

Decision 09-01-026 January 29, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Approval of:
(i) Contract Administration, Least Cost Dispatch and Power Procurement Activities; and (ii) Costs Related to those Activities Recorded to the Electric Resource Recovery Account, Incurred During the Record Period January 1, 2007 through December 31, 2007.

Application 08-05-036
(Filed May 30, 2008)

DECISION APPROVING 2007 ENERGY RESOURCE RECOVERY ACCOUNT COMPLIANCE FILING

1. Summary

The Commission approves San Diego Gas & Electric Company's (SDG&E) 2007 Energy Resource Recover Account compliance filing. The Commission finds that SDG&E's utility retained fuel procurement, administration of its power purchase agreements, and its least-cost dispatch activities for the Record Period beginning January 1, 2007, and ending December 31, 2007, were reasonable and prudent. The approval of this application does not result in a rate change for SDG&E ratepayers. This proceeding is closed.

2. Procedural Summary

On July 7, 2008, the Division of Ratepayer Advocates (DRA) filed a protest to the application. A prehearing conference (PHC) was held on October 30, 2008. On December 8, 2008, DRA informed the Administrative Law Judge (ALJ) that it

had completed review of SDG&E's Energy Resource Recovery Account (ERRA) for the Record Period and does not oppose SDG&E's application. On December 12, 2008, there being no need for evidentiary hearings, the ALJ issued a ruling submitting this proceeding for decision based on the pleadings and prepared testimony. An opening brief was filed by SDG&E on December 15, 2008, and a reply brief was filed by DRA on January 6, 2008. Other than DRA and SDG&E, there are no other parties in this proceeding.

3. SDG&E's Application

SDG&E requests that for the 2007 Record Period the Commission find that:

1. SDG&E prudently administered its portfolio of contracts, including San Onofre Nuclear Generation Station (SONGS), California Department of Water Resources (DWR), qualifying facilities (QFs) and renewables, in compliance with its Commission-approved procurement plans.
2. SDG&E dispatched its energy portfolio of various Utility Electric Generation (UEG) resources, including SONGS, Miramar and Palomar, power purchase contracts and allocated DWR contracts, in a least cost manner consistent with its Commission-approved Long-Term Procurement Plans (LTPP) and Short-Term Procurement Plans (STPP).
3. All entries into the ERRA for the Record Period, including costs incurred by SDG&E related to the foregoing, are reasonable and are recoverable in rates.
4. All entries recorded to the Transition Cost Balancing Account (TCBA) for the Record Period are reasonable and recoverable.

4. Background and Legal Standards

The ERRA balancing account mechanism was established in Decision (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 semi-annual ERRA proceedings. The first semi-annual 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 semi-annual proceeding, a compliance review of the utility's prior period energy resource contract administration, least cost dispatch, and ERRA balancing account is conducted.

The scope of compliance review includes Commission review of utility retained generation (URG) fuel expenses, contract administration including administration of the Department of Water Resources (DWR) contracts allocated to SDG&E in D.02-09-053, Independent System Operator (ISO)-related costs, existing QFs contracts, other power purchase agreements (including renewable resource contracts) and economic dispatch of electric generation resources (including Miramar, Palomar and the SONGS).

5. DRA's Review

DRA reviewed SDG&E's application, supporting testimony and workpapers. According to DRA, SDG&E has been cooperative with DRA's requests for additional information, and has arranged informal meetings which helped to clarify matters in this subject area. During discovery, DRA sent out six data requests containing over 148 questions. SDG&E also arranged a tour for DRA staff of three energy procurement sites in the San Diego area, which provided DRA an opportunity to learn how SDG&E manages some of its various generation resources.

DRA's findings are summarized below:

1. **Utility Retained Generation:** DRA's review of the testimony and responses to data requests indicate that SDG&E did not experience unreasonable outages and its fuel procurement costs were reasonable.
2. **Qualifying Facilities Contracts:** DRA reviewed SDG&E's QF contract management and costs during the Record Period and found these to be reasonable. Also the contract management of SDG&E's PURPA contracts, contract development, amendments, assignments, dispute resolution, and contract termination were reviewed. DRA believes SDG&E has administered these programs within Commission guidelines and recommends that there be no disallowance.
3. **Non-QF Contracts:** Based on the information reviewed, DRA found no reason to doubt that SDG&E has adequately managed its Non-QF purchase contracts during this Record Period. DRA believes that SDG&E's contract management organization, operations and personnel are generally adequate to SDG&E's contract management tasks.
4. **Least Cost Dispatch:** DRA found that the prices at which SDG&E transacted energy procurement activities during the Record Period were generally consistent with daily prices as observed in the Intercontinental Exchange (ICE) markets and intra-hour bids on the California Independent System Operator (CAISO) market. Given current market uncertainties, the mandate to serve ratepayers, and other factors that impact dispatch decisions, DRA does not object to the transactions SDG&E seeks recovery for during the Record Period.
5. **Balancing Account Reviews:** As a result of DRA's review, no items of a material nature requiring adjustments to SDG&E's ERRRA Balancing Account and TCBA, were found.

Based on its review, DRA does not oppose the relief SDG&E is seeking in its Application.

