

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

Application of SAN DIEGO GAS & ELECTRIC
COMPANY (U 902-E) for Adoption of its 2012 Energy
Resource Recovery Account Revenue Requirement and
Competitive Transition Charge Revenue Requirement
Forecasts

Application 11-09-022
(filed September 301, 2011)

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

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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 Application for Adoption of its 2012 Energy Resource Recovery Account ("ERRA") Revenue Requirement and Competitive Transition Charge ("CTC") Revenue Requirement Forecasts ("Application"). DRA was the only party to file a protest.

As set forth in the Application and accompanying testimony, SDG&E is requesting approval of (1) a 2012 ERRA forecast revenue requirement of \$886.500 million (including franchise fees and uncollectibles); (2) a 2012 CTC revenue requirement of \$66.145 million; and (3) a new 2012 market benchmark price for calculating the CTC and Power Charge Indifference Adjustment ("PCIA"), as well as the resulting 2012 PCIA's. The 2012 ERRA and CTC forecasts are \$131.087 million and \$2.791 million higher, respectively, than the forecasts for 2011, for a combined total

increase of \$133.878 million or a 4.69% percent increase in current system average rates (an increase of 0.75 cents per kilowatt-hour to the system average rate).

As explained in greater detail below, DRA does not raise any specific objections to these requests. Rather, DRA claims that its “Protest is focused, but not limited to, the need for additional time to review and conduct discovery regarding” several issues.¹ SDG&E is confident that pursuant to further meet and confer and discovery, DRA’s issues will either be resolved and/or capable of being presented to Commission without the need for hearings.

II. DRA’s PROTEST FAILS TO IDENTIFY ANY SPECIFIC FAILURE AS TO THE REASONABLENESS OF SDG&E’S ERRR AND CTC FORECASTS

DRA’s protest identifies the following “potential issues”: (1) projection of fuel costs; (2) impact of the expiration of California Department of Water Resources (“DWR”) contracts; and (3) a new 2012 market benchmark prices for calculating the CTC and PCIA.² DRA does not identify any specific problems or disallowances associated with these issues, other than to say that it is reserving the right to assert positions later in the proceeding. SDG&E maintains that none of the issues identified by DRA will lead to any findings that SDG&E’s ERRR or CTC forecasts are inaccurate or should not be approved.

A. Projection of Fuel Costs

DRA claims that it “reserves the right to review SDG&E’s forecast and update to the natural gas forward price benchmark and relevant fuel costs.”³ In response, SDG&E would like to emphasize that it’s methodology for forecasting natural gas prices to

¹ DRA Protest at p. 3.

² DRA Protest at p. 3.

³ DRA Protest at p. 3.

determine electric generation fuel costs is a purely objective and standard process. Indeed, SDG&E has utilized this same methodology in all ERRA forecast applications in recent history. The price forecast is simply an average of one month (22 trading days) of public NYMEX gas price forward curves in the month of August. The timing of the development of this gas price forecast is the last practical date that allows a reasonable amount of time for preparation of the ERRA forecast application by the mandated October 1 deadline. SDG&E makes no additional adjustments to this forecast, but simply uses it as an input in its production cost model, which produces fuel costs and, ultimately, ERRA costs.

B. Impact of Expiration of DWR Contracts

DRA states that it “intends to review SDG&E’s projected need for additional purchased power to determine whether existing excess capacity may reduce or eliminate the need for additional power purchases to offset the loss of power supply due to the expiring CDWR contracts.”⁴ This statement implies that SDG&E may have excess capacity and there may be a more cost effective way to utilize existing resources in SDG&E’s portfolio to minimize this cost impact. In response, SDG&E would like to point out that the primary reasons for an ERRA expense increase due to expiration of the DWR contracts are: (1) the expenses associated with capacity and energy costs from the DWR contracts are not currently included as an ERRA expense; (2) the replacement of the capacity and energy from the expired DWR contract energy is included as an ERRA expense; and (3) the mix of replacement energy has some bearing on the final cost, but not significantly. For example, the most significant expiring DWR contract (Sunrise) is a combined-cycle power plant which produces a fairly large amount of efficient generation.

⁴ DRA Protest at p. 3.

