

**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 2008; )  
(ii) Costs Related to those Activities )  
Recorded to the Electric Resource Recovery )  
Account (ERRA) and Transition Cost )  
Balancing Account (TCBA); and entries )  
recorded to the Rate Reduction Bond )  
Memorandum Account (RRBMA). )  
\_\_\_\_\_ )

Application 09-05-\_\_\_\_\_

**APPLICATION OF  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)  
FOR APPROVAL OF: (i) CONTRACT ADMINISTRATION, LEAST COST  
DISPATCH AND POWER PROCUREMENT ACTIVITIES IN 2008; (ii) COSTS  
RELATED TO THOSE ACTIVITIES RECORDED TO THE ERRA AND TCBA;  
AND (iii) ENTRIES RECORDED TO THE RRBMA**

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**May 20, 2009**

**TABLE OF CONTENTS**

**I. INTRODUCTION .....1**

**II. BACKGROUND .....2**

**III. REQUESTED RELIEF.....5**

**IV. SUMMARY OF TESTIMONY .....6**

**V. STATUTORY AND PROCEDURAL REQUIREMENTS.....6**

**A. Rule 2.1 (a) – (c).....6**

**1. Statutory Authority .....6**

**2. Legal Name and Correspondence.....7**

**3. Proposed Category of Proceeding .....7**

**4. Need for Hearings .....7**

**5. Issues to be Considered .....8**

**6. Proposed Schedule .....8**

**B. Articles of Incorporation - Rule 2.2 .....8**

**VI. CONFIDENTIAL INFORMATION .....9**

**VII. SERVICE.....9**

**VIII.CONCLUSION.....10**

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ACTIVITIES RECORDED TO THE ERRA AND TCBA; AND (iii) ENTRIES RECORDED  
TO THE RRBMA**

**I. INTRODUCTION**

In accordance with the California Public Utilities Commission (Commission) Rules of Practice and Procedure, California Public Utilities Code Section 454.5 (AB 57), and relevant Commission Decisions (D.), including, but not limited to, D.02-10-062, D.02-12-074, D.03-06-067, D.04-01-050, D.04-12-048, D.05-04-036, D.05-01-054, D.06-12-019, D.07-04-020 and D.07-05-008, San Diego Gas & Electric Company (SDG&E) respectfully submits its Energy Resource Recovery Account (ERRA) compliance application (Application) seeking approval of (1) electric procurement contract administration, least cost dispatch and power procurement activities for the 12-month period from January 1, 2008 through December 31, 2008 (Record Period); (2) all costs and expenses entered

into SDG&E's ERRA, Transition Cost Balancing Account (TCBA) during the Record Period; and (3) all costs and expenses entered into the Rate Reduction Bond Memorandum Account (RRBMA). As of December 31, 2008, SDG&E's ending balances in the foregoing accounts are shown in the following table.

<b>ACCOUNT</b>	<b>BALANCE AS OF DECEMBER 31, 2008</b>
ERRA	\$18,924,828 (undercollected)
TCBA	\$1,181,733 <sup>1</sup> (overcollected)
RRBMA	\$0 <sup>2</sup>

This Application and the supporting testimony and exhibits summarized below demonstrate SDG&E's compliance with contract terms, Commission requirements, applicable regulations and legal standards, verifying that SDG&E prudently dispatched its portfolio of resources in a least cost manner for the Record Period.

## **II. BACKGROUND**

The ERRA balancing account mechanism was established in D.02-10-062 to track fuel and purchased power billed revenues against actual recorded costs. That decision also required the electric utilities to establish a fuel and purchased power revenue requirement forecast, a trigger mechanism and a schedule for semi-annual ERRA proceedings. The first semi-annual proceeding (the forecast application) consists of an application by the utility to establish annual fuel and purchased power forecasts for the upcoming 12 months. During the second semi-annual proceeding,

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<sup>1</sup> December 31, 2008 balance after transfers from other regulatory accounts as authorized by the CPUC, including the RRBMA of \$2,732,395 overcollected.

<sup>2</sup> December 31, 2008 balance after transfer of \$2,732,395 overcollection to TCBA, as authorized in Advice Letter 2037-E. As explained below, the Commission has already authorized the elimination of the RRBMA upon transfer of its balance to the TCBA. Accordingly, SDG&E believes that it is appropriate to have the RRBMA subject to a final review in this proceeding.

a compliance review of the utility's energy resource contract administration, least cost dispatch, and ERRA balancing account is conducted.

In D.02-10-062, the Commission adopted minimum standards of conduct the utilities must follow in performing their procurement responsibilities. Standard of Conduct #4 (SOC 4) describes the compliance review criteria for contract administration and economic dispatch of generation resources on which the utilities will be evaluated: "The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least cost manner. Our definitions of prudent contract administration and least cost dispatch are the same as our existing standard."<sup>3</sup>

The scope of compliance review described in D.02-10-062 and D.02-12-074 includes: (1) review of utility electric generation (UEG) fuel expenses; (2) contract administration (including administration of the California Department of Water Resources (DWR) contracts allocated to SDG&E in D.02-09-053, ISO-related costs, existing Qualified Facilities (QF) contracts and other power purchase agreements including renewable resource contracts); and (3) economic dispatch of electric generation resources (including the San Onofre Nuclear Generating Station [SONGS], Miramar and Palomar). The Commission further stated in D.03-06-067 that in determining whether the utilities complied with the requirement to "dispose of economic long power and purchase economic short power in a manner that minimizes ratepayer costs," the Commission would examine "the prudence of each utility's decision to dispatch resources contained in the integrated DWR-IOU portfolio and execute market transactions for economic purposes." Accordingly, the Commission's annual compliance review focuses on prudent contract administration, least cost dispatch and UEG fuel procurement activities.

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<sup>3</sup> D.02-10-062, Conclusion of Law 11.

The appropriate scope and standard of review for these ERRA applications have also been addressed in D.05-04-036 and D.05-01-054, which addressed ERRA applications filed by PG&E and SCE, respectively. According to those decisions and pertinent to the scope of review of the utility's least cost dispatch obligation, the Commission will consider those decisions to dispatch the resources in the daily, hourly and real-time markets. As for the standard of review of the utility's least cost dispatch, contract administration and UEG costs, the Commission reiterated in D.05-04-036 that its review is not a "reasonableness review," but is instead a "compliance review:"

ORA has not presented any new arguments in this proceeding that would cause us to reconsider the standard of review that we adopted for SCE in D.05-01-054. Accordingly, the same standard of review for least cost dispatch that we adopted in D.05-01-054 for SCE should also apply to the standard of review of PG&E's least cost dispatch in its ERRA proceedings, i.e., a compliance review.

The standard of review of the contract administration is also that of a compliance review. As noted in D.05-01-054 at page 8, "SOC 4 is the upfront standard in a utility's procurement plan regarding prudent contract administration and energy dispatch decisions." Since § 454.5(d)(2) provides that an approved procurement plan shall eliminate the need for after-the-fact reasonableness reviews, the standard of review is to determine whether the utility's contract administration complied with the approved procurement plan.<sup>4</sup>

As for the standard of review that applies to UEG-related costs, we stated in D.03-06-067 at page 10 that an inappropriate preference for UEG resources is part of the least cost dispatch standard. Accordingly, a compliance review applies when UEG is involved in least cost dispatch decisions. Although a compliance review applies, the utility is prohibited from any action that results in an inappropriate preference for UEG resources or the utility's own negotiated contracts. (See D.05-01-054, p. 10; D.02-12-069, pp. 61-64.)<sup>5</sup>

With respect to the TCBA, in SDG&E's 2005 ERRA reasonableness review proceeding, the Commission authorized the review of SDG&E's TCBA in future ERRA review proceedings.<sup>6</sup>

With respect to the RRBMA, in September 2007 (via Advice Letter 1911-E, which was

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<sup>4</sup> As noted in D.05-01-054, at p. 15, the compliance would consist of a showing of prudence for contract administration, for which the reasonable manager standard would apply.

<sup>5</sup> D.05-04-036, pp. 27-28.

<sup>6</sup> See D.06-12-019, Ordering Paragraph 3.

approved on August 2, 2007) SDG&E retired its Rate Reduction Bonds. In October 2008 (via Advice Letter 2037-E, which was approved on December 1, 2008), SDG&E requested Commission authorization to transfer the residual balance in the RRBMA to the TCBA and to eliminate the RRBMA. Accordingly, SDG&E believes it is appropriate to have the RRBMA subject to a final review in this proceeding.

### **III. REQUESTED RELIEF**

In this Application and supporting testimony, SDG&E explains why the Commission should find that:

- during the Record Period, SDG&E prudently administered its portfolio of contracts, including SONGS, DWR, QF and non-QF resources, and renewable energy, in compliance with its Commission-approved procurement plan;
- during the Record Period, SDG&E prudently dispatched its energy portfolio of various UEG resources, including SONGS, Miramar and Palomar, power purchase contracts, and allocated DWR contracts, in a least cost manner consistent with its Commission-approved procurement plan;
- during the Record Period, all entries into the ERRA and TCBA, including costs incurred by SDG&E related to the foregoing, were reasonable and are recoverable in rates;
- all entries into the RRBMA were reasonable and are recoverable in rates;<sup>7</sup>
- SDG&E has met its burden of proof to demonstrate that its power purchase activities for the Record Period were reasonable and prudent.

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<sup>7</sup> Note that the Record Period (January 1, 2008 through December 31, 2008) applies to the ERRA and TCBA accounts. However, as explained in the testimony of SDG&E witness Michelle Somerville, the relevant period for the RRBMA is December 1997 through December 31, 2008.

#### IV. SUMMARY OF TESTIMONY

This Application is supported by the testimony of the following witnesses:

- **Tony Choi**—This testimony describes the various energy resources in SDG&E’s electricity portfolio and addresses the manner in which SDG&E complied during the Record Period with its obligation to dispatch its energy portfolio in a least cost manner consistent with the relevant Commission-approved LTPP. As explained by Mr. Choi, for purposes of the Commission’s review and the compliance findings requested herein, the relevant Long-Term Procurement Plan (LTPP) is SDG&E’s 2006 LTPP, which was approved in D.07-12-052 and Resolution E-4189.
- **Sue E. Garcia**—This testimony describes the expenses that were recorded in SDG&E’s ERRA and TCBA and explains the administration activities associated with SDG&E’s power purchase agreements during the Record Period.
- **Michelle Somerville**—This testimony provides a description and summary of transactions in SDG&E’s ERRA, TCBA and RRBMA.

#### V. STATUTORY AND PROCEDURAL REQUIREMENTS

##### A. Rule 2.1 (a) – (c)

In accordance with Rule 2.1 of the Commission’s Rules of Practice and Procedure, SDG&E provides the following information.

##### 1. Statutory Authority

SDG&E submits this Application pursuant to AB 57 (Pub. Util. Code §454.5), D.02-10-062, D.02-12-074, D.04-01-050, D.04-12-048, D.06-12-019, D.07-04-020, D.07-05-008, *et al.*, (and modifications thereto) and the Commission’s Rules of Practice and Procedure.



## **2. Legal Name and Correspondence**

SDG&E is a public utility organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123. SDG&E's attorney in this matter is John A. Pacheco.

Correspondence or communications regarding this Application should be addressed to:

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## **3. Proposed Category of Proceeding**

Because the activities and costs that are the subject of this Application involve a review of costs that are included in customer rates, and because the Application neither raises questions of policy or rules of general applicability, nor adjudicates any allegations of violations of law, SDG&E proposes that the category of this proceeding be designated as "ratesetting."

## **4. Need for Hearings**

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provide the Commission with

a sufficient record upon which to grant the relief requested on an ex parte basis. Moreover, SDG&E's past ERRA compliance proceedings have not required hearings. However, in the event hearings are required, SDG&E has provided adequate time in the proposed schedule, below.

**5. Issues to be Considered**

The issues to be considered are described in this Application and the accompanying testimony and exhibits.

**6. Proposed Schedule**

SDG&E proposes the following schedule:

<u><b>ACTION</b></u>	<u><b>DATE</b></u>
Application filed	May 20, 2009
Prehearing Conference	June 17, 2009
Intervener Testimony	July 15, 2009
Rebuttal Testimony	July 29, 2009
Hearings (if necessary)	August 10-11, 2009
Opening Briefs	August 25, 2009
Reply Briefs	September 8, 2009
Proposed Decision	October 8, 2009
Comments on Proposed Decision	October 28, 2009
Reply Comments	November 2, 2009
Commission Approval	November 20, 2009

**B. Articles of Incorporation - Rule 2.2**

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on December 4,

1997 in connection with SDG&E's Application No. 97-12-012, and is incorporated herein by reference.

**VI. CONFIDENTIAL INFORMATION**

SDG&E is submitting the testimony supporting this Application in both public (redacted) and non-public (unredacted and confidential) form, consistent with SDG&E's declarations of confidential treatment attached to the testimony of each witness and submitted in conformance with D.08-04-023. In short, confidential treatment and redaction of such information is necessary in this proceeding to protect from inappropriate disclosure of confidential, commercially sensitive information (pertaining to SDG&E's electric procurement resources and strategies) that SDG&E witnesses must identify to support this Application.

**VII. SERVICE**

This is a new application. No service list has been established. Accordingly, SDG&E will serve this Application, testimony and related exhibits on parties to the service list for A.08-05-036 (SDG&E's 2007 ERRA compliance proceeding). Hard copies will be sent by overnight mail to the Chief Administrative Law Judge Karen Klopton.

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## VIII. CONCLUSION

Based on this Application and the supporting testimony and exhibits, SDG&E respectfully requests that the Commission grant the relief requested above and such additional relief as the Commission believes is just and reasonable.

Dated this 20th day of May 2009, in San Diego, California.

Respectfully submitted,

/S/ JOHN A. PACHECO

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By: /s/ LEE SCHAVRIEN  
Lee Schavrien  
Senior Vice President – Regulatory & Finance  
San Diego Gas & Electric Company

**VERIFICATION**

The undersigned states as follows:

I am an officer of SAN DIEGO GAS & ELECTRIC COMPANY and am authorized to make this verification for and on behalf of said corporation. The content of this document is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 20<sup>th</sup> day of May 2009, at San Diego, California.

/s/ LEE SCHAVRIEN \_\_\_\_\_  
Lee Schavrien  
Senior Vice President – Regulatory & Finance  
San Diego Gas & Electric Company

## CERTIFICATE OF SERVICE

I hereby certify that the **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) FOR APPROVAL OF: (i) CONTRACT ADMINISTRATION, LEAST COST DISPATCH AND POWER PROCUREMENT ACTIVITIES IN 2008; (ii) COSTS RELATED TO THOSE ACTIVITIES RECORDED TO THE ERRA AND TCBA; AND (iii) ENTRIES RECORDED TO THE RRBMA** was served on each party of record on the service list in A.08-05-036 (the service list for SDG&E's 2007 ERRA compliance review proceeding) by electronic service. Hard copies were also sent by overnight mail to Chief ALJ Karen Clopton.

Dated at San Diego, California, this 20th day of May, 2009.

/s/ Lisa Fucci-Ortiz  
Lisa Fucci-Ortiz