

Decision 07-05-008 May 3, 2007

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SAN DIEGO GAS & ELECTRIC  
(U 902-E) under the Energy Resource Recovery  
Account Trigger Mechanism.

Application 07-02-018  
(Filed February 9, 2007)

**OPINION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY  
TO MAINTAIN ITS CURRENTLY AUTHORIZED ENERGY  
RESOURCE RECOVERY ACCOUNT RATE LEVELS**

**1. Summary**

This decision authorizes San Diego Gas & Electric Company (SDG&E) to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates. In the future, SDG&E is authorized to notify the Commission through advice letter filings, instead of expedited applications, when its ERRA balances will exceed its trigger point but do not require any change in ERRA rates. Expedited ERRA applications shall continue to be used when rate changes are necessary to amortize ERRA balances.

**2. Background**

Section 454.5(d)(3) of the Public Utilities Code provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.<sup>1</sup> It also provides for recorded revenues and costs incurred under an approved procurement plan to be tracked in a power

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise stated.

procurement balancing account. Until January 1, 2006, the balance of that account was not to exceed 5% (threshold point) of the electrical utility's actual recorded generation revenues for the prior calendar year, excluding revenues collected for the Department of Water Resources (DWR). Pursuant to § 454.5(d)(3), an ERRA was established to track the differences between fuel and purchased power revenue requirements and actual recorded costs of an approved procurement plan.<sup>2</sup>

Decision (D.) 02-10-062 established a trigger mechanism to ensure that the 5% threshold point would not be reached. The trigger mechanism requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues, excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date when its ERRA balance reaches 4%. Any such expedited application is to include (1) a projected account balance in 60 days or more from the date of filing, depending on when the balance will reach the 5% threshold, and (2) propose an amortization period for the 5% of not less than 90 days. Although the statutory trigger requirement expired on January 1, 2006, it was extended by the Commission to the term of the long-term contracts, or ten years, whichever is longer.<sup>3</sup>

As of November 30, 2006, SDG&E had a \$14 million undercollected balance in its ERRA which equaled 3.3% of its prior year's electric generation revenues, below its \$16.9 million trigger and \$21.1 million threshold amounts.

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<sup>2</sup> Decision (D.) 02-10-062 (2002), *mimeo.*, p. 77.

<sup>3</sup> D.04-12-048 (2004), *mimeo.*, p. 103.

However, by the end of December, 2006, that undercollected balance had increased to \$41 million, or 9.7% of its prior year's recorded generation revenues excluding DWR revenues, exceeding both its currently authorized \$17.0 million trigger and \$21.1 million threshold points. Hence, SDG&E filed its expedited application pursuant to the reporting requirements set forth in D.02-10-062.

### **3. Requested Authority**

SDG&E seeks authority to continue with its currently authorized ERRA rates. SDG&E also seeks authority to notify the Commission through an advice letter filing, instead of an application, in future situations where its ERRA balance exceeds both its trigger and threshold points but does not require a change in its ERRA rates.

#### **3.1 Rate Impact**

SDG&E attributed two contributing factors to the reason it surpassed its trigger and threshold points in a single month. The first factor pertains to higher electric generation costs resulting from the replacement of energy to cover an outage at one of the San Onofre Nuclear Generating Station units, capacity payments for new purchased power contracts and higher customer usage.

The second factor pertains to generation revenues being lower in December of 2006 due to a seasonal decrease in the Schedule EECC rate and an extended amortization of the \$50 million ERRA trigger credit approved in Resolution E-4030.<sup>4</sup>

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<sup>4</sup> Resolution E-4030 authorized SDG&E to extend a \$50.3 million ERRA trigger credit authorized in D.05-09-019 an additional three months through December 31, 2006.

SDG&E forecast that its monthly ERRA balance will decrease by May 31, 2007 to \$23 million. However, it will continue to exceed its currently adopted trigger and threshold points by 1.5% and 0.5%, respectively.

In spite of exceeding its threshold point, SDG&E proposes no change in its ERRA rates. That is because its currently authorized trigger and threshold points are not based on its prior year's (2006) recorded generation revenue, as required by D.02-10-062. They are based on SDG&E's 2005 recorded generation revenue. SDG&E stated that they would be filing an advice letter by April 1, 2007 to establish its 2007 trigger and threshold points.<sup>5</sup> That advice letter filing was made and became effective on April 21, 2007, which reset SDG&E's 4% trigger point to \$24.7 million from \$16.9 million and 5% threshold point to \$30.9 million from \$21.1 million, based on its estimated 2006 recorded generation revenues of \$617 million. With the Commission approval of its updated trigger and threshold points, SDG&E's May 31, 2007 ERRA balance of \$23 million will be only 3.7% of its estimated 2006 recorded revenues and under both its 4% trigger and 5% threshold points for 2007.

To maintain rate stability for its customers and to alleviate the need to further revise rates through this application, SDG&E will file an advice letter to consolidate the impact of its 2007 adopted ERRA revenue requirement with other authorized 2007 electric commodity revenue requirements as a single change to electric commodity rates to become effective July 1, 2007.

SDG&E has substantiated that its implementation of an increased 2007 ERRA revenue requirement and filing of an advice letter to consolidate the

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<sup>5</sup> SDG&E is required to update its ERRA trigger amount through the filing of an advice letter filing no later than April 1 of each year, pursuant to D.04-01-050.

impact of its 2007 adopted ERRA revenue requirement with other authorized 2007 electric commodity revenue requirements as a single change to electric commodity rates will eliminate the need to adjust its ERRA rates.

