

Decision 21-07-018 July 15, 2021

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 2019, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account, Portfolio Allocation Balancing Account, Transition Cost Balancing Account, Local Generating Balancing Account in 2019, and (iii) Costs Recorded in Related Regulatory Accounts in 2019.

Application 20-06-001

**DECISION APPROVING SAN DIEGO GAS & ELECTRIC COMPANY'S
2019 ENERGY RESOURCE RECOVERY ACCOUNT-RELATED
ACTIVITIES AND COSTS**

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**DECISION APPROVING SAN DIEGO GAS & ELECTRIC COMPANY'S
2019 ENERGY RESOURCE RECOVERY ACCOUNT-RELATED
ACTIVITIES AND COSTS**

Summary

This decision approves various 2019 Energy Resource Recovery Account-related activities and costs of San Diego Gas & Electric Company (SDG&E). In 2019, SDG&E administered and managed its utility owned generation facilities prudently and its contracts for generation and power purchase agreements in accordance with the contract provisions and California Public Utilities Commission guidelines. Except for a disallowance regarding two November 2019 incidents regarding incremental bids for thermal resources, this decision also approves SDG&E's 2019 use of energy resources based upon its achievement of least cost dispatch.

This proceeding remains open to address Public Safety Power Shutoff events in Phase II.

1. Procedural Background

On June 1, 2020, San Diego Gas & Electric Company (SDG&E) filed its Application (Application) with the California Public Utilities Commission (Commission) for approval of SDG&E's activities in 2019 regarding contract administration, least cost dispatch, and power procurement, costs related to those activities recorded to the Energy Resource Recovery Account (ERRA), Portfolio Allocation Balancing Account, Transition Cost Balancing Account, and Local Generating Balancing Account (LGBA), and costs recorded in related regulatory accounts. By Resolution ALJ 176-3464 adopted on June 25, 2020, the Commission preliminarily determined that this proceeding was ratesetting and that hearings were necessary. On July 8, 2020, the Public Advocates Office (Cal Advocates) filed a Protest to the Application. On July 23, 2020, SDG&E and

Cal Advocates filed a joint meet and confer report. A Prehearing Conference was held on July 27, 2020. An Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) filed on August 12, 2020, affirmed the Commission's preliminary categorization of this proceeding as ratesetting and the necessity for hearings, set forth the issues in Phase I and in Phase II related to Public Safety Power Shutoff (PSPS) events, and adopted a procedural schedule for Phase I. A ruling issued on August 26, 2020, modified the procedural schedule in Phase I.

On January 14, 2021, SDG&E and Cal Advocates submitted a joint report stating that they had stipulated to the admission of certain documents into evidence and waived evidentiary hearings. As a result, no evidentiary hearings were conducted. On January 28, 2021, rulings were issued granting the joint motion of SDG&E and Cal Advocates to enter testimony and exhibits into the evidentiary record and the separate motions of SDG&E and Cal Advocates to seal a portion of the evidentiary record.¹ SDG&E and Cal Advocates filed opening briefs on February 19, 2021 and reply briefs on March 5, 2021.

2. Issues

As set forth in the Scoping Memo, the issues to be determined in Phase I of this proceeding are:

1. Whether SDG&E administered and managed its utility-owned generation (UOG) facilities prudently, to include the management of outages and associated fuel costs, according to Standard of Conduct (SOC) 4.

¹ As reflected in the applicable motions and rulings listed in the Docket Card for this proceeding and the testimony and documents admitted into evidence, including the testimony and documents that were electronically submitted as Supporting Documents using the Commission's electronic filing system, SDG&E's exhibits in evidence were identified as Exhibits SDGE-01 through SDGE-12, SDGE-01C through SDGE-04C, SDGE-06C through SDGE-08C, and SDGE-12C, and Cal Advocates' exhibits in evidence were identified as Exhibits Cal PA-01 through Cal PA-03 and Cal PA-01C.

2. Whether SDG&E administered and managed its Qualifying Facility (QF) and non-QF contracts for generation and power purchase agreements in accordance with the contract provisions and otherwise followed Commission guidelines relating to those contracts and their amendments according to SOC 4.
3. Whether SDG&E used the most cost-effective mix of energy resources under its control and achieved Least Cost Dispatch (LCD) of its energy resources according to SOC 4.
4. Whether SDG&E administered its demand response programs to minimize costs to its ratepayers according to SOC 4.
5. Whether the entries in all ERRAs and subaccounts are correctly stated and in compliance with Commission directives.
6. Whether SDG&E's Greenhouse Gas (GHG) Compliance Instrument procurement complied with its Conformed Bundled Procurement Plan and was consistent with Commission and state policies and laws.
7. Whether the entries in SDG&E's GHG Revenue Balancing Account and GHG-related entries in other ERRA subaccounts are accurate, and whether SDG&E met its burden of proof regarding its claim for these entries.
8. Whether the Commission should authorize SDG&E to pursue adjustment of the overcollection in SDG&E's LGBA in SDG&E's next-filed ERRA Forecast Proceeding for 2022 or SDG&E's next Annual Electric Regulatory Account Update filing.
9. Whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's Green Tariff Shared Renewable Balancing Account (GTSRBA) in SDG&E's next-filed ERRA Forecast Proceeding for 2022.
10. Whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's New

Environmental Regulatory Balancing Account (NERBA) in the Annual Electric Regulatory Account Update filing.

11. Whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's Tree Mortality Non-Bypassable Charge Balancing Account (TMNBCBA) in the Annual Electric Public Purpose Program Account Update filing.

