

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

Expedited Application of SAN DIEGO GAS &
ELECTRIC COMPANY (U 902-E) under the Energy
Resource Recovery Account Trigger Mechanism

Application 10-04-033
(filed on April 30, 2010)

**REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) TO
PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**

John A. Pacheco
SDG&E
101 Ash Street, HQ12
San Diego, California 92101-3017
Telephone: (619) 699-5130
Facsimile: (619) 699-5027
Email: jpacheco@semprautilities.com

Attorney for: SAN DIEGO GAS &
ELECTRIC COMPANY

June 14, 2010

TABLE OF CONTENTS

I. INTRODUCTION.....1

II. SDG&E DID NOT DELAY THE FILING OF THIS TRIGGER APPLICATION.....1

III. SDG&E’S PROPOSED 12-MONTH AMORTIZATION PERIOD IS CONSISTENT WITH COMMISSION RULES AND WILL AVOID UNNECESSARY RATE FLUCTUATIONS.....3

IV. SDG&E’S PROPOSAL TO USE THE UNDERCOLLECTED NGBA TO OFFSET THE IMPACT OF THE ERRA OVERCOLLECTION IS REASONABLE AND ANY NECESSARY REVIEW OF THE ACCURACY OF THE NGBA EASILY ACCOMPLISHED IN THIS PROCEEDING.....4

V. CONCLUSION6

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

Expedited Application of SAN DIEGO GAS &
ELECTRIC COMPANY (U 902-E) under the Energy
Resource Recovery Account Trigger Mechanism

Application 10-04-033
(filed on April 30, 2010)

**REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) TO
PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**

I. INTRODUCTION

Pursuant to Rule 2.6 of the California Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, San Diego Gas & Electric Company ("SDG&E") respectfully submits this reply regarding the Division of Ratepayer Advocate's ("DRA's") protest to SDG&E's Expedited Application under the Energy Resource Recovery Account ("ERRA") Trigger Mechanism ("Trigger Application"). DRA was the only party to file a protest.

DRA's protest alleges objections related to (1) a purported delay in the filing of the Trigger Application; (2) SDG&E's proposed 12-month amortization schedule for return of the overcollection; and (3) SDG&E's proposal to offset the overcollection with an undercollection in SDG&E's Non-Fuel Generation Balancing Account ("NGBA"). As detailed below, each of DRA's objections are without merit and do not present controversies requiring hearings.

II. SDG&E DID NOT DELAY THE FILING OF THIS TRIGGER APPLICATION

DRA's protest implies that SDG&E is responsible for delaying the filing of the Trigger Application and states that its "concern relates to the benefits of immediate rebate

to ratepayers denied over the course of five months.”¹ DRA’s insinuation is inaccurate and based on an incorrect appreciation of the process leading up to the filing on April 30, 2010. For example, DRA fails to recognize that pursuant to D.07-05-008 SDG&E is allowed to file an advice letter seeking to maintain rates when it expects an overcollection or undercollection above the 4% trigger to self-correct within 120 days. Pursuant to this rule, on December 10, 2009, SDG&E filed Advice Letter (“AL”) 2131-E notifying the Commission that SDG&E’s ERRA balance exceeded its 4% trigger and 5% threshold and projecting that the balance would self-correct below the 4% trigger within 120 days (by February 28, 2010). Accordingly, SDG&E had until February 28, 2010 to self correct. DRA also fails to recognize that the ERRA totals for February 28 were not final until well after that date. That is, it takes some time after a particular date to confirm the ERRA totals for that date. In this case, the February 28 totals were not final until March 19, 2010. It was only at that point that SDG&E was able to confirm that contrary to its projections, it had not self-corrected by February 28.

Thus, beginning on March 19, 2010, SDG&E worked diligently and in good faith to prepare its Trigger Application, which was not ready for filing until April 30, 2010. Contrary to what DRA may suggest, it takes some time to prepare these types of applications, including those that involve preparing bill insert notices that have to be approved by the Public Advisor’s office prior to filing.

