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July 20, 2012

ADVICE LETTER 2387-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: Modification to SDG&E's Energy Resource Recovery Account (ERRA) for Recovery of Greenhouse Gas Costs

San Diego Gas & Electric (SDG&E) hereby submits for filing revisions to its electric Preliminary Statement Part III, Memorandum Accounts, applicable throughout its service territory, as shown on Attachment A.

PURPOSE

In Compliance with Ordering Paragraph (OP) 10 of Decision (D.) 12-04-046, SDG&E seeks California Public Utilities Commission (CPUC or Commission) approval to modify its ERRA preliminary statement to record costs incurred for greenhouse gas (GHG) compliance instrument transactions under the California cap-and-trade program for recovery in rates.

BACKGROUND

The Global Warming Solutions Act of 2006 (Assembly Bill 32 or AB 32) caps California's GHG emissions at the 1990 level by 2020. AB 32 granted the California Air Resources Board (CARB) broad authority to regulate GHG emissions to reach the goal of GHG emissions in 2020 that are no higher than the 1990 level.

On October 28, 2010, CARB staff released its "Proposed Regulation to Implement the California Cap-and-Trade Program," recommending a structure for a GHG emissions cap-and-trade system. After an extensive stakeholder review process, the cap-and-trade regulation was approved December 13, 2011. Cap-and-trade compliance is scheduled to begin January 2013 and CARB is planning its first auction of GHG emissions allowances to occur on November 14, 2012, with auctions to be held quarterly thereafter.

The Long-Term Procurement Plan proceeding (LTPP), Rulemaking (R.) 10-05-006, addressed the utilities' authorization to buy and sell GHG allowances and offsets. The remaining issues related to the GHG cap-and-trade program are currently being addressed in the Greenhouse Gas Order Instituting Rulemaking in R.11-03-012, including the use of revenues from the sale of allowances allocated to the utilities as part of the cap-and-trade program.¹

¹ R.11-03-012 may address the timing of the return of revenues from the sale of allowances to customers with the increased cost associated with the procurement of allowances.

In compliance with OP 10 of D.12-04-046, which addressed Track 1 and Track III of the LTPP, SDG&E was granted authority to update its ERRA balancing account to record “costs incurred for the GHG compliance instrument transactions” for cost recovery. A more detailed description of SDG&E’s procurement of GHG-related products is provided in Section III of its LTPP Track III testimony, served July 1, 2011. This advice letter requests that the CPUC authorize SDG&E to modify its ERRA preliminary statement in order to record the procurement costs associated with GHG compliance instruments for recovery in rates.²

The two types of GHG compliance instruments are GHG allowances (provide the right to emit one metric ton of CO₂-equivalent emissions to satisfy obligations under the cap-and-trade regulation) and GHG offsets (represent a verified emission reduction that is accepted by CARB in lieu of a GHG allowance to satisfy obligations under the cap-and-trade regulation). SDG&E is authorized to procure these GHG products through the methodologies described in its LTPP. The costs associated with these GHG compliance instrument transactions will be recorded to ERRA.

SDG&E will provide additional information on its GHG-related costs in its subsequent ERRA forecast and compliance filings. In particular, on October 1, 2012, SDG&E will file its 2013 ERRA forecast application, which will include a GHG revenue requirement forecast.

Tariff Revisions

SDG&E requests the following language be added to ERRA as follows:

A debit entry equal to the GHG procurement costs for SDG&E’s GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB32.

EFFECTIVE DATE

SDG&E believes this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. SDG&E respectfully requests that this filing be approved effective August 20, 2012, 30 days from the date filed.

PROTEST

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received by August 9, 2012, which is 20 days of the date of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

² In SDG&E’s General Rate Case, Application (A.) 10-12-005, SDG&E proposed to establish the New Environmental Regulation Balancing Account (NERBA), a two-way interest-bearing balancing account to record the incremental operations and maintenance and capital-related costs associated with certain new and proposed federal and state GHG requirements. Upon approval of A.10-12-005, SDG&E will create the NERBA and a subaccount to capture the AB32 Cap and Trade allowance costs. SDG&E will address the GHG-related costs and the NERBA’s disposition at the time A.10-12-005 is resolved.

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of the Energy Division at EDTariffUnit@cpuc.ca.gov. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1879
E-Mail: mcaulson@semprautilities.com

NOTICE

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including parties in R.10-05-006, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1879 or by e-mail at SDG&ETariffs@semprautilities.com.

CLAY FABER
Director – Regulatory Affairs

(cc list enclosed)

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Aurora Carrillo

Phone #: (858) 654-1542

E-mail: acarrillo@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed / Received Stamp by CPUC)

Advice Letter (AL) #: 2387-E

Subject of AL:) Modifications to SDG&E's Energy Resource Recovery Account (ERRA) for Recovery of Greenhouse Gas Costs

Keywords (choose from CPUC listing): ERRA Preliminary Statement

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision / Resolution #:

D.12-04-046

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL _____

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: _____

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: August 20, 2012

No. of tariff sheets: 4

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Preliminary Statement & Table of Contents

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
EDTariffUnit@cpuc.ca.gov**

**San Diego Gas & Electric
Attention: Megan Caulson
8330 Century Park Ct, Room 32C
San Diego, CA 92123
mcaulson@semprautilities.com**

¹ Discuss in AL if more space is needed.

General Order No. 96-B
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

DRA

S. Cauchois
R. Pocta
W. Scott

Energy Division

P. Clanon
S. Gallagher
H. Gatchalian
D. Lafrenz
M. Salinas

CA. Energy Commission

F. DeLeon
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

N. Rader

CCSE

S. Freedman
J. Porter

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham
E. Hull

City of Poway

R. Willcox

City of San Diego

J. Cervantes
G. Lonergan
M. Valerio

Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill
J. Pau

Dept. of General Services

H. Nanjo
M. Clark

Douglass & Liddell

D. Douglass
D. Liddell
G. Klatt

Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

K. Campbell
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg
J. Heather Patrick
J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard
R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

OnGrid Solar

Andy Black

Pacific Gas & Electric Co.

J. Clark

M. Huffman
S. Lawrie

E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

School Project for Utility Rate
Reduction

M. Rochman

Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander
K. Cini

K. Gansecki

H. Romero

TransCanada

R. Hunter

D. White

TURN

M. Florio
M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi

N. Furuta

L. DeLacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing
Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties In:

R.10-05-006

ATTACHMENT A
ADVICE LETTER 2387-E

Cal. P.U.C. Sheet No.	Title of Sheet	Canceling Cal. P.U.C. Sheet No.
Revised 23038-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, ENERGY RESOURCE RECOVERY ACCOUNT (ERRA), Sheet 1	Revised 22806-E
Revised 23039-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, ENERGY RESOURCE RECOVERY ACCOUNT (ERRA), Sheet 3	Revised 22808-E
Revised 23040-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, ENERGY RESOURCE RECOVERY ACCOUNT (ERRA), Sheet 4	Revised 22809-E
Revised 23041-E	TABLE OF CONTENTS, Sheet 1	Revised 23036-E



PRELIMINARY STATEMENT

Sheet 1

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

1. Purpose

Pursuant to D.02-10-062 and D.02-12-074, the purpose of the ERRA is to provide full recovery of the Utility's energy procurement costs associated with fuel and purchased power, Utility retained generation (URG), ISO related costs, greenhouse gas (GHG) costs for compliance instrument transactions under California cap-in-trade program pursuant to Assembly Bill (AB) 32, and costs associated with its residual net short procurement requirements to serve its bundled service customers. The ERRA shall include revenues received from the Utility's Electric Energy Commodity Charge (EECC) adjusted to exclude revenues assigned to any state agency, including the California Department of Water Resources (DWR). In addition, the ERRA shall include revenues from Schedule EECC-TBS. Pursuant to D.02-12-074, ongoing transition costs ("above market") associated with qualifying facilities and eligible purchase power contracts should be recorded in the Transition Cost Balancing Account (TCBA). Pursuant to D.10-12-034, the ERRA shall record the revenues or costs related to convergence bidding. In compliance with AB 920, the ERRA shall record any net surplus compensation payment made to eligible customer-generators in accordance with SDG&E's Net Surplus Compensation Program. Pursuant to D.11-10-029, 2009 year-end balances in the ERRA and TCBA are approved.

N
N

2. Applicability

The ERRA shall be applied only to the Utility's bundled service customers.

3. ERRA Rate

The ERRA rate will be included as part of the Utility's total Schedule EECC rate. The Utility will file its first ERRA application on June 1, 2003 to establish the initial ERRA rate. Until such time that the initial ERRA rate becomes effective, revenues derived from the current and effective Schedule EECC rate, less revenues assigned to DWR, shall be recorded to the ERRA on a monthly basis.

4. Effective Date

This tariff is effective for service rendered on and after January 1, 2003.

5. Accounting Procedure

The Utility shall maintain the ERRA by making entries at the end of each month as follows:

- a. An entry equal to the at or below market costs associated with the Portland General Electric contract.
- b. An entry equal to the at or below market costs associated with the Utility's eligible qualifying facility (QF) contracts.
- c. An entry equal to the costs associated with the Utility's other purchase power, including renewable energy procurement.

(Continued)

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Advice Ltr. No. 2387-E

Decision No. 12-04-046

Issued by
Lee Schavrien
Senior Vice President
Regulatory Affairs

Date Filed Jul 20, 2012

Effective _____

Resolution No. _____



PRELIMINARY STATEMENT

Sheet 3

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

5. Accounting Procedure (Continued)

- q. An entry to reflect the revenues or costs associated with procurement transactions for Congestion Revenue Rights (CRRs).
- r. A debit entry equal to Peak Time Rebate (PTR) incentive payments made to residential and small commercial customers as authorized in D.08-02-034.
- s. A credit or debit entry equal to the revenues or costs related to convergence bidding as authorized in D.10-12-034.
- t. A debit entry to record costs associated with equity rebalancing, as authorized by the Commission, due to FIN 46(R)/FAS 167 consolidations.
- u. A debit entry equal to the costs associated with the procurement and/or trading transactions for tradable renewable energy credits (TRECs) as authorized in D.11-01-025.
- v. A credit entry equal to the proceeds received from the sale of TRECs as authorized in D.11-01-025.
- w. A debit entry equal to net surplus compensation payments made to eligible customer-generators for the Net Surplus Compensation Program in compliance with AB 920.
- x. An entry to account for cost disallowances or additions as authorized by the Commission.
- y. A debit entry equal to the GHG procurement costs for SDG&E's GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB 32.
- z. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries 5.a. through 5.x. at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15. or its successor.

N
N

6. Trigger Mechanism

In accordance with Assembly Bill (AB) 57, a trigger mechanism will be in place that will consider the relationship between the cumulative balance in the ERRA and the prior year recorded generation revenues excluding revenues collected for DWR. Recorded generation revenues for 2011, excluding revenues collected for DWR, were \$1,085 million. D.11-07-041 modifies the monthly ERRA trigger calculation to allow offsets of Under- or Over-collections with the balance in its NGBA as follows:

- a. Offset an ERRA under-collected balance with a NGBA over-collected balance; or
- b. Offset an ERRA over-collected balance with a NGBA under-collected balance; and
- c. Offset the ERRA balance with the NGBA balance prior to dividing it by the prior year's annual recorded electric revenues, excluding DWR revenue; and
- d. Advise the Commission that it has implemented a NGBA-offset by including both the standard ERRA trigger calculation and the NGBA-offset trigger calculation in its monthly ERRA compliance report to the Commission.

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(Continued)



PRELIMINARY STATEMENT

Sheet 4

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

6. Trigger Mechanism (Continued)

Applying the NGBA balance to the ERRA balance, when calculating the trigger, would only occur if the account balances are offsetting and would result in reducing the ERRA under/overcollection.

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Pursuant to D. 07-05-008, in any month when the balance in the ERRA, adjusted by the NGBA balance as applicable, reaches 4% (\$43.4 million) of the prior year recorded electric commodity revenues excluding DWR revenue, the Utility will notify the Commission through advice letter filing, instead of expedited application, that no rate change will be necessary if the Utility forecasts that the ERRA balance will self-correct below the trigger within 120 days of filing. The Utility shall include the necessary documentation to support this advice letter filing. The Utility shall continue to file an expedited application during those instances where the ERRA balance exceeds the trigger point and rate changes are necessary to amortize the balance. In those instances where the Commission rejects an advice letter filing, the Utility shall file an application within 15 days after rejection. The application will include a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the 5% (\$54.2 million) threshold. The application will also propose an amortization period for the five percent of not less than 90 days to ensure timely recovery of the projected ERRA balance. The application should also include allocation of the amortized balance among customers based on the existing allocation methodology recognized by the Commission.

7. Filing and Update Process

The ERRA will follow a semiannual update process as described in D.02-10-062 and D.02-12-074. The Utility will file applications on June 1 and October 1 of each year. The June 1 application will address the review of the balancing account, contract administration, energy resources expenses and energy dispatch. The October 1 application will propose an energy resource forecast for the upcoming 12 months and a new ERRA rate based on that forecast.

8. Disposition

Effective January 1, 2010, in compliance with Ordering Paragraph (OP) 2 of D.09-04-021, disposition of the balance in the ERRA shall be addressed as part of the Utility's annual regulatory account update filing, for inclusion in rates January 1st of each year, if that balance is below the 5% ERRA trigger threshold.

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Senior Vice President
Regulatory Affairs

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Effective _____

Resolution No. _____



TABLE OF CONTENTS

Sheet 1

The following sheets contain all the effective rates and rules affecting rates, service and information relating thereto, in effect on the date indicated herein.

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