

Decision 12-12-022 December 20, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Expedited Application of San Diego Gas & Electric Company (U902E) under the Energy Resource Recovery Account Trigger Mechanism.

Application 12-10-017
(Filed October 26, 2012)

**DECISION GRANTING THE TRIGGER APPLICATION
OF SAN DIEGO GAS & ELECTRIC COMPANY**

1. Summary

San Diego Gas & Electric Company's Energy Resource Recovery Account balance is currently projected to be \$96.239 million undercollected as of December 31, 2012 (based on actual numbers through September and projected numbers for October through December). This decision authorizes an increase in rates to collect the projected \$96.239 million undercollection from ratepayers, to be amortized over a 12-month period beginning no later than January 1, 2013. This proceeding is closed.

2. Background

Pursuant to Assembly Bill (AB) 57 (Stats. 2002, Ch. 835), the Commission established the Energy Resource Recovery Account (ERRA) balancing account in 2002 in order to record the investor-owned utilities' fuel and purchased power revenues against actual recorded costs, excluding revenues collected for the California Department of Water Resources (CDWR).¹ AB 57 also mandated a

¹ Pub. Util. Code Section 454.5(d)(3), enacted by AB 57.

trigger threshold for the balance in the ERRA of 5% of the electric utility's actual recorded generation revenues for the prior calendar year:²

The commission shall review the power procurement balancing accounts, not less than semi-annually, and shall adjust rates or order refunds, as necessary, to promptly amortize a balancing account, according to a schedule determined by the commission. Until January 1, 2006, the commission shall ensure that any overcollection or undercollection in the power procurement balancing account does not exceed 5 percent of the electrical corporation's actual recorded generation revenues for the prior calendar year excluding revenues collected for the Department of Water Resources. The commission shall determine the schedule for amortizing the overcollection or undercollection in the balancing account to ensure that the 5 percent threshold is not exceeded. After January 1, 2006, this adjustment shall occur when deemed appropriate by the commission consistent with the objectives of this section.

Decision (D.) 02-10-062 implemented AB 57. Regarding Pub. Util. Code § 454.5(d)(3), the Commission directed the following:³

We direct PG&E [Pacific Gas and Electric Company], SDG&E [San Diego Gas & Electric Company] and Edison [Southern California Edison Company] to file expedited applications for approval in 60 days from the filing date when the new ERRA balance reaches four percent. The application will include a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the five percent threshold. The application will also propose an amortization period for the five percent of not less than 90 days to ensure timely recovery of the projected ERRA balance. It should also include allocation of the over-and-under

² *Id.*

³ D.02-10-062 at 65.

collection among customers for rate adjustment based on existing allocation methodology recognized by the Commission. Customer notice should be sent as soon as the application is filed for a rate increase or decrease.

In D.04-12-048, the Commission extended the trigger mechanism to remain in effect during the term of long-term contracts entered into by the IOUs, or ten years, whichever is longer.⁴ D.07-05-008 added an additional rule to the trigger procedures by allowing SDG&E to file an advice letter seeking to maintain rates when it expected an overcollection or undercollection above the 4% trigger to self-correct below the trigger within 120 days of filing.

In order to determine the 4% trigger amount and the 5% threshold, pursuant to D.04-01-050, SDG&E is required to file an advice letter by April 1 of each year to establish the current year's trigger amount. In Advice Letter 2335-E, dated March 7, 2012, SDG&E reported that its 2011 electric commodity revenue, excluding CDWR revenue, was \$1,085 million. Consequently, SDG&E's currently approved 4% trigger point is \$43.4 million and the 5% ERRA threshold is \$54.2 million. As explained below, the projected undercollection is above these trigger and threshold amounts; in addition, with regard to the additional "self-correction" review required by D.07-05-008, SDG&E does not expect self-correction to occur within 120 days of its October 2012 filing.

3. Requested Relief

SDG&E filed its expedited application on October 26, 2012. In its application, SDG&E seeks expedited authorization to collect from ratepayers a projected \$96.239 million ERRA undercollection (as of December 31, 2012).

⁴ D.04-12-048 at 213.