¹ DRA Protest at p. 2.

III. SDG&E'S PROPOSED 12-MONTH AMORTIZATION PERIOD IS CONSISTENT WITH COMMISSION RULES AND WILL AVOID UNNECESSARY RATE FLUCTUATIONS

DRA objects to SDG&E's proposed 12-month amortization period, questioning "why ratepayers should be denied the benefit of more immediate economic relief."² As an alternative, DRA proposes that the Commission order SDG&E to return the overcollection as a one-time bill credit, in the same manner as was allowed in D.09-09-042. DRA has failed to appreciate, however, that the one-time bill credit allowed in D.09-09-042 constituted a unique exception to the normal ERRA rules requiring that overcollections/undercollections be returned via amortized rate changes. That is, pursuant to D.02-10-062, utility trigger applications are required to "propose an amortization period for the five percent of not less than 90 days."³ Indeed, in past ERRA trigger applications (e.g., D.07-12-042 and D.05-09-019), the Commission has found a 12-month amortization period to be reasonable.

DRA has also failed to consider the fact that the current circumstances are different than the unique 2009 circumstances which supported an exception to the rules and the approval of a one-time bill credit in D.09-09-042. In 2009, overall rates were approximately 5% higher than currently effective rates. As a result, 2009 summer bills, particularly for residential customers with usage in Tier 3 and Tier 4, were projected to be significantly higher during a time of historic economic downturn. Residential Tier 3 and Tier 4 rates had increased over 30% in May 1 of 2009 compared to May 1 of 2008. This equated to an over 25% monthly bill increase for an Inland customer using 1,000 kWh a month. As of May 1, 2010, Tier 3 and Tier 4 rates have *decreased* over 10% from the

² DRA Protest at p. 2.

³ D.02-10-062, Conclusion of Law 15.

May 1, 2009 levels, resulting in an approximately 6% monthly bill decrease for an Inland customer using 1,000 kWh a month. Therefore, under the current circumstances, including consideration of the fact that the economy is starting to recover, SDG&E believes that the higher priority is to promote rate stability and use this ERRA overcollection to offset rate increases.

Specifically, SDG&E's request for implementation on September 1, 2010 was designed to coincide with the implementation of an increase in SDG&E's FERC transmission rate.⁴ Since the FERC transmission rate is expected to rise by nearly \$70 million, coordination with the ERRA overcollection will mitigate this increase.

Finally, SDG&E's proposal for a 12-month amortization will not deny customers immediate economic relief. The relief will simply be provided in the form of a reduction in rates (as required by the Commission) over a longer term. It is in the best interest of SDG&E customers to see a slight decrease in overall rates effective September 1, 2010, rather than a one-time bill credit and a rate increase simultaneously. The 12-month amortization will avoid customer confusion and promote overall rate stability.

IV. SDG&E'S PROPOSAL TO USE THE UNDERCOLLECTED NGBA TO OFFSET THE IMPACT OF THE ERRA OVERCOLLECTION IS REASONABLE AND ANY NECESSARY REVIEW OF THE ACCURACY OF THE NGBA IS EASILY ACCOMPLISHED IN THIS PROCEEDING

SDG&E has proposed that it be allowed to return the projected \$100 million ERRA overcollection minus a projected undercollection of \$26 million in the NGBA. Thus the total amount to be returned would be \$74 million. Contrary to DRA's suggestion that such an offset will leave ERRA outside "the state mandated parameters of

⁴ The informational posting of the draft of SDG&E's annual FERC transmission rate filing (TO3 Cycle 4) is scheduled for June 15, 2010, prior to official filing with FERC on August 15, 2010. Upon official filing with FERC, SDG&E will submit an Advice Letter filing with the CPUC for rates effective September 1, 2010.