3. Discussion

3.1. General Legal Principles

In Decision (D.) 02-10-062, the Commission established the ERRA balancing account mechanism to track fuel and purchased power billed revenues against actual recorded costs of these items. In the same decision, the Commission required regulated electric utilities in California to establish a fuel and purchased power revenue requirement forecast, a trigger mechanism (to address balances exceeding certain benchmarks), and a schedule for ERRA applications. The Commission has subsequently adopted decisions regarding the ERRA balancing account that set minimum standards of conduct regulated energy utilities must follow in performing their procurement responsibilities.²

The ERRA regulatory process includes an annual compliance proceeding and an annual forecast proceeding. In this ERRA compliance proceeding, the Commission is required to perform a compliance review to consider whether SDG&E has complied with all applicable rules, regulations, opinions, and laws governing administration of energy resource contracts, UOG, and LCD.³ As part of its compliance review, the Commission considers whether the utility has prudently administered its contracts and generation resources and dispatched

² D.17-03-016 at 2.

³ D.16-05-003 at 3.

energy in a least cost manner in accordance with SOC 4.⁴ SOC 4 provides: “The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner.”⁵ Prudent contract administration includes administration of all contracts within the terms and conditions of those contracts and the responsibility to dispose of economic long power and to purchase economic short power in a manner that minimizes ratepayer costs. LCD means the most cost-effective mix of total resources is used, thereby minimizing the cost of delivering electric services.⁶

When a utility makes a showing that its conduct was prudent, a party proposing a disallowance must establish that the utility did not act as a reasonable manager. Under the reasonable manager standard, the act of the utility should comport with what a reasonable manager of sufficient education, training, experience, and skills using the tools and knowledge at his or her disposal would do when faced with a need to make a decision and act.⁷

As the applicant, SDG&E has the burden of affirmatively establishing by a preponderance of the evidence that it is entitled to the Commission’s actions and relief that it is requesting.⁸

⁴ D.17-03-016 at 2.

⁵ D.02-10-062 at 74 (Conclusion of Law 11).

⁶ D.15-05-005 at 3 (quoting from D.02-12-074 at Ordering Paragraph 24b).

⁷ D.14-05-023 at 15.

⁸ D.14-07-006 at 6.

3.2. Administration and Management of UOG Facilities

Issue 1 of the Scoping Memo asks whether SDG&E administered and managed its UOG facilities prudently, to include the management of outages and associated fuel costs, according to SOC 4.

Although Cal Advocates submitted testimony regarding this issue, it subsequently stated in its opening brief that it has no position regarding this issue.⁹ SDG&E stated in its opening brief that Cal Advocates had agreed to withdraw its recommendations regarding this issue.¹⁰

In 2019, SDG&E followed an established maintenance program to maximize the availability of its UOG facilities. The maintenance program factored in manufacturer guidelines, appropriate power industry practices, safety considerations, and good engineering and technical judgment to allocate resources most effectively to maximize availability of SDG&E's UOG resources.¹¹

Following our review of the Application and the admitted evidence, we find that SDG&E has administered and managed its UOG facilities prudently in accordance with SOC 4.

3.3. Administration and Management of QF and Non-QF Contracts

Issue 2 of the Scoping Memo asks whether SDG&E administered and managed its QF and non-QF contracts for generation and power purchase agreements in accordance with the contract provisions and otherwise followed

⁹ Cal Advocates Opening Brief at 4.

¹⁰ SDG&E Opening Brief at 2.

¹¹ Exhibit SDGE-05 at 4.

Commission guidelines relating to those contracts and their amendments according to SOC 4.

Cal Advocates has taken no position regarding this issue.¹² No evidence or argument was presented to dispute this issue.

In 2019, SDG&E's recorded ERRA-related contract expenses and its administration and management of its QF and non-QF contracts for generation and power purchase agreements were in accordance with contract terms.¹³

Following our review of the Application and the admitted evidence, we find that SDG&E has administered and managed its QF and non-QF contracts for generation and power purchase agreements in accordance with the contract provisions and otherwise followed Commission guidelines relating to those contracts and their amendments according to SOC 4.

3.4. Mix of Energy Resources and LCD

Issue 3 of the Scoping Memo asks whether SDG&E used the most cost-effective mix of energy resources under its control and achieved LCD of its energy resources according to SOC 4.

Cal Advocates raises the following five matters regarding this issue:

3.4.1. Disallowance Regarding Incremental Bids for Thermal Resources

Cal Advocates asserts that SDG&E did not meet SOC 4 regarding two incidents in November 2019 concerning the calculation of incremental bids for thermal resources. In the November 9, 2019 incident, the SDG&E scheduling system did not populate hourly bids for the Palomar 2x1 configuration.¹⁴

¹² Cal Advocates Opening Brief at 5.

¹³ Exhibit SDGE-01 at 40.

¹⁴ Exhibit Cal PA-1 at 2-16.

SDG&E discovered the incident on the same day and notified the third-party software developer, who fixed the issue the following day. SDG&E acknowledged that it did not verify that bids for each configuration had been populated, and SDG&E only updated its quality control process to verify that bids for each configuration had been populated after the error occurred.¹⁵ Cal Advocates argues that it was unreasonable for SDG&E to rely on an insufficient verification tool to detect its failure to populate bids.¹⁶

SDG&E explained that the November 9, 2019 incident occurred when a third-party vendor did not populate the bid template for the 2x1 generation configuration because of a software update. SDG&E immediately alerted the vendor to the problem, and the issue was fixed before schedules were submitted for the following day. SDG&E contends that it did update its quality control process to verify that the bids for each configuration of all of its resources had been correctly populated.¹⁷

In the November 12, 2019 incident, Cal Advocates asserted that a background process in SDG&E's scheduling system erroneously resubmitted bids for the Palomar 2x1 and 2x1 DF configurations. SDG&E did not discover this incident until April 2020, and the five-month delay resulted in the loss of data that SDG&E admits could have enabled an incident analysis. Although SDG&E denies culpability for the November 12 incident because the background task happened without SDG&E knowledge immediately before a scheduling deadline and no decision could have avoided the issue, Cal Advocates argues

¹⁵ Exhibit SDGE-4C at 30.

¹⁶ Cal Advocates Opening Brief at 7.

¹⁷ Exhibit SDGE-4C at 30.

that SDG&E's inability to conduct a proper bid validation delayed discovery of the issue for months and SDG&E would not have lost the data if it had discovered the issue earlier. As a result of the two incidents, the California Independent System Operator (CAISO) generated default bids that were higher than the bids that SDG&E would have otherwise submitted, with a cost impact as asserted by Cal Advocates in its confidential testimony and opening brief.¹⁸

Regarding the November 12, 2019 incident, SDG&E explained that its bids had been correctly populated but that without its knowledge a third-party background process over-wrote the original bids with new bids that did not populate the 2x1 configurations. SDG&E asked the software developer to conduct a root cause analysis to ensure the incident would not be repeated. SDG&E also noted that it had a 99.96 percent accuracy for 243,206 bids in the record period.¹⁹ SDG&E asserts that it acted prudently and within the standards of what a reasonable manager would do.²⁰

A reasonable manager acting to prudently administer the third-party software developer contract would have implemented a quality control process before November 9, 2019, to detect whether bids for each configuration had been populated. However, SDG&E failed to do so until after the November 9, 2019 incident. The November 12, 2019 incident reflects SDG&E's violations of SOC 4 both by its failure to exercise sufficient diligence to prevent the third-party background process error and its failure to discover that error for months. The evidence established that SDG&E violated SOC 4 regarding the November 9 and

¹⁸ Exhibit Cal PA-1C at 2-16; Cal Advocates Opening Brief at 7-8.

¹⁹ Exhibit SDGE-06 at 9.

²⁰ SDG&E Opening Brief at 5.

12, 2019 incidents. Therefore, we disallow SDG&E's cost recovery for the two November 2019 incidents in the amount proposed by Cal Advocates in its confidential testimony and opening brief.

3.4.2. Disallowance Regarding Storage Resources

Cal Advocates argues that SDG&E failed to meet its burden of proof to establish LCD compliance of its storage resources, including its pumped hydro and battery resources. Based upon its examination of SDG&E's Lake Hodges pumped hydro storage resources for February 10 and 11, 2019, Cal Advocates identified inaccurate price forecasts and opportunities to pump during lower-priced hours than SDG&E's actual dispatch pattern. Cal Advocates claims that SDG&E failed to provide evidence of the reason it did not bid and possibly award the more economic dispatch pattern. Cal Advocates' proposed disallowance corresponds to the annual average daily cost impact for Lake Hodges at about one-fourth the level of the example from February 10 and 11, 2019.²¹ Cal Advocates asserts that the Commission should disallow the amount identified in its prepared testimony and briefs because SDG&E failed to meet its burden of proof that dispatch of the Lake Hodges units was compliant with LCD in the 2019 record period.²²

Cal Advocates also maintains that SDG&E must meet the following requirements from D.15-05-005 to demonstrate compliance with LCD of its storage resources:

Summary reporting on bidding and dispatch of
dispatchable hydro and pumped storage resources.
Detailed supporting data documents[,] daily bid
calculations, actual [locational marginal prices (LMPs)],

²¹ Exhibit Cal PA-1C at 2-28; Cal Advocates Confidential Opening Brief at 11.

²² Cal Advocates Opening Brief at v, 11.

and market dispatch results, as well as input from the mid-term hydro planning models, and sorted lists of LMPs, from highest to lowest, relevant to each resource.²³

Cal Advocates asserts that SDG&E did not meet these requirements because it did not provide detailed supporting data documents and daily bid calculations for its Lake Hodges dispatchable hydro and pumped storage resources.²⁴

SDG&E argues that the Commission has not established a standard for the LCD bidding methodology for hydro and battery storage resources. Moreover, SDG&E provided the data required by D.15-12-015 regarding hydro resources. In addition, SDG&E contends that energy storage should not be held to the same standard as thermal generation because of its intricacies and contractual limitations. SDG&E suggests that the Commission open a new rulemaking if it wants to consider developing and applying an LCD standard for storage resources.²⁵

SDG&E argues that Cal Advocates' proposed disallowance regarding storage resources is speculative in that it extrapolates an analysis covering two days over the entire year. SDG&E also questions Cal Advocates' comparison of pricing and pumping activity for two days in different weekly balancing periods.²⁶ SDG&E also asserts that it has used the same Commission-approved process year over year.²⁷ Although SDG&E acknowledged that its price forecasts

²³ D.15-05-005, Appendix A.

²⁴ Cal Advocates Opening Brief at 9.

²⁵ SDG&E Opening Brief at 11.

²⁶ *Id.* at 12.

²⁷ *Id.* at 14.

for February 10, 2019, did not accurately predict which hours would be the lowest-priced hours, it followed its process to submit bids and schedules based on its forecasted prices. Further, SDG&E contends that there is no requirement that it be perfect with its forecasts.²⁸

As set forth in Section 3.1 above, SDG&E must conduct all of its energy dispatch activities in a least cost manner using the most cost-effective mix of total resources to minimize the cost of delivering electric services. In D.15-12-015, the Commission adopted a methodology for the demonstration of LCD in ERRR compliance proceedings, including the identification of material to satisfy SDG&E's burden of production regarding what constitutes adequate evidence to allow the Commission to assess whether SDG&E complied with the Commission's LCD requirements.²⁹ D.15-12-015 then identifies the specific reporting requirements applicable to storage resources.³⁰ Thus, the LCD principles that generally apply to SDG&E's activities that are subject to compliance review also apply to storage resources, and we reject any suggestion that the Commission has no LCD standards regarding storage resources.

In determining whether SDG&E complied with LCD standards, evidence that SDG&E's overall conduct was prudent does not establish that it acted appropriately regarding a particular incident. Thus, transparency in reporting an error and the implementation of corrective action does not absolve SDG&E from responsibility, and SDG&E must meet its burden to establish that an error was not a violation of SOC 4.³¹

²⁸ *Id.* at 13.

²⁹ D.15-12-015 Attachment A at C-1.

³⁰ *Id.* at C-6.

³¹ D.17-03-016 at 8-9.

SOC 4 does not require perfection, and SDG&E is not held to a standard of strict liability for any error that may occur.³² To the extent that there are LCD exceptions, the protocol is to document those exceptions and quantify their cost impacts or that customers were not negatively impacted.³³ Thus, consideration should be given to the circumstances and context in which an error occurred.

Although the record reflects that SDG&E's price forecasts for February 10 and 11, 2019 did not accurately predict which hours would be the lowest-priced hours regarding the Lake Hodges hydro storage resources, the record also reflects that SDG&E followed its process to submit bids and schedules based on its forecasted prices. Cal Advocates does not contend that SDG&E's price forecasting methodology was flawed, and we are not persuaded that the mere failure of a forecast to be 100 percent accurate constitutes an LCD violation without an additional showing of supporting facts.

In addition, the evidence failed to show that SDG&E withheld or otherwise failed to provide supporting data documents within its possession or control that would be relevant to the determination whether SDG&E complied with LCD regarding the Lake Hodges hydro storage resources.³⁴ Further, Cal Advocates does not base its proposed disallowance on any matter related to SDG&E's battery storage resources. As a result, we reject Cal Advocates' proposed disallowance regarding SDG&E's storage resources because we find

³² *Ibid.*

³³ D.15-12-015 Attachment A at C-1.

³⁴ An October 8, 2020 ruling directed SDG&E to provide Cal Advocates with storage resource data responsive to a Cal Advocates data request. Cal Advocates has not asserted that SDG&E failed to comply with that ruling.

that SDG&E has met its burden to establish that its storage resources did not violate LCD standards under SOC 4.³⁵

3.4.3. LCD Standards for Storage Resources in Future ERRR Compliance Applications

Cal Advocates proposes that the Commission require SDG&E to schedule its storage resources for dispatch according to LCD standards and demonstrate compliance in its next ERRR compliance application for the 2020 record period. Cal Advocates asserts that storage resources, including battery storage, may increase significantly in the near future, and LCD compliance for storage will have an increasing impact on customers' rates.³⁶ Cal Advocates has proposed a list of specific information that SDG&E should be required to provide to ascertain LCD of storage resources. As an alternative, Cal Advocates proposes a workshop with other utilities to determine the parameters for storage resources, particularly battery storage resources.³⁷

SDG&E believes it would be premature to require storage resource information in future proceedings until an LCD standard is developed in a rulemaking proceeding.³⁸ SDG&E is willing to participate in a workshop with other utilities but should not be responsible for hosting or organizing it.³⁹

As set forth in Section 3.4.2 above, SDG&E is currently required to comply with LCD standards regarding all storage resources, including battery storage resources. Thus, SDG&E must address LCD compliance regarding storage

³⁵ In light of our resolution of this issue, we do not find it necessary to address the propriety of Cal Advocates' methodology to calculate the amount of the proposed disallowance.

³⁶ Cal Advocates Opening Brief at 12-13.

³⁷ *Id.* at 14.

³⁸ SDG&E Opening Brief at 14-15.

³⁹ *Id.* at 15.

resources in all future ERRA compliance applications and proceedings, including its application covering the 2020 record period. Further, the Commission has the discretion in an ERRA compliance proceeding to require SDG&E to provide storage resource information that is relevant to the Commission's determination whether SDG&E has complied with LCD standards regarding storage resources.

Because the primary purpose of this proceeding is to determine whether SDG&E has complied with existing rules, we decline Cal Advocates' proposal that we impose new storage resource information requirements in this decision. However, we agree that storage resources are likely to play an increasingly important role in the mix of energy resources. Therefore, the Commission will consider whether to institute a rulemaking proceeding covering all affected investor-owned utilities regarding storage resources, including consideration of the development of more detailed standards governing LCD compliance.

3.4.4. Supporting Data for Convergence Bidding in Future ERRA Compliance Applications

Convergence bidding is a financial transaction that allows market participants to arbitrage expected price differences between the day-ahead and real-time markets. Using convergence bids, market participants can sell (or buy) energy in the day-ahead market, with the requirement to buy (or sell) that energy back in the real-time market without intending to physically consume or produce energy in real-time. Convergence bids that clear the day-ahead market will either earn, or lose, the difference between the day-ahead and real-time market prices multiplied by the megawatt volume of the bids. Theoretically, convergence bids should improve price stability and market efficiency by adding liquidity, increasing the number of offers in the day-ahead market and preventing the exercise of market power. Market participants may engage in

convergence bidding to seek financial gain due to their market insights or to hedge market risks.⁴⁰

Cal Advocates recommends that the Commission require SDG&E to submit supporting data for convergence bidding in future ERRA compliance applications, claiming that SDG&E has withheld data about its convergence bidding that has prevented Cal Advocates from conducting a complete review. According to Cal Advocates, the standard is whether SDG&E's activities achieved the lowest cost and not whether SDG&E achieved net benefits for ratepayers. Cal Advocates rejects SDG&E's contention that convergence bidding data is already available in SDG&E's Quarterly Compliance Reports (QCRs), arguing that SDG&E's position improperly shifts the burden of proof in a compliance proceeding by making Cal Advocates gather data from past reports for use in an ERRA compliance application.⁴¹

SDG&E argues that convergence bidding was reported in QCRs that were previously approved by the Commission, and therefore convergence bidding is outside the scope of review in a compliance proceeding. SDG&E argues that it has already demonstrated compliance with its Bundled Procurement Plan in the QCRs covering 2019 procurement activity. SDG&E also argues that it has provided a robust level of detail regarding convergence bidding in its QCRs and to the Procurement Review Group (PRG) as required by D.10-12-034.

SDG&E's convergence bids that are accepted by a counterparty result in binding contracts with financial consequences that relate to SDG&E's energy resources, and therefore this compliance proceeding is the appropriate forum to

⁴⁰ D.10-12-034 at 3-4.

⁴¹ Cal Advocates Opening Brief at 15.

evaluate whether SDG&E has complied with its obligations under SOC 4 to prudently administer its contracts and follow LCD regarding those convergence bids. D.10-12-034 establishes convergence bidding reporting requirements for investor-owned utilities, including SDG&E, in QCR filings that are presented to the PRG. However, D.10-12-034 does not purport to limit the Commission's ability to separately review SDG&E's convergence bidding activities as part of this ERRA compliance proceeding, and SDG&E does not cite to any other formal Commission proceeding in which the Commission reviewed and approved of SDG&E's convergence bidding.

In exercising our compliance review authority over SDG&E's convergence bidding, we again recognize the appropriate limits regarding the imposition of new reporting requirements. Any consideration of reporting mandates beyond those set forth in D.10-12-034 should generally be in a separate rulemaking proceeding. However, we do not believe that SDG&E will be significantly burdened by directing it to include with its ERRA compliance application the same convergence bidding information it already provides in its QCR filings. Therefore, we will require SDG&E to submit with its future ERRA compliance applications all convergence bidding information related to the relevant record period that it currently is required to submit in its QCR filings. We will not require SDG&E to submit additional convergence bidding information with its ERRA compliance applications. The normal discovery process will apply if a party in an ERRA compliance proceeding seeks convergence bidding information in addition to the information filed with the application.

3.4.5. Disallowance Regarding Convergence Bidding

Cal Advocates proposes that the Commission disallow an amount specified in Cal Advocates' confidential testimony and briefs because of SDG&E's failure to demonstrate LCD in its convergence bidding. Cal Advocates notes the difference between SDG&E's convergence bidding results in 2019 compared to 2018. Cal Advocates also notes outlier days in 2019 with losses that significantly reduced ratepayer benefits. Cal Advocates found these losses concerning because day-ahead prices were systematically higher than real-time prices for much of 2019.⁴²

SDG&E repeats its earlier argument that convergence bidding activities are not within the scope of an ERRA compliance proceeding.⁴³ SDG&E also argues that convergence bidding provides a benefit to ratepayers.⁴⁴ SDG&E also contends that an expectation of similar convergence bidding performance from one year to the next is not realistic or reasonable because market conditions can vary greatly from year to year. SDG&E notes that it used the same methodology in 2019 as it did in 2018, and it used the same methodology for the days that had losses as the days that had gains.⁴⁵ SDG&E also notes that D.10-12-034, the decision that authorized convergence bidding, set a stop loss limit for SDG&E of \$5 million, thereby recognizing that SDG&E could lose up to \$5 million in convergence bidding and still be authorized to continue with convergence

⁴² Cal Advocates Opening Brief at 16-17.

⁴³ SDG&E Opening Brief at 18-19.

⁴⁴ *Id.* at 19-20.

⁴⁵ Exhibit SDGE-06C at 23.

bidding.⁴⁶ SDG&E also asserts that its 2019 convergence bidding performance is more aligned with years before 2018 and that 2018 was an outlier.⁴⁷ SDG&E participates in convergence bidding to hedge and thereby reduce its exposure to volatile real time prices, and it is not appropriate to analyze convergence bidding solely based on gains and losses.⁴⁸

We agree with SDG&E that the mere existence of a loss from convergence bidding does not necessarily require the conclusion that SDG&E violated LCD standards. Thus, we are not persuaded that SDG&E's less favorable overall 2019 convergence bidding results in comparison to 2018 or the existence of outlier convergence bidding days in 2019 should result in a disallowance. SDG&E provided credible evidence to establish that it used a consistent convergence bidding methodology, and Cal Advocates fails to explain with any clarity what SDG&E should or should not have done in 2019 to meet LCD standards. Instead, Cal Advocates begins with the faulty premise that SDG&E's failure to make as much money from convergence bidding in 2019 than in 2018 must be a violation of LCD. We disagree.

As we stated above, SDG&E is not held to a standard of perfection or strict liability regarding LCD standards. Instead, we find that SDG&E did act as a prudent contract manager and in accordance with LCD principles because it established that it implemented convergence bidding in 2019 in a reasonable manner and with a consistent methodology to hedge market risks as part of its broader objective to use the most cost-effective mix of total resources. As a

⁴⁶ SDG&E Opening Brief at 21.

⁴⁷ *Id.* at 22.

⁴⁸ *Id.* at 23.

result, we reject Cal Advocates' proposed disallowance regarding SDG&E's convergence bidding.

In 2019, except for the disallowance discussed in Section 3.4.1 above, SDG&E's LCD processes considered variable costs and utilized the lowest cost resource mix, subject to constraints in the day ahead, hour ahead, and real time markets.⁴⁹

Following our review of the Application and the admitted evidence and except for the disallowance discussed in Section 3.4.1 above, SDG&E used the most cost-effective mix of energy resources under its control and achieved LCD of its energy resources according to SOC 4.

3.5. Administration of Demand Response Programs

Issue 4 of the Scoping Memo asks whether SDG&E administered its demand response programs to minimize costs to its ratepayers according to SOC 4.

Cal Advocates has taken no position regarding this issue.⁵⁰ No evidence or argument was presented to dispute this issue.

SDG&E utilized its demand response programs during 2019 primarily to reduce electricity consumption during peak demand or in response to system reliability needs.⁵¹

Following our review of the Application and the admitted evidence, we find that SDG&E has administered its demand response programs to minimize costs to its ratepayers according to SOC 4.

⁴⁹ Exhibit SDGE-04 at 45.

⁵⁰ Cal Advocates Opening Brief at 18.

⁵¹ Exhibit SDGE-04 at 37.

