Decision 15-03-019 March 26, 2015

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

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| Application of San Diego Gas & Electric Company (U902E) for Approval of its Greenhouse Gas Forecasted Costs and Allowance Revenues for 2015 and Reconciliation of its Allowance Revenues for 2013. | Application 14-04-018 (Filed April 15, 2014) |

# DECISION AUTHORIZING 2015 FORECAST OF GREENHOUSE GAS ALLOWANCE REVENUE AND RECONCILIATION FOR RETURN TO CUSTOMERS

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# DECISION AUTHORIZING 2015 FORECAST OF GREENHOUSE GAS ALLOWANCE REVENUE AND RECONCILIATION FOR RETURN TO CUSTOMERS


## Summary

In accordance with California Public Utilities Code Section 748.5, Assembly Bill 32,[1] Decision (D.) 12-12-033, D.13-12-041 and D.14-10-033, as corrected by D.14-10-055 and D.15-01-024, this decision authorizes San Diego Gas & Electric Company to incorporate forecast greenhouse gas cap-and-trade costs and allowance auction revenues into 2015 customer rates. We authorize the forecast amounts of the California Climate Credit to be returned to residential customers beginning in 2015. All forecasts approved in this proceeding are subject to reconciliation of costs and revenues in subsequent proceedings. In addition, outreach and administrative expenses are subject to further reasonableness review at the time of the reconciliation.


## 1. Background

Rulemaking (R.) 11-03-012 addresses greenhouse gas (GHG)-related costs and allowance revenues for all investor-owned electric utilities, including San Diego Gas & Electric Company (SDG&E). Decision (D.) 12-12-033[2] in R.11-03-012 requires SDG&E to file an annual application for approval of forecast GHG costs and allowance revenues, including administrative and outreach costs, sufficient to calculate the amount of allowance revenue that will be returned to different customer classes each year.

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[1] Statutes of 2006, Chapter 488.

[2] Ordering Paragraph 23 requires five utilities to submit GHG Revenue Forecast Applications for the first three years of the Cap-and-Trade program (2013-2015).

Pursuant to D.12-12-033, five utilities[3] filed 2014 GHG Revenue Forecast Applications and the five applications were consolidated (Consolidated Proceeding, Application (A.) 13-08-002, et al.). The Phase 1 decision in the Consolidated Proceeding, D.13-12-041, was limited to information and approvals necessary to incorporate GHG costs and allowance revenues into 2014 rates and to issue the first California Climate Credit.[4] D.13-12-041 approved the forecasts with modifications for inclusion in 2014 rates, and concluded that the forecasts "should remain subject to true up against actual amounts in future GHG Revenue and Reconciliation Applications and actual administrative and customer outreach expenses remain subject to reasonableness review."[5]

The Commission adopted D.14-10-033 for Phase 2 of the Consolidated Proceeding on October 16, 2014, and its appendices were corrected by D.14-10-055 on October 30, 2014, and D.15-01-024 on January 21, 2015. D.14-10-033 describes methodologies and conventions to be used in GHG Revenue and Reconciliation Applications filed after 2013.[6] We use the standards adopted in D.14-10-033 to review SDG&E's current application, A.14-04-018, to determine the reasonableness of both the recorded and forecasted variables discussed below.

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[3] The five utilities are Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), (SDG&E), PacifiCorp, an Oregon Company, and Liberty Utilities (CalPeco Electric) LLC.

[4] The California Climate Credit received its official name in April 2014 by ruling in R.11-03-012. Prior to that time it was referred to as the "Climate Dividend."

[5] D.13-12-041, Conclusion of Law 3.

[6] A.13-08-002, *et al.*, Assigned Commissioner's and Administrative Law Judge's Phase 2 Scoping Memo and Ruling, February 19, 2014.

The Commission has reviewed the 2013 and 2014 recorded GHG costs and allowance revenues. We also review and approve SDG&E's 2015 GHG cost and allowance revenue forecasts for inclusion in 2015 customer rates. In doing so, we examine the variables necessary to authorize rate changes and determine the residential and small business revenue return and California Climate Credits. The variables are:

1. **Recorded and Forecast Allowance Revenues**. These are the revenues received by a utility as a result of selling the allowances allocated to ratepayers by the state.
2. **Recorded and Forecast Administrative and Customer Outreach Expenses**. These are the costs incurred by a utility for administrative and customer outreach expenditures that relate to the allowance revenue return program.
3. **Recorded and Forecast Expenses for Approved Incremental Energy Efficiency (EE) and Clean Energy Programs**. D.12-12-033 allows utilities to use a portion of allowance revenues to fund EE and clean energy programs that have been approved by the Commission in other proceedings.
4. **Recorded and Forecast Emissions-Intensive and Trade-Exposed (EITE) Customer Return**. Using methodologies being developed in R.11-03-012, a portion of allowance revenues are returned to customers who qualify as EITE.[7] The EITE customer return is based on formulas and made once per year. The actual EITE return will be calculated using the final EITE return formula determined in R.11-03-012.

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[7] D.12-12-033 sets forth an overview of the proposed methodology sufficient for purposes of forecasting the EITE return. Future decisions in R.11-03-012 are expected to provide additional direction. The next GHG Revenue and Reconciliation Application will use the actual EITE return when calculating the Climate Credits for the next year.

