Decision 09-04-021 April 16, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Adoption of its 2009 Energy Resource Recovery Account (ERRA) Revenue Requirement Forecast and Review of its Power Procurement Balancing Account.	Application 08-10-004 (Filed October 1, 2008)

DECISION ADOPTING SAN DIEGO GAS & ELECTRIC COMPANY'S 2009 ENERGY RESOURCE RECOVERY ACCOUNT REVENUE REQUIREMENT FORECAST AND REVIEWING ITS POWER PROCUREMENT BALANCING ACCOUNT

Summary

In this decision, we adopt San Diego Gas & Electric (SDG&E)'s amended 2009 Energy Resource Recovery Account (ERRA) forecast load, available resources, and costs; approve SDG&E's amended forecasted 2009 ERRA revenue requirement, as modified by the parties; and direct that, effective January 1, 2010, SDG&E shall be allowed to include its year-end ERRA balance in rates on January 1 of each year through the annual electric regulatory account update filing, provided that said balance is below the 5% ERRA trigger threshold. The adopted forecasts consist of $874.555 million of 2009 ERRA forecast revenue requirement, $44.414 million of 2009 forecast ongoing Competitive Transition Charge revenue requirement, and a 2009 market benchmark price of $70.48/megawatt-hour (including distribution line losses).

Background

In Decision (D.) 02-10-062, the Commission established the ERRA balancing account – the power procurement balancing account required by Pub. Util. Code § 454.5(d)(3). Pursuant to D.02-10-062 and D.02-12-074, the purpose of the ERRA is to provide recovery of SDG&E's energy procurement costs, including expenses associated with fuel and purchased power, utility retained generation, California Independent System Operator related costs, and costs associated with the residual net short procurement requirements to serve SDG&E's bundled service customers.[1]

As set forth in D.02-10-062, the balance of the ERRA was not to exceed 5% of the electrical utility's actual recorded generation revenues for the prior calendar year, excluding revenues collected for the California Department of Water Resources (CDWR.)[2] Decision 02-10-062 established a trigger mechanism designed to avoid the 5% threshold point, that requires SDG&E to file an expedited application for approval to adjust its rates 60 days from when the ERRA balance reaches an under-collection or over-collection of 4% and is projected to exceed the 5% trigger.

The purpose of the Transition Cost Balancing Account (TCBA) is to accrue all ongoing Competition Transition Charge (CTC) revenues and recover all ongoing CTC-eligible generation-related costs. Pursuant to D.02-12-074 and D02-11-022, payments to Qualifying Facilities (QFs) that are above the market benchmark proxy are charged to the TCBA. Eligible ongoing CTC expenses

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[1] We also established a semiannual update process for fuel and purchased power forecasts and the ERRA mechanism.

[2] *See* D.02-10-062 at 62.

reflect the difference between the market proxy and the contract price of costs associated with the Portland General Electric and other QF contracts.[3]

In D.06-07-030 (as modified by D.07-01-030), we adopted the total portfolio methodology and market benchmark for determining the above-market costs associated with the utility/CDWR total portfolio for deferring departing load charges, and replaced the CDWR Power Charge Component with the Power Charge Indifference Adjustment (PCIA). The purpose of the total portfolio methodology is to reasonably ensure that bundled customers are indifferent with respect to departing load. Rather than focus on each individual resource cost, the total portfolio method recognizes that bundled customers are served from the entire portfolio of commodity resources and that when load departs the utility may, in general, offset a portion of the costs of departing load through additional market sales. Although the ERRA forecast filing directly addresses only SDG&E's fuel and purchased power costs, the calculation of PCIA and associated revenues must take place in the ERRA forecast proceeding.

On October 1, 2008, SDG&E submitted its 2009 ERRA Forecast Application. SDG&E amended its application on October 17, 2008, following the discovery of errors made in calculating gas hedging costs and the PCIA charge. The overall impact of these errors was mitigated by SDG&E's use of a more current gas price forecast such that the amended ERRA revenue requirement was $67,000 less than the original forecast of $969.650 million and the amended CTC revenue requirement was $14,023 less than the original forecast of $69.342 million.

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[3] Expenses eligible for CTC recovery are defined by Assembly Bill 1890.

Between November 17, 2008, and January 28, 2009, SDG&E and the Division of Ratepayer Advocates (DRA) engaged in discovery and repeatedly met to confer about the issues. The parties' efforts focused on how SDG&E's 2009 ERRA revenue requirement had been affected by the considerable decreases in the price of natural gas during the latter part of 2008 and whether it would be appropriate for SDG&E to recalculate its ERRA forecast based on a new, lower gas price forecast. Though its amended application made use of a lower, more current gas price forecast, SDG&E agreed to again change its natural gas price forecast, so as to reflect more of the recent drop in the price of natural gas. In addition to the recalculations associated with the use of a new, lower gas price, other changes were made so as to reflect Energy Division's calculation of the 2009 market benchmark. As a result of these adjustments, SDG&E's 2009 ERRA revenue requirement was reduced to $874.555 million ($95.028 million less than the $969.583 million proposed in SDG&E's amended 2009 ERRA Forecast Application). Similarly, SDG&E's ongoing CTC revenue requirement was reduced to $44.414 million ($10.905 million less than the $55.319 million proposed in SDG&E's amended 2009 ERRA Forecast Application).

The final issue addressed by the parties was SDG&E's proposed modification to the ERRA triggering rules whereby beginning with the consolidated rate change for January 1, 2010, SDG&E would include the forecasted December 31 ERRA balance in its Electric Account Update (filed in October of each year), if such balance is below the ERRA trigger amount.

Discussion

Following the filing of the Amended 2009 ERRA Forecast Application, SDG&E and DRA engaged in discovery and meet-and-confer efforts. These efforts focused on how SDG&E's 2009 ERRA revenue requirement had been affected by considerable decreases in the price of natural gas during the latter part of 2008. Over the course of these meetings, SDG&E considered and ultimately agreed to change its gas price forecast so as to reflect more of the recent drop in the price of natural gas. Specifically, SDG&E agreed to use a gas price of $5.83, based on a forward curve ending with December 19, 2008.[4] As a result of using a lower gas price forecast, various ERRA-related cost figures had to be recalculated. Specifically, using the updated data that Energy Division provided, the 2009 market benchmark price is $70.48/megawatt hours (MWh), whereas the prior 2009 ERRA forecast was based on a 2008 rate of $77.17/MWh.[5] (*See* SDG&E's Amended 2009 ERRA Forecast Application.)

The 2009 market benchmark is used to calculate above or below market costs associated with SDG&E's combined total portfolio. SDG&E indicated that it would provide its PCIA calculations for 2009 once the 2009 market benchmark was provided. (*See* Exhibit 6.) SDG&E's proposed 2009 PCIA rates, applicable to the respective classifications of departing load, are set forth in Attachment A to Exhibit 8. SDG&E has no forecasted departing load for the remaining classifications set forth in Attachment A to Exhibit 8, and thus forecasts zero PCIA revenues for 2009. The impact of the above referenced gas price and market benchmark changes is that SDG&E's final 2009 ERRA revenue

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[4] SDG&E's October 1, 2008, ERRA Forecast Application used an average gas price of $8.53, based on the average of the previous 22 trading days' 2009 forward curves ending August 29, 2008.

[5] The method of calculating the market benchmark is set forth in D.06-07-030 and, as modified in D.07-01-030, must be based upon the average of forward energy prices recorded for the entire month of October. SDG&E's calculation of the 2009 market benchmark is set forth in Attachment B to Exhibit 8.

requirement is $874.555 million and its final 2009 ongoing CTC revenue requirement is $44.414 million. (*See* Attachment A to Exhibits 9 and 9(c).)

The final issue addressed by the parties was SDG&E's proposed modification to the ERRA triggering rules whereby, beginning with the consolidated rate change for January 1, 2010, SDG&E would include the forecasted December 31 ERRA balance in its Electric Account Update (filed in October of each year), if such balance is below the ERRA trigger amount. SDG&E explains that this modification will allow the ERRA balance to self-correct more quickly and reduce the number of SDG&E trigger-related filings resulting in, among other things, ratepayers receiving any year-end over-collections quicker.[6]

While DRA states that it is not opposed to this change in principle, it conditions its agreement to the change on a regular showing by SDG&E that the end-of-year balance in the ERRA proceeding takes into account any known changes in the forward gas prices and any other cost assumptions not reflected in its original forecast in the ERRA application. DRA's only stated rationale for this condition is that it is consistent with DRA's support for "contextual analysis." SDG&E argues that DRA's condition is unnecessary and unduly burdensome in that it would require that every subsequent ERRA application be updated prior to a final decision.

We see merit both in DRA's contention that updated information should be considered in future applications and in SDG&E's concern that waiting for additional information could delay future proceedings. In light of the

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[6] *See* Exhibits 5 and 5(c).

willingness to work with DRA to integrate the updated information into its current forecast that SDG&E has shown in this proceeding, and the substantial loss of credibility that SDG&E's forecast could suffer were it to exclude any available informational updates, it would appear that incentives already exist to accomplish the result that DRA seeks. We do not think it necessary or prudent to craft a rule addressing a problem that does not necessarily exist, and will therefore limit our modification to that requested by SDG&E.

Comments on Proposed Decision

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code to 14 days. Pursuant to the parties' stipulation, comments were filed by SDG&E and DRA on April 3, 2009. No reply comments were received.

Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Darwin E. Farrar is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On October 1, 2008, SDG&E submitted its 2009 ERRA Forecast Application.
2. DRA protested the application.
3. Following discovery and meet-and-confer efforts, SDG&E agreed to recalculate its ERRA and ongoing CTC revenue requirements, based on a gas price of $5.83.
4. The overall impact of using the lower natural gas forward price curve ending December 19, 2008 is to lower SDG&E's ERRA and ongoing CTC revenue requirements by $95.028 million and $10.905 million, respectively.
5. SDG&E's recalculated 2009 ERRA revenue requirement is $874.555 million.

6. SDG&E's recalculated 2009 ongoing CTC revenue requirement is $44.414 million.

7. Using the updated market benchmark data that Energy Division provided and the calculation methodology described in D.06-07-030 (as modified in D.08-01-030), SDG&E's final 2009 market benchmark price is $70.48/MWh (including distribution line losses).

8. Including the year-end balance (if that balance is below the 5% ERRA trigger threshold) in rates on January 1 will allow the year-end ERRA balance to self-correct more quickly, reduce the number of subsequent trigger-related filings, and allow ratepayers to would more quickly receive any year-end over-collections.

9. SDG&E is also proposing that beginning in 2009 it be allowed to include its year-end ERRA balance (in either the form of an over-collection or under-collection), if that balance is below the 5% ERRA trigger threshold, in rates on January 1 of each year through its annual electric regulatory account update filing. This filing is in the form of an advice letter submitted to Energy Division in October of each year and typically approved in time for the December consolidated rate filing and a January 1 implementation date.

10. Including the year-end balance in rates on January 1 will allow the year-end ERRA balance to self-correct more quickly and reduce the number of subsequent trigger-related filings. Also, SDG&E's ratepayers would more quickly receive any year-end over-collections under this proposal.

Conclusions of Law

1. As shown in its application, supporting testimony (including attachments to testimony), and filings, SDG&E 's (a) forecasted 2009 ERRA revenue requirement (of $874.555 million); (b) forecasted 2009 ongoing CTC revenue

requirement (of $44.414 million); (c) proposed 2009 market benchmark price (of $70.48/MWh including distribution line losses); and (d) year-end ERRA balance proposal (as described in Finding of Fact 8) are reasonable and should be adopted.

2. SDG&E's proposal that it be allowed to include its year-end ERRA balance, if that balance is below the 5% ERRA trigger threshold, in rates on January 1 of each year through the annual electric regulatory account update filing, effective January 1, 2010, is reasonable and should be adopted.

3. SDG&E's motion to (a) receive its testimony, including attachments to testimony, into evidence as Exhibits 1-9; and (b) seal the confidential information found in Exhibits 1(c) through 9(c), pursuant to the confidential information guidelines set forth in D.06-06-066, should be granted.[7]

4. An evidentiary hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's modified 2009 Energy Resource Recovery Account forecast is adopted, consisting of: (a) 2009 Energy Resource Recovery Account forecast revenue requirement of $874.555 million; (b) a 2009 Competition Transition Charge forecast revenue requirement of $44.414 million; and (c) a 2009 market benchmark price of $70.48/megawatt-hour (including distribution line losses).

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[7] There is no Exhibit 8(c).

2. Effective January 1, 2010, San Diego Gas & Electric Company shall include its year-end Energy Resource Recovery Account balance, if that balance is below the 5% Energy Resource Recovery Account trigger threshold, in rates on January 1 of each year through the annual electric regulatory account update filing.

3. San Diego Gas & Electric Company's motion to receive its prepared testimony, including attachments to testimony, and seal confidential versions of such testimony and attachments is granted. San Diego Gas & Electric Company's confidential testimony and attachments shall remain sealed for a period of three years from the effective date of this decision.

4. San Diego Gas & Electric Company shall file an Advice Letter to implement the revenue requirement in this order, concurrent with pending rate adjustments filed by SDG&E in other advice letters that become effective May 1, 2009. The tariff sheets shall become effective on May 1, 2009, subject to a determination by Energy Division that they are in compliance with this order.

5. Application 08-10-004 is closed.

This order is effective today.

Dated April 16, 2009, at San Francisco, California

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners