Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 E) for Approval of (1) Contract Administration, Least Cost Dispatch and Power Procurement Activities, and (2) Costs and Expenses Related to those Activities Recorded to the Electric Resource Recovery Account, Incurred During the Record Period October 1, 2003 through December 31, 2004.	Application 05-06-014 (Filed June 1, 2005)

OPINION ON THE REASONABLENESS AND PRUDENCE OF SAN DIEGO GAS & ELECTRIC COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT

I. Summary

We find that San Diego Gas & Electric Company's (SDG&E) administration of power purchase agreements and procurement of least-cost dispatch power activities beginning October 1, 2003 and ending December 31, 2004 (Record Period) were reasonable and prudent. We also find that SDG&E's $11.2 million overcollected Energy Resource Recovery Account (ERRA) balance at December 31, 2004, is below 2004 threshold amount of $30 million that triggers the filing of a rate change application. SDG&E's procurement-related revenue and expenses recorded in its ERRA Balancing Account during the Record Period were reasonable and prudent.

II. Background

Decision (D.) 02-10-062 established the ERRA balancing account for the major energy utilities to track fuel and purchased power authorized revenues requirements against actual recorded costs. That decision also required the major energy utilities to establish a fuel and purchased power revenue requirement forecast, a trigger mechanism, and a schedule for semiannual ERRA proceedings. The first semiannual proceedings would consist of an application by the utility to establish annual fuel and purchased power forecast for the upcoming 12 months (forecast application). In the second semiannual proceeding, the reasonableness of its prior period energy resource contract administration, least-cost dispatch and ERRA Balancing Account would be reviewed (reasonableness application).

SDG&E's first reasonableness review application covered January 1, 2003 through September 31, 2003. This reasonableness review covers a Record Period of 15 months beginning October 1, 2003 and ending December 31, 2004, pursuant to a D.04-01-050 requirement for SDG&E to incorporate 12 months of 2004 calendar year data into its 2004 reasonableness review application.

III. Discussion

SDG&E tendered testimony as part of its application to substantiate the reasonableness and prudence of its contract administration, least-cost dispatch, and ERRA balance for the Record Period. Portions of SDG&E's data and testimony deemed commercially sensitive were tendered under seal. That information contained nonpublic market information regarding power procurement activities which included individual prices and terms of power purchase agreements between SDG&E and certain generating facilities, and detailed discussion of its development of load forecasts, operating characteristics

of certain generating facilities and market indices relied upon in its procurement strategy. All such information deemed commercially sensitive was placed under seal pursuant to a July 28, 2005 Administrative Law Judge (ALJ) ruling. Pursuant to that ruling the then assigned ALJ authorized the confidential information sealed through and including July 28, 2007. We agree with the July 28, 2005 ALJ's Ruling in this application that the public interest in protecting the documents from disclosure outweighs the public interest in disclosure at this time. Therefore, we affirm the ALJ's July 28, 2005 ruling.

The Division of Ratepayer Advocates (DRA), formerly the Office of Ratepayer Advocates, conducted an independent review of SDG&E's energy procurement activities to assess the prudence and reasonableness of those activities.

A. Contract Administration

SDG&E administers its power purchase agreements through its contract administration group which also has responsibility for negotiating and executing new agreements with renewable and Qualifying Facilities (QF) developers. In addition, the contract administration section provides limited administrative support to the California Department of Water Resources (CDWR) for the ten agreements allocated to SDG&E in accordance with the February 2003 Operating Agreement between SDG&E and CDWR. The Contract Administration Group also monitors various obligations supplemental to the power purchase agreements.

SDG&E's electric portfolio consists of both Utility Retained Generation (URG) and various sources under contract with CDWR. The URG portion of the portfolio is comprised of a combination of Renewable, QF, and Bilateral agreements. SDG&E's only generation resource during the Record Period is its

20% ownership in San Onofre Nuclear Generation Station (SONGS). Details of SDG&E's contract administration and energy purchases are set forth in its testimony and exhibits accompanying the application.

DRA conducted an independent review and analysis of SDG&E's application. DRA's review and analysis including obtaining testimony, workpapers and data responses, meetings with SDG&E personnel, and reviewing SDG&E's contract administration procedures, including confidential information placed under seal. DRA concluded from its review and analysis that SDG&E's administration of its purchased contracts was reasonable and prudent.

B. Least-Cost Dispatch

SDG&E has resumed the role of electric procurement for its customers pursuant to Ordering Paragraph 5 of D.02-09-053. That same decision provided guidance on how SDG&E should carry out those procurement activities. As a result SDG&E adopted two principles for the least cost dispatch of its combined SDG&E and DWR portfolio. The first principle is to provide the total requirements of the energy and ancillary services requirements for its customers at a reasonable cost, consistent with competitive market conditions. The second principle is to integrate SDG&E and DWR resources into a joint portfolio that is dispatched based upon variable, least cost economics subject to market and operational constraints, and without preference to URG resources. Details of SDG&E's least-cost dispatch are set forth in its testimony and exhibits.

DRA's independent examination of SDG&E's least-cost dispatch consisted of a review of the application and prior commission decisions guiding the least cost dispatch process. Based on that review, DRA compared the process SDG&E used to implement its least-cost dispatch strategies with guidelines set forth by the Commission in its decisions. DRA concluded from its independent

examination that SDG&E prudently procured for its customers with least-cost dispatch during the Record Period.

C. ERRA

SDG&E established its ERRA effective January 1, 2003 to track its forecasted fuel and purchase power authorized revenues requirements against actual recorded costs. Included in its ERRA account is SDG&E's share of revenue from the sale of surplus energy and adjusted Electric Energy Commodity Cost (EECC) rate schedule. The ERRA account excludes existing CDWR contracts.

SDG&E compared its energy procurement costs with the revenue from Schedule EECC, excluding CDWR revenue and bond payments on a monthly basis. Interest was applied to any resulting over or under-collection balance at the three-month commercial paper rate. Details of its ERRA for the 15-month Record Period were set forth in Attachment B to Exhibit 3.

SDG&E had an $11.2 million overcollected ERRA balance at December 31, 2004. The costs recorded in the ERRA during the Record Period included $2.5 million related to congestion mitigation and grid reliability that SDG&E proposes to recover through its Federal Energy Regulatory Commission (FERC) jurisdictional rates in compliance with D.04-07-028. If SDG&E's FERC request is approved, these costs will be credited to the ERRA and charged to the FERC-jurisdictional Reliability Service Balancing Account.

SDG&E is subject to a trigger mechanism that requires it to file a rate change application at any time that SDG&E's cumulative not balance exceeds a 5% threshold. The 5% threshold apply to both undercollection and overcollection. SDG&E's threshold amount for 2004 was $30 million. A rate

change application is not applicable in this instance because its $11.2 million overcollected ERRA balance is under the $30 million threshold amount.

Consistent with Ordering Paragraph 19 of D.02-12-074, SDG&E submitted monthly reports to the Commission's Energy Division for the 15 month period this application covers. The monthly reports included supporting source documents to substantiate the monthly activity in SDG&E's ERRA balancing account. SDG&E represents that the Energy Division, as indicated in letter to SDG&E, has verified all ERRA original source documents exceeding $100. Therefore, SDG&E seeks Commission approval and determination of reasonableness of its ERRA entries and calculations for the Record Period.

DRA's independent examination of SDG&E's ERRA for the time period subject to this application included a review and analysis of prior Commission ERRA decisions and tariffs, SDG&E supporting workpapers, and SDG&E's source documents previously reviewed by the Energy Division. DRA also conducted interviews with SDG&E's witnesses, issued data requests, and conducted selective substantive testing. DRA concluded from its independent examination that SDG&E's ERRA entries and calculations for the 15-month Record Period were reasonable.

IV. Conclusion

As addressed in this order, SDG&E provided detailed exhibits and testimony on its administration of power purchase agreements, procurement of least-cost dispatch power activities, and procurement-related revenue and expenses recorded in its ERRA for the Record Period. In addition, DRA provided testimony on the results of its independent examination of SDG&E's administration of power purchase agreements, procurement of least-cost dispatch power activities, and ERRA balance that affirmed the reasonableness and prudence of SDG&E's application.

With no opposition to SDG&E's application and a record that affirms the reasonableness and prudence of SDG&E's contract administration, least-cost dispatch, and ERRA balance, we concur that SDG&E was prudent in its procurement-related activities for the Record Period and that its $11.2 million overcollected ERRA balance at December 31, 2004 was reasonable and prudent.

V. Procedural Matters

SDG&E requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3154, dated June 16, 2005, the Commission preliminarily determined that this was a ratesetting proceeding and that hearings may be necessary. The assigned Commissioner's July 28, 2005 Scoping Memo and Ruling affirmed that this proceeding is a ratesetting proceeding.

Notice of the application appeared in the Commission's June 7, 2005 Daily Calendar. There is no objection to the ratesetting categorization.

Although an evidentiary hearing was scheduled for this proceeding, the hearing was cancelled pursuant to a February 7, 2006 ALJ ruling because the parties concluded that there are no issues and no need for an evidentiary hearing. Pursuant to that ALJ ruling the exhibits of SDG&E and DRA were identified and received into evidence.

VI. Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

VII. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. The application was filed on June 1, 2005, and appeared in the Commission's Daily Calendar on June 7, 2005.

2. SDG&E provided detailed exhibits and testimony on its administration of power purchase agreements, procurement of least-cost dispatch power activities, and procurement-related revenue and expenses recorded in its ERRA for the Record Period.

3. The Record Period is October 1, 2003 to December 31, 2004.

4. DRA provided testimony on the results of its independent examination of SDG&E's administration of power purchase agreements, procurement of least-cost dispatch power activities, and ERRA balance affirming the prudence of SDG&E's application.

5. There is no opposition to this application.

Conclusions of Law

1. The application should be granted.

2. Information placed under seal should remain sealed, because the public interest in protecting the specific information outweighs the public interest in disclosure at this time.

3. This decision should be effective today, in order to allow the docket to be closed expeditiously.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's (SDG&E) administration of its power purchase agreements and procurement of least-cost dispatch power activities for the Record Period beginning October 1, 2003 and ending December 31, 2004 were reasonable and prudent.

2. SDG&E's $11.2 million overcollected Energy Resource Recovery Account (ERRA) balance at December 31, 2004 and its procurement-related revenue and expenses recorded in its ERRA during the Record Period were reasonable and prudent.

3. All information placed under seal shall remain sealed through and including July 28, 2007 except upon further order or ruling of the Commissioner or Administrative Law Judge then designated as the Law and Motion Judge. If SDG&E believes that further protection of sealed information is needed beyond that time period it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of this ordering paragraph.

4. No hearings were necessary in this proceeding.

5. Application 05-06-014 is closed.

This order is effective today.

Dated _____, 2006, at San Francisco, California.