

Application No.: 21-06-xxx

Exhibit No.: _____

Witness: Scott Lewis

PREPARED DIRECT TESTIMONY OF

SCOTT LEWIS

REDACTED - PUBLIC VERSION

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



JUNE 1, 2021

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	DEVELOPMENT OF CALIFORNIA’S CAP-AND-TRADE PROGRAM.....	2
	A. Covered Entities.....	3
	B. LTPP Approved Procurement Methods.....	4
III.	2020 GHG COMPLIANCE INSTRUMENT PROCUREMENT	5
IV.	CONCLUSION.....	6
V.	QUALIFICATIONS	7

APPENDIX A - QCR ATTACHMENT Q – GHG DEALS – 2020 - (**CONFIDENTIAL**)

**PREPARED DIRECT TESTIMONY OF
SCOTT LEWIS
ON BEHALF OF SDG&E**

I. INTRODUCTION

This testimony presents San Diego Gas & Electric Company’s (“SDG&E”) procurement of Greenhouse Gas (“GHG”) compliance instruments during the record period of January 1, 2020 through December 31, 2020 for compliance with California’s Cap-and-Trade Program and recently issued Decision (“D.”) 21-05-004.

By way of background, D.19-04-016 approved a Petition for Modification (“PFM”) submitted jointly by SDG&E, Pacific Gas and Electric Company (“PG&E”), and Southern California Edison Company (“SCE”), and upon the adoption of the PFM and its new Attachment C, the prior Commission decisions (*i.e.*, D.14-10-033 as corrected in D.14-10-055 and D.15-01-024, inclusive of their versions of Attachment C) were superseded in their entirety.

My testimony describes the Cap-and-Trade Program and demonstrates that: (1) SDG&E procured compliance instruments during the record period in a manner consistent with Track III of the Long-Term Procurement Plan (“LTTP”) D.12-04-046 and the related Commission-approved SDG&E 2014 Bundled Procurement Plan (“BPP”), implemented by SDG&E Advice Letter (“AL”) 2850-E; and (2) SDG&E has complied with the directives in D.21-05-004.¹ Based

¹ Greenhouse Gas product procurement is addressed in Track III of the Long-Term Procurement Plan Proceeding in D.12-04-046 at 40-59, Findings of Fact 12, 13; Conclusions of Law 8, 9, and Ordering Paragraphs 8-10. Appendix F of SDG&E’s Bundled Procurement Plan, which was originally approved in AL 2362-E-A, approved November 14, 2012, and effective October 11, 2012, by Resolution E-4543 and amended in AL 2831-E, approved January 26, 2016 and effective January 1, 2016, and later amended again in AL 2850-E-A, approved March 30, 2016 and effective February 19, 2016, addresses SDG&E’s Commission-approved plan of GHG product procurement. Sheets F-12, F-18, and F-24 of SDG&E’s BPP were additionally updated with SDG&E’s 2020 forecasts and limits in AL 3476-E, approved January 10, 2020 and effective December 16, 2019.

1 on this showing, SDG&E requests that the Commission find that SDG&E’s 2020 GHG product
2 procurement complies with D.12-04-046, SDG&E’s BPP, and D.19-04-016.

3 **II. DEVELOPMENT OF CALIFORNIA’S CAP-AND-TRADE PROGRAM**

4 In 2006, Assembly Bill (“AB”) 32 became law. The bill requires California to lower
5 GHG emissions to 1990 levels by 2020. To achieve AB 32’s goals, the California Air
6 Resource’s Board (“CARB”) created a scoping plan that included multiple comprehensive
7 actions. One such action was creating California’s Cap-and-Trade Program, intended to
8 establish a market-based price for GHG emissions, provide market signals to promote investment
9 in Energy Efficiency (“EE”) activities and encourage the use of low emitting electric generation
10 to reduce GHG emissions. The Cap-and-Trade Program covers compliance years 2013 to 2030.
11 The 2013-2023 compliance years are divided into four separate compliance periods: Compliance
12 Period 1 (“CP1”) covers years 2013-2014; Compliance Period 2 (“CP2”) covers years 2015-
13 2017; Compliance Period 3 (“CP3”) covers years 2018-2020; and Compliance Period 4 (“CP4”)
14 covers years 2021-2023. Compliance periods for 2024-2030 are described in the recent Cap-
15 and-Trade regulation.²

16 CARB has set declining GHG Emissions Caps for each year of the program to provide a
17 trajectory to achieve the State’s 2020 and 2030 GHG emissions goals. An Emission Cap equals
18 the amount of California GHG allowances issued by CARB for that year. The program was
19 designed so that allowances can be banked for use in future years. Future vintages, however,
20 cannot be used to satisfy an obligation for a prior year.