5. **Recorded and Forecast Small Business Return**. Using a methodology adopted in R.11-03-012, a portion of allowance revenues are returned to customers who meet the definition of small business developed in R.11-03-012.[8] The Forecast Small Business Return is volumetric; it is calculated using the Forecast GHG Cost (*see* Item 8 below) and the volume of electricity used by the customer and is returned as a credit to the delivery component of the customer's monthly bill.
6. **Recorded and Forecast Volumetric Residential Return**. The residential rate return only applies to electricity usage above Tier 2. The residential rate return is volumetric; it is calculated based on the Forecast GHG Cost (*see* Item 8 below) and the volume of electricity used by the customer. It is returned as an offset to the delivery rate component, but does not appear on the customer's monthly bill.[9]
7. **Recorded and Forecast Residential California Climate Credit**. The Climate Credit is distributed to residential households after all the above expenses and customer returns have been made. It appears as a credit on the customer's bill twice per year. The Climate Credit is not related to the volume of electricity used by the household: each household within a utility's territory receives the same Climate Credit.
8. **Recorded and Forecast GHG Costs**. These are the GHG emissions costs incurred directly or indirectly by a utility

[8] D.12-12-033 sets forth an overview of the methodology sufficient for purposes of forecasting the small business customer return for 2014. D.13-12-002 adopted a specific methodology.

[9] The two small utilities have not had caps imposed on their baseline rates and thus have not experienced the large disparities between lower and upper tiers that the large utilities have. Because the small utilities are able to pass GHG costs on to both lower and upper tiers, D.12-12-033 required the utilities to make their residential returns solely through the Climate Credit. For the large utilities, the Commission authorized this rate offset until such time as the differences between lower and upper-tier residential rates can be substantially reduced or eliminated. The Commission is currently considering this issue in R.12-06-013.

> as a result of the GHG cap-and-trade program. Direct costs include, generally, the costs incurred to purchase compliance instruments[10] for plants run by the utility or the cost of providing physical or financial settlement specifically for GHG emissions from plants not owned or operated by the utility. Indirect costs generally reflect GHG costs embedded in the price of power purchased on the market or through contracts that do not include GHG settlement terms.

## 2. Procedural History

As required by D.13-12-041, SDG&E filed its 2015 GHG Forecast Revenue and Reconciliation Application (2015 Forecast Application or A.14-04-018) on April 15, 2014. The Commission's Office of Ratepayer Advocates (ORA) filed a protest on May 19, 2014. On May 30, 2014, SDG&E submitted Proof of Rule 3.2(e) Compliance.

On September 17, 2014, the assigned Administrative Law Judge (ALJ) in A.13-08-002 et al., issued a ruling requiring SDG&E to provide supplemental information as set forth in the draft Phase 2 Proposed Decision in the Consolidated Proceeding, which mailed on September 12, 2014. The ruling directed SDG&E to complete Attachments C and D to the Proposed Decision, serve supporting testimony if appropriate, and file this data by September 29, 2014. SDG&E submitted its supplemental information, including Attachments C and D, on September 29, 2014. SDG&E filed its fourth quarter update on October 31, 2014, to refresh recorded and forecast data.

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[10] A covered entity must surrender one compliance instrument for each metric ton of carbon dioxide ($CO_2$) equivalent of GHG emissions for its compliance obligations. Allowances and offsets are the two types of compliance instruments in the cap-and-trade program. (California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, Title 17, CCR (Cap-and-Trade Regulations), § 95856.) The regulation also limits the use of offsets to no more than 8 percent of compliance instruments in a compliance period (Title 17 CCR § 95854).

A Prehearing Conference was held on November 18, 2014. The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on November 25, 2014.

As set forth in the Scoping Memo, the issues to be addressed in this proceeding are:

1. Reasonableness of requests, including but not limited to costs, revenues, returns, reconciliations, variances, and credits;
2. Compliance with all applicable Commission decisions, including but not limited to D.12-12-033, D.13-12-041, and D.14-10-033;
3. Verification and explanation of all inputs, calculations, and formulas, including but not limited to determination of:
    a. Forecasted 2015 California Climate Credit;
    b. Direct and indirect GHG costs;
    c. Forecasted 2015 forecasted GHG costs, allowance revenues and return allocations for incorporation in 2015 rates;
    d. Fifty percent of 2013 GHG costs, allowance revenues, return allocations, and variances;
    e. Reconciliation of 2013 and 2014 forecasted GHG allowance revenue return with actual returns;
    f. Forecasted 2015 GHG energy efficiency and clean energy set aside;
    g. Forecasted 2015 GHG administration, customer education and outreach costs;
4. Clarification of balances in SDG&E's GHG Outreach and Education Memorandum Account and GHG Administrative Costs Memo Account;
5. Whether SDG&E serves Direct Access or Community Choice Aggregation customers, and if there are any GHG costs or revenues associated with these groups.
    a. If so, provide actual 2013 and forecast 2015 GHG data for these groups.
6. Calculation of request for GHG costs as a result of the change in 2013 from cash accounting to accrual accounting for GHG allowances for non-CARE customer above Tier 2; and
7. Whether there are any safety considerations pursuant to Pub. Util. Code § 451 in SDG&E's application.