6. Discussion

The evidentiary record for this proceeding consists of the testimony of SDG&E's witnesses, along with accompanying exhibits detailing SDG&E's resource portfolio administration, and ERRA and TCBA accounting entries. Also, the reasonableness of SDG&E's showing is supported by DRA's findings following its review of ERRA operations for the Record Period. This record evidence demonstrates SDG&E's compliance with contract terms, Commission requirements, applicable regulations and legal standards and that SDG&E prudently dispatched its portfolio of resources in a least-cost manner. The record evidence also shows that the entries recorded in SDG&E's ERRA and TCBA are reasonable. Accordingly, we conclude that SDG&E has met its burden of proof, and SDG&E's 2007 Record Period compliance filing should be approved.

7. Motions

Pursuant to Rule 13.8 of the Commission's Rules of Practice and Procedure, SDG&E offered its prepared testimony and workpapers into evidence. Pursuant to Rules 11.4 and 11.5, SDG&E also filed a motion to seal a portion of the evidentiary record. There is no opposition to the motions. Accordingly, the motions are granted, as requested.

The prepared testimony of SDG&E's witnesses served in this proceeding is marked for identification and received into evidence as follows:

Exhibit 1 – Public Version – Testimony of **Vincent D. Bartolomucci** describing the various energy resources in SDG&E's electricity portfolio and addressing the manner in which SDG&E complied with its obligation to dispatch its energy portfolio in a least cost manner during the Period Record.

Exhibit 1A – Confidential Version of above Filed Under Seal.

Exhibit 2 – Public Version – Testimony of **Sue Garcia** describing the expenses that were recorded in SDG&E’s ERRA and explaining the administration activities associated with SDG&E’s power purchase agreements during the Record Period.

Exhibit 2A – Confidential Version of above Filed Under Seal.

Exhibit 3 – Public Version – Testimony of **Lisa L. Browy** providing a description and summary of 2007 transactions in SDG&E’s ERRA; describing SDG&E’s ERRA trigger mechanism; and providing a description of 2007 transactions recorded in SDG&E’s TCBA.

Exhibit 3A – Confidential Version of above Filed Under Seal.

SDG&E’s motion requesting that the confidential versions of its prepared testimony be filed under sealed, should be granted. All sealed information should remain sealed for a period of two years after the effective date of this order. If SDG&E believes that further protection of the sealed information is needed beyond two years, SDG&E should comply with the procedure set forth in Ordering Paragraph 3.

8. Categorization and Need for Hearing

In Resolution ALJ 176-3215, dated June 12, 2008, the Commission preliminarily categorized this application as ratesetting and preliminarily determined that hearings were not necessary. We affirm the preliminarily determinations.

9. Comments on Proposed Decision

This matter is unopposed and the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission’s Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

10. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Bertram D. Patrick is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. DRA conducted a review of SDG&E's application and supporting testimony.
2. In a letter to the ALJ dated December 8, 2008, DRA provided the results of its review of SDG&E's URG, non-QF contract administration, QF contract administration, SDG&E's procurement and economic activities based on least-cost methodologies and SDG&E's ERRA and TCBA accounting entries.
3. DRA found that SDG&E's contract management organization, operations and personnel are generally adequate to SDG&E's contract management tasks.
4. DRA found that SDG&E reasonably administered and managed its QF contracts within Commission guidelines and recommends that there be no disallowance.
5. DRA found that SDG&E adequately managed its Non-QF purchase contracts during this Record Period.
6. DRA found that the prices at which SDG&E transacted energy procurement activities during the Record Period were generally consistent with daily prices as observed in ICE markets and intra-hour bids on the CAISO market, and DRA does not object to the transactions for which SDG&E seeks recovery.
7. DRA found that SDG&E did not experience unreasonable outages and its fuel procurement costs were reasonable for its utility retained generation facilities.

8. DRA found no need for adjustments to SDG&E's ERRA and TCBA balancing accounts.

Conclusions of Law

1. SDG&E prudently administered its portfolio of contracts, including SONGS, CDWR, QF and non-QF resources, and renewable energy, in compliance with its Commission-approved procurement plans.

2. SDG&E prudently dispatched its energy portfolio of various URG resources (including SONGS, Miramar and Palomar), power purchase contracts, and allocated CDWR contracts in a least-cost manner consistent with its Commission-approved procurement plans.

3. SDG&E's 2007 ERRA and TCBA entries, including costs incurred by SDG&E related to the foregoing, were reasonable.

4. SDG&E has met its burden of proof to demonstrate that its power purchase activities for the Record Period were reasonable and prudent. Accordingly, SDG&E's entries in its ERRA and TCBA for the Record Period should be approved.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's (SDG&E) utility retained fuel procurement, administration of its power purchase agreements, and its least-cost dispatch activities for the Record Period beginning January 1, 2007, and ending December 31, 2007, were reasonable and prudent.

2. The entries recorded in SDG&E's Energy Resources Recovery Account and Transition Cost Balancing Account for the Record Period, are approved.

3. SDG&E's motion to File Under Seal the confidential versions of its prepared testimony is granted and such testimony shall remain sealed for a

period of two years from the effective date of this decision. If SDG&E believes that further protection of the information Filed Under Seal is needed, it may file a motion stating the justification for further withholding of the information from public inspection, or for such other relief as the Commission's rules it may then provide. This motion shall be filed no later than one month before the expiration date.

4. Application 08-05-036 is closed.

This order is effective today.

Dated January 29, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners