Decision **PROPOSED DECISION OF ALJ ROSCOW (Mailed 6/12/2012)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Adoption of its 2012 Energy Resource Recovery Account Revenue Requirement and Competitive Transition Charge Revenue Requirement Forecasts.	Application 11-09-022 (Filed September 30, 2011)

DECISION ADOPTING SAN DIEGO GAS & ELECTRIC COMPANY'S 2012 ELECTRIC PROCUREMENT COST REVENUE REQUIREMENT FORECAST

1. Summary

Today's decision adopts a 2012 Energy Resource Recovery Account revenue requirement forecast of $815.499 million for San Diego Gas & Electric Company (SDG&E), which is approximately $60.086 million higher than the 2011 figure, and a 2012 Ongoing Competition Transition Charge revenue requirement forecast of $55.162 million, which is approximately $8.193 million lower than the 2011 figure. This results in a combined total revenue requirement increase of $51.893 million, which is a 1.94% percent increase in current system average rates (an increase of 0.299 cents per kilowatt-hour to the system average rate). However, this increase is more than offset by a reduction in the costs of SDG&E's share of 2012 Department of Water Resources contracts. In combination, therefore, SDG&E's 2012 procurement costs are forecast to be lower than its costs in 2011.

2. Procedural Background

On September 30, 2011, San Diego Gas & Electric Company (SDG&E) filed Application (A.) 11-09-022, its *Application of San Diego Gas & Electric Company for Adoption of its 2012 Energy Resource Recovery Account Revenue Requirement and Competitive Transition Charge Revenue Requirement Forecasts.* (Application).

On October 20, 2011, Resolution ALJ-176-3283 preliminarily determined that this proceeding was ratesetting and that hearings would be necessary. On November 7, 2011, the Division of Ratepayer Advocates (DRA) filed a protest, to which SDG&E replied on November 17, 2011.

On December 9, 2011, a prehearing conference (PHC) took place in San Francisco to establish the service list for the proceeding, discuss the scope of the proceeding, and develop a procedural timetable for the management of the proceeding. On January 30, 2012, the assigned Commissioner issued the *Assigned Commissioner's Scoping Memo and Ruling* (Scoping Memo), which determined the scope of this proceeding, and set a schedule that included hearings.

On February 13, 2012, SDG&E hosted a workshop at the Commission, during which various SDG&E witnesses and subject matter experts presented information and answered questions regarding how SDG&E prepares its annual Energy Resource Recovery Account (ERRA) forecast. The workshop was attended by the assigned Commissioner, the assigned Administrative Law Judge (ALJ), and representatives from DRA.

On February 24, 2012, SDG&E filed an Amendment its application.

No parties served testimony on the March 9, 2012 due date. As a result, on March 22, 2011, SDG&E requested, via e-mail, that evidentiary hearings be taken

off the calendar, to which DRA agreed. The assigned ALJ granted SDG&E's request via e-mail on March 24, 2011.

SDG&E filed its Opening Brief on April 25, 2012. On the same date, SDG&E filed a Motion to enter testimony into the record, and seal confidential information and testimonies. No other party filed opening briefs, and reply briefs were not filed.

On June 4, 2012, DRA filed and served a withdrawal of its protest.

3. SDG&E's ERRA, Competitive Transition Charge, and Market Benchmark Forecasts

3.1. SDG&E's Original Request

In its original Application, SDG&E requested a 2012 ERRA revenue requirement of $886.500 million, which was $131.087 million higher than its adopted 2011 ERRA forecast, and a 2012 Competitive Transition Charge (CTC) revenue requirement forecast of $66.145 million, which was $2.791 million higher than its adopted 2011 CTC forecast; together, these increases totaled $133.878 million or a 4.69% percent increase in current system average rates (this represents an increase of 0.75 cents per kilowatt-hour to the system average rate). SDG&E also requested Commission approval of a new 2012 market benchmark price for calculating the CTC and the Power Charge Indifference Adjustment (PCIA), as well as the resulting PCIAs. However, as SDG&E noted in its Application, the methodology for these calculations was at that time under review in Commission Rulemaking (R.) 07-05-025.

According to SDG&E, the higher revenue requirement request for 2012 was primarily due to three factors: (1) an increase in generation in SDG&E's own

portfolio attributed to the expiration of California Department of Water Resources (CDWR) contracts;[1] (2) an increase in renewable generation costs to meet the Renewables Portfolio Standard (RPS); and (3) the addition of Desert Star (formerly known as El Dorado) to SDG&E's generation portfolio.

3.2. SDG&E's Amended Request

In its February 24, 2012, amendment to its Application, SDG&E reduced its requested revenue requirement. SDG&E states that the amendment was necessary for two reasons: (1) to incorporate an updated--and lower--natural gas price forecast into the model used to generate SDG&E's ERRA and CTC revenue requirement forecasts; and (2) to update the market benchmark price used to calculate above or below market costs associated with SDG&E's combined total portfolio. As a result of this Amendment, SDG&E must update both its ERRA and CTC revenue requirements for 2012, and accordingly, SDG&E amended its requests for relief in several ways.

First, SDG&E requested adoption of an updated 2012 ERRA revenue requirement forecast of $815.499 million and an updated 2012 CTC revenue requirement forecast of $55.161 million.

Second, SDG&E requested that the Commission authorize it to take an approach to updating the 2012 market benchmark prices and resulting CTC and Power Charge Indifference Adjustment (PCIA) amounts that reflected the unresolved status of certain non-ERRA proceedings that provide information needed for SDG&E's ERRA-related calculations. To begin with, SDG&E

[1] Those CDWR costs are collected from SDG&E ratepayers as a non-ERRA revenue requirement, approved by the Commission in a separate annual proceeding.

requested authority to implement a 2012 market benchmark price of $40.08 per megawatt-hour (WWh) for calculating the CTC and $41.81/MWh for calculating the PCIA, as well as the resulting 2012 PCIAs, based on use of the then-current Commission-approved market benchmark methodology. With these adopted values, SDG&E requested authority to calculate and implement 2012 PCIAs based on the then-current methodology and track the differences in charges resulting from the then-current market benchmark methodology and the new methodology adopted in R.07-05-025. Finally, once the Commission adopted a Resolution finalizing the data necessary to apply the methodology adopted in D.11-12-018, SDG&E sought authority to issue refunds, if necessary, to the appropriate Direct Access (DA) customers.

As a result of the changes in SDG&E's amended application, the 2012 ERRA and CTC forecasts are now $60.086 million higher and $8.193 million lower, respectively, than the forecasts for 2011, for a combined total increase of $51.893 million or a 1.94% percent increase in current system average rates (an increase of 0.299 cents per kilowatt-hour to the system average rate). As SDG&E explained in its original Application, this increase continues to be primarily due to three factors: (1) the increase in generation in SDG&E's portfolio attributed to the expiration of CDWR contracts; (2) the increase in renewable generation costs to meet the RPS; and (3) the addition of Desert Star (formerly known as El Dorado) to SDG&E's portfolio. In particular, it should be noted that while the replacement of power that was supplied by now-expired CDWR contracts contributes to the ERRA increase in 2012, this portion of the increase represents costs that were previously collected from SDG&E ratepayers in a non-ERRA revenue requirement. The 2012 CDWR revenue requirement is $95 million lower

than the 2011 amount.[2] Thus, the sum of SDG&E's ERRA and CDWR procurement costs is lower in 2012 than it was in 2011.

4. Issues to Be Resolved

As identified in the Scoping Memo, the scope of this proceeding included the following issues:

First, SDG&E requested that the Commission:

1. grant authority to increase rates by approving as reasonable SDG&E's 2012 ERRA revenue requirement forecast regarding SDG&E's load, the resources available to meet SDG&E's load, fuel costs, and costs for SDG&E's various electric resources;
2. grant authority to increase rates by approving as reasonable SDG&E's 2012 CTC revenue requirement forecast;
3. approve SDG&E's new 2012 market benchmark prices for calculating the CTC and PCIA, as well as the resulting 2012 PCIAs; and
4. grant such additional relief as the Commission believes is just and reasonable.

Second, the issues raised by DRA in its protest to SDG&E's application were also determined to be within the scope of this proceeding. DRA stated its interest in reviewing SDG&E's projection of fuel costs, the impact of the expiration of the SDG&E-allocated CDWR contracts, and SDG&E's changes to the market benchmark price for departing load charges under the CTC and any adjustments under the PCIA due to the Commission decision adopting Direct Access reforms (Decision (D.) 11-12-018 in R.07-05-025).

Third, SDG&E and DRA agreed at the PHC that questions regarding SDG&E's ERRA forecast methodology and related ratemaking might be best

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[2] *See* SDG&E Advice Letter 2323-E (effective January 1, 2012) at 2.

explored in a workshop to be scheduled prior to the due date for DRA's testimony.

5. Discussion

Part of determining whether SDG&E's forecasts should be adopted involves verification that the methods and inputs used by SDG&E in calculating its forecasts, such as its forecast of 2012 electric sales and rates, were in compliance with applicable Commission decisions. No party provided alternatives to SDG&E's forecasted figures. This is reflected in the discussion below.

In D.02-10-062, the Commission established the ERRA balancing account – the power procurement balancing account required by Pub. Util. Code § 454.5(d)(3). Pursuant to D.02-10-062 and D.02-12-074, the purpose of the ERRA is to provide recovery of energy procurement costs, including expenses associated with fuel and purchased power, utility retained generation, California Independent System Operator related costs, and costs associated with the residual net short procurement requirements to serve SDG&E's bundled electric service customers.

The ERRA regulatory process includes: (1) an annual forecast proceeding to adopt a forecast of the utility's electric procurement cost revenue requirement and electricity sales for the upcoming year, and (2) an annual compliance proceeding to review the utility's compliance in the preceding year regarding energy resource contract administration, least cost dispatch, fuel procurement, and the ERRA balancing account. This application concerns SDG&E's annual forecast for 2012. Once the Commission adopts a forecast revenue requirement, SDG&E calculates customer class-specific commodity rates for its Electric Energy Commodity Cost (EECC) rate schedule. As customers pay their monthly bills,

the ERRA records revenues from the EECC rate schedule, adjusted to exclude CDWR purchases and commodity revenues that are assigned to the Non-Fuel Generation Balancing Account.

A second task performed as part of annual ERRA forecast proceedings involves recovery of costs related to the restructuring of California's electricity market, as authorized by Assembly Bill 1890 in 1996. To achieve this purpose, the Transition Cost Balancing Account (TCBA) was created to accrue all ongoing CTC revenues and recover all ongoing CTC-eligible generation-related costs. Pursuant to D.02-12-074 and D.02-11-022, payments to Qualifying Facilities (QFs) that are above the market benchmark proxy are charged to the TCBA. For SDG&E, eligible ongoing CTC expenses reflect the difference between the market proxy and the costs associated with the Portland General Electric and QF contracts.

A third purpose of the ERRA forecast proceeding is to set charges related to load that has departed the utility system, procuring its power from another source. In support of this aspect of procurement-related ratemaking, in D.06-07-030 (as modified by D.07-01-030), we adopted the total portfolio methodology and market benchmark for determining the above-market costs associated with the utility/CDWR total portfolio, and we replaced the CDWR Power Charge Component with the PCIA. The PCIA applies to departing load customers that are responsible for a share of the CDWR power contracts or new generation resource commitments. The PCIA is intended to ensure that the departing load customers pay their share of the above-market portion of the CDWR contract or new generation resource costs, and that bundled customers remain indifferent to customer departures. In December 2012, in R.07-05-025, we issued D.11-01-018 and adopted changes to the benchmark methodology

described above. Pursuant to D.11-12-018, we established a process to be followed by the utilities and the Commission's Energy Division in order to calculate the new benchmarks; that process was completed with our adoption of Resolution E-4475 on May 10, 2012.

Turning to our review of SDG&E's requests for approval of its 2012 forecasts, as noted above, no party contested either SDG&E's original or amended forecast 2012 ERRA and CTC revenue requirements. Additionally, no party claimed that SDG&E's original or amended forecast 2012 ERRA and CTC revenue requirements were not in compliance with existing applicable Commission decisions, rules, and regulations. Those revenue requirements were calculated using the market price benchmarks that were in effect at that time. We have reviewed SDG&E's forecast ERRA and CTC revenue requirements in detail, and find them in compliance with applicable Commission requirements. We adopt SDG&E's forecast 2012 ERRA and CTC revenue requirements, with the understanding that SDG&E will revise these values in its compliance advice letter, in order to reflect Commission actions since SDG&E filed its amended Application. These revisions will be reviewed for compliance by the Commission's Energy Division.

Next, regarding SDG&E's proposals for updating the PCIA, SDG&E sought in its amended application (1) authority to calculate and implement 2012 PCIAs based on the methodology in place at the time, and to track the differences in charges resulting from the then-current market benchmark methodology and the implementation of the new methodology adopted in D.11-12-018; and (2) once the Commission adopted a Resolution finalizing the data necessary to apply the methodology adopted in D.11-12-018, authority to issue refunds, if necessary, to the appropriate DA customers.

After SDG&E filed its amended Application in February, 2012, the Commission adopted Resolution E-4475 on May 10, 2012. That Resolution finalized the data necessary to apply the methodology adopted in D.11-12-018, and also adopted an approach to implementing the departing load charges using the revised method that allowed SDG&E to immediately proceed with customer refunds. Pursuant to Resolution E-4475, this was to be accomplished using Commission-adopted 2011 ERRA forecast values. With today's Decision on SDG&E's 2012 ERRA forecast, SDG&E may now further update, and finalize, the refund calculations using 2012 PCIA values, as updated based on this decision. In its advice letter to be filed in compliance with this decision, SDG&E should include the revised 2012 CRS, including all supporting workpapers showing the underlying calculations.

6. Other Procedural Matters

6.1. Change in Determination on Need for Hearings

In Resolution ALJ 176-3283, dated October 20, 2011, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were necessary. In the Scoping Memo, the assigned Commissioner scheduled evidentiary hearings, though eventually it was determined that hearings were not necessary. Given these developments, we make a final determination here that the category is ratesetting, and a public hearing is not necessary.

6.2. Admittance of Testimony and Exhibits into Record

Since evidentiary hearings were not held in this proceeding, there was no opportunity to enter prepared testimony and exhibits into the record. In order to fairly assess the record, it is necessary to include all testimony and exhibits

served by SDG&E. Concurrently with its Opening Brief, SDG&E filed a motion to enter testimony into the record and seal confidential information and testimony. Given the necessity of SDG&E's testimony to our assessment of their proposals, we admit into evidence SDG&E's testimony and exhibits, as detailed in Attachment A to this decision.

6.3. Motion To Seal Portions Of The Evidentiary Record

As noted above, on April 25, 2012, SDG&E filed and served a motion to seal portions of the evidentiary record. SDG&E states that the testimony and attachments of SDG&E witnesses contain information that is confidential pursuant to Pub. Util. Code §§454.5(g) and 583; General Order 66-C; D.06-06-066; and D.08-04-023. As explained in the declarations attached to the testimony, confidential treatment and redaction of certain information is necessary in this proceeding to protect against inappropriate disclosure of confidential, commercially sensitive information pertaining to SDG&E's electric procurement resources and strategies. With respect to length of confidential treatment, based on D.06-06-066, SDG&E requests that the confidential testimony in Exhibits SDGE-2C and SDGE-3C be sealed and remain sealed for three years from the date of the final decision in this proceeding.

Regarding Exhibit SDGE-1C, the Investor-Owned Utilities Matrix (Appendix 1 of D.06-06-066) requires that certain bilateral contract related information be treated as confidential "for three years, or until one year following expiration, whichever comes first." Accordingly, for the confidential bilateral contract-related information on page AS-7 at lines 14-16, SDG&E requests confidential treatment until January 1, 2013. For the remaining portions of Exhibit SDGE-1C, SDG&E requests that it be sealed for three years from the date of the final decision in this proceeding.

We grant SDG&E's motion and order the confidential treatment of Exhibits SDGE-1C through SDGE-3C as described in the ordering paragraph below.

7. Comments on Proposed Decision

The proposed decision of Administrative Law Judge Roscow in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on July 2, 2012 by SDG&E. No reply comments were filed.

8. Assignment of Proceeding

Michel P. Florio is the assigned Commissioner and Stephen C. Roscow is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E's amended 2012 ERRA revenue requirement is $815.499 million.
2. SDG&E's amended 2012 CTC revenue requirement is $55.162 million.
3. SDG&E's updated ERRA and CTC forecast are a total of $51.893 million higher than forecast for 2011.
4. The adoption of Resolution E-4475 in May 2012 will require SDG&E to revise its ERRA and CTC forecasts to include information not available to SDG&E when it amended these forecasts in February, 2012.
5. SDG&E requested that Exhibits SDGE-1C through SDGE-3C be given confidential treatment.

Conclusions of Law

1. SDG&E's amended 2012 requests consisting of: (a) a forecasted 2012 ERRA revenue requirement of $815.499 million and (b) a forecasted 2012

Ongoing CTC revenue requirement of $55.162 million are reasonable and should be adopted.

2. SDG&E should revise the ERRA and Ongoing CTC revenue requirements adopted herein to reflect the methodology approved in Resolution E-4475.

3. SDG&E should update and finalize the amounts refunded to Direct Access customers pursuant to Resolution E-4475 using the 2012 PCIA values adopted in this decision.

4. SDG&E's testimony (identified in Attachment A to this decision) should be received into evidence.

5. SDG&E's motion to seal portions of the evidentiary record, including Exhibits SDGE-1C, -2C, and -3C, should be granted. Pursuant to D.06-06-066, this information should remain under seal as specified in this decision from the date of this order, unless otherwise modified by the Commission, the assigned Commissioner, or the assigned ALJ.

6. SDG&E should file a Tier 1 Advice Letter to implement the revenue requirement in this order by September 1, 2012.

7. Our preliminary categorization as ratesetting should be affirmed. Our preliminary conclusion that hearings were necessary should be revised to a conclusion that no hearings are necessary.

8. Today's decision should be made effective immediately.

9. A.11-09-022 should be closed.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's 2012 Energy Resource Recovery Account revenue requirement forecast of $815.499 million is adopted and

SDG&E is authorized to increase commodity rates applicable to bundled customers accordingly.

2. San Diego Gas & Electric Company's 2012 Competition Transition Charge revenue requirement forecast of $55.162 million is adopted and SDG&E is authorized to decrease CTC rates applicable to both bundled and unbundled customers accordingly.

3. San Diego Gas & Electric Company shall update and finalize the 2012 Energy Resource Recovery Account revenue requirement forecast and the 2012 Competition Transition Charge revenue requirement forecast adopted herein so that they are consistent with Resolution E-4475.

4. San Diego Gas & Electric Company shall update and finalize the amounts refunded to Direct Access customers pursuant to Resolution E-4475 using the 2012 Power Charge Indifference Adjustment values adopted in this decision.

5. San Diego Gas & Electric Company shall file a Tier 1 Advice Letter to implement the authority granted herein by September 1, 2012. The tariffs filed in the Advice Letters shall become effective on or after the date filed subject to Energy Division determining they are in compliance with this decision.

6. The prepared testimony of San Diego Gas & Electric Company (Attachment A to this decision) is received into evidence.

7. San Diego Gas & Electric Company's confidential Exhibits SDGE-1C through SDGE-3C are granted confidential treatment. Unless otherwise modified by the Commission, the assigned Commissioner, or the assigned Administrative Law Judge, and pursuant to Decision 06-06-066, the information should remain under seal for a period of three years after the date of this order, with the exception of SDGE-1C at AS-7 lines 14-16, which shall remain confidential until January 1, 2013.

8. The preliminary categorization of this proceeding as ratesetting is affirmed. The preliminary determination that hearings are necessary is revised to a determination that no hearings are necessary.

9. Application 11-09-022 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

Attachment A
EXHIBIT INDEX
A.11-09-022 – SDG&E ERRA Forecast

Exhibit No.	Sponsor/Witness	Description
Party – San Diego Gas & Electric Company (SDG&E)		
SDGE-1	Andrew Scates	Public Version of Amended Direct Testimony, including Attachments A-D, dated February 24, 2012
SDGE-1C	Andrew Scates	Confidential Version of Amended Direct Testimony, including Attachments A-D, dated February 24, 2012
SDGE-2	Amanda D. Jenison	Public Version of Amended Direct Testimony, dated February 24, 2012
SDGE-2C	Amanda D. Jenison	Confidential Version of Amended Direct Testimony, dated February 24, 2012
SDGE-3	Yvonne M. Le Mieux	Public Version of Direct Testimony, including Attachments A-B, dated February 24, 2012
SDGE-3C	Yvonne M. Le Mieux	Confidential Version of Direct Testimony, including Attachments A-B, dated February 24, 2012

(END OF ATTACHMENT A)