BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop Additional Methods to Implement the California Renewables Portfolio Standard Program.	Rulemaking 06-02-012

PRE-WORKSHOP COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) CONCERNING TRADABLE RENEWABLE ENERGY CREDITS

AIMEE M. SMITH
101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5042
Facsimile: (619) 699-5027
amsmith@sempra.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

August 17, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop Additional Methods to Implement the California Renewables Portfolio Standard Program.	Rulemaking 06-02-012

PRE-WORKSHOP COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) CONCERNING TRADABLE RENEWABLE ENERGY CREDITS

I. INTRODUCTION AND BACKGROUND

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), the *Administrative Law Judge's Ruling Requesting Pre-Workshop Comments on Tradable Renewable Energy Credits*, dated July 19, 2007 (the "ALJ Ruling"), and the August 3, 2007, ruling extending the comment filing deadline to August 77, 2007, San Diego Gas & Electric Company ("SDG&E") hereby submits these comments in advance of the workshop to be held September 5-7 regarding use of tradable renewable energy credits ("RECs") for compliance with Renewable Portfolio Standard ("RPS") program requirements.[1/]

As the ALJ Ruling correctly observes, "the issue of tradable RECs has been revisited, but not resolved, on several occasions."[2/] The ALJ Ruling notes that certain issues related to tradable RECs identified in the Commission's December 29, 2006 Amended Scoping Memo have been resolved, but that "[t]he remaining issue is the

---

1/ Per the request set forth in the ALJ Ruling (ALJ Ruling, p. 3, fn. 3), SDG&E notes that its most recent comments addressing RECs were filed in the instant docket on 5/31/06 and 6/14/06 in response to a Commission Staff White Paper regarding RECs.

2/ ALJ Ruling, p. 3.

overarching one: the use of tradable RECs for RPS compliance."[3/] The comments submitted in advance of the workshop are intended to "aid in developing the agenda and guiding the discussion at the workshop, as well as making more efficient use of the workshop by allowing parties to be familiar with each other's preliminary views prior to the workshop."[4/] The ALJ Ruling further provides that parties "will have an additional opportunity after the workshop to develop and present arguments about whether the Commission should adopt a system of tradable RECs for RPS compliance . . . and if so, what features a tradable REC system should have . . ."[5/]

As is discussed in more detail herein, SDG&E supports development of a system of tradable RECs and commends the Commission for addressing this important issue. As the 2010 deadline for RPS compliance approaches, it is critical that the investor-owned utilities ("IOUs") and other load-serving entities ("LSEs") have at their disposal all tools available for RPS compliance. Indeed, the Legislature expressly acknowledged the valuable role to be played by RECs by including express language in Senate Bill ("SB") 107 authorizing use of tradable RECs for compliance with RPS requirements.[6/] SDG&E discusses below its preliminary recommendations concerning implementation of such a system of tradable RECs and raises other issues that should be considered at the workshop to be held in September.

[3/] *Id*. at p 5.
[4/] *Id*. at p. 1.
[5/] *Id*. at p 6.
[6/] Senate Bill (SB) 107, Sec. 19, § 399.16 (Stats. 2006, Ch. 464).

II.
DISCUSSION

SDG&E strongly supports development of a system of tradable RECs. SDG&E believes that the availability of RECs will benefit most, if not all, LSEs. Tradable RECs will level the playing field between those LSEs that are located in close proximity to renewable generation and those that require longer-distance transmission to deliver generation. In addition, tradable RECs will enhance the ability of all LSEs, and in particular smaller LSEs, to achieve RPS compliance. With activation by the California Energy Commission ("CEC") of the Western Renewable Energy Generation Information System ("WREGIS"), the foundational element required for development of a tradable system of RECs is in place. It is inevitable that a REC market will develop around WREGIS; by developing tradable REC policies now, California has the opportunity shape the rules that will ultimately apply to the market that develops.

While the Commission can play a useful role in establishing the guidelines for use of RECs for RPS compliance and in clarifying such critical issues as the interplay between RECs and GHG credits, it is important that the Commission avoid over-regulation of the use of RECs. As SDG&E explains below, creating arbitrary limitations on the use of tradable RECs for RPS compliance would serve little purpose but could hamper development of the REC market. Accordingly, the Commission should regulate with a light touch in developing the rules concerning use of RECs.

In Section A of the ALJ Ruling, the Commission outlines the guiding principles proposed by staff to evaluate proposals for the use of REC trading for RPS compliance. SDG&E generally supports the proposed guiding principles. With regard to the principle that "REC trading rules, guidelines, and policies should take account of the process of

implementing California's greenhouse gas (GHG) reduction policy and the potential for federal programs for GHG reduction,"[7/] SDG&E notes that RECs are not interchangeable with future GHG credits and should be calculated separately, although it may be useful to establish a conversion factor by technology. The respective markets will sort out whether and how to rebundle the two products. Requiring the bundling of RECs and GHG credits would limit GHG trading of RECs within the electric sector and would create complications with renewables that have GHG emissions (*e.g.*, geothermal, solar with gas assist). Accordingly, the Commission should make clear that RECs and GHG credits are not interchangeable and will be separately tracked.

Section B of the ALJ Ruling sets forth specific questions related to tradable RECs. SDG&E provides the following responses to the queries set forth in Section B:

1. Comparing REC Trading With Current RPS Procurement Methods - A variety of procurement methods are currently authorized in the RPS program, both through statutory provisions and Commission decisions. These include:

- Long-term contracts (§ 399.14(a)(4));
- Short-term contracts (§ 399.14(b), D.06-10-019, D.07-05-028);
- Contracts having curtailability as an attribute (D.05-07-039);
- Contracts with delivery at any point in California (D.06-05-039);
- Contracts that include firmed or shaped products (Pub. Res. Code § 25741(a), Pub. Util. Code § 399.12(a), D.06-10-019);
- Contracts that are "repackaged" from larger contracts of specific types (D.07-05-028);
- Contracts entered into by a procurement entity (§ 399.14(f), D.07-05-028); and
- RPS-eligible generation owned by the LSE (§ 399.12(e), D. 06-05-039).

a. Commenters should briefly summarize their experience with each of these mechanisms. Identify how, if at all, REC trading is likely to provide more flexibility, be less costly, or otherwise improve RPS compliance, or, if to the contrary, how REC trading is likely to provide less flexibility, be more costly, or otherwise to impede RPS compliance.

[7/] ALJ Ruling, p. 8.

RESPONSE: SDG&E believes that the availability of RECs will improve RPS compliance. RECs, as a standard product, are far easier to trade. As a standard product they can be traded with the click of a mouse on an exchange. By contrast, a contract for a new renewable energy project is a complex, highly structured transaction where negotiations could take years.

b. LSE commenters should estimate, very roughly, how much of their RPS procurement for the period 2007-2010 will be obtained using each of the above methods.

RESPONSE: SDG&E does not believe that this type of speculation is productive. The evolution of trading schemes such as RECs will change the patterns of procurement, but there is no value in trying to predict how or by how much. Any such exercise would be purely speculative. The benefits of this exercise are not readily apparent, hence the time required to produce such an estimate would not be well spent.

c. Would REC trading be likely to completely or partially supersede any of the mechanisms listed above? How?

RESPONSE: It is likely that tradable RECs will partially supersede the above mechanisms. RECs do not require firming/shaping arrangements (although the root issue of integration of renewables will still need to be dealt with by the system operator); RECs accomplish "repackaging" with an elegantly simple solution; RECs do not need curtailability provisions; RECs do not require complex scheduling logistics.

2. Evaluating REC Trading for RPS Compliance- Comments should take into account the status and capabilities of the Western Renewable Energy Generation Information System (WREGIS)

a. How, if at all, will REC trading aid in overcoming transmission congestion on existing transmission lines with respect to RPS-eligible generation?

RESPONSE: It is important to recognize that implementation of a tradable REC program will not eliminate the need for new transmission to deliver new renewable generation being built throughout the West. Consider the Tehachapi project: while those generators could sell RECs to a party that is different than the power off-taker, the projects are impossible with the transmission currently under construction. The benefit of RECs with regard to transmission is that RECs are simpler that a schedule for the delivery of physical power – they eliminate scheduling/operational issues from the commercial REC transaction. However, they do not eliminate the impact of new generation on the transmission system.

b. How, if at all, will REC trading increase the likelihood that LSEs will attain their annual procurement targets (APTs) for RPS compliance in timely fashion?

RESPONSE: The addition of trading tools can assist LSEs in achieving their RPS targets. The new tools allow for innovation and flexibility – two of the goals of RPS – in how LSEs meet their requirements. As one example, compliance by smaller LSEs would be greatly eased by their ability to trade RECs at whatever volume they require rather than buying an entire green generator. RECs also allow easier compliance in response to customer-switching when direct access ("DA") is reinstituted. The contracting hurdles with RECs (as a standard product) will also be much less, assisting less sophisticated players with compliance.

c. How, if at all, will REC trading increase the efficiency of LSEs' RPS compliance activities?

RESPONSE: SDG&E believes that REC trading will greatly increase the efficiency of LSEs' RPS compliance activities. Standard trades versus. complex contracts will make compliance much easier for all LSEs (see above).

d. How, if at all, will REC trading aid in increasing renewable distributed generation in California? What barriers, if any, exist to integrating REC trading with renewable distributed generation?

RESPONSE: SDG&E believes that REC trading will aid greatly in increasing renewable distributed generation in California. Simplified means of trading green credits will bring more distributed RECs to market. This will both increase REC liquidity and ensure that all RECs created by various programs like CSI are used and useful in complying with RPS.

e. How, if at all, will REC trading aid in increasing renewable generation generally in California? In neighboring states?

RESPONSE: RECs are only created from actual generation. This point seems to be lost on many REC detractors. In order to create RECs, underlying renewable generation is required. The ability to trade RECs only adds flexibility. A REC market may make it easier for some proposed projects to get their best price for RECs prior to selling the "null" power.

f. How, if at all, will REC trading aid in increasing transmission infrastructure for renewable generation in California? In neighboring states?

RESPONSE: RECs do not add transmission infrastructure. It is possible that the RECs could ease the development of new renewable generation (by, for instance, creating new financing possibilities for developers) however these

projects will still require transmission additions in order to make their "null power" deliverable.

g. How, if at all, will REC trading affect the costs of RPS compliance in the period 2007-2010? In the period 2010-2015?

RESPONSE: REC trading may lower compliance costs by greatly simplifying the contracting process for some entities', or some portion of all entities', trades. RECs may also increase the efficiency of trading, which could have a cost saving impact.

h. What sources of tradable RECs are likely to be available to California RPS-obligated LSEs in the period 2007-2010? In the period 2010-2015? Please take into account the specific requirements of § 399.16(a).

RESPONSE: This is impossible to predict with any degree of certainty. Thus, the most reasonable approach is to create the tools for flexible trading and see how the market uses those tools to innovate. SDG&E is aware of offers for RECs from partially contracted plants and from plants selling "null power" from a renewable generator.

i. How, if at all, would the approach to the above issues change if a formal, enforceable RPS goal that 33% of electricity sold at retail in California must be from eligible renewable resources by the end of 2020 were to be adopted?

RESPONSE: Adoption of a 33% goal would not produce an impact, other than to make additional trading mechanisms and flexibility such as is afforded by RECs all the more necessary.

j. What additional issues, if any, are relevant in evaluating REC trading for RPS compliance?

3. Establishing REC Trading Rules (assuming WREGIS is operational)

a. Who should be able to participate in a market for RECs used for compliance with the California RPS? (*E.g.*, only RPS-obligated LSEs; only LSEs and renewable generators; anyone; etc.) Should there be any limits or requirements on any types of participants?

RESPONSE: All parties should be allowed to trade RECs without limitation. There is no benefit in setting limits on market participant – such limits would merely make the market less efficient. Unlimited REC trading will not reduce the amount of new renewable generation additions, as some intervenors have stated, since all RECs must come from real generation. Thus, growth in the REC market will be realized only if new generation is added.

b. What steps, if any, should be taken to maximize the opportunities for owners of solar distributed generation systems that are funded through the California Solar Initiative to participate in a REC trading market for RPS compliance?

RESPONSE: RECs should facilitate greater participation by solar DG owners, thereby increasing liquidity in the REC market.

c. Should there be a limit on the quantity of tradable RECs that can be used by LSEs for RPS compliance? Should the limit be different for different classes of LSEs.? How should such a limit, if any, be determined? (See § 399.16(a)(7).)

RESPONSE: No. As SDG&E explains above, limits serve no purpose (they are not necessary in order to ensure new renewable generation additions) and merely impede market development. Limits by class would only serve to make compliance easier and less expensive for certain classes. Limits, in general, increase trading complexity which will reduce market efficiency and liquidity.

d. Should tradable RECs have an "expiration date" (*e.g.*, three years after the electricity with which the REC is associated was generated)?

RESPONSE: There should be no expiration date for RECs. Once the REC is generated, the social good has been accomplished. There is no limit on the benefit associated with this renewable generation, therefore the associated REC should have no time limit.

e. Should RPS-obligated LSEs be able to "bank" tradable RECs without limitation as to quantity? If not, what should the quantity limitations be?

RESPONSE: The Commission should avoid imposing limits without a well-defined purpose. There should be no limit on banking as long as the IOUs justify banking of excess RECs in their respective procurement plans and the Commission reviews and approves any such proposals. Other limits will only increase compliance and trading complexity and reduce liquidity.

f. Should RPS-obligated LSEs be able to "bank" tradable RECs without temporal limitations? If not, what should the temporal limitations be?

RESPONSE: Banking should have no temporal limit (see d. above).

g. Should non-LSE participants in a market for RECs used for compliance with the California RPS be able to hold RECs without limitation as to quantity? If not, what should the quantity limitations be?

RESPONSE: Yes, intermediaries increase market efficiency and their participation should be allowed without limit. Moreover, since RECs will be a regional market, it is unlikely that California could enforce any such limit.

Regardless, such limits are arbitrary and increase market complexity without any discernable benefit.

h. Should non-LSE participants in a market for RECs used for compliance with the California RPS be able to hold RECs without temporal limitations? If not, what should the temporal limitations be?

RESPONSE: Yes, see previous responses (f. and g. above) regarding intermediaries and temporal limits.

i. Should contracts of particular lengths be required for some or all of the REC purchases to be used for RPS compliance? What lengths? What proportion of REC purchases, if any, should be subject to such requirements?

RESPONSE: No, SDG&E sees no benefit to such limits. Imposition of such arbitrary limits will increase complexity in REC trading and compliance tracking and serves no useful purpose. If long-term financing is necessary for development of new renewable generation, it is probable that the some sellers (project developers) will insist on long-term REC deals. However, market participants are in the best position to determine the optimal term of a proposed REC transaction (short vs. long); any regulatory restriction would interfere with market operation and could hamper REC market development.

j. What steps, if any, other than contract length requirements should be taken by the Commission to encourage long-term REC purchases?

RESPONSE: SDG&E does not support placement of any restrictions on the terms applicable to REC transactions in order to promote long-term transactions. RECs should be tradable for a short a period as a single hour (1 mwh). See previous response.

k. Should RECs be allowed to be traded for RPS compliance that are associated with electricity from RPS contracts already approved by the Commission? How would such RECs be disaggregated and tracked?

RESPONSE: Yes, there is no reason to limit REC trading from current contracts. In fact, such a trading mechanism may be necessary in order to facilitate and mitigate possible future load migration under certain open access scenarios. WREGIS should be able to track such RECs.

l. Should RECs be allowed to be traded for RPS compliance that are associated with electricity from RPS contracts already approved by the Commission? How would such RECs be disaggregated and tracked?

RESPONSE: Yes. RECs associated with previously approved RPS contracts should be able to be unbundled and traded. This could lead to greater market

liquidity, without creating any negative impact on the market.

m. Should RECs be allowed to be used for RPS compliance only if the electricity with which they are associated has come from currently operational renewable generators?

RESPONSE: There should be no temporal limit on use of RECs. RECs from a shutdown unit should continue to be tradable as long as they have not already been retired.

n. Bearing in mind that WREGIS does not allow the creation of RECs until the associated electricity is generated, by what mechanism, if any, can purchases of RECs to be used for RPS compliance for which the associated electricity will be generated in the future be allowed?

RESPONSE: SDG&E recommends that RECs only be created from actual generation; that is, no "earmarked" RECs should be allowed.

o. What, if any, limit should be put on the proportion of an LSE's APT that can be met with the use of tradable RECs? How should such a limit, if any, be determined?

RESPONSE: There should be no such limit. Such a limit would be arbitrary and with no identifiable benefit. The Commission should start with relaxed, simple market rules and add complexity and impose limits only where it sees a need to do so going forward.

p. How can liquidity be maintained in a tradable REC market for California RPS compliance? What steps to maintain liquidity should be taken by the Commission? What steps to maintain liquidity should be taken by other actors? (Identify each actor and its appropriate role.)

RESPONSE: Liquidity grows by making the REC product as fungible, simple and tradable by as many counterparties as possible. To promote liquidity, the Commission should avoid adding unnecessary limits, rules or other barriers that fragment or otherwise reduce the efficiency of the market.

q. Should a tradable REC market for California RPS compliance include a separate entity with "watchdog" functions, such as an advisory committee or oversight group? How would such a group be established? Who should be eligible to be a member of such a group? What entity or entities should choose the members of such a group?

RESPONSE: It is likely that WREGIS will create a western region-wide trading market where the CPUC will lack direct oversight into trading (while maintaining its rules as to how IOUs may use traded RECs).

4. Coordinating with State and Regional REC Trading Policies and GHG Policies

● Regional REC Trading

a. What elements of a REC trading system are most important for coordination of a California REC trading system for RPS compliance with a possible regional REC trading system (*e.g.*, REC definition, who may participate in the market, etc.)?

RESPONSE: In order to ensure that the California market is as compatible as possible with other REC markets, the Commission should avoid creating arbitrary and unnecessary complications, rules and limits (see comments in various preceding responses). The Commission should design its compliance rules in a manner that allows the maximum opportunity for IOUs (and other LSEs) to participate in REC markets – this is essential to building a liquid market for RECs.

b. What steps, if any, should be taken in the design of a California REC trading system for RPS compliance to allow later coordination with a possible regional REC trading system?

RESPONSE: See above.

c. Should REC trading for California RPS compliance be implemented only as part of a regional REC trading system?

RESPONSE: Coordination will be important and California should solicit the input of the brokers and other participants in the current voluntary OTC REC market to ensure that its rules do not run afoul of current practice.

● Greenhouse Gases

a. What elements of a REC trading system are most important for coordination with a possible GHG cap and trade system (*e.g.*, REC definition, who may participate in the market, etc.)?

RESPONSE: Defining how a REC equates to GHG credit – the relationship must be clear.

b. What are the advantages and disadvantages, from the perspective of development of renewable generation, to having both a REC trading system and a GHG cap and trade system? Will different benefits be achieved by each, or would such a situation be redundant? If you had to choose, which system would you prioritize? On what basis?

RESPONSE: The REC trading system and the GHG cap and trade system should be treated as separate and distinct systems. The systems should co-exist to meet each program's particular needs in order to create standardized

products. The market participants may find it desirable at some point to bundled RECs and GHG credits, but this should be left to the market.

c. What steps, if any, should be taken in the design of a REC trading system to allow later coordination with a possible GHG cap and trade system?

RESPONSE: It is necessary to create a rational trading platform that can be duplicated and to work with brokers and other participants in the voluntary markets, as discussed above, to ensure that the CPUC rules are compatible with current practice.

d. What steps might be required later to allow coordination with a possible GHG cap and trade system (*e.g.*, development of technology-specific emissions factors, development of emissions conversion factors, revisions to RPS compliance requirements, etc.)?

RESPONSE: SDG&E believes that all steps identified above will be required.

e. Should REC trading for RPS compliance be implemented only as part of a possible cap and trade system for GHG?

RESPONSE: No. The two products should be traded separately since there is not a direct one-to-one relationship between them. There is also no need to delay the REC market in order to allow the GHG market to catch-up. For California customers to derive maximum benefit from a REC market, they need access to this market prior to the time that GHG rules (and presumably a GHG trading market) go into effect in 2012. IOUs should have met their RPS goals by this time, so delaying the start of REC trading to coincide with GHG trading may render the REC market largely useless to IOUs and their customers.

● **Possible Federal Programs**

a. What elements of a REC trading system are most important for coordination with a possible federal RPS?

RESPONSE: SDG&E recommends that the Commission keep program elements simple and that it work with current practice in the voluntary market.

b. What elements of a REC trading system are most important for coordination with a possible federal GHG program?

RESPONSE: Definition of a GHG allowance and its relationship to a REC by technology.

5. Administration and Compliance

- **Cost Recovery**

SDG&E generally notes that the existence of RECs eliminates the need for an MPR, inasmuch as RECs permit the Commission to use traded conventional power prices and traded REC prices in order to determine reasonableness of renewable transactions. RECs replace SEPs as the equivalent of the premium paid for renewable power. The compliance "cost cap" (MPR + SEP) could continue to be calculated as contemplated in SB 1078 and SB 107.

a. How should the reasonable cost of REC purchases be determined? Should this method vary depending on the length of the contract or any other REC purchase contract attribute? Please be specific about the elements of any proposed process and/or information necessary to determine the reasonable cost of REC purchases. If relevant, identify any other states where the proposed process has been used.

RESPONSE: REC trading will create a transparent index or the green attribute. Reasonableness of the renewable transaction would be (for a bundled contract) the equivalent conventional power market quote plus the REC index. Reasonableness for RECs would be judged against the appropriate REC index – a much simpler process than what is in place today.

b. How often should the determination of reasonable cost be made? Annually? Monthly? Some other interval?

RESPONSE: Reasonableness should be determined by evaluating the contract price versus the appropriate market benchmarks (as described above) for the forward markets for RECs that existed at the time the contract was signed.

c. Should Commission staff make individual determinations of the reasonableness of all REC purchases, analogous to the contract approval process for RPS energy procurement? If not, how should reasonableness be evaluated? (*E.g.*, REC purchases in contracts for fewer than *X* months at a price less than or equal to are deemed reasonable.) How often should such evaluations be made?

RESPONSE: Reasonableness reviews (only to the extent allowed under AB 57) should be conducted as part of the overall Commission review of IOU procurement in either the ERRA or Quarterly Transaction Report. No unique, separate, redundant RPS review is required.

d. Should the market price of RECs be presumed to be reasonable, subject to a price cap and/or a price floor? How would such price controls be determined? Should price controls change over time, or vary with other REC purchase contract attributes?

RESPONSE: See above for discussion of indices and their use. SDG&E is not

certain what is meant by "price controls," but it is unlikely that California will have any such jurisdiction over a western region-wide REC market. A "safety valve" price at which the LSE opts out of buying RECs to meet RPS goals should be considered in order to avoid problems similar to those that the RECLAIM market experienced during the Energy Crisis. Also, adding a price ceiling and price floor in long-term contracts for RECs should be considered as a reasonable means of reducing renewable developer market risk.

● **Compliance**

a. How, if at all, could tradable RECs best be integrated with the current RPS procurement program based on bundled energy purchases and actual delivery of energy to RPS-obligated LSEs?

RESPONSE: Tradable RECs would (and, in order to have any value, must) be useful toward meeting any RPS energy compliance metric (20%, APT, IPT, etc).

b. How, if at all, could the use of tradable RECs for RPS compliance be integrated into the existing RPS flexible compliance regime?

RESPONSE: See above.

c. How, if at all, would REC trading for RPS compliance affect the obligations of certain multi-jurisdictional utilities set out in § 399.17?

RESPONSE: No impact on obligations, only a possible impact on implementation.

d. How, if at all, would REC trading for RPS compliance be affected by the compliance flexibility granted to certain multi-jurisdictional utilities in § 399.17?

RESPONSE: No impact on obligations, only a possible impact on implementation.

● **Administration**

a. If long-term contracts for tradable RECs for RPS compliance are developed and allowed to be used, should the viability of the generator of the electricity associated with a tradable REC be evaluated by Commission staff? How would such an evaluation be made?

RESPONSE: No. RECs are created only from real generation. The contract should handle viability through liquidated damages provision just as energy is treated under the current bundled contracts.

b. What documentation should the Commission require of an IOU's purchase price for RECs, whether through long-term contracts or shorter-term or spot purchases?

RESPONSE: The same as is required, and found to be sufficient for the majority of IOU energy procurement in the ERRA proceeding.

c. Are there issues of confidentiality related to REC prices? Please be specific and relate the discussion to the decisions in the Commission's confidentiality proceeding, R. 05-06-040. How should any confidentiality issues be handled?

RESPONSE: Yes, REC prices in bilateral contracts would be confidential per Matrix category VII F. Market indices of RECs would be public information.

III. CONCLUSION

SDG&E supports development of a system of tradable RECs and appreciates the opportunity to provide preliminary comments in advance of the Commission workshop to be held in September. The Commission will play a key role in establishing the guidelines for use of RECs for RPS compliance, but should avoid burdening the use of RECs with excessive regulation and unnecessary limitations, which could have the unintended effect of impeding development of the REC market.

Respectfully submitted this 17th day of August, 2007.

/s/ Aimee M. Smith
AIMEE M. SMITH
101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5042
Facsimile: (619) 699-5027
amsmith@sempra.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of **PRE-WORKSHOP COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) CONCERNING TRADABLE RENEWABLE ENERGY CREDITS** has been electronically mailed to each party of record on the service list in R.06-02-012. Any party on the service list who has not provided an electronic mail address was 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 the Assigned Administrative Law Judges Burton Mattson and Anne E. Simon.

Executed this 17th day of August 2007 at San Diego, California

/s/ Jodi Ostrander
Jodi Ostrander