

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



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Application of San Diego Gas & Electric Company
(U 902-E) for Approval of: (i) Contract Administration, A1405026
Least Cost Dispatch and Power Procurement Activities in
2013, (ii) Costs Related to those Activities Recorded to the
Energy Resource Recovery Account and Transition Cost
Balancing Account in 2013 and (iii) Costs Recorded in
Related Regulatory Accounts in 2013

Application 14-05-_____
(Filed May 30, 2014)

**APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)
FOR APPROVAL OF ERRA COMPLIANCE FOR 2013**

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May 30, 2014

#287924

TABLE OF CONTENTS

I. INTRODUCTION 1

II. BACKGROUND 2

 A. SCOPE OF ERRA COMPLIANCE REVIEW 2

 B. ERRA 4

 C. TCBA 5

 D. LGBA 6

 E. NERBA 6

 F. IEMA 6

III. SUMMARY OF PREPARED TESTIMONY 7

IV. REQUESTED RELIEF AND ISSUES TO BE CONSIDERED 9

V. STATUTORY AND PROCEDURAL REQUIREMENTS 10

 A. Rule 2.1 (a) – (c) 10

 1. Rule 2.1 (a) - Legal Name 10

 2. Rule 2.1 (b) - Correspondence 11

 3. Rule 2.1 (c) 11

 B. Rule 2.2 – Articles of Incorporation 12

VI. CONFIDENTIAL INFORMATION 12

VII. SERVICE 13

VIII. CONCLUSION 13

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I. INTRODUCTION

In compliance with California Public Utilities Code (“P.U. Code”) Section 454.5, relevant Decisions (“D.”) of the California Public Utilities Commission (“Commission” or “CPUC”), including, but not limited to, D.02-10-062, D.02-12-074, D.05-01-054, and D.05-04-036, and the Commission’s Rules of Practice and Procedure, San Diego Gas & Electric Company (“SDG&E”) hereby submits its Application for approval of: (i) contract administration, least cost dispatch and power procurement activities in 2013, (ii) costs related to those activities recorded to the Energy Resource Recovery Account (“ERRA”) and Transition Cost Balancing Account (“TCBA”) in 2013 and (iii) costs recorded in related regulatory accounts in 2013, including Local Generation Balancing Account (“LGBA”), New Environmental Regulatory Balancing Account (“NERBA”), and the Independent Evaluator Memorandum Account (“IEMA”). SDG&E’s LGBA and NERBA accounts each had an undercollected balance as of December 31, 2013.

II. BACKGROUND

A. SCOPE OF ERRA COMPLIANCE REVIEW

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

In D.02-10-062, the Commission adopted minimum standards of conduct the utilities must follow in performing their procurement responsibilities. Standard of Conduct #4 ("SOC 4") describes the compliance review criteria for contract administration and economic dispatch of generation resources on which the utilities will be evaluated: "The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least cost manner. Our definitions of prudent contract administration and least cost dispatch are the same as our existing standard."¹

The scope of compliance review described in D.02-10-062 and D.02-12-074 includes Commission review of utility retained electric generation ("URG") fuel expenses, contract administration, including administration of the California Department of Water Resources ("CDWR") contracts allocated to SDG&E in D.02-09-053, California Independent System Operator ("CAISO")-related costs, existing Qualified Facilities ("QF") contracts, other power purchase agreements (including renewable resource contracts) and economic dispatch of electric

¹ D.02-10-062, Conclusion of Law 11.

generation resources (including Miramar, Palomar, Desert Star Energy Center [“Desert Star”] and Cuyamaca).

The Commission further stated in D.03-06-067 that in determining whether the utilities complied with the requirement to “dispose of economic long power and purchase economic short power in a manner that minimizes ratepayer costs,”² the Commission would examine “the prudence of each utility’s decision to dispatch resources contained in the integrated CDWR-IOU portfolio and execute market transactions for economic purposes”³ Accordingly, the Commission’s annual compliance review focuses on prudent contract administration, least cost dispatch and URG fuel procurement activities.

