Decision ___________________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) for Adoption of its 2005 Energy Resource Recovery Account (ERRA) Forecast Revenue Requirement, Review of its Power Procurement Balancing Account, and Approval of its 2004 ERRA Trigger Amount.	Application 04-10-007 (Filed October 1, 2004)

OPINION ON SAN DIEGO GAS & ELECTRIC COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT

Summary

This decision adopts a 2005 Energy Resource Recovery Account (ERRA) revenue requirement forecast of $301,106,000 for San Diego Gas & Electric Company (SDG&E). The associated 0.110 cents/kilowatt-hour rate increase (0.80% over current system average total rates) will not be implemented at this time. This decision also sets the 5% threshold for 2004 ERRA undercollections or overcollections at $30,013,000. Based on the historical and current status of the ERRA, there is no present need to adjust rates or order refunds in conjunction with the ERRA trigger mechanism.

Background

Consistent with the objectives of Pub. Util. Code § 454.5(d)(3),[1] the ERRA was established to track the major energy utilities' fuel and purchase power revenues against actual recorded costs.[2] The ERRA is considered in semi-annual applications – one to consider forecast issues and the other to consider reasonableness issues.

In this filing, which considers forecast issues, SDG&E presents its 2005 load forecast, the resources available to meet that load, fuel costs and costs for various energy resources. SDG&E requests that the Commission find the forecasts reasonable and adopt the resultant 2005 ERRA forecast revenue requirement of $301,106,000. SDG&E also requests approval of its proposed 5% threshold amount for 2004 of $30,013,000. As discussed below, based on

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[1] Pub. Util. Code § 454.5(d)(3) states that the Commission shall accomplish the following objective: "Ensure timely recovery of prospective procurement costs incurred pursuant to an approved procurement plan. The commission shall establish rates based on forecasts of procurement costs adopted by the commission, actual procurement costs incurred, or combination thereof, as determined by the commission. The commission shall establish power procurement balancing accounts to track the differences between recorded revenues and costs incurred pursuant to an approved procurement plan. The commission shall review the power procurement balancing accounts, not less than semiannually, and shall adjust rates or order refunds, as necessary, to promptly amortize a balancing account, according to a schedule determined by the commission. Until January 1, 2006, the commission shall ensure that any overcollection or undercollection in the power procurement balancing account does not exceed 5% of the electrical corporation's actual recorded generation revenues for the prior calendar year excluding revenues collected for the Department of Water Resources (DWR). The commission shall determine the schedule for amortizing the overcollection or undercollection in the balancing account to ensure that the 5% 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."

[2] The ERRA process was implemented by Decisions (D.) 02-10-062, D.02-12-074 and D.04-01-050.

SDG&E's application and prepared testimony, its requests are reasonable and will be adopted.

Procedural Matters

SDG&E filed this application on October 1, 2004. By Resolution ALJ 176-3140, dated October 7, 2004, the Commission preliminarily determined that this was a ratesetting proceeding that was expected to go to hearing. However, no protests were filed, and SDG&E's requests are unopposed. On January 10, 2005, an Assigned Commissioner's Ruling was issued indicating the Administrative Law Judge (ALJ) would issue a draft decision based on the application and supporting testimony as submitted by SDG&E, and the Commission's preliminary determination that evidentiary hearing is needed should be changed. The Commission confirmed that hearings were not needed in D.05-02-008.[3]

For the purposes of this decision, the Direct Testimony of Mike McClenahan, SDG&E, is identified as Exhibit 1, and the redacted version is identified as Exhibit 1-R. The Direct Testimony of Thomas L. Whelan, SDG&E, is identified as Exhibit 2, and the redacted version is identified as Exhibit 2-R. These exhibits will be received into evidence for use in determining the reasonableness of the company's requests.

SDG&E's Analyses and Proposals

A. Forecast of Supply Resources

On January 1, 2003, SDG&E resumed procurement of its residual net short position and assumed operational control of various DWR long-term

[3] Due to this change, ex parte communications were permitted, as provided in Rule 7(e). In all other respects, the rules and procedures in Article 2.5 of the Commission's Rules of Practice and Procedure ceased to apply to this proceeding.

contracts, which SDG&E dispatches along with its own supply resources as a single, integrated portfolio. The 2005 resource supply forecasts contained in SDG&E's application were developed using the production cost model, ProSym, from Henwood Energy Services, Inc. SDG&E and DWR resources were modeled in ProSym, which dispatched them to serve SDG&E bundled load, based on a forecast of 2005 natural gas and electric prices. The 2005 forecast of SDG&E bundled load used in this proceeding is the same load forecast used in SDG&E's long-term resource filing in Rulemaking 04-04-003. The price forecast was based on an assessment of market prices on September 1, 2004. The forecast of the 2005 supply resources is shown in Attachment B to Exhibit 1.

The primary change in the SDG&E electric resource portfolio from 2004 to 2005 is the addition of a gas-fired combustion turbine, Miramar CT1 (nominal load 46 Megawatts). This new resource is being added as the result of a recent competitive procurement process for grid reliability resources and is expected to be operational by June 2005. Other elements of the resource mix include a 20% interest in the San Onofre Nuclear Generating Station (SONGS), a long-term power purchase agreement with Portland General Electric (PGE) for 15% of the output of the Boardman coal-fired plant, qualifying facility (QF) contracts, renewable energy contracts, market purchases and sales of surplus energy. There are no resource changes in 2005 to the DWR contracts allocated to SDG&E and no assumptions are made about the outcome of SDG&E's current renewable resource procurement cycle. Any new renewable contracts awarded in the current renewable resource procurement cycle that results in delivery of energy to SDG&E in 2005 will displace either DWR contract energy or SDG&E market purchases.

For the purposes of this proceeding, we find SDG&E's resource supply forecast for 2005 to be reasonable.

B. Market Proxy Price

The costs of some SDG&E power purchase contracts, which were in effect at the start of the Independent System Operator (ISO)/Power Exchange markets, qualify as Competitive Transition Charges (CTC). Expenses from CTC contracts are split between ERRA and the Transition Cost Balancing Account (TCBA). The costs from CTC contracts up to a market proxy price are booked to the ERRA, and any remaining contract costs above the market proxy price are booked to the TCBA, as directed by D.02-12-074.

SDG&E's current market proxy price is $43 per Megawatt-hours (MWh), as set by the Commission in D.02-11-022. SDG&E proposes to update this price to reflect the same projected market conditions that were used in its production cost model to forecast 2005 ERRA expenses in this application. SDG&E used its forecast of 2005 monthly on-peak and off-peak electric market prices, developed from a consultant's market assessment, to update the market proxy price. Attachment E to Exhibit 1 shows the market price forecast used in the production cost model run and the derivation of SDG&E's updated market proxy price of $53/MWh. We find this updated price reasonable for use in this proceeding.[4]

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[4] Updating of the market proxy price is consistent with D.03-07-030 where we stated, "Since it was the intent in D.02-11-022 to adopt the 4.3¢ per kilowatt-hour (kWh) as an initial benchmark for use in determining above-market resource costs, parties should apply this value for computing CTC for the years 2001 through 2003. For the year 2004 and subsequent years, the 4.3¢ benchmark will be subject to revision to reflect more updated data." (D.03-07-030, pages 13-14.)

C. ERRA Expense Forecast

The majority of the costs that SDG&E incurs from its power purchase contracts, generation resources and market purchases used to serve bundled load are recorded to the ERRA. In addition, ISO charges, SDG&E's share of surplus energy sale revenues and any brokerage fees associated with market purchases are booked to the ERRA. In Exhibit 1, SDG&E describes and quantifies the costs included in its ERRA expense forecast for 2005.

For SONGS, only nuclear fuel expenses and associated fuel carrying charges are booked to the ERRA. All other costs are booked to the Non-fuel Generation Balancing Account (NGBA).

The costs incurred under the PGE Boardman long-term purchased power contract include energy, capacity, transmission to the ISO grid and SDG&E's share of any capital additions to the unit. Since this contract is a CTC contract, the expense recorded to the ERRA is determined by multiplying the forecast energy forecast production by the proposed market proxy price of $53/MWh.

Except for Kelco, all QF contracts are CTC contracts. The ERRA expenses for the CTC contracts are therefore based on delivered energy multiplied by the proposed market proxy price of $53/KWh. The total contract costs for Kelco are recorded as an ERRA expense.

All costs associated with renewable energy contracts are booked to the ERRA. Attachment D to Exhibit 1 details the projects by fuel type, their costs and forecast energy deliveries.

Once operational, SDG&E will assume ownership of the Miramar CT1. The capital costs and operating costs associated with this resource will be recovered through the NGBA, but fuel costs will become an ERRA expense.[5] This resource, which has an Reliability Must-Run (RMR) condition 1 contract with the ISO, has the potential to be dispatched by SDG&E under least cost dispatch to serve bundled load or be dispatched by the ISO for local reliability.

SDG&E indicates that it has sufficient capacity to meet expected load, absent forced outages, without having to make market purchases, and only makes market purchases when it is economic to do so (*i.e.*, when least cost dispatch criteria demonstrate that it is economic to make a purchase from the market rather than to use an available DWR dispatchable resource). The ERRA includes all costs associated with market purchases.

When SDG&E makes forward sales of surplus energy, the revenues from the sale of surplus energy is shared with DWR on a pro-rata basis in accordance with the operating agreement with DWR. SDG&E's share of the revenues is included in the ERRA.

ISO related costs include ISO-purchased ancillary services, transmission losses on certain URG resources, other ISO costs (such as neutrality, intrazonal congestion, must offer minimum load charges and unaccounted for energy), and ISO grid management charges. Also, SDG&E has purchased firm transmission rights (FTR) in 2003 and 2004 as a hedge against congestion costs, and expects to purchase similar rights in 2005. The costs paid to the ISO for FTRs are booked to

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[5] This ratemaking treatment was proposed by SDG&E in Advice Letter 1621-E and adopted by the Commission in Resolution E-3896 on January 27, 2005.

the ERRA along with the congestion revenue payments from the ISO that accrue to FTR holders.

Based on SDG&E's forecast of supply resources and its explanation of the various related ERRA expenses, as summarized above, we find its ERRA expense forecast for 2005, as detailed in Attachment A to Exhibit 1 and totaling $296,981,000, to be reasonable.

D. Revenue Requirement Forecast

As discussed above, we have found SDG&E's forecasts of supply resources and the related ERRA expenses to be reasonable. We also note that the associated ERRA revenue requirement forecast for 2005 will be trued up to reflect recorded costs through the balancing account procedures and will be subject to reasonableness review in a future Commission proceeding. For these reasons, we also find SDG&E's 2005 ERRA revenue requirement forecast of $301,106,000 to be reasonable.[6]

The implementation of rates associated with the 2005 revenue requirement forecast would result in a rate increase of 0.110 cents/KWh (0.80%, on a total system basis). However, SDG&E is not requesting any rate change for 2005 in this proceeding,[7] and ERRA rates will not be adjusted at this time.

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[6] The revenue requirement is developed in Exhibit 2, Table 1.

[7] In its filing SDG&E states that the Commission had not yet approved other significant pieces of SDG&E's total electric commodity rate, including the permanent allocation of the DWR revenue requirement and the SONGS non-fuel costs. For that reason, SDG&E indicated that, at an appropriate time in the future, it would make the appropriate filing to incorporate all the various revenue requirement components. Since the filing of the ERRA application, SDG&E's SONGS non-fuel costs were authorized by D.04-12-015. Also, in D.04-12-014, the Commission adopted a permanent methodology for allocating the DWR annual revenue requirement between PG&E, Southern California Edison

Footnote continued on next page

The need for the minor rate increase is offset to an extent by the fact that SDG&E's ERRA is currently overcollected. Also, if the ERRA, at some point, becomes significantly undercollected, SDG&E must file an application to adjust rates through the trigger mechanism, as discussed below.

E. Trigger Amounts

SDG&E's ERRA is subject to a trigger mechanism that requires the filing of a rate change application at any time that SDG&E's monthly forecasts indicate that the ERRA will face an undercollection or overcollection in excess of 5%. The mechanism considers the relationship between the monthly balance (overcollected or undercollected) in the ERRA and the prior year's recorded electric commodity revenues, excluding revenues collected for the DWR. D.02-10-062 requires that in any month when the balance in the ERRA reaches 4% of the prior year's recorded electric revenues excluding DWR revenue, SDG&E will file an expedited application that will ensure timely recovery of the projected ERRA balance. The application must include a projected balance in 60 days or more from the date of the filing depending on when the balance in the ERRA will reach the 5% threshold. SDG&E indicates that its prior year's (2003) revenue, excluding DWR revenues, was $600,261,657. Consequently, for 2004, SDG&E's 5% threshold is $30,013,000 and the 4% threshold is $24,010,000.

In its filing, SDG&E presented information on its ERRA balance from October 2003 through August 2004. The balance as of August 31, 2004 was an overcollection of $19.5 million. Based on the 5% threshold for 2004 there is no

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Company and SDG&E. However, SDG&E was granted a limited rehearing of the DWR decision by D.05-01-036, and a consolidated rate change with the ERRA is a possibility.

need, at this time, for any rate changes associated with the ERRA trigger mechanism.[8]

For 2005, revised 5% and 4% thresholds, based on 2004 revenues, must be developed. SDG&E should make the appropriate calculations and reflect the revised thresholds in its ERRA tariff as soon as the relevant 2004 revenue information is available.

