the Commission might
17 decide that that does make good sense.

18 Q If you can now turn to page 21 of your opening
19 testimony. I am referring to lines 5 through 10.

20 You state that utilities have expressed
21 concerns on a wide-scale implementation of CCAs.

22 Has SCE expressed such a concern to your
23 knowledge in writing or in any particular forum that you
24 know of?

25 A As I recall, I thought there was a workshop
26 back in January in which the issue was discussed, but
27 that's my recollection.

28 Q Do you think the utility's concerns that you

1 are referring to there in your testimony is related to
2 the number of early CCAs or the number of customers
3 served by each CCA to be switched over to the CCA?

4 A Could you repeat that. I think I missed it.

5 Q Are you referring -- when you say the
6 utilities are concerned about wide-scale implementation,
7 is it your understanding that they are concerned that
8 there will be many CCAs, many different cities or
9 counties or JPAs that are formed and implemented at the
10 same time, or that just the sheer number of customers
11 will be large?

12 A I think they go hand in hand. There's a lot
13 of activities that have to take place to -- at least
14 according to the utility's testimony, there is a lot of
15 activities that have to take place to bring a CCA on
16 board. And so to the degree that there's both a large
17 number of CCAs coming on board, that would mean there
18 are a lot of customers associated with being brought on
19 as well.

20 Q So your answer is both?

21 A Hm-hmm.

22 Q Turning to page 22, the next page, suppose a
23 CCA's implementation plan calls for a phase-in and it is
24 approved by the Commission and the CCA only implements
25 the first phase of its plan and does not go any further.
26 Do you have that hypothetical in mind?

27 A Yes.

28 Q What should happen to the customer served by

1 the CCA under the first phase when the CCA later
2 determines not to phase in the rest of its customers?

3 A Could you -- you made a big jump between your
4 hypothetical and your question. So could we maybe take
5 it a step at a time.

6 Q We are assuming that the Commission approves a
7 CCA's phase-in plan.

8 A Okay.

9 Q That CCA phases in some subset of customers
10 but then --

11 A Pursuant to the implementation plan?

12 Q Correct, but then doesn't follow through with
13 the implementation plan and provides service to the
14 remainder of the customers in its plan. What should
15 happen to those customers that are phased in early when
16 the CCA decides it is not going to complete its plan?

17 A I don't know why the CCA wouldn't decide to
18 complete their plan if it is in their implementation
19 plan.

20 Q But in the hypothetical they don't complete
21 their plan.

22 A The hypothetical is nonsensical, as far as I'm
23 concerned.

24 ALJ MALCOLM: I don't think it is nonsensical. I
25 think you should answer the question.

26 THE WITNESS: Okay. I'm assuming that if the
27 Commission approves an implementation plan that requires
28 the CCA to phase in a set of customers, then if the CCA

1 doesn't abide by the implementation plan as approved by
2 the Commission, then there's going to be some -- there's
3 going to be some I don't know if it is a sanction or I
4 don't know exactly what the mechanism would be by the
5 Commission in that the CCA isn't acting pursuant to its
6 approved implementation plan.

7 MS. SHIGEKAWA: Q Okay. That's fine.

8 Can you turn to page 26, line 21.

9 A Okay.

10 Q You refer to Decision 03-04-030 with regard to
11 the CRS for self-generating customers. Do you see that?

12 A It refers to the exemption of certain elements
13 of the CRS, yes.

14 Q Do you know how many megawatts of exemption
15 that decision provided to eligible customers?

16 A Subject to check, I believe that it's 3,000
17 megawatts total, and it is divided between ultra clean
18 and low emission distributed gen and on-site generation
19 that doesn't meet those requirements. I thought it was
20 50/50, but that is subject to check.

21 Q I have the same understanding about the
22 3000-megawatt exemption.

23 Do you know whether the basis for that
24 exemption is the exclusion by DWR of that amount from
25 the IOU sales forecast?

26 A Which amount, the 3,000 or the 1500?

27 Q The 3,000.

28 A I thought that that was a factor.

1 Q Do you know when in 2001 DWR actually entered
2 into most of its long-term contracts?

3 A There are a bunch of them in various months of
4 the year.

5 Q If I told you it was late, first quarter 2001
6 and early first quarter 2001, would that sound correct?

7 MS. GRUENEICH: Excuse me. Could you repeat that
8 question again. I think I heard late and early first
9 quarter. If you can repeat it.

10 MS. SHIGEKAWA: Q If I told you it was late first
11 quarter 2001 and early second quarter 2001 --

12 A That sounds -- I think that sounds about
13 right.

14 Q If you can turn to page 33, looking at lines
15 10 through 12. You state there --

16 A Okay.

17 Q You state there that residential customers pay
18 only a portion of the costs of DWR power provided to
19 them. Do you see that?

20 A Yes.

21 Q What is the basis for that statement?

22 A I believe it is the citations -- the testimony
23 that is cited up above there starting on line 7 and
24 going through line 10.

25 Q Have you reviewed SCE's Schedule D to
26 determine what rate its residential customers pay for
27 DWR power?

28 A No, I haven't.

1 Q So do you know whether under that schedule
2 customers pay a uniform rate for the DWR power charge
3 regardless of what tier they fall into?

4 A I don't know.

5 Q Moving on to page 41, please, lines 2 through
6 5, you state that the language of AB 117 states that
7 utilities cannot enter into new contracts assuming that
8 they can shift any stranded costs of those contracts to
9 customers who leave the system to join a CCA; is that
10 right?