The appropriate scope and standard of review for these ERRA applications have also been addressed in D.05-04-036 and D.05-01-054. According to those decisions and pertinent to the scope of review of the utility’s least cost dispatch obligation, the Commission will consider those decisions to dispatch the resources in the daily, hourly, and real-time markets. As for the standard of review of the utility’s least cost dispatch, contract administration, and URG costs, the Commission reiterated in D.05-04-036 that its review is not a “reasonableness review,” but is instead a “compliance review:”

We [the Commission] went on to state that the least cost dispatch review process is a compliance review, and that there are no ranges of possible outcomes. (D.05-01-054, pp. 13-14.) Instead, we stated in pertinent part that:

“The outcome or standard for review has been predetermined – that is the lowest cost. SCE must demonstrate that it has complied with this standard, by providing sufficient information and/or analysis in order for the Commission to verify that SCE’s dispatch resulted in the most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services. Based on analyses of SCE’s showing and subsequent

² D.02-12-074 at 52-53.

³ D.03-06-067 at 10.

discovery, ORA or any other party may take the position that SCE did not fully comply with SOC 4. In such cases, we will judge the merits of the parties' positions and may impose disallowances and/or penalties.... This compliance process encompasses much more than that characterized by ORA. Imposing a compliance process for least-cost dispatch under SOC 4, rather than a reasonableness review process, does not diminish our ability to ensure just and reasonable rates." (D.05-01-054, pp. 14-15.)⁴

In this same decision, the Commission goes on to say that:

D.05-01-054 did not adopt specific criteria for determining "what constitutes least-cost dispatch compliance or what the utility needs to provide to meet its burden to prove such compliance." (D.05-01-054, p. 15.) Instead, we stated that if ORA or another party can demonstrate that the utility "has not dispatched resources in a least-cost manner, the Commission will review that evidence and make appropriate adjustments for non-compliance." (D.05-01-054, p. 16.)⁵

Finally, the Commission stated that "if specific criteria for determining what constitutes least-cost dispatch compliance are needed, that such criteria "should be developed in a generic proceeding where all affected utilities, as well as interested parties, could participate. (D.05-01-054, p. 15.)"⁶

B. ERRRA

As noted above, the purpose of the ERRRA is to provide full recovery of SDG&E's energy procurement costs associated with serving SDG&E's bundled service customers. Accordingly, SDG&E's ERRRA revenue requirement includes specific recovery of CAISO energy and ancillary services load charges, contract costs, generation fuel costs, CAISO-related costs, hedging costs and previously approved equity rebalancing costs related to the financial statement consolidation of OMEC under Accounting Standards Codification 810 ("ASC 810"), formerly referred to as

⁴ D.05-04-036 at 26.

⁵ *Id.* at 27 (internal footnote omitted) (emphasis added).

⁶ *Id.* at fn. 13.

FASB Interpretation No. 46 (R) or “Fin 46 (R).”⁷ Pursuant to Section 5(d) of SDG&E’s ERRA Tariff, the ERRA also includes “in lieu payments payable to communities where SDG&E-owned power plants are located pursuant to D.05-08-005 or other applicable Commission decisions.” The ERRA also includes revenues from SDG&E’s Electric Energy Commodity Cost (“EECC”) rate schedule adjusted to exclude CDWR revenues for energy provided by CDWR to SDG&E customers and non-fuel generation revenues allocated to the Non-Fuel Generation Balancing Account (“NGBA”).

On a monthly basis, the ERRA compares the energy procurement costs described above with the revenue from Schedule EECC (excluding CDWR and NGBA revenue). Interest is applied to any over- or under-collection balance at the three-month Commercial Paper rate. SDG&E’s adopted ERRA tariff describes the entries that are made to the account on a monthly basis. SDG&E believes that the costs and expenses recorded to the ERRA are appropriate, correctly stated and recoverable in accordance with applicable Commission policy and decisions. The ERRA balance as of December 31, 2013 was a \$417.1 million undercollection.