Confidential Information

At SDG&E's request, the following exhibits will be received into evidence under seal:[9]

- Exhibit 1 – Direct Testimony of Mike McClenahan, San Diego Gas & Electric Company, and
- Exhibit 2 – Direct Testimony of Thomas L. Whelan, San Diego Gas & Electric Company.

According to SDG&E, portions of the testimony and exhibits accompanying its application contain commercially sensitive, confidential, and proprietary information on its electric energy resources and its plans throughout the 2005 forecast period for managing its power resources to meet customer

[8] By letter of October 13, 2004 to the Commission's Executive Director, SDG&E requested an extension of time to comply with the ERRA trigger mechanism, indicating that overcollections in its ERRA were expected to exceed the 4% trigger by September 30, 2004 but that pending Commission decisions would reduce the overcollection. SDG&E expected to drop below the 4% trigger in the normal course of business over the next several months and indicated a trigger would not be an efficient use of Commission personnel and time. By letter of November 8, 2004, the Executive Director granted the requested extension on the condition that the ERRA balance remains under the 5% cap. SDG&E was told that if the ERRA reaches the 5% cap, it must file an expedited application and provide customer notice as soon as possible.

[9] Redacted versions of Exhibits 1 and 2 were also prepared by SDG&E and will be received into evidence.

needs on a least cost basis. SD&E claims that maintaining the confidentiality of this information is critical to protecting its ability to function effectively in both the electric and gas markets.

A review of Exhibits 1 and 2 indicates that the redacted portions relate to certain purchased power contract terms and costs, the bases of power price forecasts, residual net position cost assumptions and other information that might put SDG&E at a competitive disadvantage, if revealed. Maintaining this information under seal for a period of one year is reasonable and consistent with the provisions of Pub. Util. Code § 454.5(g), which states the Commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan.

Comment on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Therefore, the otherwise applicable 30-day period for public review and comment is being waived pursuant to Pub. Util. Code § 311(g)(2).

Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and David K. Fukutome is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There is no opposition to this application.
2. A public hearing is not necessary, as confirmed in D.02-05-008.
3. SDG&E's 2005 forecast of supply resources is reasonable.
4. SDG&E's proposed 2005 market proxy price of $53/MWh is reasonable.
5. SDG&E's 2005 forecast of ERRA expenses is reasonable.
6. SDG&E's forecast of the 2005 ERRA revenue requirement is reasonable.

7. SDG&E's 2003 revenue, excluding DWR revenues, is $600,261,657. Consequently, for evaluating under-collections and over-collections in SDG&E's ERRA for 2004, the 5% threshold amount is $30,013,083 and the 4% threshold amount is $24,010,466.

8. Based on a 5% threshold amount of $30,013,083 for 2004, there is no need, at this time, for any rate changes associated with the ERRA trigger mechanism.

9. SDG&E requests that certain information contained in its testimony, and alleged to be confidential, placed under seal.

Conclusions of Law

1. The 2005 ERRA revenue requirement forecast as reflected in SDG&E's application and supporting testimony should be adopted.

2. For evaluating undercollections and overcollections in SDG&E's ERRA for 2005, the 5% and 4% threshold amounts should be calculated by SDG&E and reflected in its ERRA tariff as soon as the relevant 2004 revenue information becomes available.

3. Certain information contained in SDG&E's testimony should be placed under seal, because, if disclosed, it would put SDG&E at a competitive disadvantage.

4. Today's order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. A 2005 Energy Resource Recovery Account (ERRA) revenue requirement of $301,106,000 is adopted for San Diego Gas & Electric Company (SDG&E).

2. For evaluating undercollections or overcollections in SDG&E's ERRA for 2005, SDG&E shall make the appropriate calculations and reflect the revised 5%

and 4% threshold amounts in its ERRA tariff as soon as the relevant 2004 revenue information becomes available.

3. The Direct Testimony of Mike McClenahan, SDG&E, is identified as Exhibit 1, and the redacted version, is identified as Exhibit 1-R. The Direct Testimony of Thomas L. Whelan, SDG&E, is identified as Exhibit 2, and the redacted version, is identified as Exhibit 2-R. Exhibits 1, 1R, 2 and 2R are received into evidence.

4. Exhibits 1 and 2 shall be placed under seal and shall remain sealed for a period of one year from the effective date of this decision, unless the Commission decides otherwise. If SDG&E believes that further protection of sealed information is needed beyond one year after the effective date of this order, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of this ordering paragraph.

5. Application 04-10-007 is closed.

This order is effective today.

Dated ____________________, at San Francisco, California.