SDG&E also seeks approval to collect this amount over a 12-month amortization period, beginning on January 1, 2013, which is when SDG&E's Consolidated Filing to Implement Rates for 2013 is expected to be implemented. According to SDG&E, SDG&E's trigger event can be attributed primarily to "higher than expected temperatures, leading to higher load, satisfied by higher market prices, due at least in part to congestion constraints."⁵

In its Application, SDG&E also proposes to exclude the costs of the November 2012 Greenhouse Gas (GHG) auction for the purposes of this trigger application:

Beginning in November 2012, SDG&E expects to participate in the California Air Resources Board GHG auction. [Footnote omitted] The December 31, 2012 projection in the Application does not include the impact of GHG costs nor GHG revenues that may result from the November 2012 auction. The amount paid in that auction will be booked to the ERRA in the month that the auction takes place. [Footnote omitted.] Although the associated GHG-related expenses will add to the undercollected amount in the November and December ERRA balances, SDG&E is proposing to exclude the actual recorded GHG compliance costs from recovery in this Application because of the uncertainty around the November auction results and the treatment of allowance revenues, which are currently being addressed in GHG Order Instituting Rulemaking (R.11-03-012). [Footnote omitted.] Including GHG costs from the auction without corresponding revenues could increase the ending December 31, 2012 balance projection and increase the amortization SDG&E would need in this Application.⁶

⁵ See October 26, 2012 Prepared Direct Testimony of Gregory D. Shimansky at GDS-6.

⁶ *Id.* at GDS-8.

If the requested relief were granted, SDG&E projects the following bill impacts reflecting the amortization of the undercollection:

Class	Usage (kWh)	Bill Today	Bill post-trigger	Change (\$)	Change (%)
Residential--Inland	500	\$82.81	\$83.87	\$1.06	1.3 %
Residential--Coastal	500	\$91.07	\$93.20	\$2.13	2.3 %
Residential--Inland	1,000	\$229.54	\$239.07	\$9.53	4.2 %
Residential--Coastal	1,000	\$239.72	\$250.32	\$10.60	4.4 %
Small Commercial	1,500 secondary service			\$7.27	2.9 %

SDG&E's application included a proposed schedule that featured a shortened protest period. The assigned Administrative Law Judge (ALJ) granted SDG&E's request, such that Expedited Protests were due November 13, 2012. The Division of Ratepayer Advocates (DRA) filed a timely protest and SDG&E replied to the protest on November 27, 2012. A workshop was held on November 19, 2012, to discuss SDG&E's application in greater detail. A Prehearing Conference was held on December 3, 2012.

4. Discussion

As we explain below, SDG&E's application should be approved. With regards to our review of ERRA trigger applications, our latitude and range of discretion are proscribed by Pub. Util. Code § 454.5(d)(3); this is reflected in the review process that we established in D.02-10-062. In short, we must confirm the accuracy of SDG&E's estimated balances and confirm that those estimates meet the trigger thresholds within the timeframes established pursuant to statute. Nevertheless, in such instances as this one, where a rate increase is required to recover an undercollected revenue requirement, a step-by-step review of the request will be to the benefit of SDG&E, its ratepayers, and the protestants.

First, we briefly review the chain of events that led SDG&E to seek relief. With respect to the timeframes imposed by D.02-10-062, SDG&E stated that its

recorded August 31, 2012, ERRA balance was a \$125.314 million undercollection, or 11.55% of the 2011 electric commodity revenues, excluding CDWR, thus exceeding the 4% trigger point and the 5% trigger threshold. Next SDG&E states that, as required by D.07-05-008, it analyzed whether this undercollection would self-correct below the 4% trigger point within 120 days (i.e., by December 29, 2012) and determined that, based on SDG&E's most recent forecast and assumptions regarding revenue requirements, sales forecasts, and costs of power, SDG&E did not project that its ERRA balance would self-correct below the 4% trigger point. Therefore, pursuant to Pub. Util. Code § 454.5(d)(3) and D.02-10-062, SDG&E was required to file this expedited application addressing the disposition of the undercollected ERRA balance.

The shortened timeframes, combined with the uncertainties generally inherent in energy forecasting, create challenges for all parties in an ERRA trigger review process. As noted above, DRA protested SDG&E's October 26, 2012, application. DRA protested the application because it claimed that (1) SDG&E's proposed schedule does not allow for Intervenor Testimony and hearings, and does not allow for investigation into the reasonableness of SDG&E's rate increase request and is therefore unreasonable and (2) SDG&E's requested undercollection recovery of \$96 million is unsupported.

In its protest, DRA anticipated the following issues:

- 1) Duplication in cost recovery between SDG&E's October 26, 2012 ERRA trigger application and SDG&E's April 9, 2012 ERRA trigger application;
- 2) Financial impact of anomalous weather patterns on electricity prices for SDG&E's Default Load Aggregation Point (DLAP) and any associated effects;

- 3) Relationship between relatively high congestion recorded at SDG&E's DLAP and the increase in prices noted in 2) above.
- 4) Financial impact of San Onofre Nuclear Generation Station (SONGS) going offline earlier in 2012.
- 5) Financial impact of sales volumes falling below SDG&E's forecast from January 2012 through August 2012.

However, DRA also stated that it was conceivable that if SDG&E adequately responded to DRA data requests and DRA was fully satisfied with such responses, there may not be a need for DRA testimony or hearings.