The Scoping Memo also directed SDG&E to file updated testimony on January 19, 2015. SDG&E filed updated testimony on January 16, 2015 (January Updated Testimony).

On February 6, 2015, SDG&E filed a motion requesting a shortened procedural schedule and shortened time for parties to respond to the motion. The assigned ALJ (by e-mail) informed parties that they should respond to SDG&E's February 6, 2015 motion by February 13, 2015. ORA, the only other party to this proceeding agreed that it would not be serving intervenor testimony, that evidentiary hearings were not necessary, and that briefing was not necessary. By the assigned ALJ's e-mail ruling of February 13, 2015, the following changes were made to the schedule.

1. Remove the due date of February 19, 2015 for the service of Intervenor Testimony;
2. Remove the evidentiary hearing set for March 19, 2015 from the Commission's Calendar; and
3. Remove the due dates of April 16, 2015 and April 30, 2015 for the filing and service of briefs.

The Commission affirms all rulings by the assigned Commissioner and ALJ herein.

## 3. Discussion of Recorded and Forecast GHG Allowance Revenue, Expenses, Credits, and Costs

SDG&E provided a fourth quarter update to its Application on October 31, 2014 and an amendment on January 16, 2015, to reflect updated information through the third quarter of 2014. This update was made to both forecast and recorded data. Specifically, SDG&E updated its 2014 recorded costs, revenues, and expenses using actual data through September 2014 and estimates for October through December of 2014.

The information detailed below includes recorded data for 2013, partially recorded and partially forecast data for 2014, as well as forecasts for 2015. We find that SDG&E has appropriately followed the requirements of D.12-12-033, D.14-10-033 and D.13-12-002 in forecasting its 2015 revenues and costs, reconciling its 2013 and 2014 recorded costs, and showing the reasonableness of its 2013 and 2014 administrative and outreach costs. We also approve the proposed 2015 residential Climate Credit of $23.99 per household.

Pursuant to D.12-12-033, SDG&E filed Advice Letter (AL) 2452-E-A to establish a sub-account within the Energy Resource Recovery Record (ERRA) to record GHG costs. While GHG costs were deferred from rates, SDG&E tracked these costs in a sub-balancing account of ERRA; once recovery in rates began, SDG&E transferred the costs to the main ERRA. The AL also created the GHG Customer Outreach and Education Memorandum Account, the GHG Administrative Costs Memorandum Account, and the GHG Revenue Balancing Account. The GHG Revenue Balancing Account is a two-way balancing account that records GHG revenues, less revenue returns and any revenues approved to be set aside for outreach and administrative expenses. Any funds that were set aside for outreach and administrative activities but were unused roll over for use in subsequent years.

### 3.1 Recorded and Forecast GHG Allowance Revenue

Each utility forecasts and records the total allowance revenue it receives each year. To determine the amount of this revenue that is available to return to customers in that year, the utility adjusts the forecast allowance revenue to account for: (1) any variance between the forecast and recorded allowance revenue in previous years that resulted in an over- or under-collection; (2) any applicable interest; (3) any applicable franchise fees and uncollectibles; and (4) authorized outreach and administrative expenses.  In accordance with the GHG allocation methodology adopted in D.12-12-033, SDG&E's GHG allowance revenue return will be allocated to ratepayers, including direct access and community choice aggregation customers.  Currently, SDG&E does not service any community choice aggregation customers.[11]

In addition, D.13-12-041 required all five of the regulated utilities to amortize their 2013 GHG costs and allowance revenues equally between 2014 and 2015, beginning with the month in which GHG costs and allowance revenues were first included in rates.  Thus, the total amount of revenue available to return to customers in 2015 will reflect the remaining amortized 2013 revenues and the forecast 2015 revenues.

#### 3.1.1. Recorded Revenue

Based on the January 2015 update to SDG&E's Application, the recorded GHG allowance revenues for 2013 and 2014 are $82 million and $76 million, respectively (Template D-1 of the January Updated Testimony).  The recorded 2013 data include actual recorded data for the 2013 year, while the recorded data for 2014 include actuals from January to September 2014 plus forecasts for October to December 2014.

SDG&E projects a balance of $19.8 million in its GHG Revenue Balancing Account at the end of 2014.  This amount reflects the 2013 allowance revenue to be amortized in 2015, adjusted for expenses, revenue returns, and any reconciliation between 2014 forecast and recorded values.

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[11] Le Mieux January Updated Testimony at 4.

SDG&E appropriately calculated the allowance revenues recorded for 2013 and 2014. SDG&E correctly amortized its 2013 Net GHG Revenues for return in 2014 and 2015.

#### 3.1.2 Forecast Revenue

SDG&E's 2015 forecast GHG allowance revenue collection is $78 million. Including the 2013 revenues to be returned in 2015 and adjusting for expenses and reconciliation, SDG&E forecasts $98 million in revenue available for customer returns in 2015. This revenue is forecast to be returned to EITE, small business, and residential customers in 2015 in the amounts shown in Template D-1 of SDG&E's January Updated Testimony.