5%,” the fact is that allowing SDG&E to combine the two accounts for purposes of generating a single rate impact actually keeps the ERRA balance within the state mandated parameters.⁵ Without the offset, the ERRA balance would result in greater rate volatility for customers since they would be seeing a larger rate decrease only to be subject to an increase related to the NGBA amortization several months later. Thus, allowing for this offset would provide customers with greater rate stability.

DRA has also suggested that allowing an NGBA offset will delay this proceeding because DRA would be forced to conduct a “reasonableness review” of the NGBA that would require more than 60 days.⁶ Again, DRA’s concerns are misplaced. The purpose of the NGBA is to provide recovery of approved electric generation non-fuel costs not recovered by another component of SDG&E’s rates. The costs recorded to the NGBA do not reflect actual costs that require a reasonableness review, but rather reflect the comparison of authorized revenue requirements for non-fuel electric generation assets against recorded revenues, plus the authorized transfer of costs from the San Onofre Nuclear Generating Station (“SONGS”) O&M Balancing Account, which simply reflects SDG&E’s share of costs allocated from Southern California Edison. Annually, in November, SDG&E files an advice letter requesting Commission approval of its consolidated generation non-fuel revenue requirements that have received prior Commission authorization. Upon review and approval by the Energy Division,⁷ SDG&E includes the updated revenue requirement in its annual consolidated electric rate change filing for rates effective January 1 of the following year. The NGBA is very similar to

⁵ DRA Protest at pp. 3-4.

⁶ DRA Protest at p. 4.

⁷ SDG&E files a Tier 2 advice letter and requests that the filing be approved within 30 days from the date filed.

SDG&E's Electric Distribution Fixed Cost Account ("EDFCA"), which compares the authorized distribution revenue requirement against billed distribution revenues and is updated via advice letter in the annual electric regulatory update filing. Accordingly, the NGBA does not require a reasonableness review⁸ in this proceeding, but if necessary, could easily be reviewed in much less than 60 days.

In sum, offsetting the ERRA overcollection with the NGBA undercollection simply moves the beginning cost recovery period for the NGBA from January 2011 to September 2010. And, more importantly, SDG&E's offsetting proposal promotes rate stability and minimizes the size and the number of rate changes customers will endure over the next year.

V. CONCLUSION

For all the foregoing reasons, DRA's protest has failed to raise any significant grounds for denying the expedited approval of SDG&E's Trigger Application. DRA has also failed to raise any issues requiring hearings. If DRA continues to have issues, SDG&E remains willing to provide additional data or information necessary to resolve DRA's concerns, including further information regarding the accuracy of the balance in the NGBA. With respect to the schedule, SDG&E also remains willing to work with

⁸ It should be noted that even if a review is warranted, pursuant to Commission decisions regarding the review of accounts like the ERRA and NGBA, an after-the-fact reasonableness review (as opposed to a compliance review) would not be appropriate.

DRA to agree to an appropriate discovery period, if necessary, and briefing schedule that would allow for a final decision before September 1, 2010.

Respectfully submitted,

By: /s/ John A. Pacheco

John A. Pacheco

Attorney for:

SAN DIEGO GAS & ELECTRIC COMPANY

101 Ash Street

San Diego, CA 92101

Telephone: (619) 699-5130

Facsimile: (619) 699-5027

E-mail: jpacheco@sempra.com

DATED at San Diego, California, this 14th day of June 2010

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of the foregoing **REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) TO PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES** to each party of named in the official service list for proceeding A.10-04-033, A.09-10-003 (last year's SDG&E ERRRA forecast proceeding) and R.08-02-007 (2008 OIR to Integrate and Refine Procurement Policies Underlying Long-Term Procurement Plans) by electronic mail. Those parties without an email address were served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid. Copies were also sent via Federal Express to the Assigned Commissioner and Administrative Law Judge.

Executed this 14th day of June 2010, at San Diego, California.

/s/ Lisa Fucci-Ortiz
Lisa Fucci-Ortiz