At the December 3, 2012 Prehearing Conference, DRA reported that it was still reviewing recently-received discovery responses, and continued to recommend a schedule in this proceeding that allowed time for intervenor testimony, SDG&E rebuttal testimony, hearings (if necessary), briefs, and reply briefs, followed by a proposed decision in February, 2013 and a final Commission decision in March, 2013.

As noted above, our responsibility in ERRA trigger proceedings is to first confirm the accuracy of the applicant's estimated balances and then confirm that those estimates meet the trigger thresholds within the established timeframes. SDG&E, through its written testimony, workshop presentation, and discovery responses, has provided enough supporting material for us to proceed with a decision today that acknowledges the issues raised in DRA's protest and addresses the required elements of SDG&E's application, without following the

more lengthy procedural path proposed by DRA.⁷ We discuss our reasoning below.

4.1. Components of the \$96 Million ERRA Undercollection

Following the November 19, 2012 workshop, SDG&E provided a table that itemized the components of the projected December, 2012 undercollection, in order to summarize the contributory factors underlying the estimated \$96 million undercollection.

Explanatory Factor (as of December, 2012)	(\$ in Millions)
Anomalous Weather / High Prices / Constraints, SONGS Replacement Power, and Rebates	67.8
Delay in Approval of A.11-09-022 (2012 ERRA Forecast)	10.3
Seasonality - Revenue Spread versus Cost Incurred	15.4
Lower Forecasted Sales Volumes	4.3
Other Items	
Trigger Revenues from D.12-08-007	(22.6)
Change in Amortization Adjustment	13.7
Miscellaneous	7.3
Total	96.2

SDG&E cautions that these estimates are somewhat imprecise, but we nevertheless find them to be of value in conveying how SDG&E's ERRA could become unbalanced in a fairly short period of time. We note that part of the reasons lie in delayed approval of SDG&E's original 2012 ERRA forecast revenue requirement and rate change, an increase over 2011 levels, such that each month

⁷ Because the ERRA balancing account is an interest bearing balancing account, SDG&E will ultimately collect from its ratepayers no more or less than necessary to recover its actual, approved, procurement costs. The reasonableness of SDG&E's actions is further reviewed in its annual ERRA compliance review proceeding.

of delay contributed to an increasing undercollection; this in turn contributed to the first trigger application, which was also approved later than SDG&E requested, thus delaying a second rate increase and leading to a further undercollection. Beyond these factors, SDG&E points to unusual weather, unanticipated outages, and lower than expected sales levels in its territory in 2012, leading to the undercollections that necessitated this trigger filing. Since these are the items identified in DRA's protest, we address them below.

**4.1.1. Duplication In Cost Recovery Between
SDG&E's October 26, 2012 ERRA Trigger
Application and SDG&E's April 9, 2012
ERRA Trigger Application**

As noted above, this trigger application is the second that SDG&E has filed in 2012. In D.12-08-007, the Commission approved Application 12-04-003, authorizing SDG&E to increase its rates by \$49.9 million, effective September 1, 2012. DRA questions whether this new application in some way duplicates cost recovery already authorized in D.12-08-007. In its reply to DRA's protest, SDG&E asserts that there is no duplication in cost recovery between the two applications:

...the prior trigger proceeding concluded with the Commission approving a 12-month amortization which began on September 1, 2012 for an undercollection identified for April 2012 and projected to exist during May and June 2012. In contrast, the instant Trigger Application seeks a 12-month amortization beginning on January 1, 2013 based on an actual undercollection in August 2012 indicating a triggered position and a projected undercollection for the remaining months of 2012. The two applications are recovering or seeking to recover an undercollection for different sums.

At the November 19, 2012 workshop, SDG&E provided spreadsheets and analysis that confirmed its assertion that there is no duplication in cost recovery.

4.1.2. Financial Impact of Anomalous Weather Patterns on Electricity Prices for SDG&E's DLAP and Any Associated Effects, and the Relationship Between Relatively High Congestion Recorded at SDG&E's DLAP and the Increase in Prices

In its written testimony, SDG&E states that it experienced anomalous weather patterns in August and September 2012, where 50 days out of 61 total days had above-normal temperatures. This caused higher than expected demand which resulted in higher electricity prices at SDG&E's DLAP. In addition to the higher temperatures, SDG&E's DLAP also experienced higher prices in relation to the rest of Southern California pricing points due to constraints in the grid run by the California Independent System Operator. As noted above, SDG&E experienced "higher than expected temperatures, leading to higher load, satisfied by higher market prices, due at least in part to congestion constraints."

