

**SAN DIEGO GAS & ELECTRIC COMPANY
CALIFORNIA DEPARTMENT OF WATER RESOURCES 2013 REVENUE REQUIREMENT (R.11-03-006)
TRANSPORTATION SERVICES AGREEMENT COST ALLOCATION**

San Diego Gas and Electric Company (SDG&E) requests that:

1. The Commission allocate the costs incurred by the California Department of Water Resources (CDWR or Department) related to a natural gas transportation service agreement (TSA) to Pacific Gas & Electric Company (PG&E), Southern California Edison Company (Edison) and SDG&E (collectively, the investor-owned utilities or IOUs) using the interutility allocation methodology adopted in Decision 05-06-050;
2. Schedule and convene a workshop to respond to CDWR's request for the assistance of the Commission and the three investor-owned utilities in determining how to reduce or eliminate the CDWR's costs of the TSA.

**Allocation of Post-Power Purchase Agreement Costs Have Not Been
Addressed By Prior Commission Orders
And Should Be Allocated Under Principles of Equity and Fairness**

- The Commission allocated Sunrise Power Purchase Agreement (PPA) to SDG&E over SDG&E's objections in Decision 02-09-053. The allocation of the Sunrise PPA to SDG&E increases SDG&E's share of energy deliveries and energy-related costs to 13.6 percent of the CDWR contract portfolio.
 - The Kern River Transportation Services Agreement (TSA) between Kern River and CDWR was executed in August 2003, effecting the assignment of previously existing transportation rights and obligations of Sunrise Power to CDWR. Under the allocation of the Sunrise PPA to SDG&E, SDG&E, as CDWR's agent and in CDWR's name, arranged for the purchase of fuel and scheduled the transportation of fuel to Sunrise in accordance with its responsibility to administer energy deliveries under the Sunrise PPA. Upon the expiration of the Sunrise PPA, SDG&E discontinued its purchase of fuel and the scheduling of transportation of any fuel for the Sunrise power plant.
 - The assignment of the Kern River transportation capacity to CDWR was predicated on the express intention and understanding of and between Sunrise Power and CDWR that the transportation rights and obligations under the Kern River TSA would be returned to Sunrise Power at the expiration of the Sunrise PPA.
 - In 2012, CDWR discovered Sunrise, and Sunrise's parents Chevron and Edison Mission Energy/Edison International, were unwilling and/or unable to honor Sunrise's commitment to accept the reversion of the Kern River TSA back to Sunrise. CDWR considers Sunrise's failure to accept reassignment of Kern River TSA a breach of contract but, in October 2012, includes (for the very first time) the costs of post-PPA costs of

Kern River PPA in 2013 revenue requirement, allocating all costs to SDG&E, to cover its financial exposure arising from the alleged breach of contract.

- Upon the expiration of the Sunrise PPA, CDWR has marketed the TSA capacity through the Kern River capacity-release program – at the outset of the CDWR-Sunrise disputes, Sunrise purchased the full extent of the TSA capacity at the full contract price and paid those monies to CDWR.
- It is undecided by any Commission order how to allocate costs arising from a breach of a collateral contract (or a breach of any contract for that matter) should be allocated among the three utilities, or as to whether the Commission’s “costs follow contracts” rule should apply
 - The Commission has not had occasion to determine how costs or losses arising from a breach of contract suffered by the CDWR should be allocated. CDWR does not have any proposal in this regard and leaves it to the Commission to decide.
 - The Kern River TSA was orphaned and became unrelated to any energy deliveries after the expiration of the Sunrise PPA at the end of June 2012.
 - The Commission has **previously allocated the benefits of Kern River rate settlements to all three utilities**, indicating that the costs and benefits of the Kern River TSA are not to be allocated solely to SDG&E’s ratepayers. As a result of the Kern River rate settlements, PG&E and Edison have received credits for over \$12 million of costs previously and solely paid by SDG&E’s ratepayers. By contrast, SDG&E’s ratepayers received a little less than \$1.4 million of the Kern River settlement proceeds because CDWR considered these settlements to be “more related” to the Kern River TSA and “less related” to the Sunrise PPA.
 - \$75 million of expected TSA costs would significantly affect SDG&E’s ratepayers because SDG&E has a small number of customers to spread the costs causing each customer to feel greater pain. As an example, assume \$15 million per year (no capacity release revenues) as a worst case scenario. If only SDG&E had to pay this, it is over \$10 per electric meter per year however if it were split among the IOUs along the historical fixed percentages, the cost to each meter would average only \$1.30 per year
- The determination of “indifference payments” in the Direct Access proceeding did not address the allocation of costs where costs continue to be incurred following the expiration of a CDWR contract and/or as a result of a breach of contract.
 - Edison’s reliance on Decision 08-11-056 misstates the scope of the indifference payments, a concept Edison itself proposed and fashioned so as comport with the prior rules that “any miscellaneous DWR contract costs **that are not attributable to energy deliveries** shall continue to be allocated in accordance with the fixed percentage allocations adopted in Decision 05-06-050.” (*Emphasis added*)
 - While the other utilities make the assertion that SDG&E should have raised the post-PPA costs of the Kern River TSA during the negotiation of the interutility indifference payments, importantly, neither utility concedes that they would have agreed to reflect what would have amounted to a speculative cost associated with the potential breach of contract within those payments.

- Upon the expiration of the Sunrise PPA, SDG&E has no effective ability to “avoid” or manage the Kern River TSA costs beyond taking those steps now being taken by CDWR – as an example, with the Sunrise PPA having expired, SDG&E cannot arbitrage gas and energy to reduce its total costs of the Sunrise PPA and would be limited to posting the Kern River capacity on the Kern River capacity-release website for short and/or long-term sale. (CDWR is currently posting the Kern River capacity as available for release.)
- In the absence of any other guiding principles or applicable precedents, SDG&E believes the Commission should invoke its general declaration that the “pain” of CDWR contracts should be spread “evenly and fairly” in what amounts to a “zero-sum game” Decision 05-06-050. SDG&E has already accepted responsibility for almost fourteen percent (14%) of the CDWR’s costs of energy and the full allocation of the costs of the stranded Kern River TSA would exacerbate this historical disparity.
 - SDG&E asserted this same position in the 2012 CDWR proceedings where it urged an equitable allocation of certain proceeds from various judicial and regulatory orders, notwithstanding the fact that an equitable allocation of those proceeds, as compared to a precedent-based allocation would result in a lesser benefit to SDG&E.
- Adopting SDG&E’s allocation proposal lays the foundation for a meaningful effort on the part of CDWR, the Commission and the three investor-owned utilities to address the real issue, which is to reduce or eliminate the net cost of the Kern River TSA to CDWR and California ratepayers, a matter which SDG&E cannot address on its own. SDG&E proposes that the Commission schedule and convene a workshop to consider potential solutions to this issue. CDWR requested this assistance in its January 12, 2013, filing with the Commission:

“It would be very helpful to the Department and beneficial to the ratepayers if the IOUs, DWR and the CPUC could coordinate their efforts to find a solution to this matter. The Department would appreciate the IOUs’ involvement to determine: (1) the most efficient use of the 85,000 MMBtu/day capacity on the KRG T pipeline; and (2) how best to manage the costs to ratepayers by Sunrise’s refusal to accept reassignment.

“Because the KRG T pipeline capacity can deliver into the SoCal Gas and PG&E service territories, the Commission should consider whether the assumption of the TSA by an IOU or IOUs would be in the best interest of the ratepayers. The IOUs that have demonstrated a need for the transmission capacity are in a better position to mitigate any potential losses.”