

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

Order Instituting Rulemaking to Consider the
Annual Revenue Requirement Determination of
the California Department of Water Resources
and related issues

Rulemaking 11-03-006
(Filed March 10, 2011)

**RESPONSE OF THE ALLIANCE FOR RETAIL ENERGY MARKETS TO THE
MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)
FOR THE RECEIPT OF ADDITIONAL EVIDENCE AND
THE GRANTING OF SPECIAL RELIEF**

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October 31, 2012

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Pursuant to Rule 11.1.(e) of the Commission’s Rules of Practice and Procedure, the Alliance for Retail Energy Markets (“AReM”)¹ responds to the October 16, 2012, Motion of San Diego Gas & Electric Company (“SDG&E”) for the Receipt of Additional Evidence and the Granting of Special Relief (“Motion”).

I. Description of Relief Requested by SDG&E

SDG&E requests that the Commission (1) receive the document attached to the Motion as Exhibit No. SDG&E-1, entitled “*Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements*” (“*Agreement*” or “Exhibit No. SDG&E-1”), as an exhibit of counsel and as a part of the evidentiary record of this proceeding; and (2) grant SDG&E authority to implement certain ratemaking procedures set forth in Exhibit No. SDG&E-1. SDG&E states that, “given the narrow issue addressed by these procedures, that

¹ AReM is a California mutual benefit corporation formed by Electric Service Providers (“ESPs”) that are active in California’s Direct Access retail electric supply market.

no other party will be prejudiced by the receipt of Exhibit No. SDG&E-1 into the evidentiary record of this proceeding and that no other party has a material or substantive interest in the procedures described in the *Agreement*.”² SDG&E is partially correct. AReM does not object to the admission into the evidentiary record of Exhibit No. SDG&E-1. However, its statement with regard to no other party having a substantive or material interest in the issue is incorrect. Due to certain inconsistencies in the wording of the Exhibit, AReM has an interest in the issue as described in the following section.

II. AReM Recommendations

A. Any Refunds Flowing to SDG&E from the Department of Water Resources Must Be Equitably Allocated Among Both Bundled and Direct Access Customers.

The Motion notes that the passage of time has resulted in the expiration of an increasing number of the Department of Water Resource (“DWR”) power purchase agreements and that this had led in turn to a gradual decline in the total annual revenue requirements associated with the Department’s contract portfolio. More importantly, the DWR has been able to reduce the cash operating reserves necessary for the administration of its power contracts and return certain amounts of the surplus reserves to the utilities and their customers. SDG&E states that “The confluence of declining contract costs and the return of surplus operating reserves has reached the point where the charges SDG&E reflects on its customer bills representing SDG&E’s share of allocable Department power costs and returned reserves are contemplated to be a net negative amount.”³

² Motion, at p. 1.

³ Id at p. 2.

Due to this development, SDG&E and DWR entered into discussions regarding how what are described in the Motion as “net negative power charges,” (*i.e.*, the amounts representing the difference between SDG&E’s forecasted share of allocable DWR power costs and forecasted reserve amounts returned to SDG&E by DWR where the amounts returned exceed power costs during any given year) should be reflected in SDG&E’s customer bills. SDG&E and DWR then entered into the *Agreement* discussed above.

The *Agreement* provides that SDG&E will continue to administer the DWR power purchase agreements allocated to it pursuant to the Commission’s prior orders and remit to the DWR on a daily basis the cash received from its existing rates related to the agreements. SDG&E states that, “For each and every month of 2013, the Department will return to SDG&E, by single wire transfer on or before the 15th day of the month, one-twelfth of the forecasted ‘Customer Return Credit’ representing SDG&E’s share of the Department’s operating reserves subject to release as surplus to the Department’s requirements and all other credit amounts as the Department may determine are appropriate and allocable to SDG&E and its customers.”⁴ Further, “SDG&E will establish a ‘Customer Return Credit Rate’ by dividing the amount of the forecasted annual Customer Return Credit the Department will return to SDG&E *by the forecasted bundled service sales* (in kilowatt-hours) authorized by the Commission for the applicable calendar year, commencing with the 2013 calendar year.”⁵ SDG&E further states that the Customer Return Credit Rate will be multiplied by a customer’s usage during a billing month to arrive at the credit provided to the customer. Furthermore, the *Agreement* further states at page A-2 that, “The procedures set forth below are intended to apply to the return of “Net

⁴ Id at p. 3.

⁵ Ibid, emphasis added.

Negative DWR Power Charge Revenue Requirements”, as defined below, *to the bundled-service customers* of San Diego Gas & Electric Company (“SDG&E”), effective January 1, 2013” [emphasis added].

AReM’s concern is with the highlighted language above as it states that the credit will be determined solely by reference to the *forecasted bundled service sales* and ignores the fact that direct access (“DA”) customers also contributed to the DWR reserves which are being refunded. The initial 2003 DWR Revenue Requirement adopted in November of 2002 established a \$1,272 million DWR Power Charge Operating Account and a \$777 million DWR Power Charge Reserve Account. These accounts were funded through revenues generated by the sale of the DWR Bonds. As such, it is appropriate that all customers who pay the DWR Bond Charge receive a portion of the reserve refunds. As both DA and bundled service customers pay the DWR Bond Charge, it is obviously appropriate that both customer groups receive refunds from the dissolution of the operating and reserve accounts.

AReM also notes that at page A-4, the *Agreement* states that, “All applicable SDG&E tariffs (which may include, but are not limited to Schedule EECC, Schedule EECC-TBS, Schedule EECC-CPP-E, Schedule EECC-CPP-D, ERRA, *and DA-CRS*) will also be revised accordingly” [emphasis added]. However, this passing reference to a DA-related tariff is insufficient to explain with any detail or certainty the rate treatment that is to be afforded DA customers to ensure that they receive their full, fair share of the DWR refunds.

Furthermore, Southern California Edison (“SCE”) has already crossed the bridge of directly returning DWR reserve funds to customers. In 2012, SCE instituted a line-item rate credit, the “Department of Water Resources Energy Credit” or “DWREC,” which appears on all SCE bundled customers’ bills. This DWREC is analogous to the rate credit that SDG&E is

proposing. But, as outlined in its November 10, testimony update to Application 11-08-002, SCE also included the negative DWR power charge revenue requirement in the calculation of the total portfolio Indifference Rate (used to calculate the Power Charge Indifference Amount or “PCIA”).⁶ By doing so, SCE is appropriately crediting back to DA customers their share of the DWR surplus reserve refunds via a reduced PCIA. AReM agrees with SCE’s approach of including the negative DWR revenue requirement in the Indifference Rate calculation and believe it to be an appropriate manner by which to refund the DWR reserves to DA customers.

B. SDG&E Should be Required to File a Supplement to its Motion Explaining the Rate Treatment to be Afforded to DA Customers.

SDG&E may very well have in mind an analogous process for crediting DA customers their share of the DWR reserves. But if that is the case, it was not laid out in its Motion. Just as the positive DWR power charge costs were reflected in the calculation of the Indifference Amount, the refund of the surplus DWR operating reserves must also be included in the calculation of the Indifference Amount and reflected in all vintages of PCIA.

AReM asks that the Commission direct SDG&E to file, within fifteen days of this response, or by November 15, 2012, a detailed description of the rate treatment to be afforded to DA customers in connection with the DWR refunds described in the *Agreement*. Until this information has been provided and AReM and other parties have had fifteen days to review and respond to SDG&E’s proposed rate treatment, the second portion of the utility’s request in its Motion should not be granted. That is, the request that the Commission “grant SDG&E authority to implement certain ratemaking procedures set forth in Exhibit No. SDG&E-1” should be held in abeyance until the utility has demonstrated that it intends to treat all customers that

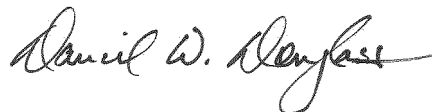
⁶ A.11-08-002, Exhibit SCE-3, “Energy Resource Recovery Account (ERRA) 2012 Forecast of Operations Updated Testimony of D. Snow, H. Sheng and T. Cameron,” November 10, 2011, page 15.

contributed to the costs of the DWR power purchase agreements fairly and equitably. As is, SDG&E has described a refund process that appears limited solely to bundled service customers and that will result in the perhaps inadvertent exclusion of DA customers from their rightful share of the DWR refunds.

III. Conclusion

In summary, AReM does not object to the admission into the evidentiary record of Exhibit No. SDG&E-1. However, SDG&E should be required within to file a supplement to its motion by November 15, 2012, explaining the rate treatment to be afforded to DA customers. Interested parties should then be afforded fifteen days in which to review and verify that the rate treatment proposed by SDG&E is appropriate and to respond, if necessary. AReM thanks the Commission for its attention to the issues discussed in this response to the SDG&E Motion and respectfully asks that it adopt the recommendations discussed above.

Respectfully submitted,



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