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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902-E) for Approval of: (i) Contract Administration, Least Cost Dispatch and Power Procurement Activities in 2012, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account and Transition Cost Balancing Account in 2012 and (iii) Costs Recorded in Related Regulatory Accounts in 2012	A1305016 Application 13-05-___ (Filed May 31, 2013)

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF ERRA COMPLIANCE FOR 2012 AND RATE RECOVERY OF ERRA-RELATED ACCOUNTS

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May 31, 2013

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I. INTRODUCTION

In compliance with California Public Utilities Code ("P.U. Code") Section 454.5, relevant Decisions ("D.") of the California Public Utilities Commission ("Commission" or "CPUC"), including, but not limited to, D.02-10-062, D.02-12-074, D.05-01-054, and D.05-04-036, and the Commission's Rules of Practice and Procedure, San Diego Gas & Electric Company ("SDG&E") hereby submits this Application for approval of: (i) contract administration, least cost dispatch and power procurement activities in 2012, (ii) costs related to those activities recorded to the Energy Resource Recovery Account ("ERRA") and Transition Cost Balancing Account ("TCBA") in 2012, and (iii) costs recorded in related regulatory accounts in 2012. SDG&E is also requesting that the Market Redesign and Technology Upgrade Memorandum Account ("MRTUMA") be eliminated from SDG&E's preliminary statement on a going-forward basis. Further, SDG&E discusses its requested approval of Greenhouse Gas ("GHG")-related costs during the record year within the ERRA as well as the Commission's

directive to temporarily defer recovery of such costs. SDG&E is not seeking any form of rate recovery in this Application.

II. BACKGROUND

A. SCOPE OF ERRA COMPLIANCE REVIEW

The ERRA balancing account mechanism was established in D.02-10-062 to track fuel and purchased power billed revenues against actual recorded costs. That decision also required the electric utilities to establish a fuel and purchased power revenue requirement forecast, a trigger mechanism, and a schedule for semiannual ERRA proceedings. The first semiannual proceeding (the forecast application) consists of an application by the utility to establish annual fuel and purchased power forecasts for the upcoming 12 months. During the second semiannual proceeding, a compliance review of the utility's prior period energy resource contract administration, least cost dispatch, and ERRA balancing account is conducted.

In D.02-10-062, the Commission adopted minimum standards of conduct the utilities must follow in performing their procurement responsibilities. Standard of Conduct #4 ("SOC 4") describes the compliance review criteria for contract administration and economic dispatch of generation resources on which the utilities will be evaluated: "The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least cost manner. Our definitions of prudent contract administration and least cost dispatch are the same as our existing standard."[1]

The scope of compliance review described in D.02-10-062 and D.02-12-074 includes Commission review of utility retained electric generation ("URG") fuel expenses, contract administration, including administration of the California Department of Water Resources ("CDWR") contracts allocated to SDG&E in D.02-09-053, California Independent System

[1] D.02-10-062, Conclusion of Law 11.

Operator ("CAISO")-related costs, existing Qualified Facilities ("QF") contracts, other power purchase agreements ("PPAs") (including renewable resource contracts) and economic dispatch of electric generation resources (including Miramar, Palomar, Desert Star, Cuyamaca and the San Onofre Nuclear Generating Station ["SONGS"]).

The Commission further stated in D.03-06-067 that in determining whether the utilities complied with the requirement to "dispose of economic long power and purchase economic short power in a manner that minimizes ratepayer costs,"[2] the Commission would examine "the prudence of each utility's decision to dispatch resources contained in the integrated CDWR-IOU [investor owned utilities] portfolio and execute market transactions for economic purposes . . . ."[3] Accordingly, the Commission's annual compliance review focuses on prudent contract administration, least cost dispatch and URG fuel procurement activities.

The appropriate scope and standard of review for these ERRA applications have also been addressed in D.05-04-036 and D.05-01-054. According to those decisions and pertinent to the scope of review of the utility's least cost dispatch obligation, the Commission will consider those decisions to dispatch the resources in the daily, hourly, and real-time markets. As for the standard of review of the utility's least cost dispatch, contract administration, and URG costs, the Commission reiterated in D.05-04-036 that its review is not a "reasonableness review," but is instead a "compliance review:"

> We [the Commission] went on to state that the least cost dispatch review process is a compliance review, and that there are no ranges of possible outcomes. (D.05-01-054, pp. 13-14.) Instead, we stated in pertinent part that:
>
> > "The outcome or standard for review has been predetermined – that is the lowest **cost.** ***SCE must demonstrate that it has complied with this standard, by providing sufficient information and/or analysis in order for the Commission to***

[2] D.02-12-074 at 52-53.
[3] D.03-06-067 at 10.

> ***verify that SCE's dispatch resulted in the most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services*. Based on analyses of SCE's showing and** subsequent discovery, ORA or any other party may take the position that SCE did not fully comply with SOC 4. In such cases, we will judge the merits of the parties' positions and may impose disallowances and/or penalties…. This compliance process encompasses much more than that characterized by ORA. Imposing a compliance process for least-cost dispatch under SOC 4, rather than a reasonableness review process, does not diminish our ability to ensure just and reasonable rates." (D.05-01-054, pp. 14-15.)[4]

In this same decision, the Commission goes on to say that:

> ***D.05-01-054 did not adopt specific criteria for determining "what constitutes least-cost dispatch compliance or what the utility needs to provide to meet its burden to prove such compliance."*** (D.05-01-054, p. 15.) Instead, we stated that if ORA or another party can demonstrate that the utility "has not dispatched resources in a least-cost manner, the Commission will review that evidence and make appropriate adjustments for non-compliance." (D.05-01-054, p. 16.)[5]

Finally, the Commission stated that "if specific criteria for determining what constitutes least-cost dispatch compliance are needed, that such criteria "should be developed in a generic proceeding where all affected utilities, as well as interested parties, could participate. (D.05-01-054, p. 15.)"[6]

B. ERRA

As noted above, the purpose of the ERRA is to provide full and timely recovery of SDG&E's energy procurement costs associated with serving SDG&E's bundled service customers. Accordingly, SDG&E's ERRA revenue requirement includes specific recovery of CAISO energy and ancillary services load charges, contract costs, generation fuel costs, CAISO-related costs, hedging costs and previously approved equity rebalancing costs related to the

[4] D.05-04-036 at 26 (emphasis added).
[5] *Id*. at 27 (internal footnote omitted) (emphasis added).
[6] *Id*. at fn. 13.

Financial Accounting Standards Board Interpretation No. 46 ("FIN 46 (R)") consolidation of the Otay Mesa Energy Center ("OMEC") to serve SDG&E's bundled service customers.[7] The ERRA also includes revenues from SDG&E's Electric Energy Commodity Cost ("EECC") rate schedule adjusted to exclude CDWR revenues for energy provided by CDWR to SDG&E customers and non-fuel generation revenues allocated to the Non-Fuel Generation Balancing Account ("NGBA"). SDG&E's share of revenues from the sale of surplus energy is also reflected in the ERRA.

On a monthly basis, the ERRA compares the energy procurement costs described above with the revenue from Schedule EECC (excluding CDWR and NGBA revenue). Interest is applied to any over- or under-collection balance at the three-month Commercial Paper rate. SDG&E's adopted ERRA tariff describes the entries that are made to the account on a monthly basis. SDG&E believes that the costs and expenses recorded to the ERRA during the subject calendar year are appropriate, correctly stated and recoverable in accordance with applicable Commission policy and decisions. The ERRA balance as of December 31, 2012 was a $213.6 million under-collection. This request is more fully explained in the testimony of SDG&E witness Jasso.

C. TCBA

In D.06-12-019, the Commission determined that SDG&E's annual TCBA review should be included as part of the annual ERRA compliance review. The ERRA compliance review is the appropriate forum to review the TCBA because the costs that are recovered in the TCBA generally related to the above-market portion of certain QF and purchase power costs eligible for recovery under Assembly Bill ("AB") 1890. Specifically, the TCBA records the eligible above-

[7] SDG&E Balancing Accounts: ERRA Tariff, Sections 1 ("Purpose") & 5 ("Accounting Procedures") (effective April 29, 2012) ("ERRA Tariff"). *See also* Advice Letter 1778-E; regarding equity rebalancing costs related to OMEC; *see* D.11-07-041, Ordering Paragraph ("OP") 2.

market power costs and the revenues received from SDG&E's Competition Transition Charge ("CTC") rate. The TCBA balance as of December 31, 2012 was a $10.4 million undercollection.

D. MRTUMA

SDG&E filed Advice Letter 1867-E dated January 29, 2007 to request authority from the Commission to establish the MRTUMA to record costs associated with implementing the CAISO's Market Redesign and Technology Upgrade ("MRTU") tariff. All market participants were required to comply with the CAISO's MRTU Tariff. The purpose of the MRTUMA is to record the incremental operation and maintenance and capital-related costs associated with implementing CAISO's MRTU tariff. In this Application, as explained in the testimony of SDG&E witness Jasso, SDG&E requests that the MRTUMA amounts requested in SDG&E's two prior ERRA compliance filings, A.11-06-003 and A.12-06-003, be collected in the Final Orders issued in those proceedings, and that the MRTUMA be eliminated from SDG&E's preliminary statement on a going-forward basis.

E. IEMA

In compliance with Senate Bill ("SB") 1078, D.03-06-071 and the requirements of Rulemaking ("R.") 01-10-024, SDG&E was required to implement Renewables Portfolio Standard ("RPS") programs. SDG&E's solicitations for the RPS programs required bidders to provide both turnkey or buyout options with purchase power agreements. In D.04-12-048, dated December 16, 2004, the Commission adopted a variety of safeguards and procedures that required the utilities to use independent evaluators if affiliated entities bid in a procurement solicitation or if the utility sought turnkey proposals. The Commission extended the requirement to use independent evaluators for SDG&E's RPS solicitations, in D.05-07-039, dated July 21, 2005.

The purpose of the Independent Evaluator Memorandum Account ("IEMA") is to record third party costs associated with the use of independent evaluators in the utility's long-term procurement activities and RPS programs. Interest is applied to any over or under collection balance at the three-month Commercial Paper rate. The disposition of the IEMA, as approved in SDG&E's tariff, requires SDG&E to seek recovery of the balance in its ERRA proceeding. SDG&E believes that the costs and expenses recorded to the IEMA in 2012 were both accurate and reasonable. D.11-10-029, which approved Phase 1 of SDG&E's 2009 ERRA Compliance Filing, granted authority for SDG&E to update its IEMA tariff disposition to allow it to transfer the balance in the IEMA to the ERRA on an annual basis.

In compliance with D.11-10-029, SDG&E transferred the 2012 IEMA undercollection balance of $0.6 million as shown in SDG&E witness Jasso's testimony. SDG&E requests confirmation that SDG&E correctly complied with the Commission's decision, and accordingly, is not seeking additional recovery in this Application.

III. SUMMARY OF PREPARED TESTIMONY

In support of this Application, SDG&E provides the testimony of four witnesses. As SDG&E's testimony demonstrates, in 2012, SDG&E has fully complied with its Commission-approved electric procurement plans,[8] all relevant contract terms and conditions, SOC 4 and applicable Commission decisions. The testimony also shows the accuracy and reasonableness of SDG&E's 2012 ERRA, TCBA, and IEMA accounting entries. The testimony of SDG&E's witnesses, and the issues they address, are summarized below and incorporated by reference herein:

[8] For purposes of the Commission's review and the compliance findings requested herein, the relevant Long-Term Procurement Plan ("LTPP") is SDG&E's 2010 LTPP, approved in Commission Resolution E-4543, in compliance with D.11-05-005, D.12-01-033 and D.12-04-046.

- **Mr. Andrew Scates**

  Mr. Scates testimony describes the various energy resources in SDG&E's electricity portfolio and addresses the manner in which SDG&E complied during the Record Period with its obligation to dispatch its energy portfolio in a least cost manner consistent with SDG&E's Commission-approved LTPP. As explained by Mr. Scates, for purposes of the Commission's review and the compliance findings requested herein, the relevant LTPP was approved in Commission Resolution E-4543.

- **Ms. Norma Jasso**

  Ms. Jasso's testimony provides a description of the transactions and cost recovery for the 2012 entries to SDG&E's ERRA, TCBA, and IEMA, as well as the basis for the requested disposition of those accounts. Ms. Jasso's testimony also seeks to close the MRTUMA, subject to the collection of costs that are currently pending approval in prior ERRA compliance proceedings. In sum, SDG&E seeks confirmation that the transactions recorded to SDG&E's ERRA, including GHG costs,[9] during 2012 were in compliance with Commission directives and are approved.[10]

- **Ms. Sally Chen**

  Ms. Chen's testimony describes the expenses that were recorded to SDG&E's ERRA and TCBA accounts and explains the contract administration activities associated with SDG&E's power purchase agreements during 2012.

[9] In OP 20 of D.12-12-033 in the GHG Rulemaking 11-03-012 ("GHG OIR"), SDG&E and other utilities were "ordered to defer including in rates all GHG costs and revenues, including accrued interest, until all necessary implementation details are finalized. This Decision did not, however, restrict SDG&E or other utilities from seeking recovery of these ERRA-related GHG costs.

[10] SDG&E understands that the GHG costs for which approval is requested in this Application are subject to further Commission directives dealing with the cost recovery of those costs. D.12-12-033, OP 20.

- **Mr. Ryan Miller**

  Mr. Miller's testimony explains SDG&E's procurement of GHG Compliance Instruments for the 2012 record year under California's new Cap-and-Trade Program in compliance with the Commission's LTPP Decision (D.12-03-033) as well as SDG&E's LTPP implementing that Decision. Mr. Miller's testimony addresses the various types of Compliance Instruments procured by SDG&E and SDG&E's auction strategy for the purchase of GHG allowances during the record year.

IV. REQUESTED RELIEF AND ISSUES TO BE CONSIDERED

The issues to be considered and the relief requested are contained in this Application, supporting testimony and related exhibits. In submitting this Application and supporting testimony, SDG&E demonstrates and requests express Commission findings that:

1. during 2012, SDG&E prudently administered and dispatched its URG resources and portfolio of contracts, including SONGS, Miramar, Palomar, Desert Star, Cuyamaca, allocated CDWR contracts, power purchase agreements, QFs, non-QF resources, and renewable energy resources, in compliance with SDG&E's Commission-approved procurement plan;
2. all 2012 entries and costs recorded in SDG&E's ERRA, TCBA, and IEMA are appropriate and correctly stated;
3. SDG&E asks that the MRTUMA be eliminated from SDG&E's preliminary statement.
4. SDG&E demonstrated compliance for the procurement of GHG-related compliance instruments during 2012;

5. SDG&E's GHG-compliance-related costs for 2012 approved and subject to recovery in a future proceeding; and

6. confidential treatment of the unredacted versions of the testimony, as requested in the declarations accompanying the testimony, is appropriate and authorized.

V. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1 (a) – (c)

In accordance with Rule 2.1 (a) – (c) of the Commission's Rules of Practice and Procedure, SDG&E provides the following information.

1. Rule 2.1 (a) - Legal Name

SDG&E is a corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123. SDG&E's attorney in this matter is Paul A. Szymanski.

2. Rule 2.1 (b) - Correspondence

Correspondence or communications regarding this Application should be addressed to:

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3. Rule 2.1 (c)

a. Proposed Category of Proceeding

In accordance with Rule 7.1 of the Commission's Rules of Practice and Procedure, SDG&E requests that this Application be categorized as ratesetting because the activities and costs that are the subject of this Application involve a review of costs that are included in customer rates.

b. Need for Hearings

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provide the Commission with a sufficient record upon which to grant the relief requested.

c. Issues to be Considered

The issues to be considered are described in this Application and the accompanying testimony and exhibits (see Summary of Application and Summary of Testimony, above).

d. Proposed Schedule

SDG&E proposes the following schedule:

ACTION	DATE
Application filed	May 31, 2013
Prehearing Conference	July 18, 2013
Intervener Testimony	August 7, 2013
Rebuttal Testimony	September 12, 2013
Hearings (if necessary)	October 10, 2013
Opening Briefs	October 24, 2013
Reply Briefs	November 7, 2013
ALJ Proposed Decision	December 3, 2013
Comments on Proposed Decision	December 12, 2013
Reply Comments	December 19, 2013
Commission Approval	January of 2014

B. Rule 2.2 – Articles of Incorporation

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on August 31, 2009 in connection with SDG&E's Application No. 09-08-019, and is incorporated herein by reference.

VI. CONFIDENTIAL INFORMATION

SDG&E is submitting the testimony supporting this Application in both public (redacted) and non-public (unredacted and confidential) form, consistent with SDG&E's declarations of confidential treatment attached to the witnesses' testimony and submitted in conformance with D.06-06-066 and D.08-04-023. In short, confidential treatment is necessary in this proceeding to avoid inappropriate disclosure of the confidential and commercially sensitive information

(pertaining to SDG&E's electric procurement resources and strategies) that SDG&E witnesses must identify to support this Application.

VII. SERVICE

This is a new application. No service list has been established. Accordingly, SDG&E will serve this Application, testimony and related exhibits on parties to the service list for A.12-06-003 (last year's SDG&E ERRA compliance proceeding) and R.12-03-014 (OIR to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans). Hard copies will be sent by overnight mail to the Assigned ALJ in R.12-03-014, ALJ Seaneen McCarthy Wilson (the administrate law judge assigned to SDG&E's most recent ERRA Compliance proceeding, A.12-06-003), and Chief ALJ Karen Clopton.

VIII. CONCLUSION

WHEREFORE, SAN DIEGO GAS & ELECTRIC COMPANY requests that the Commission:

1. during 2012, SDG&E prudently administered and dispatched its URG resources and portfolio of contracts, including SONGS, Miramar, Palomar, Desert Star, Cuyamaca, allocated CDWR contracts, power purchase agreements, QFs, non-QF resources, and renewable energy resources, in compliance with SDG&E's Commission-approved procurement plan;
2. all 2012 entries and costs recorded in SDG&E's ERRA, TCBA, and IEMA are appropriate and correctly stated;
3. SDG&E asks that the MRTUMA be eliminated from SDG&E's preliminary statement.
4. SDG&E demonstrated compliance for the procurement of GHG-related compliance instruments during 2012;

5. SDG&E's GHG-compliance-related costs for 2012 approved and subject to recovery in a future proceeding; and

6. confidential treatment of the unredacted versions of the testimony, as requested in the declarations accompanying the testimony, is appropriate and authorized.

SDG&E is ready to proceed with its showing in this Application.

Respectfully submitted,

By: /s/ Paul A. Szymanski
Paul A. Szymanski

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SAN DIEGO GAS & ELECTRIC COMPANY

By: _____
Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President – Finance, Regulatory and Legislative Affairs

DATED at San Diego, California, this 31st day of May 2013

OFFICER VERIFICATION

OFFICER VERIFICATION

Lee Schavrien declares the following:

I am an officer of San Diego Gas & Electric Company and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF ERRA COMPLIANCE FOR 2012 AND RATE RECOVERY OF ERRA-RELATED ACCOUNTS** are true to my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on May 31, 2013 at San Diego, California.

Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President – Finance, Regulatory and Legislative Affairs