C. TCBA

In D.06-12-019, the Commission determined that SDG&E’s annual TCBA review should be included as part of the annual ERRA compliance review. The ERRA compliance review is the appropriate forum to review the TCBA because the costs that are recovered in the TCBA generally related to the above-market portion of certain QF and purchase power costs eligible for recovery under Assembly Bill (“AB”) 1890. Specifically, the TCBA records the eligible above-

⁷ SDG&E Balancing Accounts: Energy Resource Recovery Account (ERRA) Tariff, Sections 1 (“Purpose”) & 5 (“Accounting Procedures”) (effective April 29, 2012) (“ERRA Tariff”); *see also* Advice Letter (“AL”) 1778-E; regarding equity rebalancing costs related to OMEC, *see* D.11-07-041, Ordering Paragraph 2.

market power costs and the revenues received from SDG&E's Competition Transition Charge ("CTC") rate. The TCBA balance as of December 31, 2013 was a \$9.2 undercollection.

D. LGBA

The LGBA was authorized in D.13-03-029 and implemented in AL 2499-E with an effective date of July 31, 2013. The LGBA records the costs and revenues for generation that has been determined to be subject to the cost allocation mechanism ("CAM"). As of December 31, 2013, the LGBA balance reflected an undercollection, as shown in the accompanying testimony of Sheri Miller and its associated Table 3. In this Application, SDG&E is requesting, among other things, that SDG&E's transactions reflected in its LGBA are in compliance with Commission directives.

E. NERBA

The NERBA records the operating and maintenance ("O&M") and capital-related costs associated with certain new and proposed federal and state environmental programs, such as fees charged by the California Air Resources Board ("CARB") under AB 32. As explained in the accompanying testimony of Sheri Miller, during 2013, SDG&E transferred the balance from the Environmental Fee Memorandum Account ("EFMA"), as authorized by AL 2496-E. As of December 31, 2013, the NERBA balance reflected an undercollection of \$695,581. In this Application, SDG&E is requesting, among other things, that SDG&E's transactions reflected in its NERBA are in compliance with Commission directives.⁸

F. IEMA

In compliance with Senate Bill ("SB") 1078, D.03-06-071 and the requirements of Rulemaking ("R.") 01-10-024, SDG&E was required to implement Renewable Portfolio

⁸ In this Application, SDG&E is not requesting recovery of the undercollected amounts associated with its LGBA and NERBA; however, SDG&E will pursue recovery in the future.

Standards (“RPS”) programs. SDG&E’s solicitations for the RPS programs required bidders to provide both turnkey or buyout options with purchase power agreements. In D.04-12-048, dated December 16, 2004, the Commission adopted a variety of safeguards and procedures that required the utilities to use independent evaluators if affiliated entities bid in a procurement solicitation or if the utility sought turnkey proposals. The Commission extended the requirement to use independent evaluators for SDG&E’s RPS solicitations, in D.05-07-039 dated July 21, 2005.

The purpose of the IEMA is to record third party costs associated with the use of independent evaluators in the Utility’s long-term procurement activities and RPS programs. Interest is applied to any over or under collection balance at the three-month Commercial Paper rate. The disposition of the IEMA, as approved in SDG&E’s tariff, requires SDG&E to seek recovery of the balance in its ERRA proceeding. In D.11-10-029, SDG&E was authorized to transfer the balance in SDG&E’s IEMA to the ERRA on an annual basis.

As explained in the accompanying testimony of Sheri Miller, pursuant to the above-mentioned decisions, SDG&E transferred its undercollected IEMA balance in 2013 of \$0.5 million, as indicated in Attachments A1 and E of Ms. Miller’s testimony. SDG&E is requesting confirmation in this Application that the amounts transferred from IEMA to ERRA during 2013 are in compliance with applicable Commission decisions.

III. SUMMARY OF PREPARED TESTIMONY

In support of this Application, SDG&E provides the testimony of five witnesses. As SDG&E’s testimony demonstrates, in 2013, SDG&E has fully complied with its Commission-

approved electric procurement plans,⁹ all relevant contract terms and conditions, SOC 4 and applicable Commission decisions. The testimony also shows the accuracy and reasonableness of SDG&E's 2013 ERRA, TCBA, LGBA, NERBA, and IEMA accounting entries. The testimony of SDG&E's witnesses, and the issues they address, are summarized below and incorporated by reference herein:

- **Mr. Andrew Scates**

Mr. Scates' testimony describes the various energy resources in SDG&E's electricity portfolio and addresses the manner in which SDG&E complied during the Record Period with its obligation to dispatch its energy portfolio in a least cost manner consistent with SDG&E's Commission-approved LTPP. As explained by Mr. Scates, for purposes of the Commission's review and the compliance findings requested herein, the relevant LTPP is SDG&E's 2012 LTPP, which was approved in Resolution E-4543.¹⁰

- **Ms. Sheri Miller**

Ms. Miller's testimony provides a description of the transactions for the 2013 entries to SDG&E's ERRA, TCBA, LGBA, NERBA, and IEMA. Ms. Miller's testimony explains the regulatory basis for SDG&E's requested disposition for these accounts and seeks the Commission's determination that, for the 2013 record year, SDG&E's recommended dispositions are in compliance with Commission directives and approved. Ms. Miller's testimony also explains the basis for SDG&E's request for "in lieu" gas franchise fees, consistent with Commission precedent and the applicable SDG&E tariff.

⁹ For purposes of the Commission's review and the compliance findings requested herein, the relevant Long-Term Procurement Plan ("LTPP") is SDG&E's 2012 LTPP, approved in Commission Resolution E-4543.

¹⁰ For purposes of the Commission's review and the compliance findings requested herein, the relevant LTPP is SDG&E's 2012 LTPP, approved in Commission Resolution E-4543, in compliance with D.11-05-005, D.12-01-033 and D.12-04-046.

- **Ms. Sally Chen**

Ms. Chen’s testimony describes the categories of expenses that were recorded to SDG&E’s ERRRA and TCBA accounts and explains the contract administration activities associated with SDG&E’s power purchase agreements during 2013.

- **Ms. Ana Garza-Beutz**

Ms. Garza-Beutz’ testimony explains SDG&E’s procurement of Greenhouse Gas (“GHG”) compliance instruments during the 2013 record period. Noting that the Commission has separate and closely related GHG proceedings underway, A.13-08-002 et al. and A.14-04-018, in which the Commission is expected to review SDG&E’s 2013 GHG-related costs and revenues, in the subject proceeding, SDG&E is requesting that the Commission review and approve GHG compliance instrument procurement activity incurred in 2013 in compliance with the LTPP and AB 57.

- **Mr. Carl LaPeter**

Mr. LaPeter’s testimony explains that SDG&E has complied with applicable Commission standards governing the operation of Utility Owned Generation (“UOG”) resources and the management of planned and unplanned outages during the 2013 record period.

IV. REQUESTED RELIEF AND ISSUES TO BE CONSIDERED

The issues to be considered and the relief requested are contained in this Application, supporting testimony and related exhibits. In submitting this Application and supporting testimony, SDG&E demonstrates and requests express Commission findings that:

1. during 2013, SDG&E prudently administered and dispatched its UOG resources and portfolio of contracts, including Miramar, Palomar, Desert Star, Cuyamaca, allocated CDWR contracts, power purchase agreements, QFs, non-QF resources,

- and renewable energy resources, in compliance with SDG&E's Commission-approved procurement plan;
2. all 2013 entries and costs recorded in SDG&E's ERRRA (including in lieu gas franchise fees), TCBA, LGBA, NERBA, and IEMA are appropriate and correctly stated;
 3. SDG&E's procurement of GHG compliance instruments during the 2013 record period is consistent with the Commission's current directives applicable to those compliance instruments; and
 4. confidential treatment of the unredacted versions of the testimony, as requested in the declarations accompanying the testimony, is appropriate and authorized.

V. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1 (a) – (c)

In accordance with Rule 2.1 (a) – (c) of the Commission's Rules of Practice and Procedure, SDG&E provides the following information.

1. Rule 2.1 (a) - Legal Name

SDG&E is a corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123. SDG&E's attorney in this matter is Paul A. Szymanski.

