BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FILED
6-01-15
04:59 PM

Application of San Diego Gas & Electric Company (U 902-E) for Approval of: (i) Contract Administration, Least-Cost Dispatch and Power Procurement Activities in 2014, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account and Transition Cost Balancing Account in 2014 and (iii) Costs Recorded in Related Regulatory Accounts in 2014	A1506002 Application 15-06-____ (Filed June 1, 2015)

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF ERRA COMPLIANCE FOR 2014

Paul A. Szymanski
San Diego Gas & Electric Company
8330 Century Park Court, CP32A
San Diego, California 92123
Telephone: (858) 654-1732
Email: pszymanski@semprautilities.com

Attorney for: SAN DIEGO GAS & ELECTRIC COMPANY

June 1, 2015

TABLE OF CONTENTS

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902-E) for Approval of: (i) Contract Administration, Least-Cost Dispatch and Power Procurement Activities in 2014, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account and Transition Cost Balancing Account in 2014 and (iii) Costs Recorded in Related Regulatory Accounts in 2014	Application 15-06-____ (Filed June 1, 2015)

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF ERRA COMPLIANCE FOR 2014

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 review and approval of: (i) contract administration, least-cost dispatch and power procurement activities in 2014, (ii) costs related to those activities recorded to the Energy Resource Recovery Account ("ERRA") and Transition Cost Balancing Account ("TCBA") in 2014 and (iii) costs recorded in related regulatory accounts in 2014, including Local Generation Balancing Account ("LGBA"), New Environmental Regulatory Balancing Account ("NERBA"), Market Redesign and Technology Update Memorandum Account ("MRTUMA"), Independent Evaluator Memorandum Account ("IEMA"), and the Litigation Cost Memorandum Account ("LCMA"). SDG&E's ERRA, TCBA, LGBA, MRTUMA and IEMA accounts each had an undercollected balance as of December 31, 2014. SDG&E is not seeking a cost recovery or a rate change at this time for any

of these costs. However, as explained herein and in the associated testimony of SDG&E witness Jenny Phan, with respect to SDG&E's LGBA and MRTUMA, SDG&E is deferring cost recovery of these undercollections to SDG&E's next-filed ERRA Forecast Proceeding for year 2017, which will be filed on April 15, 2016. SDG&E is doing so to assist its electricity customers by avoiding a further rate increase for a relatively small amount and thereby promoting rate stability.

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 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 to 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 DWR-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

[1] D.02-10-062, Conclusion of Law 11.
[2] D.03-06-067 at 10.
[3] *Id.* at 10.

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 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, on October 21, 2014, SDG&E, along with Pacific Gas and Electric Company ("PG&E) and Southern California Edison Company ("SCE"), jointly filed a Joint Proposal for the Demonstration of Least Cost Dispatch ("Joint Proposal"), which detailed the information that the utilities would include in testimony or workpapers in

[4] D.05-04-036 at 26.
[5] *Id*. at 27 (internal footnote omitted) (emphasis added).

future ERRA compliance proceedings to demonstrate least-cost dispatch.[6] On November 5, 2014, the Commission's Office of Ratepayer Advocates ("ORA") filed a response which included four recommended modifications to the Joint Proposal. On December 2, 2014, Administrative Law Judge Roscow and Commissioner Florio issued an "Interim Ruling Providing Guidance for the 2014 ERRA Compliance Proceedings," which adopted both the Joint Proposal as well as ORA's suggested modifications relating to economically dispatched demand response programs. The testimony and associated workpapers of SDG&E witness Andrew Scates addresses these least-cost dispatch requirements and satisfy SDG&E's burden of proof for the 2014 record period.

B. ERRA

As noted above, the purpose of the ERRA 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 ERRA 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 Otay Mesa Energy Center ("OMEC") under Accounting Standards Codification 810 ("ASC 810"), formerly referred to as FASB Interpretation No. 46 (R) or "Fin 46 (R)." Pursuant to Section 5(d) of SDG&E's ERRA Tariff, the ERRA also includes "in lieu payments payable to communities where SDG&E is transporting its own gas through its own gas transmission or distribution system, or both, for purposes of generating electricity or for use in its own operations". The ERRA also includes revenues from SDG&E's Electric Energy Commodity Cost ("EECC") rate schedules (commodity revenue) adjusted to exclude CDWR revenues for

[6] The Joint Proposal was filed in the utilities' respective 2010 ERRA Compliance cases, A.11-02-011, A.11-04-001, and A.11-06-003 (not consolidated).

energy provided by CDWR to SDG&E customers and non-fuel generation revenues allocated to the Non-Fuel Generation Balancing Account ("NGBA") and other Commission approved accounts.

SDG&E believes that the costs and expenses recorded to the ERRA during 2014 are appropriate, correctly stated and recoverable in accordance with applicable Commission policy and decisions. The ERRA balance as of December 31, 2014 was a $280.0 million undercollection.

C. GREENHOUSE GAS SUB-ACCOUNT

SDG&E's ERRA Preliminary Statement, which took effect January 29, 2014, authorizes SDG&E to record SDG&E's Greenhouse Gas ("GHG") costs incurred in 2012 in the GHG sub-account. Additionally, pursuant to D.13-12-041, SDG&E was authorized to recover all of its GHG costs; thus SDG&E transferred the GHG costs out of the GHG sub-account to the main ERRA schedule in May 2014. Accordingly, SDG&E is seeking the Commission's determination that the balance reflected in its GHG sub-account is reasonable and correctly stated for the record period.

D. 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 relate 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-market power costs and the revenues received from SDG&E's Competition Transition Charge ("CTC") rate. The TCBA balance as of December 31, 2014 was a $7.2 million undercollection.

E. 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 have been determined to be subject to the cost allocation mechanism ("CAM"). For 2014, the only contract included in the LGBA was the Escondido Energy contract. As of December 31, 2014, the LGBA balance reflected an undercollection, as shown in the accompanying testimony of Jenny Phan 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. As noted in the testimony of SDG&E witness Jenny Phan, SDG&E is not seeking cost recovery of the undercollection in this Application; instead, SDG&E is requesting that the Commission (a) determine that its LGBA balance is reasonable and accurately stated; and (b) that the undercollection balancein the account through December 31, 2014 may be recovered in SDG&E's next-filed ERRA Forecast Application for 2017, which will be submitted on April 15, 2016.

F. NERBA

The NERBA, as approved by the Commission's Decision 13-05-010 in SDG&E's 2012 General Rate Case ("GRC"), 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 of December 31, 2014, the NERBA balance reflected an overcollection of approximately $0.4 million. In this Application, SDG&E is requesting that SDG&E's transactions reflected in its NERBA are in compliance with Commission directives and that the overcollection may be collected in SDG&E's Annual Electric Regulatory Account Update filing.

G. MRTUMA

The purpose of the MRTUMA is to record the incremental O&M and capital-related costs associated with implementing the CAISO's MRTU initiative. These costs were authorized in SDG&E's GRC in D.13-05-010. However, as explained in the testimony of Jenny Phan, a tax-related prior period adjustment of $0.3 million recorded in 2012 does not fall under the GRC revenue requirement approval and is submitted in this proceeding for approval.

As indicated in the testimony of SDG&E witness Jenny Phan, SDG&E is not seeking cost recovery in this Application for the undercollection in SDG&E's MRTUMA; instead, it is seeking in this Application the Commission's (a) review and approval of these undercollected costs, and (b) authorization to recover those costs in SDG&E's ERRA Forecast Application for year 2017, which SDG&E will file on April 15, 2016.

H. 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 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 Jenny Phan, pursuant to the above-mentioned decisions, SDG&E transferred the IEMA 2014 activity undercollection balance of $0.3 million to ERRA. SDG&E is requesting confirmation in this Application that the amounts transferred from IEMA to ERRA during 2014 are in compliance with applicable Commission decisions.

I. LCMA

Pursuant to Resolution E-3893, the Litigation Cost Memorandum Account ("LCMA") records litigation costs associated with refunds resulting from the energy crisis in October 2000 through January 2001. The LCMA tracks the difference between incurred litigation costs and settlement proceeds received. At this time, SDG&E is not requesting recovery of its December 31, 2014 undercollected LCMA balance as there are pending litigation cases. However, SDG&E requests that the Commission review SDG&E's LCMA entries from 2004 through 2014 in this proceeding to bring current the balance in that account.

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 2014, SDG&E has fully complied with its Commission-approved electric procurement plans,[7] all relevant contract terms and conditions, SOC 4 and applicable Commission decisions. The testimony also shows the accuracy and reasonableness of

[7] 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.

SDG&E's 2014 ERRA, TCBA, LGBA, NERBA, MRTUMA, IEMA, and LCMA 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.

- **Ms. Jenny Phan**

  Ms. Phan's testimony provides a description of the transactions for the 2014 entries to SDG&E's ERRA, TCBA, LGBA, NERBA, MRTUMA, IEMA, and LCMA. Ms. Phan's testimony explains the regulatory basis for SDG&E's requested disposition for these accounts and seeks the Commission's determination that, for the 2014 record year, SDG&E's recommended dispositions are in compliance with Commission directives and should be approved as reasonable and accurate.

- **Ms. Sally Chen**

  Ms. Chen's testimony describes the categories of expenses that were recorded to SDG&E's ERRA, TCBA, and LGBA accounts and explains the contract administration activities associated with SDG&E's power purchase agreements during 2014.

- **Ms. Ana Garza-Beutz**

  Ms. Garza-Beutz's testimony explains SDG&E's procurement of GHG compliance instruments during the 2014 record period. In this proceeding, SDG&E is requesting that the Commission review and approve GHG compliance instrument procurement activity incurred in 2014 in compliance with the LTPP, AB 57, and recent Commission directives regarding GHG compliance costs.

- **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 2014 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 2014, 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 2014 entries and costs recorded in SDG&E's ERRA (including in lieu gas franchise fees), TCBA, LGBA, NERBA, MRTUMA, IEMA, and LCMA are appropriate and correctly stated;

3. SDG&E's procurement of GHG compliance instruments during the 2014 record period is consistent with the Commission's current directives applicable to those compliance instruments;

4. confidential treatment of the unredacted versions of the testimony, as requested in the declarations accompanying the testimony, is appropriate and authorized; and

5. SDG&E will pursue cost recovery of the undercollection in SDG&E's MRTUMA and LGBA in SDG&E's next-filed ERRA Forecast Proceeding for year 2017, which will be filed on April 15, 2016.

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:

Paul A. Szymanski
Attorney for:
San Diego Gas & Electric Company
8330 Century Park Court, CP32A
San Diego, CA 92123
Telephone: (858) 654-1732
pszymanski@semprautilities.com

With copies to:

Kellen C. Gill
Regulatory Case Administrator
San Diego Gas & Electric Company
8330 Century Park Court, CP31D
San Diego, California 92123
Telephone: (619) 696-2972
Facsimile: (858) 654-1788
KGill@semprautilities.com

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:

ACTION	DATE
Application filed	June 1, 2015
Prehearing Conference	July 16, 2015
Intervener Testimony	August 13, 2015
Rebuttal Testimony	September 10, 2015
Hearings (if necessary)	October 13, 2015
Opening Briefs	November 3, 2015
Reply Briefs	November 17, 2015
Proposed Decision	February 1, 2016
Comments on Proposed Decision	February 21, 2016
Reply Comments	February 27, 2016
Commission Approval	March of 2016

B. Rule 2.2 – Articles of Incorporation

A certified copy of SDG&E's Restated Articles of Incorporation, as last amended, presently in effect and certified by the California Secretary of State, was previously filed with the Commission on September 10, 2014, in connection with SDG&E's Application No. A.14-09-008, 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.14-05-026 (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") ALJ Seanean M. Wilson, the assigned ALJ in A.14-05-026, and Chief ALJ Karen Clopton.

VIII. CONCLUSION

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

(1) find that during 2014 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 2014 entries in its ERRA (including in-lieu gas franchise fees), TCBA, LGBA, NERBA, MRTUMA 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;

(5) SDG&E will pursue cost recovery of the undercollection in SDG&E's MRTUMA and LGBA in SDG&E's next-filed ERRA Forecast Proceeding for year 2017, which will be filed on April 15, 2016; and

(6) grant such additional relief as the Commission believes is just and reasonable.

SDG&E is ready to proceed with its showing in this Application.

Respectfully submitted,

By: /s/ Paul A. Szymanski
Paul A. Szymanski

Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY
8330 Century Park Court, CP32
San Diego, CA 92123
Telephone: (858) 654-1732
E-mail: pszymanski@semprautilities.com

SAN DIEGO GAS & ELECTRIC COMPANY

By: Dan Skopec
Dan Skopec
San Diego Gas & Electric Company
Vice President – Regulatory Affairs

DATED at San Francisco, California, this 1st day of June 2015

OFFICER VERIFICATION

OFFICER VERIFICATION

Dan Skopec 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 2014** 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 June 1, 2015 at San Francisco, California.

Dan Skopec
San Diego Gas & Electric Company
Vice President – Regulatory Affairs