The cost of this DWR contract, including both capacity and fuel costs, as with any DWR contract, is not included as an ERRA expense. Therefore, when this contract expires, the costs associated with this contract will reduce the DWR revenue requirement in 2012, effectively reducing overall customer costs. But, importantly, this reduction in costs is not reflected in ERRA expenses.

Additionally, as a result of the expiring contracts, SDG&E must now replace the capacity and energy that it was receiving with other energy sources, which is an ERRA expense. The expiration of the DWR contracts does not require SDG&E to build new capacity, but does require SDG&E to replace the capacity up to the level required to meet the Commission's resource adequacy requirements. Replacement of the energy is simply an economic decision in every hour based on least-cost dispatch of resources in CAISO market to serve bundled load. Since this replacement capacity and energy is included as an ERRA expense, there is an unavoidable cost increase in ERRA regardless of the procurement choices made to acquire this replacement energy. Also, the fact that SDG&E is using an economic or "least-cost" dispatch model to make the procurement choices implies that, given the input assumptions, there is not a less expensive method to replace this energy.

Regarding the question of whether SDG&E may have "excess capacity" in its portfolio, SDG&E only adds capacity to the extent needed to meet the Commission's Resource Adequacy ("RA") program. This means that there is no "excess capacity," since SDG&E is just meeting the minimum requirement. Rather than "excess capacity," DRA may have intended to mean capacity already existing in the portfolio that otherwise would not have been dispatched. SDG&E's least-cost dispatch model addresses this by

comparing the costs of all of the existing capacity in its portfolio, comparing it to available generation resources in the market, and procuring the most economic combination of both. However, to the extent SDG&E's existing resources operate more due to the expiration of the DWR contract, the incremental fuel costs of this operation would be reflected in the ERRA.

C. New 2012 Market Benchmark Price

DRA states that it “reserves the right to review SDG&E’s changes to the market benchmark price for departing load charges under the CTC and any adjustments under the PCIA to determine impacts on ratepayers and ensure consistency with any changes (if applicable) in the decision adopting Direct Access reforms (R.07-05-025) (Revised PD, pending).”⁵ The market benchmark is used to calculate above or below market costs associated with SDG&E’s combined total portfolio. 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 on the average of forward energy prices recorded for the entire month of October. Accordingly, SDG&E will need to amend this Application to reflect the new benchmark calculations (Energy Division recently updated the benchmark data).

Moreover, as discussed in the testimony of SDG&E witness Mr. William Saxe, the methodology used to calculate the PCIA is under review in R.07-05-025, including the proposal to include a renewable adder to the market benchmark so as to determine a Green Benchmark for the 2012 PCIA. Once a final decision has been issued in R.07-05-025, SDG&E will update its 2012 PCIA to reflect any adopted changes to the PCIA calculation methodology.

⁵ DRA Protest at p. 3.

Accordingly, SDG&E's position with respect to the new 2012 market benchmark price and its potential need for changes appears to be consistent with that of DRA.

III. SCHEDULING ISSUES

DRA's Protest included a proposed schedule that varies from the schedule proposed on SDG&E's Application. One difference is that SDG&E does not believe there is a need for hearings in this proceeding and that any outstanding issues will be amendable to presentation to the Commission via written briefs. That said, SDG&E remains open to working with DRA to reach an agreement on the schedule during the Prehearing Conference.

IV. CONCLUSION

SDG&E respectfully submits the foregoing reply to DRA's protest and, as noted above, remains willing to work with DRA on resolving its issues without the need for hearings and allowing for a final decision in March of 2012.

Respectfully submitted,

By: /s/ John A. Pacheco

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DATED at San Diego, California, this 17th day of November 2011

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.11-09-022; A.10-10-001 (last year's SDG&E ERRA forecast proceeding) and R.10-05-006 (OIR to Integrate and Refine Procurement Policies And Consider 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 Commissioner Michael R. Peevey and Administrative Law Judge Peter Allen, who are assigned to the R.10-05-006 proceeding and to Chief Administrative Law Judge Karen Clopton.

Executed this 17th day of November 2011, at San Diego, California.

/s/ Lisa Fucci-Ortiz
Lisa Fucci-Ortiz