2. Rule 2.1 (b) - Correspondence

Correspondence or communications regarding this Application should be addressed to:

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3. Rule 2.1 (c)

a. Proposed Category of Proceeding

In accordance with Rule 7.1, SDG&E requests that this Application be categorized as ratesetting.

b. Need for Hearings

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provide the Commission with a sufficient record upon which to grant the relief requested.

c. Issues to be Considered

The issues to be considered are described in this Application and the accompanying testimony and exhibits (see Summary of Application and Summary of Testimony, above).

d. Proposed Schedule

SDG&E proposes the following schedule:

<u>ACTION</u>	<u>DATE</u>
Application filed	May 30, 2014
Prehearing Conference	July 17, 2014
Intervener Testimony	August 15, 2014
Rebuttal Testimony	September 16, 2014
Hearings (if necessary)	October 14, 2014
Opening Briefs	October 28, 2014
Reply Briefs	November 4, 2014
Proposed Decision	December 1, 2014
Comments on Proposed Decision	December 11, 2014
Reply Comments	December 16, 2014
Commission Approval	January of 2015

B. Rule 2.2 – Articles of Incorporation

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on August 31, 2009 in connection with SDG&E's Application No. 09-08-019, and is incorporated herein by reference.

VI. CONFIDENTIAL INFORMATION

SDG&E is submitting the testimony supporting this Application in both public (redacted) and non-public (unredacted and confidential) form, consistent with SDG&E's declarations of confidential treatment attached to the witnesses' testimony and submitted in conformance with

D.06-06-066 and D.08-04-023. In short, confidential treatment is necessary in this proceeding to avoid inappropriate disclosure of the confidential and commercially sensitive information (pertaining to SDG&E's electric procurement resources and strategies) that SDG&E witnesses must identify to support this Application.

VII. SERVICE

This is a new application. No service list has been established. Accordingly, SDG&E will serve this Application, testimony and related exhibits on parties to the service list for A.13-05-016 (last year's SDG&E ERRA compliance proceeding) and R.12-03-014 (OIR to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans). Hard copies will be sent by overnight mail to Administrative Law Judge ("ALJ") David M. Gamson, the assigned ALJ in R.12-03-014 and ALJ Seanean Wilson, the assigned ALJ in A.13-05-016, and acting Chief ALJ Timothy J. Sullivan.

VIII. CONCLUSION

WHEREFORE, SAN DIEGO GAS & ELECTRIC COMPANY requests that the Commission:

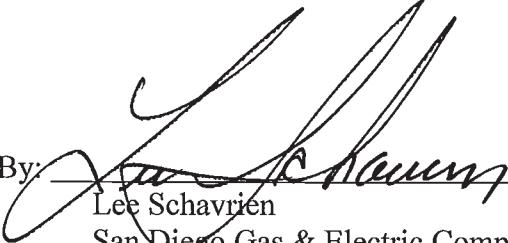
- (1) find that during 2013 SDG&E prudently administered its generation resources and portfolio of contracts and dispatched energy in a least cost manner, in compliance with SDG&E's Commission-approved procurement plan;
- (2) find that SDG&E's 2013 entries in its ERRA (including in-lieu gas franchise fees), TCBA, LGBA, NERBA, and IEMA were accurate and reasonable;
- (4) determine that SDG&E's procurement of GHG compliance instruments during the record period was consistent with applicable standards; and
- (5) grant such additional relief as the Commission believes is just and reasonable.

Respectfully submitted,

By: /s/ Paul A. Szymanski
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SAN DIEGO GAS & ELECTRIC COMPANY

By: 
Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President –Finance, Regulatory and Legislative Affairs

DATED at San Diego, California, this 30th day of May 2014

OFFICER VERIFICATION


OFFICER VERIFICATION

Lee Schavrien declares the following:

I am an officer of San Diego Gas & Electric Company and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF ERRA COMPLIANCE FOR 2013** are true to my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on May 28, 2014 at San Diego, California.



Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President – Finance, Regulatory and
Legislative Affairs