² See Section 95840 of the Cap-and-Trade Regulation for further details on Compliance Periods for 2024-2030. California Air Resources Board, *Article 5: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms* at 109-110 available at https://ww3.arb.ca.gov/cc/capandtrade/ct_reg_unofficial.pdf

1 Compliance instruments consist of GHG allowances and CARB-verified offsets, the
2 latter of which is a verified reduction of GHG emissions from sectors outside the Cap-and-Trade
3 Program. While one offset is equivalent to one allowance and can be used for compliance, their
4 use is limited. For compliance years 2013 – 2020, no more than 8% of compliance year
5 obligations can be fulfilled with offsets. Compliance years 2021-2025 have a 4% annual limit
6 and years 2026-2030 have a 6% annual offset limit.³

7 **A. Covered Entities**

8 Emitters covered under the Cap-and-Trade Program must procure one Compliance
9 Instrument for every metric ton (“MT”) of carbon dioxide equivalent (“CO₂e”) that they emit.
10 Only entities that exceed emissions thresholds and are in sectors covered by the program are
11 subject to compliance. Entities subject to compliance are called Covered Entities.⁴ Electric
12 generators that exceed 25,000 MTs of emissions in a calendar year and electric imports are
13 covered entities. As such, SDG&E must purchase Compliance Instruments for its imported
14 power and for its Utility-Owned Generation (“UOG”) plants. Imported power includes generic
15 out-of-state market purchases as well as specified power such as electricity generated from the
16 SDG&E-owned Desert Star Energy Center and from SDG&E contracted Yuma Cogeneration
17 Associates (“YCA”). At the time of SDG&E’s updated 2020 GHG forecast within its BPP,
18 SDG&E had two California UOG plants that were Covered Entities in the program: Palomar
19 Energy Center and Miramar Energy Facility.⁵ In addition, as a result of contractual agreements

³ Note that offsets, although calculated annually, do not need to be surrendered until the end of the compliance period. *See id.* at 136.

⁴ *See* Section 95811 of the Cap-and-Trade Regulation for further details on Covered Entities and Thresholds. *Id.* at 64-66.

⁵ The Cuyamaca Peak Energy Plant which was a Covered Entity in CP1 (2013-2014), was verified to be below the 25,000 MT threshold for 2012-2014, thus making it eligible to be removed as a Covered

1 pursuant to its Purchased Power Agreements (“PPAs”), SDG&E has procurement obligations for
2 various tolling agreements. For compliance years 2018 – 2021, SDG&E forecasted that it would
3 have compliance obligations for the following tolling agreements: Otay Mesa Energy Center
4 (“OMEC”),⁶ Goal Line,⁷ Pio Pico Energy Center, Carlsbad Energy Center, Orange Grove Energy
5 and Escondido Energy Center.⁸

6 **B. LTPP Approved Procurement Methods**

7 The Commission recognized the utilities’ need to procure compliance instruments to
8 fulfill requirements with California’s Cap-and-Trade Program. As a result, the Commission
9 granted procurement authority of GHG compliance instruments along with limitations on
10 procurement methodologies, vintages, and volumetric limits in D.12-04-046 and in SDG&E’s
11 BPP. In accordance with SDG&E’s BPP, SDG&E is authorized to procure seller-guaranteed
12 offsets through a Request for Offering (“RFO”) or via approved broker. SDG&E is also
13 authorized to purchase and sell allowance futures via approved exchanges and allowances from
14 CARB-run quarterly auctions and Price Containment Reserve Sales. For SDG&E’s 2020

Entity in the Cap-and-Trade program. The 2020 forecast continued to show Cuyamaca below the threshold.

⁶ In October 2019, the OMEC-PPA expired and was replaced by a new capacity-only agreement which shifts the burden of purchasing compliance instruments back to Otay Mesa. As such Otay Mesa no longer contributes to SDG&E’s Cap-and-Trade Obligation portfolio, though it did contribute during 2018-2019. *See* AL 3476-E.

⁷ In August 2019, Goal Line was removed from the Cap-and-Trade program as it emitted below the 25,000 MT threshold for an entire compliance period. This occurred during CP2 from 2015-2017. If, in any year Goal Line exceeds the threshold, it will re-enter the program as of that year and remain a covered entity through the end of that compliance period and the entire following compliance period.

⁸ *See* AL 3476-E, approved January 10, 2020 and effective December 16, 2019 at Appendices, Sheet F-12, and AL 2850 E-A, approved March 30, 2016 and effective February 19, 2016 at Appendix F, Sheet F-12.

1 procurement period, the LTPP authorized purchases and sales of Vintages 2013 – 2023.
2 SDG&E’s BPP GHG Limit for the 2020 procurement period was 2.014 Million MT.⁹

3 **III. 2020 GHG COMPLIANCE INSTRUMENT PROCUREMENT**

4 SDG&E seeks the Commission’s determination in this proceeding that SDG&E’s
5 procurement of GHG-related products during 2020 was in compliance with the Commission’s
6 approach on GHG procurement, as stated in the Track III Decision of the LTPP Proceeding,
7 D.12-04-046. In that Decision, the Commission issued a procurement limit regarding
8 Compliance Instruments that “provides the utilities broad latitude, particularly giving them the
9 opportunity to forward procure to the degree they believe compliance instrument prices are
10 favorable, or to postpone procurement to when they believe pricing will become more
11 favorable.”¹⁰

12 Accordingly, SDG&E developed a procurement strategy to allow SDG&E to remain
13 within the Commission-approved SDG&E GHG procurement limit of 2.014 Million MT for
14 compliance years 2013-2021.¹¹ The soft cap of \$62.29 and hard floor of \$16.68 for the 2020
15 auctions served as the maximum and minimum prices expected in the auctions. The average
16 settlement price in 2020 for the Vintage 2020 quarterly auctions was \$17.04. The Vintage 2023
17 quarterly auctions settled at an average price of \$17.19. SDG&E’s procurement activity in 2020
18 is shown in Appendix A.

⁹ *Id.* at Sheets F-18 and F-19.

¹⁰ D.12-04-046 at 57.

¹¹ *See* AL 3476-E, approved January 10, 2020 and effective December 16, 2019 at Appendices, Sheet F-12, and AL 2850 E-A, approved March 30, 2016 and effective February 19, 2016 at Appendix F, Sheets F-18, and F-19.

1 SDG&E purchased 1,853,000 MT and sold 828 MT of Compliance Instruments in the
2 2020 procurement period; net purchases were 1,852,172 MT, which was below SDG&E’s limit
3 of 2,014,000 MT. SDG&E’s 2020 Quarterly Compliance Report (“QCR”) Attachment Q tables
4 in Appendix A herein show the specific transactions executed in 2020 and the individual costs
5 associated with each transaction. SDG&E’s total net cost spent on GHG procurement in 2020
6 was \$35,998,450.

7 *See* Appendix A for SDG&E’s four 2020 QCR Attachment Q tables.

8 **IV. CONCLUSION**

9 SDG&E’s procurement activity was consistent with the approach prescribed by the
10 Commission in D.12-04-046, D.15-10-031, and SDG&E’s BPP in Advice Letter 2850-E-A and
11 AL 3163-E, discussed above, for procuring GHG compliance instruments. Therefore, SDG&E
12 requests that the Commission find that SDG&E complied with D.12-04-046, D.15-10-031,
13 Commission-approved AL 2850-E-A and AL 3163-E, and D.21-05-004 based on the testimony
14 provided herein for the record period January 1, 2020 through December 31, 2020.

1 **V. QUALIFICATIONS**

2 My name is Scott D. Lewis. My business address is 8315 Century Park Court, San Diego,
3 CA 92123. I am employed by San Diego Gas & Electric as the Electric & Fuels Trading
4 Manager in the Energy Supply and Dispatch Department. My responsibilities include managing
5 the execution of SDG&E's GHG portfolio and the day ahead and forward procurement of
6 electricity and natural gas that serves SDG&E's electric portfolio. I assumed my current position
7 in August 2014.

8 I have been employed by SDG&E in numerous positions including Senior Electric Fuels
9 Trader, Electricity Trader, Electricity Pre-scheduler, and Electric Real Time Operations. I have
10 been responsible for natural gas scheduling and trading, electricity scheduling and trading,
11 outage management and demand forecasting.

12 I hold a Bachelor's degree in Business Administration with an emphasis in Finance from
13 California State University, Chico.

14 I have previously testified before the Commission.

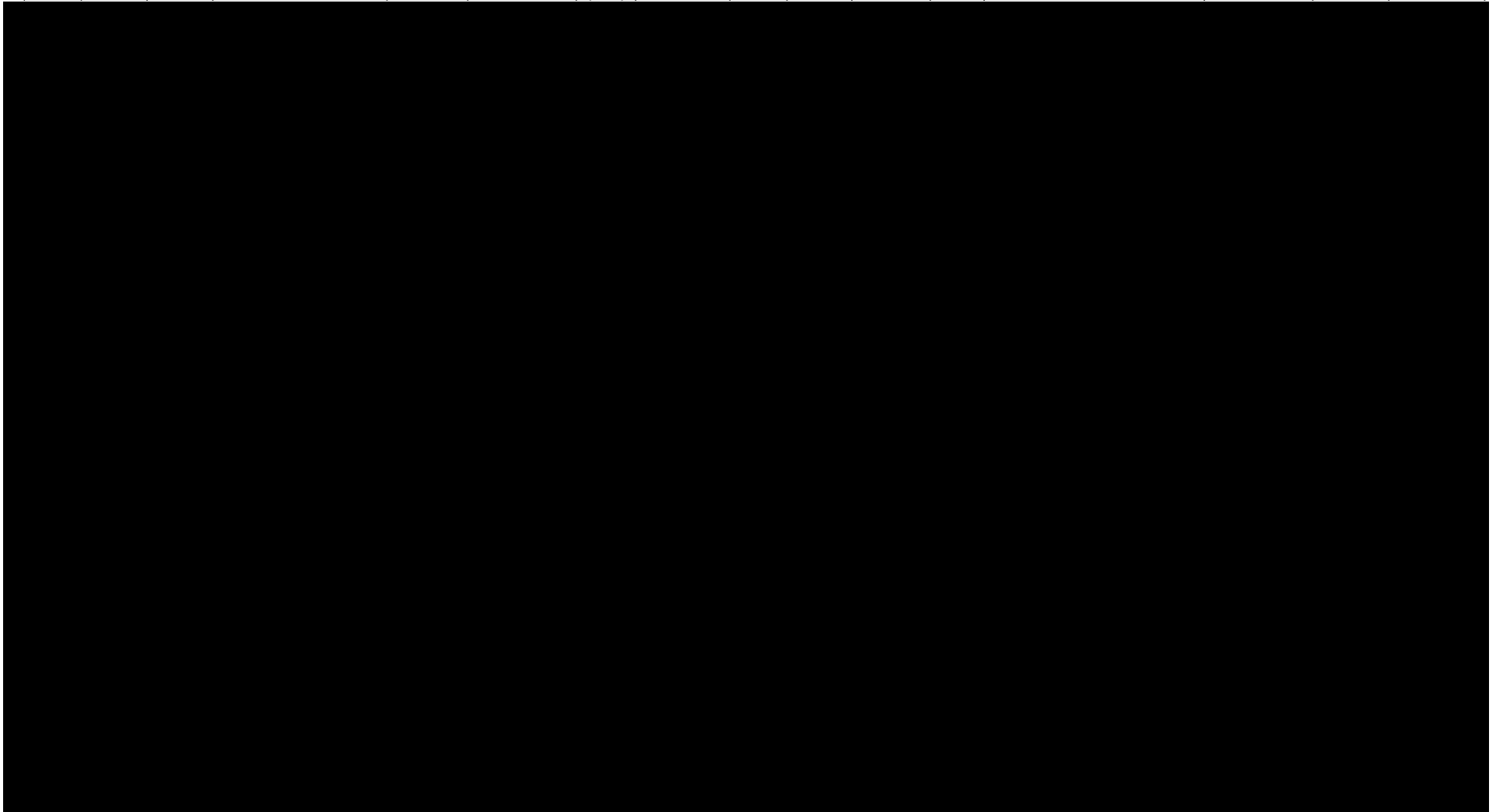
APPENDIX A

QCR ATTACHMENT Q – GHG DEALS –2020

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QCR Attachment Q - GHG DEALS - Q1 2020

Deal Number	Initiation Date*	Transfer Date*	Counter Party	Purchase or Sale	Total Volume (MT)	Average Price (\$/MT)	Notional Value (\$)	Vintage **	Product Type	Method of Transaction	Affiliate	Comments	Offset Project Type **	Offset Location **	Compliance Period Eligibility ***
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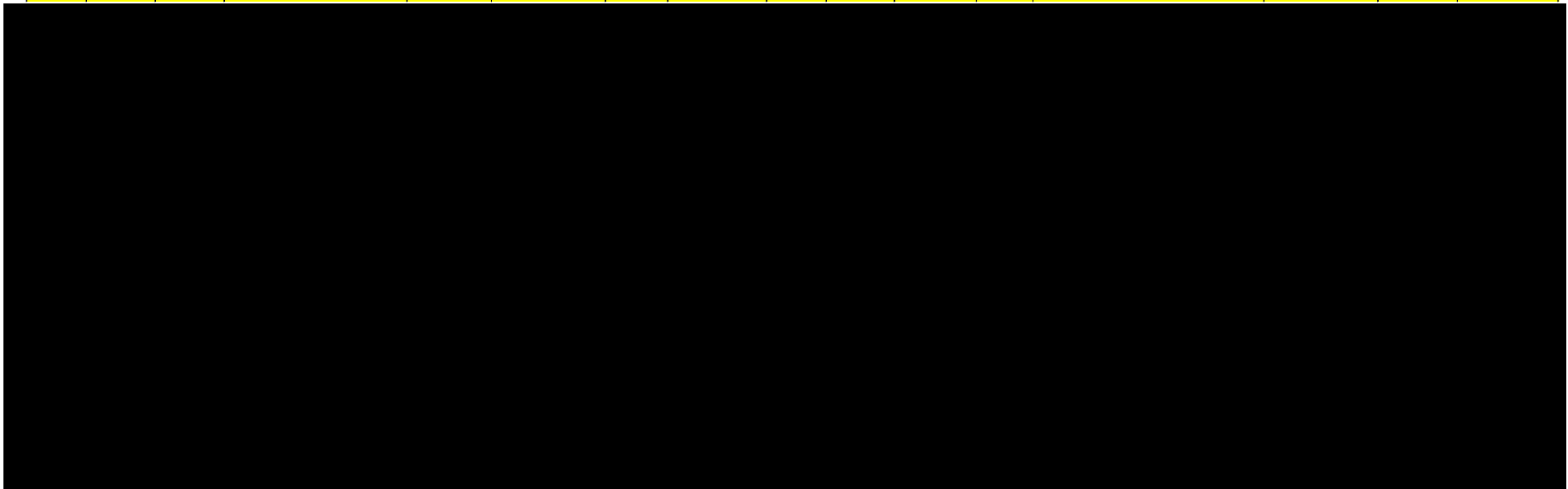
* Initiation Date refers to the date that SDG&E committed to the purchase/sale. The Transfer Date refers to the date SDG&E received/delivered the allowances/offsets. For Q1 2020, the Transfer Date was adjusted from the QCR to reflect actual transfer. For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances. For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

** Vintage, Offset Project Type and Offset Location are typically unknown at the time of transaction.

*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023.

QCR Attachment Q - GHG DEALS - Q2 2020

Deal Number	Initiation Date*	Transfer Date*	Counter Party	Purchase or Sale	Total Volume (MT)	Average Price (\$/MT)	Notional Value (\$)	Vintage **	Product Type	Method of Transaction	Affiliate	Comments	Offset Project Type **	Offset Location **	Compliance Period Eligibility ***
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* Initiation Date refers to the date that SDG&E committed to the purchase/sale. The Transfer Date refers to the date SDG&E received/delivered the allowances/offsets.

For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances.

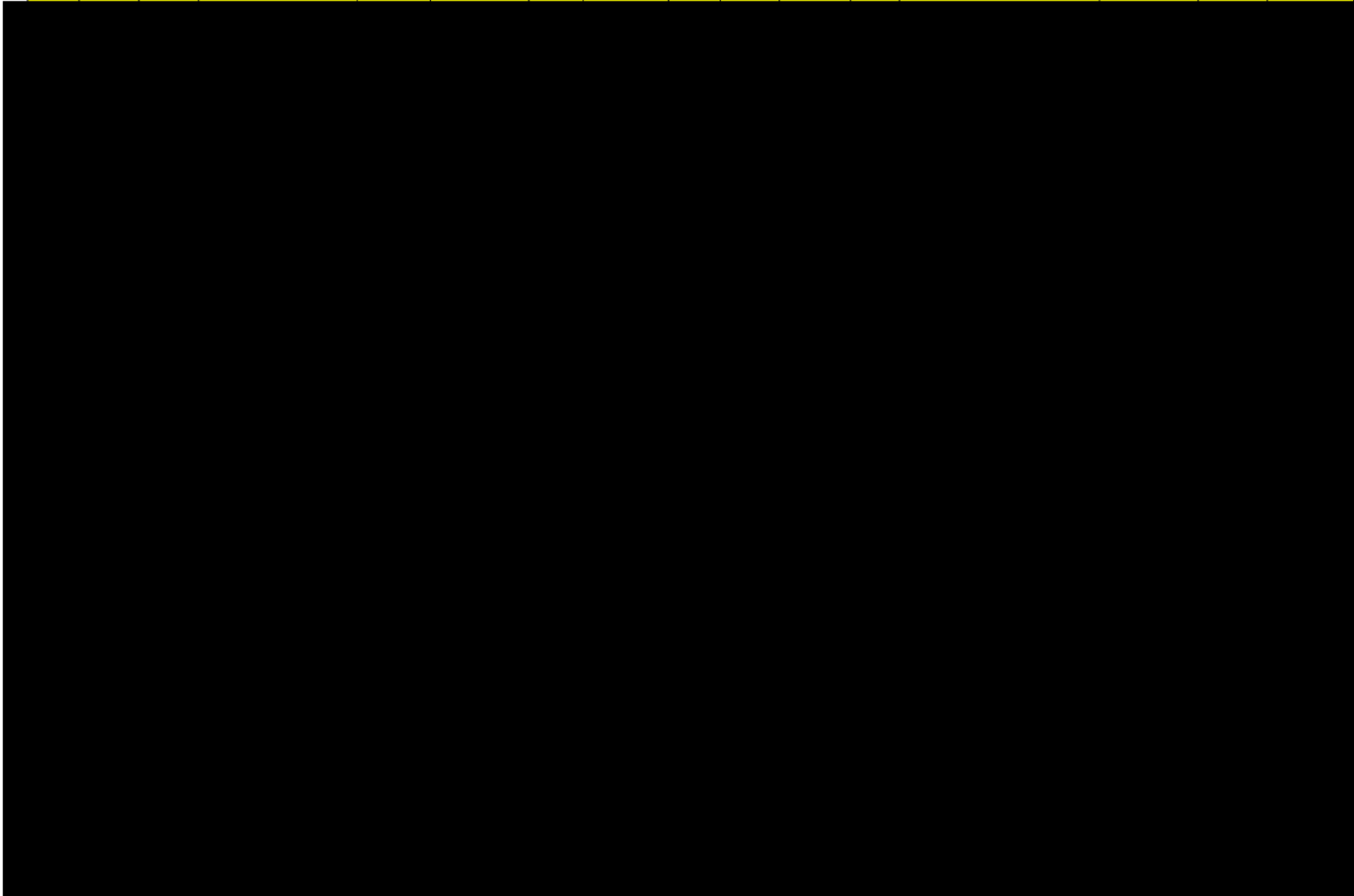
For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

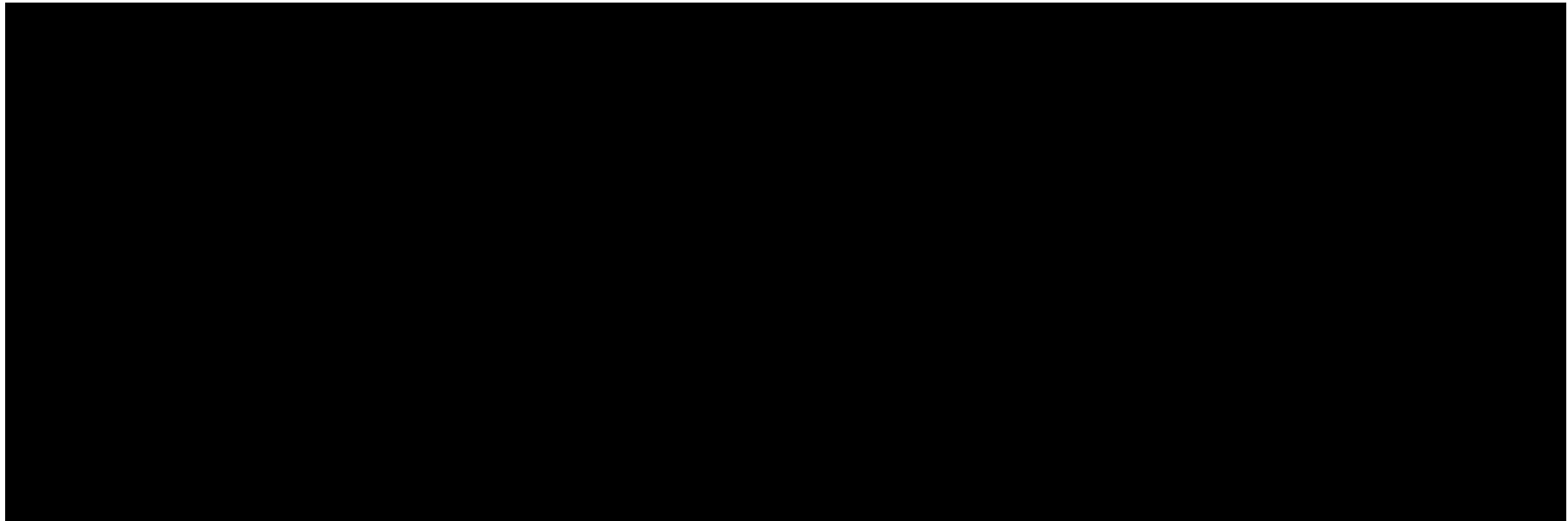
** Vintage, Offset Project Type and Offset Location are typically unknown at the time of transaction.

*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023.

OCR Attachment Q - GHG DEALS - Q3 2020

Deal Number	Initiation Date*	Transfer Date*	Counter Party	Purchase or Sale	Total Volume (MT)	Average Price (\$/MT)	Notional Value (\$)	Vintage **	Product Type	Method of Transaction	Affiliate	Comments	Offset Project Type **	Offset Location **	Compliance Period Eligibility ***
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* Initiation Date refers to the date that SDG&E committed to the purchase/sale. The Transfer Date refers to the date SDG&E received/delivered the allowances/offsets.

For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances.

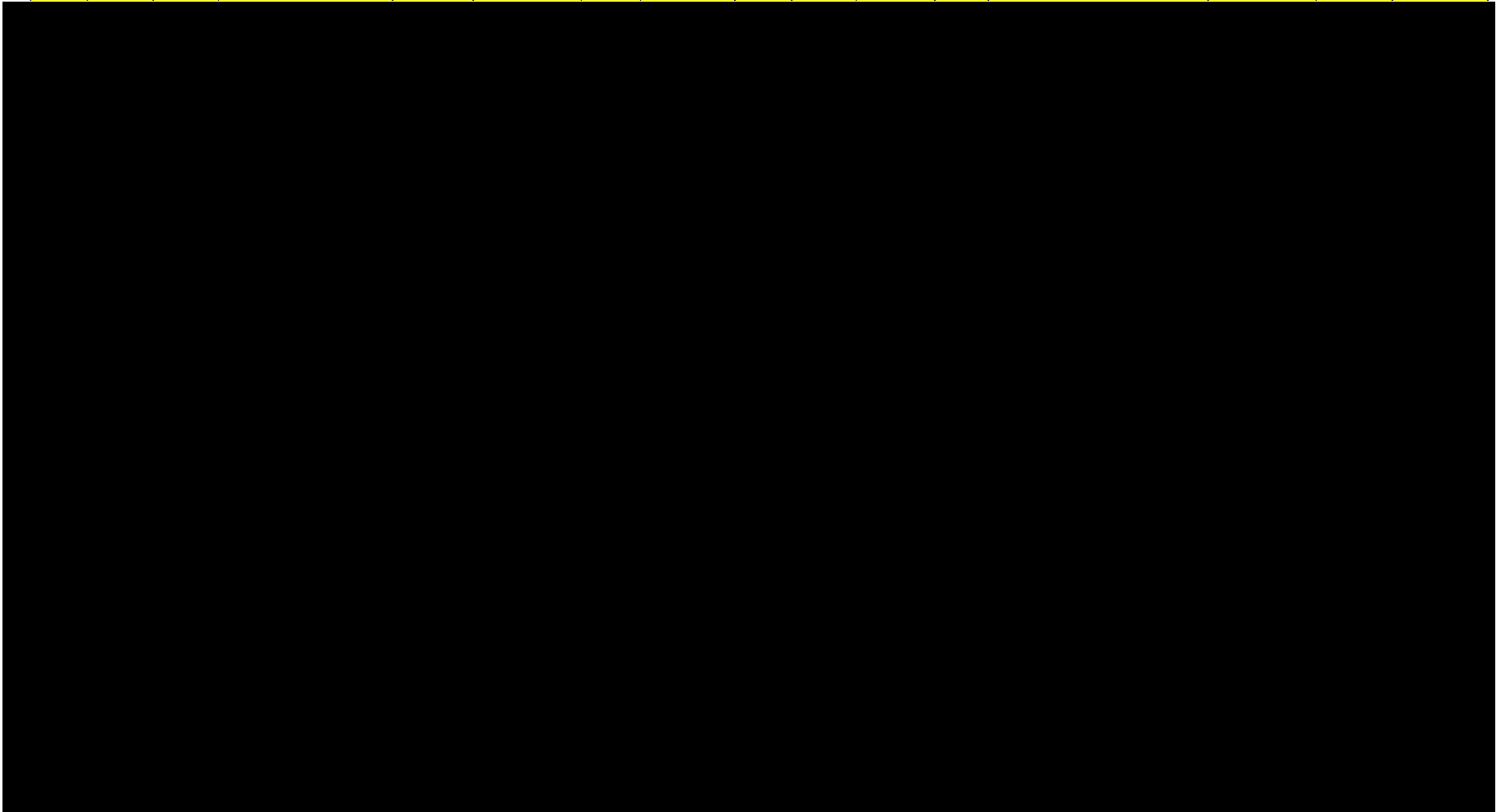
For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

** Vintage, Offset Project Type and Offset Location are typically unknown at the time of transaction.

*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023.

OCR Attachment Q - GHG DEALS - Q4 2020

Deal Number	Initiation Date*	Transfer Date*	Counter Party	Purchase or Sale	Total Volume (MT)	Average Price (\$/MT)	Notional Value (\$)	Vintage **	Product Type	Method of Transaction	Affiliate	Comments	Offset Project Type **	Offset Location **	Compliance Period Eligibility ***
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* Initiation Date refers to the date that SDG&E committed to the purchase/sale. The Transfer Date refers to the date SDG&E received/delivered the allowances/offsets.

For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances.

For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

** Vintage, Offset Project Type and Offset Location are typically unknown at the time of transaction.

*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023.