SDG&E provided sufficient information for evaluating forecast GHG allowance revenues. The methodologies used for forecasting GHG costs and revenues, expenses, and calculating the revenue returns and Climate Credit are consistent with D.14-10-033 (as corrected by D.14-10-055 and D.15-01-024) and the guidance provided in R.11-03-012 to date. Further, the assumptions used by SDG&E when making its calculations are reasonable and appropriate for purposes of calculating revenue returns.

### 3.2. Recorded and Forecast Administrative and Outreach Expenses

#### 3.2.1. Recorded Administrative and Outreach Expenses

In its 2013 Forecast Revenue and Reconciliation Application, SDG&E forecasted $1.2 million for 2013 outreach and administrative expenses and $187,500 for 2014 outreach and administrative expenses. D.13-12-041 approved

SDG&E's forecast of 2013 and 2014 administrative and outreach expenses.[12] SDG&E transferred $550,000 to the greenhouse gas outreach expense memorandum account[13] and $251,250 to the greenhouse gas administrative costs memorandum account[14] from the greenhouse gas revenue balancing account. These amounts represent the 2014 forecasted expenses as well as half of the 2013 forecasted expenses authorized in D.13-12-041.

Resolution E-4611 required SDG&E to consign its 2013 outreach and education budget of $750,000 to the Center for Sustainable Energy to develop and administer a competitively neutral, statewide outreach and education program. Due to delays in program implementation, the Center for Sustainable Energy's outreach and education effort did not begin until 2014. In 2013, SDG&E did not record any outreach or administrative expenses.

For 2014, SDG&E recorded $948,699 in administrative and outreach expenses (Template D-3 of the January Updated Testimony). The recorded 2014 data includes actuals from January to September 2014, plus forecasts from October to December 2014.

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[12] Commission Resolution E-4611 revised the categorization of certain expenses approved in D.13-12-041: the resolution shifted the $52,500 for the 2013 forecast of Targetbase costs from administrative to outreach and shifted $35,000 in 2014 forecast marketing costs from outreach to administrative. This shifting did not impact the total authorized forecast of outreach and administrative expenses.

[13] The $550,000 SDG&E transferred to the outreach expense memorandum account includes 50 percent of 2013 statewide outreach expenses ($750,000/2 = $375,000), 2014 statewide outreach expenses ($140,000), and 2014 marketing expenses ($35,000).

[14] The $251,250 SDG&E transferred to the administrative costs memorandum account includes 50 percent of 2013 Targetbase costs ($52,500/2 = $26,250), 50 percent of 2013 administrative expenses ($425,000/2=$212,500), and 2014 administrative expense of $12,500.

SDG&E records $802,500 of outreach expenses for 2014. The outreach activities include SDG&E's portion of the payments to the Center for Sustainable Energy for statewide outreach and education, and Targetbase. Including interest, this accounts for an under-collection in the Outreach Expense Memorandum Account of $252,473 at the end of 2014 (Table 1).

SDG&E records $146,199 of administrative expenses for 2014. The administrative activities include IT/billing system enhancements, program management, and e-mail and bill inserts. Including interest, this accounts for an over-collection of $105,138 (Table 2).

The outreach and education and administrative expenses for 2014 total $948,699, which is shown in Template D-3. Pursuant to D.14-10-033, as modified by D.14-10-055, SDG&E's recorded 2014 GHG Outreach and Administrative expense of $801,250 on Template D-1 represents the 2014 recorded spend of $948,699 less the balance in the GHGCOEMA of $252,473 and the balance in the GHGACMA of ($105,138) less the over-collected interest of $114.

#### 3.2.2. Forecast Administrative and Outreach Expenses

SDG&E's 2015 forecast of GHG administrative expenses is $47,500 for customer e-mails and bill inserts and the direct labor costs associated with basic administrative activities (Template D-3 January Updated Testimony). SDG&E's 2015 forecast of GHG customer outreach expenses is $140,000 (Template D-3 January Updated Testimony). SDG&E plans to use the $140,000 to cover its share of the statewide outreach effort, pending the outcome of A.13-08-026. These funds would be provided to the Center for Sustainable Energy, if the Commission believes they should continue to lead the statewide effort in 2015. Otherwise, SDG&E would use this money to increase customer awareness of the Climate Credit in the April and October timeframe. SDG&E's total 2015 forecast of administrative and outreach expenses is $187,500. SDG&E's forecasted 2015 GHG expense of $334,835 (Template D-1 January Updated Testimony) represents SDG&E's 2015 request of $187,500, as shown in Template D-3, plus the net forecasted 2014 under-collection of the outreach and administrative memorandum accounts of $147,335.[15]

We find SDG&E's 2013 recorded and 2014 partially recorded expenses to be reasonable and authorize SDG&E to offset its 2015 forecast with the under-collection from 2014. We hereby adopt SDG&E's 2015 administrative and customer outreach forecast, and authorize it to set aside a net of $334,835 to fund its 2015 administrative and customer outreach expenses.

[15] SDG&E projects a balance of $252,473 in the outreach expense memorandum account and ($105,335) in the administrative costs memorandum account for a net of $147,335.

### 3.3 Recorded and Forecast Expenses Approved for Incremental Energy Efficiency and Clean Energy Programs.

D.12-12-033 allows for a portion of GHG allowance revenues to be used for clean energy or energy efficiency programs approved in relevant proceedings. In its testimony, SDG&E calculates the amount of allowance auction revenues available to fund potential incremental energy efficiency and clean energy investments in 2015 at 15 percent of expected 2015 cap-and-trade allowance auction revenue, totaling $11.7 million (Barker January Updated Testimony at 4). SDG&E has not requested or received approval of a clean energy or energy efficiency project in accordance with D.12-12-033; therefore it does not record or forecast a value for this variable.

### 3.4 Recorded and Forecast Emissions-Intensive and Trade-Exposed Customer Return.

On December 18, 2014, the Commission approved D.14-12-037, which establishes methodologies for utilities to return GHG allowance revenues to emissions-intensive and EITE customers. Because the methodologies have only recently been finalized, implementation is not yet complete; therefore, SDG&E does not have recorded data for the EITE Customer Return in 2013 or 2014.

To forecast revenues that will be distributed to other eligible customer groups in 2015, SDG&E first needed to estimate revenues that will be distributed to EITE customers in 2015. To simplify this estimate, SDG&E adopted the following assumption: EITE customers would be returned revenues equal to their electricity usage multiplied by SDG&E's emissions factor and converting to dollars by multiplying by SDG&E's proxy GHG price for 2015.[16] In doing so,

[16] Testimony of David Barker at 5.

SDG&E estimated its 2015 EITE customer return to be $949,000 and 50 percent of its 2013 EITE customer return would be $424,000 (Le Meiux Testimony at 5). We find the total of $1,384,559 to be a reasonable estimate of the EITE revenue return for the purpose of calculating the revenue return available to other customers.

### 3.5 Recorded and Forecast Volumetric Small Businesses Return and Residential Return

In accordance with D.12-12-033, SDG&E distributes its Small Business Return and Residential Return through monthly volumetric credits. The volumetric returns are designed to offset the GHG costs that are embedded in rates. The basis for these volumetric revenue returns is the rate-specific cents-per-kilowatt-hour cap-and-trade "unit costs." This is determined by:

1. Calculating the total forecast cap-and-trade costs allocable to each applicable rate schedule based on the imputed generation cost allocators.
2. Calculating and applying a true-up adjustment to reflect the difference between the recorded 2014 costs and the forecasted costs that were used to set the 2014 volumetric rates.
3. The total costs allocable to each rate schedule will be divided by the rate schedule's forecasted annual kilowatt-hour (kWh) usage, which will result in a cents-per-KWh GHG "unit cost" for each group.

#### 3.5.1. Recorded and Forecast Small Businesses Return

SDG&E's 2014 recorded Small Business Return is $10.9 million and 2015 forecast for its Small Business Return is $7 million (Template D-1 January Updated Testimony). The 2015 forecast consists of $2.3 million in forecast 2015 costs, including reconciliation, and 50 percent of the 2013 return at $4.6 million, for a total of $7 million (Le Mieux January Updated Testimony at 6). This forecast is reasonable for the purpose of calculating the revenue return available to other customers.

The exact credit per customer will be determined by multiplying the cap-and-trade unit cost for the customer's rate schedule by the customer's monthly usage and then adjusting by the Industry Assistance Factors determined in D.13-12-002.[17] For 2013 through 2015, the Industry Assistance Factor is 100 percent.

### 3.5.2. Recorded and Forecast Volumetric Residential Return.

SDG&E's 2014 recorded Volumetric Residential Return is $37.4 million and 2015 forecast for its Volumetric Residential Return is $31.3 million (Template D-1 January Updated Testimony). To calculate this return, SDG&E applies allowance revenue to fully offset the unit GHG cost to all applicable usage.[18] The allowance revenue is returned through a credit to the distribution component of all bundled, Direct Access, and Community Choice Aggregator customers' bills. The 2015 volumetric residential return forecast includes $10.5 million for 2015 plus $20.8 million for 50 percent of the authorized 2013 forecast (Le Mieux January Updated Testimony at 7).

The 2015 forecast is reasonable for the purpose of calculating the revenue return available for the Residential Climate Credit.

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[17] *See* D.13-12-002, Table 2 of Appendix 2.

[18] Only non-CARE residential customers in Tier 3 or 4 usage (for standard tiered and optional rate schedules, including Time-of-Use rate schedules) will receive the residential volumetric return. The Commission recognized that the current residential tiered rate structure disproportionately assigns costs to the upper tiers (Tier 3 and 4); therefore, utilities are authorized to use GHG allowance revenues to offset all GHG costs in the upper-tier residential rates.