DRA identified this topic as an area of concern in its November 13, 2012 protest. SDG&E agrees that this issue should be part of the scope of this proceeding, but also notes that "it is not in the scope of this proceeding to entertain a reasonableness review of these or other costs."⁸ We agree with SDG&E; as noted above, the Commission will review the reasonableness of these activities as part of its compliance review of SDG&E's 2012 ERRRA-related actions. The utility provided calculations at the workshop that demonstrated that this

⁸ SDG&E Reply to DRA Protest at 4.

cost category does represent a sizable portion of the undercollected ERRA balance.

4.1.3. Financial Impact of SONGS Going Offline Earlier in 2012

At the November 19, 2012 workshop, SDG&E confirmed DRA's suggestion that the net incremental cost of SONGS Replacement Power is a contributing factor toward the December 2012 undercollection.

4.1.4. Financial Impact of Sales Volumes Falling Below SDG&E's Forecast

At the November 19, 2012 workshop, SDG&E illustrated how lower-than-expected sales volumes led to lower revenues from customers. Updated for the December 2012 estimated undercollection, this factor now represents about 4% of the shortfall.

4.2. Costs of the November GHG Auction

Including costs from the November, 2012 auction without corresponding revenues could increase the ending December 31, 2012 balance projection and increase the amortization SDG&E would need in this Application. The Commission has not yet issued a final decision on the use of revenue from the sale of GHG allowances by the utilities. For this reason, it makes sense to exclude the costs of the November 2012 GHG auction from the ERRA trigger application, because SDG&E has not yet included in its 2013 forecast the corresponding GHG revenues it expects to receive. The two items may offset each other to some extent, but this is not known, or knowable, at this time. Therefore, we agree with SDG&E's proposal to exclude the costs of the November 2012 GHG auction from its ERRA trigger calculations.

5. Conclusion

Based on the discussion above, SDG&E's application and supporting testimony meets the requirements of Pub. Util. Code § 454.5(d)(3) and D.02-10-062. We therefore approve SDG&E's request to recover the projected December, 2012 ERRAs balance undercollection over a 12-month period beginning January 1, 2013. SDG&E should determine the amount to be collected by using the actual recorded ERRAs balance through November, 2012 and adding the best estimate for December 2012 activity that is available at the time of the advice filing.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3304, dated November 8, 2012, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. DRA filed a protest to the application, and requested hearings. However, in its protest, DRA also stated that it was conceivable that if SDG&E adequately responded to DRA data requests and DRA was fully satisfied with such responses, there may not be a need for DRA testimony or hearings. DRA has not identified any shortcomings in the information that it has received from SDG&E. For this reason, a public hearing is not necessary; there is no reason to disturb the preliminary category determination.

7. Reduction of Comment Period

The Proposed Decision was mailed on December 10, 2012. Pursuant to Rule 14.6(b) of the Rules of Practice and Procedure, all parties stipulated to reduce the comment period on the Proposed Decision to 4 days, with no reply comments. Comments were filed by the DRA. In response to DRA's comments, we have clarified the process SDG&E shall use to determine the amount of the

rate change we approve today. We have also clarified our discussion throughout this decision.

8. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Stephen C. Roscow is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E's ERRA balance is currently projected to be \$96.239 million undercollected as of December 31, 2012 (based on actual numbers through September and projected numbers for October through December).

2. SDG&E's projected undercollected ERRA balance at the end of December 2012 exceeds its 4% trigger point of \$43.4 million. SDG&E's undercollected balance exceeds the 5% threshold point of \$54.2 million.

3. The Commission has not yet issued a final decision on the use of revenue from the sale of GHG allowances by the utilities.

Conclusions of Law

1. Pub. Util. Code § 454.5(d)(3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.

2. The balance in an ERRA balancing account is not to exceed or fall below 5% of the electric utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the CDWR.

3. Hearings are not necessary because DRA has not identified any shortcomings in the information it has received from SDG&E.

4. SDG&E's proposal to recover a projected \$96.239 million undercollection from ratepayers over a 12-month period beginning January 1, 2013 should be approved.

5. The costs of the November 2012 Greenhouse Gas auction should be excluded from SDG&E's ERRRA trigger calculation.

6. SDG&E should file an Advice Letter within thirty days of today's decision to show the final amount of undercollection to be collected from ratepayers, using the actual recorded ERRRA balance through November, 2012 and adding the best estimate for December 2012 activity that is available at the time of the advice filing.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company shall file a Tier 1 advice letter within thirty days of today's decision, to show the final amount of the rate increase approved herein, using the actual recorded Energy Resource Recovery Account balance through November, 2012 and adding the best estimate for December 2012 activity that is available at the time of the advice filing. The advice letter shall be effective on or after the date filed subject to Energy Division determining that it is in compliance with this decision.

2. San Diego Gas & Electric Company shall collect the Energy Resource Recovery Account undercollection from ratepayers over a 12-month period.

3. Application 12-10-017 is closed.

This order is effective today.

Dated December 20, 2012, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners