

Decision 12-08-007 August 2, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application 12-04-003
(Filed April 9, 2012)

DECISION APPROVING \$49.9 MILLION RATE INCREASE

1. Summary

San Diego Gas & Electric Company's Energy Resource Recovery Account balance is currently projected to be \$49.9 million undercollected at the end of June 30, 2012, (based on actual numbers through April and projected numbers for May and June). This decision authorizes an increase in rates to collect the projected \$49.9 million undercollection from ratepayers, to be amortized over a 12-month period beginning no later than September 1, 2012. This proceeding is closed.

2. Background

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

California Department of Water Resources (CDWR).¹ AB 57 also mandated a trigger threshold for the balance in the ERRA of 5% of the electric utility's actual recorded generation revenues for the prior calendar year:²

Until January 1, 2006, the commission shall ensure that any overcollection or undercollection in the power procurement balancing account does not exceed 5 percent of the electrical corporation's actual recorded generation revenues for the prior calendar year excluding revenues collected for the Department of Water Resources. The commission shall determine the schedule for amortizing the overcollection or undercollection in the balancing account to ensure that the 5 percent threshold is not exceeded. After January 1, 2006, this adjustment shall occur when deemed appropriate by the commission consistent with the objectives of this section.

Decision (D.) 02-10-062 implemented AB 57. Regarding Public Utilities Code Section 454.5(d)(3), the Commission directed the following:³

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

¹ Public Utilities Code Section 454.5(d)(3), enacted by AB 57.

² *Id.*

³ D.02-12-062 at 65.

90 days to ensure timely recovery of the projected ERRA balance. It should also include allocation of the over-and-under collection among customers for rate adjustment based on existing allocation methodology recognized by the Commission. Customer notice should be sent as soon as the application is filed for a rate increase or decrease.

D.07-05-008 added an additional rule to the trigger procedures by allowing SDG&E to file an advice letter seeking to maintain rates when it expected an overcollection or undercollection above the 4% trigger to self-correct below the trigger within 120 days of filing.

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

3. Requested Relief

SDG&E filed its original expedited application on April 9, 2012, and filed an amendment to its application on June 6, 2012.

In its original application, SDG&E sought expedited authorization to collect from ratepayers a projected \$53 million ERRA undercollection (as of June 30, 2012). SDG&E also sought approval to collect this amount over a 12-month amortization period, beginning on July 1, 2012, or whenever SDG&E's

2012 ERRA forecast is implemented. According to SDG&E, the primary causes of this undercollection are the delay in 2012 revenue implementation, sales coming in below forecasted levels, and the natural seasonality gap in revenues versus expenses. SDG&E also states that “given the current assumptions and proposed amortization, SDG&E predicts that the ERRA balance will self-correct by the third quarter and avoid another trigger situation for the remainder of 2012. Any changes or delays in these assumptions, however, may increase SDG&E’s risk of triggering again in 2012. In particular, the sensitivity surrounding the assumptions at the San Onofre Nuclear Generating Station (SONGS) with respect to outages, 2012 revenue implementation, customer sales, gas prices, and the amortization proposal herein can change the final numbers as the year progresses.”⁴

In its June 6 amendment, SDG&E revised the projected June 30, 2012, undercollection to \$49.9 million, and proposed that it be collected from ratepayers over a 12-month amortization period, beginning no later than September 1, 2012.

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

Class	Usage (kWh)	Bill Today	Bill post-trigger	Change (\$)	Change (%)
Residential--Inland	500	\$81.32	\$81.88	\$0.56	0.7 %
Residential--Coastal	500	\$88.10	\$89.21	\$1.11	1.3 %
Residential--Inland	1,000	\$216.28	\$221.23	\$4.95	2.3 %
Residential--Coastal	1,000	\$224.98	\$230.48	\$5.50	2.4 %
Small Commercial	1,500 secondary service			\$5.29	1.8 %

⁴ See April 9, 2012 Prepared Direct Testimony of Gregory D. Shimansky at GDS-5.

SDG&E's April 9, 2012 expedited application was accompanied by a motion seeking shortened protest period. The assigned Administrative Law Judge (ALJ) granted SDG&E's motion but specified that Expedited Protests shall be due April 25, 2012. Utility Consumers' Action Network (UCAN) filed a protest on April 20, 2012, and Division of Ratepayer Advocates (DRA) protested the application on April 23, 2012. SDG&E replied to the protests on April 27, 2012. At the suggestion of the assigned ALJ, a workshop was held on May 22, 2012, to discuss SDG&E's application in greater detail. A Prehearing Conference (PHC) was held on May 30, 2012. At the PHC, SDG&E agreed to amend its original application in order to update the natural gas price that underlies its forecasts, in order to reflect as up-to-date market conditions as possible. As noted above, SDG&E filed and served this amendment on June 6, 2012. DRA and UCAN responded to SDG&E's amended application on June 13, 2012; both parties informed the assigned ALJ that they did not intend to protest the amended application.

4. Discussion

As we explain below, SDG&E's application, as amended, should be approved.

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

First, we briefly review the chain of events that led SDG&E to seek relief. With respect to the timeframes imposed by D.02-10-062, SDG&E stated that its recorded February 29, 2012, ERRA balance was a \$43.233 million undercollection, or 4.24% of the 2010 electric commodity revenues, excluding CDWR, thus exceeding the 4% trigger point. Next SDG&E states that, as required by statute, it analyzed whether this undercollection would self-correct below the 4% trigger point within 120 days (i.e., by June 28, 2012) and determined that, based on SDG&E's most accurate forecast and assumptions around revenue implementations, sales forecasts, and costs of power, SDG&E did not project that its ERRA balance would self-correct below the 4% trigger point. Accordingly, pursuant to Pub. Util. Code § 454.5(d)(3) and D.02-10-062, SDG&E was required to file this expedited application addressing the disposition of the undercollected ERRA balance.

The shortened timeframes imposed by statutes, combined with the uncertainties generally inherent in energy forecasting, create challenges for all parties in an ERRA trigger review process. As noted above, UCAN and DRA protested SDG&E's April 9, 2012, application. UCAN identified a "limited set of concerns," namely, (1) why SDG&E's ERRA account is undercollected during a time of historically low natural gas price levels; (2) the extent to which the current outage at SONGS is contributing to the undercollection; and (3) steps that SDG&E can, but has not taken, to reduce the undercollection below the trigger. UCAN suggested a period of expedited discovery, followed by a PHC once discovery was completed and all issues fully understood. DRA protested the application because it claimed that (1) SDG&E's proposed schedule did not allow for intervenor testimony and hearings, and is therefore unreasonable; (2) SDG&E's requested undercollection recovery of \$52.638 million was

unsupported; and (3) based on SDG&E forecasts, it is conceivable that the estimated revenue undercollection may self-correct by the end of 2012, which would render any revenue and rate adjustment unnecessary. However, DRA also stated that it was conceivable that if SDG&E adequately responded to DRA data requests and DRA was fully satisfied with such responses, there may not be a need for DRA testimony or hearings.

In its April 27, 2012 response to UCAN and DRA, SDG&E states that (1) the Commission has mandated that trigger applications are to be expedited and ruled upon within 60 days of filing; (2) SDG&E's proposed schedule complies with the 60-day mandate; (3) without approval of a trigger rate adjustment, there will be no self-correction by year-end; and (4) SDG&E's trigger application is sufficiently supported. Nevertheless, SDG&E did state it was open to further discovery designed to verify the fact that it is in a trigger situation and that based on this situation, a rate adjustment is reasonable. SDG&E also observed that any schedule adopted in this proceeding should comply with the Commission's mandate for a decision within 60 days of filing, which would allow for coordination with the expected July 1, 2012 implementation of the 2012 ERRRA forecast and "improve the likelihood that the overall ERRRA balance will self-correct by year-end."

Based on discussions between SDG&E and the protestants at the May 22, 2012 workshop and the May 30 PHC, SDG&E filed and served its amendment on June 6, 2012. Therefore, this decision should issue within 60 days of SDG&E's amendment. Allowing time to hold a workshop to address the questions raised in the protests of UCAN and DRA was important in light of the bill increases projected by SDG&E. Indeed, creating an opportunity for SDG&E to work collaboratively with UCAN and DRA to resolve their questions appeared to have

been worthwhile, not only because both parties are now not protesting SDG&E's amended application, but also because SDG&E had the opportunity to gather several additional months of recorded data and refine its forecasts of expenses and revenues, thereby lowering its forecast undercollection in its amended application filing on June 6, 2012.

Turning to the June 6, 2012 "Amendment to Expedited Trigger Application," SDG&E now seeks approval to collect a projected \$49.9 million ERRA undercollection as of June 30, 2012. This is approximately \$3 million less than what was requested in the original application. SDG&E also seeks approval to implement the proposed rate increase over a 12-month amortization period, beginning no later than September 1, 2012.

The lower amount reflects several adjustments made by SDG&E to reflect its discussions with UCAN and DRA. SDG&E included two additional months of recorded data (now extending through April 2012 rather than February 2012), and for the May and June forecasts, SDG&E also agreed to use the New York Mercantile Exchange gas prices known as of the day of the PHC or May 30, 2012. By making these changes, SDG&E lowered its projected undercollection as of June 30, 2012, to \$49.9 million. SDG&E's revised forecast also provides a revised projection over the remainder of 2012.⁵ That projection shows that although SDG&E's ERRA balance undercollection is forecast to drop below 4% in November 2012, it is forecast to exceed 4% again in December 2012. Thus, it is useful to observe that self-correction appears unlikely without our action today,

⁵ See Amendment to Prepared Direct Testimony of Gregory D. Shimansky, Redacted Public Version, Attachment A.

even beyond the relatively short timeframes imposed on our review process by D.02-10-062.

SDG&E's amended application and supporting testimony meets the requirements of Pub. Util. Code § 454.5(d)(3) and D.02-10-062. We therefore approve SDG&E's request to recover the \$49.9 million ERRRA balance undercollection over a 12-month period beginning no later than September 1, 2012.

5. Categorization and Need for Hearings

In Resolution ALJ 176-3292, dated April 19, 2012, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. Although UCAN and DRA filed protests to the application, they did not request hearings. Furthermore, neither UCAN nor DRA protested SDG&E's June 6, 2012 amendment to its application. Given these developments, a public hearing is not necessary, and it is not necessary to disturb the preliminary category determination.

6. Comments on Proposed Decision

The proposed decision of ALJ Roscow in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were filed on the proposed decision.

Assignment of Proceeding

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

Findings of Fact

1. SDG&E's ERRA balance is currently projected to be \$49.9 million undercollected as of June 30, 2012 (based on actual numbers through April and projected numbers for May and June).

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

Conclusions of Law

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

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

3. SDG&E's proposal to recover a projected \$49.9 million undercollection from ratepayers over a 12-month period beginning no later than September 1, 2012 should be approved.

4. SDG&E should file an Advice Letter no later than September 1, 2012 to show the final amount of undercollection to be collected from ratepayers, based on the most recent recorded ERRA data that is available.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company shall file a Tier 1 advice letter no later than September 1, 2012, to show the final amount of the rate increase approved herein, based on the most recent recorded Energy Resource Recovery Account

data that is available. The advice letter shall be effective on or after the date filed subject to Energy Division determining that it is in compliance with this decision.

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

3. Hearings are not necessary.

4. Application 12-04-003 is closed.

This order is effective today.

Dated August 2, 2012, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners