

Application No.: 13-05-

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Witness: Ryan Miller

Date: May 31, 2013

**SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED DIRECT TESTIMONY OF
RYAN MILLER**

****PUBLIC VERSION****

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

May 31, 2013



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**PREPARED DIRECT TESTIMONY OF
RYAN MILLER
ON BEHALF OF SDG&E**

I. INTRODUCTION

This testimony presents San Diego Gas & Electric Company’s (“SDG&E’s”) procurement of Greenhouse Gas (“GHG”) Compliance Instruments during the record period of January 1, 2012 through December 31, 2012 for compliance with California’s Cap-and-Trade Program. The following sections describe the Cap-and-Trade Program and demonstrate that SDG&E procured compliance instruments during the record period in a manner consistent with Track III of the Long-Term Procurement Plan (“LTPP”) Decision (“D.”) 12-04-046, and the related California Public Utilities Commission (“Commission”)-approved SDG&E 2012 LTPP, Advice Letter (“AL”) 2362-E-A.¹ SDG&E is including GHG procurement in its 2012 Energy Resource Recovery Account (“ERRA”) Compliance due to the directive in D.12-04-046 and the approval in AL 2387-E. SDG&E is requesting that the Commission find that SDG&E’s 2012 GHG product procurement was compliant with both D.12-04-046 and SDG&E’s LTPP.

II. DEVELOPMENT OF CALIFORNIA’S CAP-AND-TRADE PROGRAM

In 2006, Governor Arnold Schwarzenegger signed Assembly Bill (“AB”) 32 into law. The bill requires California to lower GHG emissions to 1990 levels by 2020. To achieve AB 32’s goals, legislators created a scoping plan that included multiple comprehensive actions. One such action was creating California’s Cap-and-Trade Program, intended to establish a market-based price for GHG emissions and ultimately provide market signals to promote investment in Energy Efficiency (“EE”) activities to reduce GHG emissions. While the Cap-and-Trade program was expected to begin January 2012, the California Air Resource Board, (“CARB”), delayed the implementation of the Program to 2013. The Cap-and-Trade Program covers compliance years 2013 to 2020. The compliance years are divided into three separate

¹ Greenhouse Gas product procurement is addressed in D.12-04-046 at 40-59, Findings of Fact 12, 13; Conclusions of Law 8, 9, and Ordering Paragraphs 8-10. SDG&E’s Long Term Procurement Plan, AL 2362-E-A, Appendix F, addresses SDG&E’s Commission-approved plan of GHG product procurement.

1 compliance periods. Compliance Period 1 for years 2013-2014, Compliance Period 2 for years
2 2015-2017, and Compliance Period 3 for years 2018-2020.

3 CARB has set a declining Emission Cap for each year of the program. The cap for each
4 compliance year equals the amount of GHG allowances that CARB issues for that particular
5 vintage year. The program was designed so that allowances and offsets of a particular vintage
6 year can be banked for use in future years. The reverse, however, is not true: future vintages
7 cannot be used to satisfy an obligation for a prior year.

8 **A. Covered Entities**

9 Emitters covered under the Cap-and-Trade Program must procure one compliance
10 instrument for every metric ton (“MT”) of carbon dioxide (“CO2”) equivalent that they emit.
11 Only entities that exceed 25,000 MT of emissions and are in sectors covered by the program are
12 subject to compliance. Those entities are called Covered Entities. Electric generation and
13 electric imports are covered sectors for the entire duration of the program. As such, SDG&E
14 must purchase compliance instruments for imported power and for its Utility-Owned Generation
15 (“UOG”) plants. Imported power includes generic out-of-state market purchases as well as
16 specified power such as electricity generated from the SDG&E-owned Desert Star Energy Center
17 and from SDG&E contracted generators Yuma Cogeneration Association (“YCA”) and Portland
18 General Electric Boardman (“Boardman”). [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]

² From Sheet F-11 of SDG&E’s Long Term Procurement Plan, AL 2362-E-A / D. 12-04-046. SDG&E notes that while the Forecast on sheet F-11 and the Limit Forecast on sheet F-15, filed in July 2012, included Pio Pico and Quail Brush, these two tolling agreements have not been approved by the Commission. Additionally, at the time of the forecast, the Cuyamaca Peaker Plant had not exceeded the threshold and thus was not included in the Forecast. However, since that time, Cuyamaca exceeded the 25,000 MT threshold at the end of 2012 and is now a Compliance Entity for which SDG&E needs to procure compliance instruments. While noting these developments, SDG&E points out that it is in compliance with the LTPP forecast.

1 **B. Compliance Instrument Allowances, Credits, and Options**

2 Compliance instruments consist of California GHG Allowances which are emission
3 credits issued by CARB and Offsets which are CARB-verified and -approved reductions of GHG
4 emissions from sectors outside the Cap-and-Trade Program. While one offset is equivalent to
5 one allowance and can be used for compliance, their use is limited. No more than 8% of a
6 Compliance Period obligation can be fulfilled with offsets.

7 While the market for GHG compliance instruments is still nascent, there are limited
8 procurement options for GHG compliance instruments. In accordance with SDG&E's LTPP,
9 SDG&E is authorized to procure seller-guaranteed offsets via Request for Offering ("RFO"),
10 allowance futures via approved exchanges and allowances via CARB-run quarterly auctions, and
11 Price Containment Reserve Sales. CARB auctions each sell current vintage year allowances and
12 some will also sell vintages of a future year. The November 2012 auction sold vintages 2013
13 and 2015. The annual reserve price will escalate each year by 5% plus CPI. The 2012 reserve
14 price was \$10.00, and the 2013 reserve price is \$10.71.

15 **III. 2012 GHG COMPLIANCE INSTRUMENT PROCUREMENT**

16 SDG&E's 2012 ERRa forecast included a GHG component, but in the fall of 2011, the
17 GHG market was just starting to develop. Delays, modifications, an illiquid market, and lawsuits
18 provided much uncertainty surrounding the Cap-and-Trade Program. As a result, SDG&E was
19 unable to forecast an amount for its 2012 GHG costs, but communicated that if any GHG costs
20 were incurred, they would be recorded in ERRa. SDG&E witness Norma Jasso's testimony
21 explains that more recently, the Investor Owned-Utilities ("IOUs") have been directed to defer
22 recovery of GHG-related costs; however, SDG&E seeks the Commission's determination in this
23 proceeding that SDG&E's procurement of GHG-related products during 2012 was in compliance
24 with the above-mentioned Commission directives.³

25 In spite of all the challenges, the Cap-and-Trade program was successfully implemented
26 in late 2012. Although the first compliance period no longer included 2012, CARB scheduled an

³ See, D.12-04-046 and AL 2362-E-A.

1 auction in November of 2012 to procure allowances for future years. SDG&E participated in
2 that auction and was awarded both vintage 2013 and 2015 allowances.

3 In formulating its strategy, SDG&E turned to the Commission's approach on GHG
4 procurement in the Track III Decision of the LTPP Proceeding, (D.12-04-046), where the
5 Commission issued a purchase limit that "provides the utilities broad latitude, particularly giving
6 them the opportunity to forward procure to the degree they believe compliance instrument
7 process are favorable, or to postpone procurement to when they believe pricing will become
8 more favorable."⁴ [REDACTED]

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 SDG&E was awarded [REDACTED] of Vintage 2013 allowances for a total cost of
16 [REDACTED]. Because the settlement price for Vintage 2015 was the auction floor price,
17 SDG&E was awarded the maximum of its bids. SDG&E received [REDACTED] Vintage 2015
18 allowances at the settlement price of \$10 for a total cost of [REDACTED]. The combined cost of
19 the auction was [REDACTED]. [REDACTED]

20 [REDACTED] No additional procurement activity for allowances, offsets, or futures
21 took place in 2012.

22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

⁴ D.12-04-046 at 56.

⁵ From Sheet F-15 and F-16 of SDG&E's Long Term Procurement Plan, AL 2362-E-A / D.12-04-046.

1 **IV. CONCLUSION**

2 SDG&E's strategy and resulting auction awards were consistent with the approach
3 prescribed by the Commission in D.12-04-046 for procuring GHG compliance instruments.
4 Therefore, SDG&E requests that the Commission find that SDG&E demonstrated compliance
5 with D.12-04-046 and Commission-approved AL 2362-E-A and AL 2387-E for procurement of
6 GHG-related compliance instruments based on the testimony provided herein for the record
7 period January 1, 2012 through December 31, 2012.
8

1 **V. QUALIFICATIONS OF RYAN MILLER**

2 My name is Ryan A. Miller. My business address is 8315 Century Park Court,
3 San Diego, CA 92123. I am employed by San Diego Gas & Electric Company. My current title
4 is Electric and Fuels Trading Manager in the Electric & Fuel Procurement Department of
5 SDG&E. My responsibilities include overseeing a staff that performs short-term energy
6 procurement and policy functions such as day-ahead electric and fuel trading, short-term
7 wholesale market transactions, analysis and optimization of day-ahead energy and fuel
8 procurement strategies, development and execution of short-term natural gas hedging strategies,
9 management of SDG&E's UEG fuel transportation agreements, procurement of resource
10 adequacy products, and development of GHG procurement and hedging strategies.

11 I joined SDG&E in December 2002, and have held various positions with increasing
12 levels of responsibility within the Electric & Fuels trading group.

13 Prior to joining SDG&E, I worked as a Power Scheduler and Mid-Marketer with Mirant
14 Energy.

15 I received a Bachelor's degree in Management Science (MSCI) from the Georgia
16 Institute of Technology.

17
18 I have previously testified before the Commission.

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

**DECLARATION
OF RYAN MILLER**

A.13-05-XXX

Application of San Diego Gas & Electric Company (U 902-E) for Approval of: (i) Contract Administration, Least Cost Dispatch and Power Procurement Activities in 2012, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account and Transition Cost Balancing Account in 2012 and (iii) Costs Recorded in Related Regulatory Accounts in 2012

I, Ryan Miller, declare as follows:

1. I am the Electric & Fuels Trading Manager for San Diego Gas & Electric Company ("SDG&E"). I have included my Direct Testimony ("Testimony") in support of SDG&E's Application for Approval of: (i) Contract Administration, Least Cost Dispatch and Power Procurement Activities, and (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account, Incurred During the Record Period January 1, 2012 through December 31, 2012, and (iii) the Entries Recorded in Related Regulatory Accounts. Additionally, as the Electric & Fuels Trading Manager, I am thoroughly familiar with the facts and representations in this declaration and if called upon to testify I could and would testify to the following based upon personal knowledge.

2. I am providing this Declaration to demonstrate that the confidential information ("Protected Information") in support of the referenced Application falls within the scope of data provided confidential treatment in the IOU Matrix ("Matrix") attached to the Commission's Decision D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedures adopted in D.08-04-023, I am addressing each of the following five features of Ordering Paragraph 2 in D.06-06-066:

- that the material constitutes a particular type of data listed in the Matrix;
- the category or categories in the Matrix the data correspond to;
- that SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data;
- that the information is not already public; and
- that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

3. The Protected Information contained in my Testimony constitutes material, market sensitive, electric procurement-related information that is within the scope of Section 454.5(g) of the Public Utilities Code.¹ As such, the Protected Information provided by SDG&E is allowed confidential treatment in accordance with Appendix 1 – IOU Matrix in D.06-06-066.

Confidential Information	Matrix Reference	Reason for Confidentiality and Timing
RM-4 Auction Strategy	I.A.4	Long-term fuel (gas)_ buying and hedging plans 3 Years
RM-4 Awarded volumetric purchases (MT) allowances and associated costs	XI	Procurement Costs 3 Years
RM-4 GHG auction awards and costs	XI	Procurement Costs 3 Years

4. I am not aware of any instances where the Protected Information has been disclosed to the public. To my knowledge, no party, including SDG&E, has publicly revealed any of the Protected Information.

¹ In addition to the details addressed herein, SDG&E believes that the information being furnished in my Testimony is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of such data under those provisions, as applicable.

5. I will comply with the limitations on confidentiality specified in the Matrix for the Protected Information.

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized, masked or otherwise protected in a manner that would allow further disclosure of data while still protecting confidential information.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 22nd day of May, 2013, at San Diego, California.



Ryan Miller
Electric & Fuels Trading Manager
San Diego Gas & Electric Company