### 3.6. Recorded and Forecast California Climate Credit.

SDG&E distributed a semi-annual, residential Climate Credit in 2014 of $36.24 per household. The 2015 forecast of the residential Climate Credit is $23.99 per household (Template D-1 January Revised Testimony). As stated in D.13-12-003, all residential households will receive a California Climate Credit distributed as a separate on-bill line item credit twice a year (every April and October billing cycle). To calculate the amount of each climate credit payment, SDG&E will divide the total revenues remaining among all eligible residential households based on service accounts, including master meter subaccounts. The credit is rounded to the nearest cent and applied to the distribution portion of the bill, but not necessarily applied exclusively to distribution charges. This location on the bill ensures that Direct Access and Community Choice Aggregation customers receive their fair portion of allowance revenues, as is required by D.12-12-003. We approve SDG&E's 2015 semi-annual residential Climate Credit of $23.99 for each household.

### 3.7. Summary of Revenue

Table 3 summarizes the approved calculation of the revenue return for 2015.

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## 4. Recorded and Forecast GHG Costs

SDG&E has two categories of GHG costs, direct costs and indirect costs. Direct costs reflect SDG&E's GHG costs from utility-owned generation plants in California, California generators with whom SDG&E has contracts where SDG&E is responsible for GHG costs, and electricity imports. Indirect costs are embedded in market electricity prices, or charged to SG&E by third parties under contract with SG&E for energy supply.

SDG&E's authorized GHG costs are collected from bundled customers through the generation component of rates. While SDG&E does have some unbundled customers, it does not pass any of its GHG costs onto these customers; rather, the electricity provider of the unbundled customer will collect GHG costs via the generation component of the customer's bill.

### 4.1 Recorded GHG Costs

For the purpose of reporting recorded direct GHG costs, D.14-10-033 required each utility to multiply recorded direct GHG emissions by the weighted average cost of eligible compliance instruments that it holds in inventory. SDG&E provides the confidential calculations of its direct costs in Template C of its January Updated Testimony.[19] To report recorded indirect GHG costs, D.14-10-033 required each utility to multiply the recorded indirect GHG emissions by the annual average of the daily California Independent System Operator GHG Allowance Price Index.

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[19] Confidentiality is discussed in detail in Section 6 of this decision.

SDG&E's recorded GHG costs for 2014 (Template D-2 January Updated Testimony) were calculated appropriately.

A utility's direct GHG emissions are confidential. Because SDG&E is reporting its total emissions publicly, it must also keep its indirect GHG emissions confidential to avoid revealing its direct GHG emissions.

#### 4.1.1. Accounting of Recorded GHG Costs

When the Cap-and-Trade Program began, SDG&E purchased compliance instruments and recorded the costs of the compliance instruments in its ERRA account on a cash basis. In December 2013, for regulatory purposes, SDG&E adjusted its accounting records to switch from cash accounting to accrual accounting for direct GHG costs (Vazquez Chihwaro January Updated Testimony at 2). Further, Ordering Paragraph 14 of D.14-10-033 required all utilities to use the accrual method of accounting to track greenhouse gas costs and revenues.

SDG&E has made the appropriate accounting adjustments to its ERRA balancing account to switch to the accrual basis of accounting.

#### 4.1.2. Forecast GHG Costs

SDG&E seeks recovery of its forecast 2015 GHG costs and 50 percent of its forecast 2013 GHG costs in this application.

The GHG cost forecast is equal to the expected emissions, both direct and indirect, multiplied by the forecasted proxy GHG price resulting in forecasted GHG costs for 2015 of $58.2 million (Montoya January Updated Testimony at 8). An updated proxy price for the 2015 GHG emissions price of $12.09 MT was derived using a September 2, 2014 assessment of 2015 GHG market prices based on the average of forward prices on the Intercontinental Exchange (ICE) over the previous 22-day period, consistent with the period used for forecasting natural gas and electricity prices associated with the forecast of emissions.

SDG&E did not reconcile the forecast 2013 and 2014 costs with the recorded amounts. Any disparity between the forecast of cap-and-trade costs incorporated into rates and actual cap and-trade costs incurred will be captured as part of the larger ERRA true-up process. SDG&E will true-up total ERRA balances either through its Annual Regulatory Account update filing (pursuant to D.09-04-021) or through the ERRA Trigger Mechanism (pursuant to D.07-05-008).

SDG&E is requesting that 50 percent of the forecasted 2013 GHG costs equaling $45.4 million (including franchise fees and uncollectables (FFU)) and 100 percent of the forecasted 2015 GHG costs of $58.9 million (including FFU), for a total of $104.3 million, be included in rates. This forecast of GHG costs is reasonable for inclusion in rates.

### 4.2. Coordination with ERRA Forecast Proceeding

On April 15, 2014, SDG&E filed an application for Adoption of its 2015 Energy Resource Recovery Account Revenue Requirement, Competition Transition Charge Revenue Requirement and Local Generation Revenue Requirement Forecasts. SDG&E's ERRA application, A.14-04-015 as approved by D.15-01-004, sought recovery of procurement-related costs, but excluded the direct and indirect GHG costs described in this decision.

Pursuant to D.14-10-033, approval of GHG costs in future years will occur through SDG&E's annual ERRA forecast application.

## 5. Safety

The health and safety impacts of GHGs are among the many reasons that the Legislature enacted Assembly Bill (AB) 32. Specifically, the Legislature found and declared that global warming caused by GHG "poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems."[20]

This decision implements a key part of the GHG reduction program envisioned by AB 32 and Public Utilities Code Section 748.5 and, as a result, will improve the health and safety of California residents.

## 6. Motion for Confidential Treatment and Receipt of Testimony into the Record

The California Air Resources Board's (ARB's) cap-and-trade regulations prohibit disclosure of auction-related information in most circumstances.[21] ARB's goal is to prevent market collusion. The Commission is interested in ensuring that the public has access to information related to utility rates, but also has its own rules to protect the confidentiality of market sensitive information. D.14-10-033 established Confidentiality Protocols[22] to maximize the amount of information that utilities can make publicly available, which ensuring they do not disclose market sensitive information.

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[20] AB 32 § 38501(a).

[21] 17 CCR § 95914(c).

[22] *See* Attachment A.

SDG&E has submitted public and confidential versions of its testimony. Pursuant to Rule 11.4 of the Commission's Rules of Practice and Procedure (Rule), D.06-06-066 and D.08-04-023, and the ARB's rules and regulations, SDG&E filed a motion requesting that the confidential supplemental information be filed under seal. Pursuant to Rule 11.5, portions of the record of a proceeding (such as served testimony) may be sealed. Therefore, instead of Rule 11.4, we treat SDG&E's motion as a request pursuant to Rule 11.5 (as well as the referenced decisions and ARB rules and regulations).

The information referenced in the motion to file under seal and the information contained in the testimony filed under seal constitute commercially sensitive material and include information that falls under the "ARB Confidential" and "Confidential" categories in the Confidentiality Matrix.

We grant confidential treatment of and seal (as detailed in the ordering paragraphs herein) Exhibits SDG&E-2C, -3C, -6C, and -7C. The documents placed under seal shall remain under seal for the applicable period of time set forth in the Confidentiality Matrix D.14-10-033.

On February 18, 2015, SDG&E requested that its Exhibits SDG&E-1 through 7 and confidential Exhibits SDG&E-2C, -3C, -6C, and -7C be received into the record of A.14-04-018. We grant SDG&E's request to receive these public and confidential versions of SDG&E's exhibits into the record of A.14-04-018.

## 7. Compliance

Within 30 days of the effective date of this decision, SDG&E shall submit the necessary Advice Letters with the Energy Division under Tier 1 of General Order (GO) 96-B to implement the rate changes authorized by this decision.

Because the rate changes authorized by this decision are not effective on January 1, 2015, SDG&E shall calculate the volumetric GHG costs and volumetric allowance revenue amounts to be included in customer rates so that the costs and revenues approved in this decision are amortized over the remaining months of 2015. As there will likely be an over-collection for 2015 GHG, SDG&E shall include an adjustment for this over-collection in its 2016 GHG application.

## 8. Comments on Proposed Decision

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code to 10 days: five days for opening comments and five days for reply comments. Pursuant to the parties' stipulation, comments were filed on March 9, 2015 by SDG&E. No reply comments were filed.

## 9. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Sean Wilson is the assigned Administrative Law Judge in these consolidated proceedings.

## Findings of Fact

1. The proposed forecast GHG cost and allowance revenue returns to customers, including the residential California Climate Credit, for SDG&E are set forth in SDG&E's January Updated Testimony.

2. Pursuant to D.12-12-033, SDG&E has been tracking GHG costs and allowance revenues in two-way balancing accounts and tracking administrative and outreach expenditures associated with the program in a memorandum accounts.

3. D.13-12-041 required SDG&E to file an application concurrent with its ERRA forecast application, seeking approval of 2015 forecast GHG costs,

allowance revenues, and administrative and customer outreach expenses, to calculate volumetric allowance revenue returns and the residential Climate Credit for inclusion in rates beginning in 2015.

4. D.12-12-033 allows for a portion of GHG allowance revenues to be used for energy efficiency and clean energy programs approved in relevant proceedings.

5. SDG&E has not requested or received approval of a clean energy or energy efficiency program in another proceeding for which the allowance revenues could be used.

6. SDG&E filed Rule 3.2 Proof of Compliance for rate changes that may result from this proceeding.

7. The 2015 forecast GHG allowance revenue, GHG costs, revenue returns to Emissions-Intensive and Trade-Exposed customers, and volumetric returns are set forth in Templates D-1 and D-2 of SDG&E's Revised GHG Revenue and Reconciliation Application Form in its January Updated Testimony.

8. The 2014 recorded administrative and outreach expenses are $146,199 and $802,500, respectively.

9. The net forecast administrative and outreach expenses to be set aside for 2015 are $334,835.

10. The 2015 forecast residential California Climate Credit is $23.99 per household.

11. SDG&E did not seek recovery of direct or indirect GHG costs in its ERRA Application.

12. D.14-10-033 addresses, in part, the confidentiality of GHG documents and contains the Confidentiality Matrix.

## Conclusions of Law

1. SDG&E appropriately forecasted GHG costs and allowance revenues, and the corresponding returns to customers, consistent with D.12-12-033, D.14-10-033 (as corrected by D.14-10-055 and D.15-01-024), and the other decisions issued in R.11-03-012 to date.

2. The amounts and calculations in SDG&E's January Updated Testimony are appropriate and consistent with the instructions and templates provided in D.14-10-033 as corrected by D.14-10-055 and D.15-01-004.

