

Decision 10-02-018 February 25, 2010

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

Application of San Diego Gas and Electric Company (U902E) for Approval of: (i) Contract Administration, Least Cost Dispatch and Power Procurement Activities in 2008; (ii) Costs Related to those Activities Recorded to the Electric Resource Recovery Account (ERRA) and Transition Cost Balancing Account (TCBA); and entries recorded to the Rate Reduction Bond Memorandum Account (RRBMA).

Application 09-05-018  
(Filed May 20, 2009)

**DECISION APPROVING SAN DIEGO GAS & ELECTRIC COMPANY'S  
2008 ENERGY RESOURCE RECOVERY ACCOUNT COSTS  
AND RELATED MATTERS**

**Summary**

By this decision, the Commission approves San Diego Gas & Electric Company's (SDG&E) 2008 Energy Resource Recovery Account (ERRA) compliance application. The Commission finds SDG&E's contract administration, power purchase and least-cost dispatch activities in 2008 reasonable. The Commission finds SDG&E's entries in the ERRA and Transition Cost Balancing Account for 2008 reasonable. The Commission also finds the entries in the Rate Reduction Bond Memorandum Account for December 1997 through December 31, 2008, and recovery of those costs, reasonable. The Commission requires SDG&E to perform an audit of the ERRA at least once every four years with the first audit to be for the 2009 or 2010 record year.

This decision does not result in a rate change for SDG&E's ratepayers.

This proceeding is closed.

## **1. Background**

This application addresses the reasonableness of San Diego Gas & Electric Company's (SDG&E): (i) contract administration, least-cost dispatch and power procurement activities in 2008; (ii) costs related to those activities recorded in the Energy Resource Recovery Account (ERRA) and Transition Cost Balancing Account (TCBA); and (iii) entries recorded to the Rate Reduction Bond Memorandum Account (RRBMA).

The issues are as follows:

- a. Compliance of SDG&E's non-qualifying facility (non-QF) and qualifying facility (QF) contract administration activities in 2008 with its Commission-approved procurement plan;
- b. Reasonableness of SDG&E's least-cost dispatch in 2008 with respect to its Commission-approved procurement plan;
- c. Reasonableness of the 2008 ERRA and TCBA entries and cost recovery.
- d. Reasonableness of the RRBMA entries for December 1997 through December 31, 2008, and cost recovery; and
- e. Reasonableness of SDG&E's utility-retained generation operations in 2008.

SDG&E represents that its activities, related costs and accounting entries were reasonable and seeks recovery of these costs.

The evidentiary record includes SDG&E's testimony and exhibits. SDG&E's showing addresses contract administration, least-cost dispatch and power procurement activities in 2008 in a reasonable level of detail. Its showing addresses related costs recorded in the ERRA, TCBA, and RRBMA in a reasonable level of detail. SDG&E's rebuttal testimony addresses the Division of Ratepayer Advocates' (DRA) concerns regarding four unplanned outages of

SDG&E's electric generation plants in a reasonable level of detail. Therefore, SDG&E has presented a prima facie case.

## **2. Procedural Background**

On May 20, 2009, SDG&E filed this application. On July 24, 2009, a prehearing conference (PHC) was held before Administrative Law Judge (ALJ) Jeffrey P. O'Donnell to identify the parties and issues, set the schedule, and address other matters necessary to proceed with this application. An Assigned Commissioner's Scoping Memo and Ruling was issued on July 29, 2009 setting forth the issues and schedule, including evidentiary hearings. At the request of the parties, the hearings were subsequently cancelled. Opening and reply briefs were filed on December 15, 2009, and December 22, 2009, respectively. DRA filed an amended reply brief on December 29, 2009. The proceeding was submitted on January 5, 2010. On January 8, 2010, the ALJ issued a ruling receiving the prepared testimonies of SDG&E and DRA into evidence and granting confidential treatment of specified portions of those testimonies. SDG&E and DRA are the only parties.

## **3. Non-QF Contract Administration and Costs**

DRA reviewed SDG&E's testimony, workpapers and responses to data requests related to administration and management of non-QF contracts in 2008. DRA found that SDG&E reasonably administered and managed its non-QF contracts and recommends that SDG&E be allowed recovery of the associated costs.

Based on the fact that SDG&E presented a prima facie case and DRA recommends recovery of the associated costs, the Commission finds SDG&E reasonably administered and managed its non-QF contracts.

#### **4. QF Contract Administration and Costs**

DRA reviewed SDG&E's testimony, workpapers and responses to data requests related to administration and management of QF contracts in 2008. DRA found that SDG&E reasonably administered and managed its QF contracts and recommends that SDG&E be allowed recovery of the associated costs.

Based on the fact that SDG&E presented a prima facie case and DRA recommends recovery of the associated costs, the Commission finds SDG&E reasonably administered and managed its QF facility contracts.

#### **5. Least-Cost Dispatch**

DRA reviewed SDG&E's ERRRA-related transactions during the record period (2008). DRA's analysis took into account requirements related to short-term procurement, risk management, and energy dispatch. DRA also considered operational constraints within the California Independent System Operator's transmission system, price fluctuations in the natural gas and electricity markets, and associated hedging and risk-management activities. DRA found that SDG&E's dispatch process and forecasting methodology were reasonable, and the prices SDG&E paid were consistent with market prices. DRA also reviewed information on credit and collateral activities during the record period. Based on this analysis, DRA does not oppose SDG&E's request for recovery of ERRRA-related costs.

Based on the fact that SDG&E presented a prima facie case and DRA does not oppose SDG&E's request, the Commission finds SDG&E's least-cost dispatch activities and ERRRA-related costs reasonable.

## **6. Balancing Account Review**

DRA reviewed SDG&E's ERRA, TCBA, and RRBMA account entries and found no items of a material nature requiring adjustment to the accounts.<sup>1</sup>

Based on the fact that SDG&E presented a prima facie case and DRA found no items of a material nature requiring adjustment to the accounts, the Commission finds SDG&E's ERRA, TCBA, and RRBMA account entries reasonable.

## **7. Internal Audit of the ERRA Balancing Account**

DRA recommends that SDG&E's internal audit department, Sempra Audit Services Department, perform an internal audit of its ERRA balancing account at least every three years.

SDG&E points out that Sempra Audit Services Department is part of Sempra, not part of SDG&E, and not under the control of SDG&E. Therefore, SDG&E can not be ordered to have Sempra Audit Services Department perform an audit.

SDG&E states that whether and how often the ERRA balancing account is audited depends on a number of factors. One factor is whether another entity has performed an audit.

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<sup>1</sup> For the RRBMA, the entries cover the period December 1997 through December 31, 2008.

SDG&E states that, in addition to the Commission's annual review, the ERRA is subject to the following controls:

- Accounting entries posted to the ERRA have two levels of review.
- Contract payments are reviewed by management.
- A monthly report on the ERRA is prepared and reviewed by multiple departments and levels of management.
- Sarbanes-Oxley testing is done annually on electric procurement transactions and the monthly ERRA report.<sup>2</sup>
- External auditors annually review balancing account activity which may include the ERRA.
- The Commission's Energy Division reviews the monthly ERRA report.
- The Commission's Utility Audit, Finance, and Compliance Branch audits SDG&E's quarterly transactions to ensure they are properly recorded in the ERRA.

Overall, SDG&E argues the risk of accounting errors does not warrant an audit at this time.

After further discussions, DRA and SDG&E agree that SDG&E will conduct an audit of its ERRA balancing account at least once every four years. The first audit will be for the 2009 or 2010 record year.

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<sup>2</sup> Congress enacted the Sarbanes-Oxley Act of 2002 in response to a spate of highly publicized business failures, allegations of corporate improprieties and financial statement restatements. Section 404 of the act requires corporate management to document its internal controls and assert the effectiveness of the controls in writing. The financial statement auditor, in turn, must report on management's assertion about the effectiveness of its internal controls as of the company's year-end.

### **7.1. Discussion**

Audits and reviews by the Commission are not a substitute for SDG&E's internal controls. Oversight of the ERRA appears to be extensive, but it has been many years since a comprehensive audit has been performed. DRA and SDG&E's proposal to conduct an audit of SDG&E's ERRA balancing account at least once every four years with the first audit to be for the 2009 or 2010 record year is reasonable and adopted.

### **8. Utility Retained Generation**

DRA reviewed the operations of SDG&E's utility-retained generation facilities and found the operations reasonable except for four unplanned outages. Two of the outages were at the Miramar Energy Facility and two were at the Palomar Energy Center. SDG&E submitted rebuttal testimony that explained the outages. After further review, DRA withdrew its recommendation that the four outages be found unreasonable.

SDG&E presented a prima facie case regarding the outages and DRA ultimately found them reasonable. The record demonstrates that for each of the four outages, SDG&E had taken reasonable steps to avoid outages in the first place by performing necessary testing and inspections. When the outages occurred, SDG&E took reasonable steps to resolve the problems and get the units back on line as soon as possible. Therefore, SDG&E's actions regarding the four outages were reasonable.

### **9. Conclusion**

As discussed above, the Commission finds SDG&E's contract administration, power purchase and least-cost dispatch activities for 2008, entries in the ERRA and TCBA for 2008, entries in the RRBMA for December 1997 through December 31, 2008, and recovery of those costs, reasonable. In addition,

the Commission finds the unplanned outages of the Palomar Energy Center and the Miramar Energy Facility reasonable. SDG&E and DRA's agreement that SDG&E will perform an audit of the ERRA every four years beginning with the 2009 or 2010 record year is reasonable.

#### **10. Comments on Proposed Decision**

The ALJ's proposed decision 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 by DRA on February 8, 2010. No reply comments were filed. The comments were considered and changes were made as appropriate.

#### **11. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Jeffrey P. O'Donnell is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. SDG&E presented a prima facie case in this proceeding.
2. DRA reviewed SDG&E's administration and management of non-QF contracts in 2008, found that SDG&E reasonably administered and managed its non-QF contracts, and recommends that SDG&E be allowed recovery of the associated costs.
3. DRA reviewed SDG&E's administration and management of QF contracts in 2008, found that SDG&E reasonably administered and managed its QF contracts, and recommends that SDG&E be allowed recovery of the associated costs.
4. DRA reviewed SDG&E's least-cost dispatch activities in 2008 and does not oppose SDG&E's request for recovery of ERRA-related costs.

5. DRA reviewed SDG&E's ERRA, TCBA, and RRBMA account entries and found no items of a material nature requiring adjustment to the accounts.

6. SDG&E has not performed an internal audit of its QF contract administration since 2002.

7. SDG&E took reasonable steps to avoid the four unplanned outages of the Miramar Energy Facility and the Palomar Energy Center by performing necessary testing and inspections and, when the outages occurred, took reasonable steps to resolve the problems and get the units back on line as soon as possible.

### **Conclusions of Law**

1. SDG&E reasonably administered and managed its non-QF contracts and should be allowed to recover its associated costs.

2. SDG&E reasonably administered and managed its QF contracts and should be allowed to recover its associated costs.

3. SDG&E's least-cost dispatch activities were reasonable and SDG&E should be allowed to recover its ERRA-related costs.

4. SDG&E's ERRA, TCBA, and RRBMA account entries are reasonable and SDG&E should be allowed to recover the recorded costs.

5. DRA and SDG&E's proposal to conduct an audit of SDG&E's ERRA balancing account at least once every four years with the first audit to be for the 2009 or 2010 record year is reasonable and should be adopted.

6. SDG&E's actions regarding the four unplanned outages of the Miramar Energy Facility and the Palomar Energy Center were reasonable.

**O R D E R**

**IT IS ORDERED** that:

1. San Diego Gas & Electric Company's contract administration, power purchase, and least-cost dispatch activities in 2008 are reasonable and approved.
2. The entries recorded in San Diego Gas & Electric Company's Energy Resource Recovery Account and Transition Cost Balancing Account for 2008 are reasonable and approved.
3. San Diego Gas & Electric Company's entries in the Rate Reduction Bond Memorandum Account for December 1997 through December 31, 2008 and recovery of those costs are reasonable and approved.
4. San Diego Gas & Electric Company shall conduct and complete an audit of its Energy Resource Recovery Account at least once every four years with the first audit to be for the 2009 or 2010 record year.
5. Application 09-05-018 is closed.

This order is effective today.

Dated February 25, 2010, at San Francisco, California.

MICHAEL R. PEEVEY

President

DIAN M. GRUENEICH

JOHN A. BOHN

TIMOTHY ALAN SIMON

NANCY E. RYAN

Commissioners