3.6. ERRA Entries

Issue 5 of the Scoping Memo asks whether the entries in all ERRA and subaccounts are correctly stated and in compliance with Commission directives.

Cal Advocates has taken no position regarding this issue.⁵² No evidence or argument was presented to dispute this issue.

The 2019 entries in SDG&E's ERRA and related accounts and subaccounts are correctly stated.⁵³

Following our review of the Application and the admitted evidence, we find that the entries in SDG&E's ERRA and related accounts and subaccounts are in compliance with Commission directives.

3.7. GHG Compliance Instrument Procurement

Issue 6 of the Scoping Memo asks whether SDG&E's GHG compliance instrument procurement complied with its Conformed Bundled Procurement Plan and was consistent with Commission and state policies and laws.

Cal Advocates has taken no position regarding this issue.⁵⁴ No evidence or argument was presented to dispute this issue.

Pursuant to Assembly Bill (AB) 32 that became law in 2006, the California Air Resources Board (CARB) created California's Cap-and-Trade program designed to establish a market-based price for GHG emissions. As a covered entity, SDG&E is required to procure compliance instruments for its imported power and for its UOG facilities. SDG&E's procurement of compliance instruments must comply with D.12-04-046, in which the Commission set a GHG compliance instruments procurement limit, and with SDG&E's Conformed

⁵² *Ibid.*

⁵³ Exhibit SDGE-03 at 6-19.

⁵⁴ *Ibid.*

Bundled Procurement Plan. In 2019, SDG&E remained within the Commission-approved GHG procurement limit.⁵⁵

Following our review of the Application and the admitted evidence, we find that SDG&E's GHG compliance instrument procurement complied with its Conformed Bundled Procurement Plan and was consistent with Commission and state policies and laws.

3.8. GHG-Related Entries

Issue 7 of the Scoping Memo asks whether the entries in SDG&E's GHG Revenue Balancing Account and GHG-related entries in other ERRA subaccounts are accurate, and whether SDG&E met its burden of proof regarding its claim for these entries.

Cal Advocates has taken no position regarding this issue.⁵⁶ No evidence or argument was presented to dispute this issue.

Pursuant to D.12-12-033, SDG&E filed Advice Letter (AL) 2452-E-A to establish a subaccount within the ERRA to record GHG costs. Among other subaccounts, the AL created the GHG Revenue Balancing Account, 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.⁵⁷

Transactions recorded to SDG&E's ERRA and the entries and calculations in the ERRA during 2019 were correctly stated.⁵⁸

Following our review of the Application and the admitted evidence, we find that the entries in SDG&E's GHG Revenue Balancing Account and

⁵⁵ Exhibit SDGE-02 at 2-7.

⁵⁶ *Ibid.*

⁵⁷ D.21-01-017 at 4.

⁵⁸ Exhibit SDGE-03 at 2.

GHG-related entries in other ERRA subaccounts are accurate, and SDG&E met its burden of proof regarding its claim for these entries.

3.9. Adjustment of LGBA Overcollection

Issue 8 of the Scoping Memo asks whether the Commission should authorize SDG&E to pursue adjustment of the overcollection in SDG&E's LGBA in SDG&E's next-filed ERRA Forecast Proceeding for 2022 or SDG&E's next Annual Electric Regulatory Account Update Filing.

Cal Advocates has taken no position regarding this issue.⁵⁹ No evidence or argument was presented to dispute this issue.

The LGBA records the revenues and costs of generating contracts where the Commission has determined that the resource is subject to the cost allocation mechanism. There was an overcollection balance in the LGBA as of December 31, 2019, identified in confidential testimony of SDG&E.⁶⁰

Following our review of the Application and the admitted evidence, we find that the Commission should authorize SDG&E to pursue adjustment of the overcollection in SDG&E's LGBA in SDG&E's ERRA Forecast Proceeding for 2022 or SDG&E's next Annual Electric Regulatory Account Update Filing.

3.10. Adjustment of GTSRBA Undercollection

Issue 9 of the Scoping Memo asks whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's GTSRBA in SDG&E's next-filed ERRA Forecast Proceeding for 2022.

Cal Advocates has taken no position regarding this issue.⁶¹ No evidence or argument was presented to dispute this issue.

⁵⁹ *Ibid.*

⁶⁰ Exhibit SDGE-03C at 8-9.

⁶¹ *Id.* at 19.

The GTSRBA records the difference between the revenues collected from individual customers electing to participate in the GTSR program and the incremental costs incurred to serve customers participating in that program.

The GTSRBA had a December 31, 2019 undercollection ending balance of \$2.14 million.⁶²

Following our review of the Application and the admitted evidence, we find that the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's GTSRBA in SDG&E's ERRA Forecast Proceeding for 2022.

3.11. Adjustment of NERBA Undercollection

Issue 10 of the Scoping Memo asks whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's NERBA in the Annual Electric Regulatory Account Update filing.

Cal Advocates has taken no position regarding this issue.⁶³ No evidence or argument was presented to dispute this issue.

The AB 32 electric subaccount in NERBA records actual costs against revenue requirements for authorized administrative fees charged by the CARB. The December 31, 2019 undercollection balance in the AB 32 electric subaccount in NERBA was \$0.616 million.⁶⁴

Following our review of the Application and the admitted evidence, we find that the Commission should authorize SDG&E to pursue adjustment of the

⁶² Exhibit SDGE-03 at 13.

⁶³ *Ibid.*

⁶⁴ Exhibit SDGE-03 at 10.

undercollection in SDG&E's NERBA in the Annual Electric Regulatory Account Update filing.

3.12. Adjustment of TMNBCBA Undercollection

Issue 11 of the Scoping Memo asks whether the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's TMNBCBA in the Annual Electric Public Purpose Program Account Update filing.

Cal Advocates has taken no position regarding this issue.⁶⁵ No evidence or argument was presented to dispute this issue.

The TMNBCBA records tree mortality related procurement costs. The TMNBCBA had a December 31, 2019 undercollection identified in SDG&E's confidential testimony. However, the approval of AL 3343-E authorized the transfer of 2017 through 2018 costs from the memorandum accounts BioRAMMA and BioMASSA to TMNBCBA, an amount included in Public Participation Program (PPP) rates effective October 1, 2020. In addition, the approval of AL 3471-E authorized the transfer of the remaining 2019 costs from BioRAMMA and BioMASSA to TMNBCBA, an amount included in SDG&E's 2020 PPP update filing in October 2020. As a result, there is a remaining TMNBCBA undercollection balance of transactions recorded in 2019 of \$9.3 million.⁶⁶

Following our review of the Application and the admitted evidence, we find that the Commission should authorize SDG&E to pursue adjustment of the undercollection in SDG&E's TMNBCBA in the Annual Electric Public Purpose Program Account Update filing.

⁶⁵ *Ibid.*

⁶⁶ Exhibit SDGE-03 at 14-15.

4. Compliance with Authorization

To implement the authorization granted in this decision, SDG&E must file a Tier One Advice Letter within 30 days of the effective date of this decision. The tariff sheets filed with the Advice Letter shall be effective on or after the date filed, and the Commission's Energy Division shall determine whether the tariff sheets comply with this decision.

5. Comments on Proposed Decision

The proposed decision of Administrative Law Judge Peter Wercinski was mailed to the parties in accordance with Pub. Util. Code Section 311, and comments were allowed under Commission Rule of Practice and Procedure 14.3. SDG&E and Cal Advocates filed opening comments on July 1, 2021. SDG&E filed reply comments on July 6, 2021. We decline to incorporate those modifications to the proposed decision raised in the parties' comments because the proposed decision fully and adequately addresses all issues identified in the Scoping Memo for Phase I of this proceeding and all relevant matters raised by the parties in their briefs. In particular, we reject SDG&E's suggested changes that the proposed decision be modified either to limit review of SDG&E's convergence bidding or to limit additional discovery to those instances where SDG&E exceeds the \$5 million stop loss limit on a rolling 365-day basis as set forth in D.10-12-034.⁶⁷ D.10-12-034 suspends SDG&E's authorization to engage in convergence bidding when the stop loss limit is exceeded, but it does not purport to find that convergence bidding events that result in losses that are smaller than \$5 million are reasonable. Therefore, LCD principles apply to convergence bidding regardless of dollar amount.

⁶⁷ SDG&E Opening Comments on Proposed Decision at 9-10.

In its opening comments on the proposed decision, SDG&E also argues that the proposed decision should be modified to reflect that Phase II of this proceeding related to PSPS events is moot as a result of the issuance of D.21-06-014 (Order Instituting Investigation on the Commission's Own Motion on the Late 2019 Public Safety Power Shutoff Events).⁶⁸ Ordering Paragraph 1 of D.21-06-014 states: "Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) must forgo collection in rates from customers of all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenue resulting from Public Safety Power Shutoff (PSPS) events after the effective date of this decision." The issue of whether SDG&E can adjust or collect its revenue requirement to account for unrealized sales during PSPS events is within the scope of Phase II of this proceeding. Even as the Commission disallows SDG&E from collecting revenues related to PSPS undercollections prospectively after the issuance of D.21-06-014, the Commission is considering in Phase II of this proceeding whether to allow SDG&E to adjust its revenue requirement to account for undercollections resulting from unrealized sales during PSPS events in 2019. The impact of D.21-06-014 will be considered in Phase II but is outside the scope of this decision. D.21-06-014 does not foreclose the Commission from considering the issues that have been scoped for Phase II of this proceeding. As a result, we also decline SDG&E's requested modification of the proposed decision regarding Phase II.

⁶⁸ *Id.* at 10-11.

6. Assignment of Proceeding

Martha Guzman Aceves is the assigned Commissioner and Peter Wercinski is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In 2019, SDG&E administered and managed its UOG facilities prudently, including following an established maintenance program to maximize the availability of its UOG facilities and the management of outages and associated fuel costs.

2. In 2019, SDG&E administered and managed its QF and non-QF contracts for generation and power purchase agreements in accordance with contract provisions.

3. In 2019, except for November 9 and 12, 2019 incidents regarding incremental bids for thermal resources, SDG&E's LCD processes considered variable costs and utilized the lowest cost resource mix, subject to constraints in the day ahead, hour ahead, and real time markets.

4. SDG&E failed to properly implement a quality control process before November 9, 2019 to detect whether bids for the Palomar 2x1 configuration had been populated.

5. SDG&E failed to exercise sufficient diligence to prevent and discover a third-party background process error on November 12, 2019 that over-wrote bids with new bids that did not populate the Palomar 2x1 and 2x1 DF configurations.

6. SDG&E will not be significantly burdened by directing it to include with its future ERRA compliance applications the same convergence bidding information it already provides in its QCR filings.

7. SDG&E utilized its demand response programs during 2019 primarily to reduce electricity consumption during peak demand or in response to system reliability needs.

8. The 2019 recorded transactions and entries and calculations in SDG&E's ERRA and related accounts and subaccounts are correctly stated.

9. In 2019, SDG&E remained within the Commission-approved GHG procurement limit.

10. The 2019 entries in SDG&E's GHG Revenue Balancing Account and GHG-related entries in other ERRA sub-accounts are accurate.

11. There was an overcollection balance in the LGBA as of December 31, 2019 identified in confidential testimony of SDG&E.

12. The GTSRBA had a December 31, 2019 undercollection ending balance of \$2.14 million.

13. The December 31, 2019 undercollection balance in the AB 32 electric subaccount in NERBA was \$0.616 million.

14. There is a remaining TMNBCBA undercollection balance of transactions recorded in 2019 of \$9.3 million.

Conclusions of Law

1. In 2019, SDG&E administered and managed its UOG facilities prudently, including the management of outages and associated fuel costs, according to SOC 4.

2. In 2019, SDG&E administered and managed its QF and non-QF contracts for generation and power purchase agreements in accordance with the contract provisions and otherwise followed Commission guidelines relating to those contracts and their amendments according to SOC 4.

3. SDG&E violated SOC 4 regarding November 9 and 12, 2019 incremental bids for thermal resources, and its cost recovery for those incidents should be disallowed in the amount proposed by Cal Advocates in its confidential testimony and opening brief.

4. In 2019, except for the November 9 and 12, 2019 incidents regarding SDG&E's incremental bids for thermal resources, SDG&E used the most cost-effective mix of energy resources under its control and achieved LCD of its energy resources according to SOC 4.

5. SDG&E should continue to comply with current LCD standards set forth in SOC 4 regarding all storage resources, including battery storage resources, and address LCD compliance regarding storage resources in all future ERRA compliance applications and proceedings.

6. SDG&E should include with its future ERRA compliance applications the same convergence bidding information it already provides in its QCR filings.

7. In 2019, SDG&E administered its demand response programs to minimize costs to its ratepayers according to SOC 4.

8. The 2019 entries in SDG&E's ERRA and related accounts and subaccounts are in compliance with Commission directives.

9. SDG&E's 2019 GHG Compliance Instrument procurement complied with its Conformed Bundled Procurement Plan and was consistent with Commission and state policies and laws.

10. SDG&E met its burden of proof regarding its claim for the 2019 entries in SDG&E's GHG Revenue Balancing Account and GHG-related entries in other ERRA subaccounts.

11. SDG&E should be authorized to pursue adjustment of the overcollection in SDG&E's LGBA in SDG&E's ERRA Forecast Proceeding for 2022 or SDG&E's next Annual Electric Regulatory Account Update filing.

12. SDG&E should be authorized to pursue adjustment of the undercollection in SDG&E's GTSRBA in SDG&E's ERRA Forecast Proceeding for 2022.

13. SDG&E should be authorized to pursue adjustment of the undercollection in SDG&E's NERBA in the Annual Electric Regulatory Account Update filing.

14. SDG&E should be authorized to pursue adjustment of the undercollection in SDG&E's TMNBCBA in the Annual Electric Public Purpose Program Account Update filing.

15. SDG&E should file a Tier One Advice Letter within 30 days of the effective date of this decision to implement the authorization granted in this decision.

16. The Scoping Memo determination regarding hearings should be changed to no hearings required.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's 2019 administration and management of its utility-owned generation facilities, including its management of outages and associated fuel costs, are approved.

2. San Diego Gas & Electric Company's 2019 administration and management of its qualifying facility (QF) and non-QF contracts for generation and power purchase agreements are approved.

3. San Diego Gas & Electric Company's cost recovery for the November 9 and 12, 2019 incidents regarding its incremental bids for thermal resources is disallowed in the amount proposed by the Public Advocates Office in its confidential testimony and opening brief.

4. Except for the November 9 and 12, 2019 incidents regarding incremental bids for thermal resources of San Diego Gas & Electric Company (SDG&E), SDG&E's 2019 use of its energy resources is approved.

5. San Diego Gas & Electric Company shall comply with current least cost dispatch (LCD) standards set forth in Standard of Conduct 4 regarding all storage resources, including battery storage resources, and address LCD compliance regarding storage resources in all future Energy Resource Recovery Account compliance applications and proceedings,

6. San Diego Gas & Electric Company shall include with its future Energy Resource Recovery Account compliance applications the same convergence bidding information it already provides in its Quarterly Compliance Report filings.

7. San Diego Gas & Electric Company's 2019 administration of its demand response programs is approved.

8. The entries in San Diego Gas & Electric Company's 2019 Energy Resource Recovery Account and related accounts and subaccounts are approved.

9. San Diego Gas & Electric Company's 2019 greenhouse gas compliance instrument procurement is approved.

10. San Diego Gas & Electric Company's claim for the entries in its 2019 Greenhouse Gas Revenue Balancing Account and greenhouse gas-related entries in other Energy Resource Recovery Account subaccounts is approved.

11. San Diego Gas & Electric Company (SDG&E) is authorized to pursue adjustment of the overcollection in SDG&E's Local Generating Balancing Account in SDG&E's Energy Resource Recovery Account Forecast Proceeding for 2022 or SDG&E's next Annual Electric Regulatory Account Update filing.

12. San Diego Gas & Electric Company (SDG&E) is authorized to pursue adjustment of the undercollection in SDG&E's Green Tariff Shared Renewable Balancing Account in SDG&E's Energy Resource Recovery Account Forecast Proceeding for 2022.

13. San Diego Gas & Electric Company (SDG&E) is authorized to pursue adjustment of the undercollection in SDG&E's New Environmental Regulatory Balancing Account in the Annual Electric Regulatory Account Update filing.

14. San Diego Gas & Electric Company (SDG&E) is authorized to pursue adjustment of the undercollection in SDG&E's Tree Mortality Non-Bypassable Charge Balancing Account in the Annual Electric Public Purpose Program Account Update filing.

15. The determination in Resolution ALJ 176-3464 dated June 25, 2020, and the Assigned Commissioner's Scoping Memo and Ruling filed on August 12, 2020, that hearings were necessary is revised to hearings are not required.

16. Within 30 days of the effective date of this decision, San Diego Gas & Electric Company shall file a Tier One Advice Letter (AL) to implement the authorization granted in this decision. The tariff sheets filed with the AL shall be effective on or after the date filed, and the California Public Utilities Commission's Energy Division shall determine whether the tariff sheets comply with this decision.

17. Application 20-06-001 remains open.

This order is effective today.

Dated July 15, 2021, at San Francisco, California.

MARYBEL BATJER

President

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

DARCIE HOUCK

Commissioners