3. The methodologies used to forecast GHG costs and allowance revenues and reconcile prior forecasts with recorded amounts are reasonable.

4. The recorded and forecast GHG allowance revenues are reasonable.

5. The recorded and forecast administrative and outreach costs are reasonable.

6. The recorded and forecast GHG costs are reasonable.

7. SDG&E's inclusion of its 2015 GHG cost forecast in this application is appropriate, as these costs were excluded from its 2015 ERRA forecast.

8. $87.3 million of GHG costs should be included in SDG&E customer rates.

9. $98 million of GHG revenue should be returned to SDG&E customers in their rates.

10. SDG&E should be authorized to modify its tariffs to reflect (1) the forecast 2015 GHG allowance revenues and the reconciled 2013 and 2014 GHG allowance revenues specified in its January Updated Testimony and (2) the forecast 2015 GHG costs and 50 percent of the recorded 2013 GHG costs.

11. Advice Letters to implement changed tariff sheets in accordance with this Decision should be filed as GO 96-B Tier 1 Advice Letters.

12. Because the rate changes authorized by this decision are not effective on January 1, 2015, SDG&E should calculate the volumetric GHG costs and volumetric allowance revenue amounts to be included in customer rates so that the costs and revenues approved in this decision are amortized over the remaining months of 2015. As there will likely be an over-collection for 2015 GHG, SDG&E should include an adjustment for this over-collection in its 2016 GHG application.

13. SDG&E's request to treat selected versions of its testimony as confidential should be granted, as detailed herein.

14. SDG&E's request to receive testimony into the record, should be granted, as detailed herein.

15. There is no need for evidentiary hearings for this proceeding.

16. Exhibits SDG&E-2C, -3C, -6C, and -7C should be sealed and treated confidentially. The documents placed under seal should remain under seal for the applicable period of time set forth in the Confidentiality Matrix in Decision 14-10-033.

## O R D E R

**IT IS ORDERED** that:

1. San Diego Gas & Electric Company (SDG&E) shall modify its tariffs to issue a semi-annual residential California Climate Credit and to include in rates: (1) the forecasted greenhouse gas revenues consistent with the amounts set forth in Template D-1 of SDG&E's January Updated Testimony and as summarized in Table 3 of this decision and (2) the forecast 2015 greenhouse gas costs and 50 percent of the recorded 2013 GHG costs as set forth in Template D-2 of SDG&E's January Updated Testimony.

2. $87.3 million of Greenhouse Gas costs must be included in San Diego Gas & Electric Company's customer rates.

3. $98 million of Greenhouse Gas revenue must be returned San Diego Gas & Electric Company customers in their rates.

4. Within 30 days of the effective date of this decision, San Diego Gas & Electric Company shall submit the necessary Advice Letters with the Energy Division under Tier 1 of GO 96-B to implement the rate changes authorized by this decision. The Advice Letter shall include changed tariff sheets and supporting documentation for:

a. Residential rate schedules (including master-metered rate schedules) to include the authorized 2015 Climate Credit Amount; and

b. Residential rate schedules (including master-metered rate schedules) and small business rate schedules to include the volumetric dollars per kilowatt hour greenhouse gas (GHG) credit to offset all or the authorized portion of the amount of GHG compliance costs in rates.

c. Remaining rate schedules to include increases in all customer groups' generation dollars per kilowatt hour rates to collect authorized GHG costs.

5. Because the rate changes authorized by this decision are not effective on January 1, 2015, San Diego Gas & Electric Company shall calculate the volumetric greenhouse gas costs and volumetric allowance revenue amounts to be included in customer rates so that the costs and revenues approved in this decision are amortized over the remaining months of 2015.

6. San Diego Gas & Electric Company's (SDG&E) request to treat as confidential and seal portions of the evidentiary record, in particular, Exhibits SDG&E-2C, -3C, -6C, and 7C is approved. The documents placed under seal shall remain under seal for the applicable period of time set forth in

the Confidentiality Matrix in Decision 14-10-033. During this period, this information will remain under seal and confidential, and shall not be made accessible or disclosed to anyone other than the Commission staff or on the further order or ruling of the Commission, assigned Commissioner, the assigned Administrative Law Judge, the Law (ALJ) and Motion Judge, the Chief ALJ, or the Assistant Chief ALJ, or as ordered by a court of competent jurisdiction. If SDG&E believes that it is necessary for this information to remain under seal for longer than three years, SDG&E may file a new motion stating the justification of further withholding of the information from public inspection. This motion shall be filed at least 30 days before the expiration of today's limited protective order.

7. San Diego Gas & Electric Company's request to receive its Exhibits SDG&E-1 through -7 and confidential Exhibits SDG&E-2C, -3C, -6C, and -7C into the record of Application 14-04-018 is granted.

8. San Diego Gas & Electric Company shall include an adjustment for any over-collection in its 2016 greenhouse gas application, which result from amortization of the dollars authorized herein over the remaining months of 2015.

9. No evidentiary hearings are needed for this proceeding.

10. Application 14-04-018 is closed.

This order is effective today.

Dated March 26, 2015, at San Francisco, California.

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners