Decision 06-12-019 December 14, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 E) for Approval of: (1) Contract Administration, Least Cost Dispatch and Power Procurement Activities, and (2) Costs Related to those Activities Recorded to the Energy Resources Recovery Account (ERRA), Incurred During the Record Period January 1, 2005 through December 31, 2005.	Application 06-06-005 (Filed June 1, 2006)

OPINION APPROVING SAN DIEGO GAS AND ELECTRIC COMPANY'S 2005 ENERGY RESOURCES RECOVERY ACCOUNT REASONABLENESS REVIEW

1. Summary

San Diego Gas & Electric Company's (SDG&E) 2005 Energy Resources Recovery Account (ERRA) is found to be reasonable.

2. Background

SDG&E filed this application on June 1, 2006. The application was filed in accordance with Decision (D.) 02-10-062, in which the Commission required certain utility procurement activities to be reviewed annually in the ERRA proceedings. The purpose of the ERRA annual review is, generally, to ensure that each utility's procurement activities uphold the following standard of conduct, referred to as Standard of Conduct #4: "The utilities shall prudently

administer all contracts and generation resources and dispatch the energy in a least-cost manner."

The purpose of this proceeding is to determine whether SDG&E's recorded fuel expense and energy costs for the recorded period January 1 through December 31, 2005 were reasonable, and whether its electric contracts administration, utility retained generation fuel procurement activities, dispatch of generation resources and related spot market transactions complied with its adopted procurement plan and requirements approved by the Commission, and that other operations subject to Commission review were reasonable. Specifically, the proceeding includes:

- Reasonableness of SDG&E's utility retained generation (URG) operations and fuel expenses;
- Contract administration, including Department of Water Resources contracts allocated to SDG&E, Qualifying Facility, bilateral, Inter-utility purchased power, and renewable resource contracts;
- Least cost dispatch compliance;
- Review and auditing of the ERRA balancing accounts; and
- Costs recorded to the Electric Energy Transaction Administration Memorandum Account (EETAMA).

The Commission's Division of Ratepayer Advocates (DRA) protested SDG&E's application. A prehearing conference was held August 3, 2006. The Assigned Commissioner's Scoping Memo was issued on August 14, 2006. Evidentiary Hearings were scheduled for October 17-18, 2006. On October 14, 2006, SDG&E and DRA jointly informed the ALJ that they believed evidentiary hearings were no longer necessary. Therefore, no evidentiary hearings were held. The proceeding was submitted on October 14, 2006 and all testimony was accepted into evidence on that date.

3. Position of SDG&E

SDG&E asks the Commission to find the following:

- SDG&E prudently administered its portfolio of contracts in compliance with its Commission-approved procurement plans;
- SDG&E dispatched its energy portfolio of various URG resources in a least-cost manner consistent with its Commission-approved short-term procurement plan;
- All entries into the ERRA were reasonable and are recoverable in rates; and
- The costs recorded to the EETAMA were reasonable and are recoverable through a transfer to SDG&E's Electric Distribution Fixed Cost Account (EDFCA).

4. Position of DRA

DRA finds SDG&E's administration of its power purchase agreements, economic dispatch of electric resources and URG fuel procurement activities prudent for 2005. Therefore, DRA recommends that the Commission approve all costs and expenses entered into SDG&E's ERRA during 2005. DRA also finds SDG&E's costs recorded in the EETAMA reasonable.

5. Recovery of ERRA Costs

We have reviewed SDG&E's ERRA filing. SDG&E's procurement plans, which form the basis of the ERRA expenditures, were approved in D.04-12-048. SDG&E's expenditures are consistent with its approved procurement plans. The ERRA account was overcollected by $38.9 million at the end of 2005. SDG&E's ERRA is subject to a trigger mechanism that requires the filing of a rate change application at any time that SDG&E's monthly forecasts indicate that the ERRA will face an undercollection or overcollection in excess of a 5% threshold. For 2005, SDG&E's 5% ERRA threshold is $21.9 million (based on 2004 non-Department of Water Resources revenues of $438 million). SDG&E filed an

application on June 29, 2005 notifying the Commission that its ERRA overcollection exceeded the trigger threshold and requested to amortize the overcollection over a 12-month period effective October 1, 2005. The application was granted in D.05-09-019. SDG&E's year-end 2005 ERRA balance was a $0.9 million undercollection.

We have reviewed SDG&E's application and supporting testimony and agree with SDG&E and DRA that SDG&E's administration of its power purchase agreements, economic dispatch of electric resources and URG fuel procurement activities were prudent during 2005. We will approve as reasonable and prudent all costs and expenses entered into SDG&E's ERRA during 2005.

SDG&E also seeks recovery of its January 1 through December 31, 2003 EETAMA expenses. SDG&E claims that expenses for this period were set aside in the SDG&E EETAMA account for future recovery by D.02-12-074. SDG&E also claims that in D.04-12-015 (SDG&E's general rate case decision) SDG&E was only authorized to recover going forward costs associated with electric procurement transaction administration in electric distribution base rates effective January 1, 2004. SDG&E claims this resulted in the 2003 EETAMA expenses not being recovered, as these were not going forward costs. SDG&E requests to recover reasonable expenditures, totaling $4,971,370 with interest as of December 2005, through a transfer to SDG&E's EDFCA account for recovery. Recovery would occur through a rate increase for the 12-month period of 2008 only.

Our review shows that the 2004 general rate case decision, D.04-12-015, dealt only with going-forward recovery and did not address SDG&E's 2003 costs, even though SDG&E had been directed to recover such costs in that proceeding. This left SDG&E without a means to recover these costs. It is

reasonable to allow SDG&E to recover its 2003 EETAMA expenses here as proposed.

6. Transition Cost Balancing Account (TCBA) Issue

DRA recommends that the annual TCBA be included in future ERRA reviews. Currently there is no official proceeding wherein the Commission reviews SDG&E's TCBA costs. DRA claims that providing for a TCBA review in the ERRA proceedings will be an efficient use of Commission resources by avoiding the unnecessary creation of a new proceeding just for the TCBA. SDG&E agrees with DRA's recommendation. DRA's recommendation is reasonable and we shall adopt it. DRA also conducted an audit of SDG&E's TCBA and finds the transactions recorded to the TCBA during July 2001 through December 2005 are reasonable. We shall adopt DRA's recommendation that these costs are reasonable and the balance is recoverable in rates.

7. Other Issues

DRA recommends that the Commission require SDG&E to provide in its 2006 ERRA application a Contract Administration manual that includes formal statements of experience and development requirements for key contract administration functions, and improved controls to better verify and document the competency of its staff, the performance of its operations, and the quality of its non-QF contract administration results. SDG&E agreed to updates its Contract Administration manual to include job descriptions for key contact administration function in its 2006 ERRA application. SDG&E contends that its manual already addresses its internal review procedures, controls, and audits for all contracts. We need not require more specific information from SDG&E's 2006 ERRA application. If DRA requires more specific information, it may request such information from SDG&E.

DRA recommends that the Commission require SDG&E to develop specific, ERRA-related employee and management incentive programs to encourage efficient and effective administration of contracts. DRA also recommends that the Commission require SDG&E to develop improvements to its incentives and controls that are specific to its own electric procurement operations and contract administration, and to do so in the context of ongoing discussions with both similarly-situated utilities and DRA. SDG&E believes both of these issues are more appropriately addressed in its next general rate case proceeding. We agree that the general rate case is the appropriate venue for these issues.

8. Motions

On June 1, 2006, SDG&E filed a Motion for Protective Order. On June 1, 2006, SDG&E also filed a Motion for Authority to Submit and Maintain Confidential Commercially Sensitive Proprietary Information Under Seal (Motion to Seal) unredacted testimony of SDG&E witnesses McClenahan, Bartolomucci and Deremer relating to market-sensitive, proprietary electric procurement-related information. The unredacted testimony includes discussion of SDG&E's least-cost dispatch strategies, terms of power purchase agreements, development of load forecasts, operating characteristics of certain generation facilities, identification of market indices relied upon by SDG&E in its procurement strategy, and other asserted nonpublic market information.

The Motion for Protective Order is denied as unneeded, as no party other than DRA (who received all information) requested the testimony deemed confidential by SDG&E.

We have reviewed the unredacted testimony referenced above and find good cause to grant SDG&E's Motion to Seal certain testimony. Instead of

adopting a protective order, we will have the Commission's Central files keep all confidential information under seal for three years after the date of this order, except upon further order or ruling of the Commission or ALJ then designated as the Law and Motion Judge. After three years, all such information shall be made public. However, at the end of one year after the date of this order, SDG&E shall make public all information subject to the one year confidential standard in D.06-06-066, while keeping sealed the three-year information and other information not addressed in the Commission's rulemaking proceeding, and make such one-year information available to any party seeking to review such information.

If SDG&E believes that further protection of sealed information is needed beyond three years after the effective date of this order, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of the three-year period.

Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties 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 December 4, 2006 by SDG&E.

Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and David M. Gamson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The purpose of the ERRA annual review is to ensure that each utility's procurement activities uphold Standard of Conduct #4 in D.02-10-062: "The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner."

2. SDG&E's procurement plans, which form the basis of the ERRA expenditures, were approved in D.04-12-048.

3. SDG&E's ERRA expenditures are consistent with its approved procurement plans.

4. SDG&E's 2003 electric energy transaction administrative expenses were set aside in the SDG&E EETAMA for future recovery in SDG&E's next general rate case by D.02-12-074, but were not recovered in that proceeding.

5. SDG&E's annual Transition Cost Balancing Account (TCBA) are not currently reviewed in any specific Commission proceeding.

6. DRA conducted an audit of SDG&E's TCBA and finds the transactions recorded to the TCBA during July 2001 through December 2005 are reasonable.

Conclusions of Law

1. SDG&E prudently administered its portfolio of contracts in compliance with its Commission-approved procurement plans.

2. SDG&E dispatched its energy portfolio of various utility retained generation resources in a least-cost manner consistent with its Commission-approved short-term procurement plan.

3. All entries into the ERRA were reasonable.

4. SDG&E should be allowed to recover its 2003 EETAMA costs.

5. The costs recorded to the EETAMA were reasonable and are recoverable through a transfer to SDG&E's EDFCA.

6. SDG&E's annual TCBA should be included in future ERRA reviews.
7. SDG&E's TCBA transactions are reasonable.

O R D E R

1. San Diego Gas & Electric Company (SDG&E) may recover its 2003 Electric Resources Recovery Account costs through a transfer to SDG&E's Electric Distribution Fixed Cost Account.
2. SDG&E's 2005 Energy Resources Recovery Account (ERRA) expenses are recoverable in rates.
3. SDG&E's annual Transition Cost Balancing Account shall be included in future ERRA reviews.
4. SDG&E's Electric Energy Transaction Administration Memorandum Account costs are recoverable through a transfer to SDG&E's Electric Distribution Fixed Cost Account.
5. Transactions recorded to SDG&E's Transition Cost Balancing Account during July 2001 through December 2005 are recoverable in rates.
6. SDG&E's Motion for Protective Order is denied. SDG&E's Motion to Seal is granted as discussed herein.
7. Application 06-06-005 is closed.

This order is effective today.

Dated December 14, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN

RACHELLE B. CHONG
Commissioners