### **3.2 Future Trigger Filings**

SDG&E seeks approval to notify the Commission through an advice letter filing instead of an application in future situations where the ERRA balance exceeds its trigger point but does not require a change in its ERRA rates. SDG&E would provide necessary documentation in its advice letters supporting its proposal to not change rates. Consistent with the 60-day time period set forth in § 454.5(d)(3) for approving expedited ERRA applications, SDG&E recommends that resolutions addressing such advice letters be issued within 60 days of filing. SDG&E would continue to file expedited applications as currently required in those instances where the ERRA balance exceeds its trigger point and rate changes are necessary to amortize the balance. SDG&E's advice letter proposal would also enable SDG&E and the Commission to make more efficient use of their staff.

Except for SDG&E's proposal for Commission approval of any such advice letter within 60 days of filing, this proposal is consistent with a similar procedure adopted by D.06-06-051 for Southern California Edison Company (SCE). The proposal being adopted for SDG&E should be consistent with the procedure adopted for SCE. Hence, we shall make a minor modification to

SDG&E's proposal to bring it into conformity with the procedure adopted for SCE.<sup>6</sup>

In future situations when the ERRA balance exceeds the trigger point of 4% and SDG&E does not seek a change in rates, SDG&E is authorized to file an advice letter notification with the Commission's Energy Division if the ERRA balance will self-correct below the trigger point within 120 days of filing. The advice letter filing shall include necessary documentation to support SDG&E's conclusion that the ERRA balance will self-correct below the trigger point within 120 days and that a rate change is not needed. SDG&E is required to continue to file expedited applications as currently required in those instances where the ERRA balance exceeds its trigger point and rate changes are necessary to amortize the balance.

Energy Division disposition of SDG&E's advice letters that meet the requirements specified herein is authorized in accordance with GO 96-B. At the same time, we recognize that Rulemaking 06-02-013 is reviewing ways to streamline ERRA reporting requirement to reduce the regulatory burden on the utilities, Commission and other interested parties. To the extent changes are adopted in that rulemaking proceeding, those changes should supersede this order.

#### **4. Category and Need for Hearing**

In Resolution ALJ 176-3188, dated March 1, 2007, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily

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<sup>6</sup> A 60-day time period for obtaining approval of ERRA advice letters not requiring a change in ERRA rates was also requested by SCE but rejected by the Commission in D.06-06-051.

determined that hearings were not necessary. This matter appeared on the Commission's February 21, 2007 Daily Calendar. There is no filed opposition to this application. Based on the record, we affirm that this is a ratesetting proceeding, and that hearings are not necessary.

## **5. Comments on the Proposed Decision**

Although this is an uncontested matter in which SDG&E is the only party, the Administrative Law Judge's (ALJ) proposed decision makes a minor modification to SDG&E's proposal to bring SDG&E's request into conformity with the procedure adopted by D.06-06-051 for SCE pertaining to approval of advice letters addressing self-correcting ERRA balances below the trigger points. Hence, the proposed decision of the ALJ in this matter was mailed to the parties of record in accordance with Section 311 of the Public Utilities Code and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. Comments were filed on April 23, 2007 by SDG&E. Those comments recommended one minor change, the implementation date for consolidating its commodity revenue requirement, which was corrected in the body of this order.

## **6. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

## **Findings of Fact**

1. Section 454.5(d)(3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.
2. The balance in an ERRA balancing account is not to exceed 5% of the electric utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the DWR.

3. A trigger mechanism was established that requires any electrical corporation whose ERRA balance reaches 4% of its prior year's recorded generation revenues excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date.

4. SDG&E had a \$41 million undercollected ERRA balance at December 31, 2006, or 9.7% of its prior year recorded generation revenues.

5. SDG&E's currently authorized trigger and threshold points are not based on its prior year's (2006) recorded generation revenue.

6. SDG&E filed an Advice Letter to establish its 2007 trigger and threshold points of \$24.7 million and \$30.9 million, respectively.

7. SDG&E seeks no change to its ERRA related rates on the basis that its May 31, 2007 undercollected ERRA balance will be only 3.7% of its estimated 2006 recorded revenue and under both its 4% trigger and 5% threshold points for 2007.

8. SDG&E seeks approval to make advice letter filings, instead of expedited applications, to notify the Commission of future ERRA balances that reach its trigger points not requiring a change in its ERRA rates. Except for SDG&E's proposal for Commission approval of any such advice letter within 60 days of filing, this proposal is the same as that adopted by D.06-06-051 for SCE.

9. There is no opposition to this application.

### **Conclusion of Law**

This application should be approved subject to certain changes to the proposed advice letter process.

**O R D E R**

**IT IS ORDERED** that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates.
2. SDG&E is authorized to notify the Commission through advice letter filing, instead of expedited application, when the ERRA balance exceeds its trigger point and SDG&E does not seek a change in rates, if the ERRA balance will self-correct below the trigger point within 120 days of filing.
3. SDG&E shall include necessary documentation to support its advice letter filings.
4. Energy Division staff disposition of SDG&E's advice letter requests which satisfy the criteria described in this decision is authorized in accordance with General Order 96-B.
5. SDG&E shall continue to file an expedited application in those instances where the ERRA balance exceeds the trigger point and rate changes are necessary to amortize the balance. In those instances where Energy Division rejects an advice letter authorized in Ordering Paragraph 2 of this decision, SDG&E shall file an application within 15 days after rejection.
6. Application 07-02-018 is closed.

This order is effective today.

Dated May 3, 2007, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG

TIMOTHY ALAN SIMON  
Commissioners