11 A Yes.

12 Q Which section of AB 117 contains that
13 statement?

14 A It's Section 366.2(d)1.

15 MS. GRUENEICH: Excuse me, Mr. Monsen. Could you
16 state the section again.

17 THE WITNESS: Section 366.2(d)1, and it's
18 Section 4 of the bill itself.

19 MS. SHIGEKAWA: Q Where in that section does it
20 state what you say at the top of page 41 on your opening
21 testimony?

22 A It doesn't say it in those exact words.

23 Q Moving down the page to the question and
24 answer starting on line 7, which entity is the provider
25 of last resort for all customers -- and I am including
26 CCA customers in that -- in an IOU service territory?

27 A I don't think those rules have been
28 established at this point.

1 Q Currently, who is the provider of last resort?

2 A Currently, there are no CCAs in existence, so
3 I think it would be the provider of last resort would be
4 the utility, except for direct access customers.

5 Q Who is the provider of last resort for direct
6 access customers currently?

7 A Currently, that would be the utility.

8 Q Can you move to page 44, lines 4 and 5. There
9 you mention an out-of-market portion of the DWR power
10 charge and an above-market portion of the IOU's retained
11 generation.

12 A Or below-market portion also.

13 Q Do you use these two terms synonymously?

14 A Which two terms are those?

15 Q The above -- the out-of-market portion and the
16 above-market portion.

17 MS. GRUENEICH: As a clarification of the
18 question, it is the out-of-market portions of the DWR
19 power charge and the above-market portion of the IOU's
20 retained generation, is the testimony on this page. So
21 if we can have a clarification when you say these two
22 terms, are you referring to the reference to the DWR and
23 the IOU, or dropping those references?

24 MS. SHIGEKAWA: No. I am looking at the terms the
25 out-of-market portions of the DWR power charge.

26 Q Are you using that term synonymously with the
27 above-market portion of the IOU's retained generation?

28 A They are --

1 Q If I could clarify. Is there a difference
2 between the term out of market and above market?

3 A Well, to the degree that if the DWR power
4 charge were below market or if the cost for DWR
5 generation were below market, then there will be a
6 difference between above market and below market. But I
7 think what I'm getting at in this piece -- in this
8 section we are talking about is the difference between
9 the cost of the DWR contracts, either positive or
10 negative, and the difference between the positive or
11 negative -- or the difference positive or negative
12 between the cost of retained generation and the market
13 price. And the retained generation would include both
14 utility retained generation -- utility-owned generation
15 and qualifying facility contracts and other utility
16 contracts.

17 Q What would the market price benchmark be for
18 calculating those figures?

19 A It seems to me that you would want to have a
20 market price used to determine those differences between
21 the DWR power costs, the utility-retained generation and
22 the existing utility contracts that's consistent with
23 other proceedings that the Commission -- that the
24 utilities have in front of the Commission.

25 So one idea might be to use a market price
26 determined, say, in the ERRA proceeding in which I
27 believe the utilities developed some sort of market
28 price benchmark. That probably wouldn't work exactly

1 right because you would probably want to look at the DWR
2 contract costs at a finer level of disaggregation than,
3 say, an annual price.

4 But some sort of market price benchmark
5 determined in a utility rate proceeding would be the one
6 that I will use.

7 Q Do you have any particular market benchmark
8 price in mind at this time?

9 A You mean a number?

10 Q Correct.

11 A No, I don't.

12 Q Or --

13 A The number would obviously have to be
14 determined in a proceeding.

15 Q Do you have any particular methodology in
16 mind?

17 A No. I think that that should probably be
18 determined if the Commission decides to adopt my
19 approach, that that would be determined either in a
20 compliance phase associated with that decision or an
21 additional phase in this proceeding.

22 Q If you can turn to your reply testimony, page
23 7, line 17. You state it is generally accepted that
24 risks should be allocated to the entity that is best
25 able to accept and mitigate the risk.

26 A Yes. I see that.

27 Q When you say that it is generally accepted,
28 who are you referring to? In other words, generally

1 accepted by whom?

2 A I guess -- I can answer that by way of
3 example. That might be the easiest way to do it.

4 In the development of, say, a power project,
5 there are certain risks that exist in the development of
6 that project. And certain parties are better able to
7 bear those risks than other parties. And that results
8 in a lower-cost solution because the party that is
9 better able to bear the risk can bear it at a lower cost
10 ultimately. So that ultimately results in a lower-cost
11 solution.

12 So that is what I mean by generally it is
13 accepted because that is the way that people look at
14 these issues when they do, say, power projects.

15 Does that answer your question?

16 Q Well, in your example, when there is one party
17 that bears the risk, do the parties that are not bearing
18 the risk, is there any cost to them as a result of the
19 one party having to shoulder the risk?

20 A Could you repeat that?

21 Q I think in your example you said one party
22 shoulders the risk because they are in the best position
23 to do so.

24 A They are able to bear it at the lower cost to
25 the project, yes.

26 Q So do other parties in your scenario bear some
27 cost because the risk is --

28 A Yeah, that's right.

1 ALJ MALCOLM: Sure. We can try and arrange it
2 that way.

3 MS. GRUENEICH: Thank you.

4 ALJ MALCOLM: Off the record.

5 (Off the record)

6 ALJ MALCOLM: On the record.

7 We're adjourned until tomorrow morning at
8 9:00.

9 (Whereupon, at the hour of 3:20 p.m.,
10 this matter having been continued to
11 9:00 a.m., June 10, 2004, at
12 San Francisco, California, the Commission
13 then adjourned.)

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