

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

**ENERGY DIVISION**

**RESOLUTION E-3967**

**January 12, 2006**

**R E S O L U T I O N**

Resolution E-3967. San Diego Gas & Electric Company (SDG&E) requests the Commission's authorization to establish a memorandum account to record third-party costs associated with certain procurement-related activities.

By Advice Letter 1744-E Filed on November 16, 2005.

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**SUMMARY**

This Resolution approves SDG&E's request to establish a new memorandum account to record third-party costs associated with certain procurement-related activities.

**BACKGROUND**

In Decision (D.) 04-12-048, the Commission adopted (with modification) Long-term Procurement Plans (LTPPs) of Southern California Edison (SCE), SDG&E, and Pacific Gas & Electric Company (PG&E). That decision also lifted the ban on long-term affiliate transactions for transactions entered into through an open and transparent solicitation process. The ban on short-term transactions was maintained.

While D.04-12-048 lifted the ban on long-term affiliate transactions, the decision also instituted safeguards for the solicitation of long-term procurement transactions by requiring: (1) continuation of utility Procurement Review Groups (PRGs); and (2) the use of independent third-party evaluator (IE). Order paragraph 28 of D.04-12-048, states (in part) "The IOUs may contract directly with IEs, in consultation with their respective PRGs..."

In D.05-07-039, the Commission approved (with modifications) the procurement plans and draft requests for offers (RFOs) for 2005 solicitations for Renewables Portfolio Standard (RPS) programs submitted by SDG&E, SCE, and PG&E. In

addition, the Commission required the use of IE's in evaluating bids in SDG&E's 2005 RPS program. Specifically, Ordering Paragraph (OP) 7 of D.05-07-039 states, "In evaluating bids in the 2005 RPS solicitation, SDG&E shall use an independent evaluator as described in D.04-12-048 for all bids proposing utility ownership of the generation facility through turnkey or buyout arrangements."

## **NOTICE**

Notice of AL 1744-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

## **PROTESTS**

Advice Letter AL 1744-E was not protested.

## **DISCUSSION**

### **SDG&E's request to establish a memorandum account to record third-party costs should be approved**

SDG&E's request to establish an Independent Evaluator Memorandum Account (IEMA) to record third-party costs associated with certain procurement-related activities should be approved.

- D.04-12-048, Ordering Paragraph 28 authorizes SDG&E to contract directly with IEs in consultation with their PRGs.
- D.05-07-039, Ordering Paragraph 7, ordered SDG&E to use an independent evaluator, as described in D.04-12-048, for all bids proposing utility ownership of the generation facility through turnkey or buyout arrangements.
- Public Utilities Code Section 454.5(b)(12) allow for recovery of reasonable administrative costs related to procurement.

While the Commission mandated that SDG&E utilize the services of IE's, and the PUC code allow for recovery, no specific recovery mechanism was adopted. As such, SDG&E's request to establish a memorandum account to record these mandated cost is reasonable.

**Actual third-party independent evaluator costs will be recorded until an authorized recovery mechanism is established**

The IEMA will record SDG&E's actual IE costs associated with SDG&E's long-term procurement activities and RPS programs. The IEMA balance will not be reflected in SDG&E's generation rate levels until subsequent approval by the Commission allowing SDG&E to transfer the balance in the IEMA to a recovery mechanism.

SDG&E anticipates requesting recovery of the balance in the IEMA through the Energy Resource Recovery Account (ERRA) application, or other proceedings as authorized by the Commission.

**Effective date should be November 16, 2005**

SDG&E's request for effective date of November 16, 2005 should be approved.

In its advice letter, SDG&E requests that this advice filing be made effective on the date filed because SDG&E expects to begin incurring IE costs in the month of November.

As the Commission ordered SDG&E to utilize the services of IE's but did not specify the cost recovery mechanism, it is reasonable for SDG&E to request effective date of November 16, 2005.

As Section IV(B) of General Order 96A allow the effective date to be less than 40 calendar days from the filing date with Commission authorization, SDG&E's request should be approved.

**COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for

comments. Comments are due on December 29, 2005. Reply comments are due on January 5, 2006.

No comments were filed.

## **FINDINGS**

1. D.04-12-048, Ordering Paragraph 28 authorized SDG&E to contract directly with independent evaluators, in consultation with their PRGs.
2. D.05-07-039, Ordering Paragraph 7, ordered SDG&E to use an independent evaluator, as described in D.04-12-048, for all bids proposing utility ownership of the generation facility through turnkey or buyout arrangements.
3. Public Utilities Code Section 454.5(b)(12) allow for recovery of reasonable administrative costs related to procurement.
4. The Commission ordered SDG&E to utilize the services of IE's but did not specify the cost recovery mechanism.
5. It is reasonable for SDG&E to request the establishment of a memorandum account to record the mandated costs.
6. It is also reasonable for SDG&E to request an effective date of November 16, 2005.
7. Section IV(B) of General Order 96A allows the effective date to be less than 40 calendar days from the filing date with Commission authorization.
8. No protests were filed.

**THEREFORE IT IS ORDERED THAT:**

1. The request of the San Diego Gas & Electric Company (SDG&E) to establish an Independent Evaluator Memorandum Account (IEMA) to record third party costs associated with certain procurement-related activities, as requested in Advice letter 1744-E is approved.
2. The effective date of the IEMA is November 16, 2005.
3. The IEMA will be eliminated from SDG&E's Preliminary Statement when the Commission approves transferring the balance in the IEMA to an authorized recovery mechanism.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 12, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
PRESIDENT  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners