PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 37 I.D.#2928

ENERGY DIVISION **RESOLUTION E-3854**

November 13, 2003

R E S O L U T I O N

Resolution E-3854. San Diego Gas & Electric (SDG&E) requests expedited approval of its Gas Supply Plan for the period of October 1, 2003 through March 31, 2004, to be used in connection with its responsibilities related to certain California Department of Water Resources (DWR) contracts which include gas tolling provisions. SDG&E's request is approved with modifications.

By Advice Letter 1518-E filed on August 15, 2003.

SUMMARY

This Resolution approves, with modifications, the SDG&E Gas Supply Plan (GSP) covering the period October 2003 through March 2004. We order the company to refile the GSP with minor modifications within ten days of today's order. In the period following approval of the final GSP and well in advance of filing the next GSP, we order the utility to coordinate with Energy Division to improve the discussion and presentation of SDG&E's risk management strategy.

BACKGROUND

On October 25, 2001, the Commission opened Rulemaking (R.) 01-10-024 to establish mechanisms enabling SDG&E and the state's other major electric utilities to resume purchasing electricity to meet their customers' needs. The utilities were unable to procure electricity due to their financial situation and the market disruptions arising from the so-called "energy crisis". As a result, DWR was authorized to contract for electricity supplies on the utilities' behalf. The rulemaking was necessary because the agency's statutory authority to buy electricity was set to expire December 31, 2002. Following is a discussion of various decisions issued in this rulemaking proceeding related to the subject of this resolution.

Decision (D.)02-08-071 (see pages 24-25) established one of the entities figuring into this story – the Procurement Review Group (PRG). The PRG comprises such participants as the Commission's Energy Division, the Office of Ratepayer Advocates, The Utility Reform Network, the California Energy Commission, and others. It is intended to act in a consultative fashion regarding the utility's procurement activities and plans, and has not been given authorizing capacity.

In D.02-09-053, the Commission allocated DWR procurement contracts to the resource portfolios of each investor owned utility.[1] As of January 1, 2003, the utilities were required to schedule and dispatch the contracts while DWR would retain legal and financial responsibilities. The utilities were also instructed to integrate the DWR contracts with their existing generation assets and new procurement arrangements and manage these resources under the operating rule of "least-cost" dispatch.

The decision also considered the utilities' administration of the DWR contracts containing "gas tolling" provisions. These provisions provide DWR the option to accept the generator's price for gas used in electricity production. Alternatively, the agency can make its own gas procurement arrangements. Since proper management of the gas tolling arrangements was a critical aspect of least cost dispatch, the Commission determined that the utilities' operational and administrative responsibilities for the DWR contracts should extend to the implementation of the gas tolling provisions, with DWR holding financial and legal responsibility.

In D.02-10-062, the Commission established the regulatory framework enabling the utilities to resume full electric procurement on January 1, 2003 consistent with their service obligation. Minimum standards of conduct were adopted governing the behavior of utility employees and outlining acceptable procurement practices. Such standards included a prohibition against self-dealing to the benefit of an affiliate of the utility, and a requirement that the

[1] For the three utilities, "these DWR contracts cumulatively represent an average annual capacity of 10,780 MWs over the next seven years. The contracts range in term from two to twenty years, although the contracted capacity and energy drops off significantly after 2009. Some of the contract quantities are exclusively "must-take," some are all dispatchable under the option of DWR, and others include a combination of both must-take and dispatchable purchases." (D.02-09-053 Contract Allocation Order, page 2)

utilities prudently administer all contracts and dispatch energy in a least-cost manner. To implement these requirements, the utilities were directed to file updated plans detailing their 2003 short-term procurement strategies for further Commission consideration.

In D.02-12-069, the Commission adopted an Operating Order memorializing the obligations DWR and the utilities would assume beginning January 1, 2003, regarding DWR long term power purchase contracts allocated to each utility in D.02-09-053. The decision also established up-front standards of review governing the utilities' administration of the DWR contracts by adopting the standards previously set forth in D.02-10-062.[2] [3]

In addition, D.02-12-069 broadly outlined DWR's prospective responsibilities regarding the DWR contracts assigned to the utilities:

> "In sum, as of January 1, 2003, DWR will: 1) retain legal and financial responsibility for the DWR contracts, 2) remain responsible for calculating the DWR revenue requirement and for submitting revenue requirements to the Commission, and 3) continue to service the bonds as issuer. DWR's responsibilities do not extend to conducting a reasonableness review of the utilities' portfolio dispatch decisions. That responsibility rests with the Commission." (D.02-12-069, page 14)

The purpose of the Gas Supply Plan was set forth in D.02-12-069 (the Operating Order):

> "The utilities are responsible for preparing "Gas Supply Plans" detailing their strategies for procuring gas and proposed use of risk management instruments. These plans will set parameters under which the utilities will perform the various gas-related activities pursuant to the gas tolling provisions. The utilities shall file these plans for Commission approval through Advice Letter filings on a semi-annual basis. The Commission will review and approve these plans on an expedited basis. Following approval of the Gas Supply Plans, the utilities will negotiate with suppliers

[2] D. 02-12-069, p. 61, " We adopt the standards previously adopted in D.02-10-062 with the explicit inclusion of a "least-cost" dispatch requirement."

[3] D. 02-12-074 granted in part PG&E's petition to modify several standards of behavior.

> for gas supplies, transportation, and storage. Negotiated agreements will then be submitted to DWR for execution." (D.02-12-069, page 27)

Furthermore,

> "In particular, with respect to gas purchasing, transportation, storage and risk management, we believe DWR should limit its involvement to the review of the utility's Gas Supply plans and that, following Commission approval of these plans, the utilities should be free to negotiate and present agreements for DWR execution without subsequent DWR approval." (D. 02-12-069, p. 28)

Attached to the Operating Order is "Exhibit B, Fuel Management Protocols" specifying the operating relationship between DWR and the utilities concerning management of the gas tolling provisions. Under Exhibit B of the Operating Order, the utilities, acting as limited agent for DWR, are charged with conducting the administrative and operational aspects of the gas tolling provisions while DWR holds legal and financial responsibility. The exhibit provides specific guidelines governing the utilities' actions in cases where the gas tolling provision is exercised pursuant to DWR approval. Additionally, the exhibit specifies that the utilities are responsible for these activities: 1) determining types and lengths of gas contracts; 2) nominating deliveries; 3) contracting for gas transportation and storage; 4) managing imbalances; 5) reviewing invoices, and 6) determining and implementing hedge strategies, as appropriate.[4]

In addition to defining each party's roles, Exhibit B also requires the utilities to prepare Gas Supply Plans documenting their gas supply and risk management strategies. Following DWR review and Commission approval of the Gas Supply Plan, the utility may conduct certain activities with limited DWR involvement such as negotiating for pipeline or storage capacity. The utilities were directed to file their Gas Supply Plans semi-annually via an advice letter filing subject to an expedited approval process.

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[4] In the case of gas hedging, D.02-12-069 directed the utilities to make the final decision related to the use of risk management tools and that they should work with DWR immediately to enter into any necessary forward hedges (see p. 28).

In D. 02-12-074, the Commission approved updated short-term procurement plans for each utility describing their methods for purchasing electricity to meet their customer's needs during 2003.

On April 3, 2003 the Commission issued D.03-04-029, adopting Operating Agreements between DWR and Pacific Gas and Electric Company (PG&E) and between DWR and SDG&E. As stipulated in the decision, if these utilities file executed Operating Agreements with the Commission the Operating Order will no longer govern their activities with respect to the DWR allocated contracts.

According to the Operating Agreement in the decision, the limited duties of SDG&E, acting as DWR's limited agent, include performing day-to-day scheduling and dispatching, performing billing and settlement functions, buying (or selling) gas, gas transmission services, gas storage, and financial hedges, and performing "operational and administrative responsibilities for such purchases under gas tolling provisions under the Allocated Contracts, including the review of fuel plans, and consideration of alternative fuel supply..."[5]

Under the Operating Agreement, DWR is obligated to remain legally and financially responsible for each contract, to assume legal and financial responsibilities and enter into or facilitate SDG&E's entering into transactions, as DWR's limited agent, for the purchase of gas, gas storage, financial hedges, and timely consent to or approve SDG&E's performance of the operational and administrative responsibilities for such purchases, paying invoices to suppliers, and performing all necessary verification.[6]

PG&E and SDG&E have submitted and received Commission approval of Operating Agreements.[7] Southern California Edison (SCE), however, still opts to be governed by the Operating Order with respect to DWR contract administration. With regard to the Gas Supply Plans, the Commission stated that it will attempt to resolve any conflicting Commission-DWR mandates. However, the Commission determined that the utilities are to operate within Commission-defined boundaries, yet also adhere to specific DWR requirements:

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[5] D.03-04-029, Attachment A – SDG&E Operating Agreement, Section 4.01.

[6] D.03-04-029, Attachment A – SDG&E Operating Agreement, Section 5.01.

[7] PG&E Advice Letter 2374-E, and SDG&E Advice Letter 1490-E, both filed on April 17, 2003.

> "In response to SCE's concerns regarding how the Commission intends to resolve any conflicts between what the Commission approves and what DWR is willing to implement, we note that we expect the utilities to prepare and file comprehensive Gas Supply Plans describing their proposed methods of meeting gas supply needs. The Commission will approve or disapprove these methods and plans. We expect DWR to file comments on the utilities' Advice Letter filings as necessary to identify any concerns they may have regarding the plans. These concerns will be taken into account in the Commission's decision, however, in the event that DWR only authorizes a subset of what the Commission has approved, the utilities must operate within the limitations of DWR's approval. Similarly, if the Commission rejects portions of the Gas Supply Plans that DWR would otherwise authorize, we expect the utilities to operate within the limitations of the Commission's decision. (D.03-04-029, pages 24-25)

The Commission also noted the similar but differing objectives of the Commission and DWR:

> "Although the Commission's and DWR's objectives are very closely aligned, it is not reasonable to expect their objectives to be perfectly aligned due to the fact that the Commission and DWR have differing jurisdictions and responsibilities. For example, DWR is in the best position to determine the level of credit support available for utility purchases under the gas tolling agreements, and the Commission will not second-guess DWR's determination in this regard. We request that DWR provide written notification to the Commission regarding its approval or rejection of the utilities' Gas Supply Plans. (D.03-04-029, pages 24-25)

The goals and guidelines covering implementation of the gas tolling agreements are somewhat modified in the Operating Agreement and apply as follows:

> 1. Utility shall use reasonable commercial efforts to secure delivery of gas in a reliable manner and consistent with gas requirements for producing scheduled energy.
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> 2. Utility shall develop a portfolio of gas supply for the Contracts that contain Fuel Options. Consistent with the approved Utility Gas Supply Plans, Utility is to supply gas, acting as limited agent on behalf of DWR. Such portfolio should be diversified in terms of price mechanism, period of performance, and gas suppliers.

3. Utility shall develop a portfolio of supply which is reasonably priced relative to the market and in accordance with an approved Utility Gas Supply Plan.

D.03-04-029 required the three utilities to file their respective Gas Supply Plans on April 17, 2003. The decision also directed the utilities to circulate unredacted copies of their proposed Gas Supply Plans to their Procurement Review Groups for review and comment.[8]

To help maintain continuity in procurement operations, the decision also provided that "[t]he adopted Gas Supply Plans will remain in effect until subsequent Plans are filed and approved." (p.27)

On April 17, 2003 SDG&E filed Advice Letter (AL) 1489-E to cover gas procurement activities for the period of May 1 through September 30, 2003. The period of SDG&E's initial Gas Supply Plan was only five months, in order that subsequent gas supply periods might coincide with quarterly breaks, i.e., subsequent plans would alternate between summer periods (Q2, Q3) and winter periods (Q4, Q1).

In the first GSP, SDG&E outlined the default fuel plans currently in place for the three allocated contracts – CalPeak Power, Williams Energy & Trading Company, and Sunrise Power Company. SDG&E then described the approach that it would take, were it given authorization to engage in gas procurement activities. SDG&E would procure gas as a total portfolio for its three contracts, and would utilize a combination of daily and monthly contracts, with the possible addition of other contract types, such as options and futures.

On July 10, 2003, the Commission issued Resolution E-3838, approving SDG&E's first GSP with minor modifications. The Commission authorized the utility to begin procuring gas for the three above generators. For subsequent GSPs, the Commission ordered the utility to augment the discussion of the various

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[8] "In addition, in the interest of minimizing protests on the initial Advice Letter filings, we recommend that the utilities provide advance, unredacted copies of the Gas Supply Plans to the "Procurement Review Groups" identified in D.02-08-071 for review and discussion. We also recommend that utilities file advance copies with DWR." (D.03-04-029, page 24)

available hedging tools, and to elaborate the discussion of the analysis leading to a hedging decision.

A regulatory issue that SDG&E raised in AL 1489-E has since been resolved. SDG&E had asked that the Commission clarify the allocation of the Williams Gas Supply contract. The Commission asked for parties' comments on this issue. The respondents were PG&E, SDG&E, SCE, and DWR. On October 2, 2003, in R.01-10-024, the Commission issued D.03-10-016. The Commission agreed with the position of DWR, which allocated the gas between SCE and SDG&E based on certain operational criteria.

SDG&E filed this second GSP on August 15, 2003 to cover the period October 1, 2003 through March 31, 2004. Pursuant to Commission authorization in Resolution E-3838, SDG&E has begun procuring gas for the Sunrise and the Calpeak plants. Regarding gas procurement for the Williams contract, DWR has not yet decided whether the SDG&E or Williams will be the supplier beginning on January 1, 2004.

NOTICE

Notice of AL 1518-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

A late protest of AL 1518 -E was filed on September 11, 2003 (protests were due August 25, 2003), by DWR. DWR noted that a table accompanying the AL had shown Williams' generation for load for the period October through December of 2003 to be zero, while Williams' output for sales was significant. DWR interpreted this to mean that Williams' output for Reliability Must Run (RMR) needs, which is non-zero in that time frame, must be reckoned in the category of generation for sales. DWR also asked for an explanation as to why the GSP shows Calpeak with no fuel requirements for load and yet significant fuel requirements for sales.

On September 18, 2003 SDG&E filed a response. SDG&E explained that it had neglected to include fuel requirements for the Williams RMR requirements. SDG&E supplied corrected tables showing these fuel requirements volumes in the category of fuel for load, rather than sales. With respect to Calpeak, SDG&E

confirmed DWR's interpretation that no fuel in the fourth quarter of 2003 is expected to be required for load because it is relatively uneconomic.

DISCUSSION

No party has objected to allowing DWR's late-filed comments, and we will allow them into the record, but we ask DWR to participate in the GSP process in a timely manner.

The Commission has reviewed the proposed GSP. We find that the filed GSP contains a great deal of useful information, and is clearly the product of extensive analysis regarding the procurement of fuel for its DWR contracts with gas tolling agreements. In particular, the Commission notes that the utility has developed a more rigorous analysis of the costs and benefits associated with gas storage activity. Furthermore, we find no critical flaw with the basic strategy proposed by SDG&E which might keep the Commission from approving this GSP.

But the Commission has a significant number of questions regarding, among other things, the absence in the GSP of any estimate of savings resulting from fuel procurement *per se* (apart from savings associated with avoided fuel management fees), the lack of specific information on the process leading to already-contracted hedges, inadequately documented tables, and a reporting format which does not tell a clear story of the company's past and future procurement activities.

Most significantly, the Commission is concerned that the GSP does not sufficiently explain the company's thinking going forward with respect to gas procurement. While the company is correctly ensuring that consumers are not placed at a cost risk greater than that presented by the Customer Risk Tolerance (CRT), there needs to be greater consideration given to how best to achieve this.

In Resolution E-3838 (p.17), the Commission ordered the company to present in the following GSP (i.e., the one now under consideration) an elaborated discussion of the tradeoffs between being caught short (if and when the market price skyrockets) and being caught long (if and when the market price dives). This question is not at all academic. For example, it has important hedging implications for choosing between options versus futures contracts. The utility did not sufficiently present such an analysis in this GSP.

We will require a two-fold course of action to address our concerns. First, several small corrections should be made to the draft GSP to prepare it for final approval. Second, the Energy Division should coordinate with SDG&E in the interim period, before the company files its next GSP in February 2004, to improve some aspects of the risk analysis and its presentation.

The final GSP should be modified as follows. The table of contents should be modified to delete "5. Regulatory Issues", and the corresponding changes should be made to the numbering of "DWR Fuels Protocols" in the table of contents and in the text of the GSP. The second sentence in paragraph 4.a ("Williams Long-Term Physical Gas Contract") on page 7, referring to an advice letter filed on July 1, 2003, should be deleted, as it is in error. The sub-tables (part of Table 3) containing data on fuel requirements which were called to SDG&E's attention by the DWR protest should be corrected and refiled. The GSP text and tables should be modified to reflect the Commission's allocation, in D.03-10-016, of the Williams gas supply. Typographical errors on Table 5 should be corrected -- the words "Table 4B" and "Table 4C" should be replaced with "Table 2B" and "Table 2C", respectively.

In the period following the approval of this GSP and well in advance of filing the next GSP, ED will coordinate with SDG&E. The aim of this coordination will be, among other things, to improve the clarity of the tables, to add graphical elements to the report, to review the calculation of credit requirements, to review some aspects of the storage cost/benefit analysis, to develop an analytical framework comparing countervailing risks of being caught short versus being caught long, to develop a strategy for hedging when operating well inside the CRT envelope (i.e., how much do we want to pay to be safe from price risk?).

SDG&E will be required to report on all affiliate dealings the utility has entered into and intends to enter into related to DWR fuel procurement, along with an explanation of how these dealings comply with the pertinent rules and regulations. This report need not be part of the GSP, but should be made in another appropriate forum, such as the Annual Affiliate Transactions Report or the Annual Audit.

The affiliate guidelines which were articulated in the previous resolution (E-3838) continue to be in effect for this GSP. The utility should also take note that certain of these policies are under review in the Procurement Proceeding (R.01-10-024).

Beginning with the next GSP, the company should file its GSP two months before the beginning of the fuel procurement period which it covers. For the next GSP, this means the company should file the GSP on February 1, 2004. As is now the case, the PRG should be given an advance preview. Parties should be given 20 days to file protests on the GSP. We will allow the GSP to go into effect, in the circumstance that no party protests them, after Energy Division review and concurrence, without a resolution.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(3) provides that this 30-day period may be reduced/waived by Commission adopted rule. The 30-day comment period was reduced to ensure that SDG&E's GSP goes into effect in a timely manner consistent with the public interest.

SDG&E filed timely comments on November 6, 2003. SDG&E pointed out that the resolution erroneously assumed that SDG&E will take over the gas procurement function for the Williams contract. SDG&E explains that DWR has not yet selected SDG&E as the supplier, and asks that the resolution be altered to reflect this fact. SDG&E maintains that, should DWR not choose SDG&E to procure this gas, then the utility would have no role in the provision of management services for that contract.

SDG&E also objects to the draft resolution's calling attention to the fact that the GSP does not provide an estimate of potential savings arising from SDG&E's procurement activities vis a vis the generators' procurement proposals which SDG&E's procurement activities would replace. SDG&E claims that an expectation of savings would be unfair.

Next, SDG&E objects to the draft resolution's stated concern that the GSP provided inadequate analysis of prospective hedging strategies. SDG&E maintains that this analysis is provided in its 2004 Electricity Procurement Plan, filed on May 15, 2003 in R.01-10-024. SDG&E believes that presenting the information in two different places would be duplicative and counterproductive.

SDG&E also objects to the language in the draft resolution ordering that the utility work with Energy Division in advance of filing the next GSP in order to

improve the gas procurement analysis and its presentation. SDG&E maintains that this requirement will involve much extra work. SDG&E asks that the Commission clarify and provide more details about its expectations in the final resolution.

Finally, the DR objects to the draft resolution's requirement that future GSPs report on all affiliate dealings the utility has entered into related to DWR fuel procurement. SDG&E is willing to report this information, but believes a more appropriate forum would be the Annual Affiliate Transactions Report or the Annual Audit.

On November 10, 2003 DWR filed a timely response to both PG&E's and SDG&E's GSP comments. Regarding SDG&E's comments, DWR asks that the Commission reject SDG&E's request to defer discussion of hedging to the 2004 Electricity Procurement Plan. DWR opines that this request runs counter to the purpose of GSPs. DWR cites the Operating Agreement between SDG&E and DWR, dated April 17, 2003, to point out that the GSP should be a stand-alone document. Further, the Operating Agreement provides that the GSP should contain plans for hedging of DWR fuel procurement costs.

DWR also responds to SDG&E's comment that DWR has not yet chosen a fuel supplier for the Williams contract. DWR allows that SDG&E's statement is true, but points out that SDG&E has not yet made a recommendation regarding procurement for this contract. DWR also disagrees with SDG&E's contention that, in that event that DWR does not choose SDG&E as the supplier for Williams, the utility would have no further role in procurement for that contract. DWR states this is not in conformance with the terms of the Operating Agreement. Pursuant to Section VII and Exhibit B of the Operating Agreement, SDG&E is required to continue to make daily nominations and to review and validate Williams' gas invoices.

We will modify the resolution to reflect that DWR has not yet determined who shall supply gas for the Williams contract.

With respect to SDG&E's comment on savings estimates, we will reject SDG&E's request. The generators' proposals provide specific cost terms. In comparison, SDG&E's proposal is vague. We are requiring estimates of cost savings in order to judge which procurement planis expected to provide more benefits to ratepayers.

We will reject SDG&E's objections regarding the analysis and presentation of its hedging strategies. The GSP should be a stand-alone document, useful to Commission staff and other parties to evaluate the utility's gas procurement and risk management activities.

We are sympathetic to SDG&E's concern that a lack of clear guidance from the Commission regarding the risk mitigation analysis and presentation could lead to an excessive work load. It is for this very reason that we are directing Energy Division to coordinate with the utility prior to assembly of the next GSP. We expect that this coordination will lead to a streamlined process, and thus reject SDG&E's objection.

We will grant SDG&E's request that affiliate activities related to gas procurement for DWR contracts would be better provided in other annual proceedings.

FINDINGS

1. SDG&E filed its second GSP in a timely manner, with AL 1518-E.
2. DWR filed a protest out of time, and no party has objected to its being allowed.
3. SDG&E filed timely comments on the draft resolution.
4. DWR filed a timely response to SDG&E's comments.
5. The filed GSP contains a great deal of useful information, and is clearly the product of extensive analysis regarding the procurement of fuel for its DWR contracts including gas tolling agreements.
6. The utility has developed a more rigorous analysis of the costs and benefits associated with gas storage activity.
7. No critical flaw with the basic strategy proposed by SDG&E should keep the Commission from approving this GSP.
8. The Commission has a significant number of questions regarding, among other things, the absence in the GSP of any estimate of savings resulting from fuel procurement *per se* (apart from savings associated with avoided fuel management fees), the lack of specific information on the process leading to already-contracted hedges, inadequately documented tables, and a reporting format which does not tell a clear story of the company's past and future procurement activities.
9. The GSP does not sufficiently explain the company's thinking going forward with respect to gas procurement. While the company is correctly ensuring that consumers are not placed at a cost risk greater than that

presented by the of Customer Risk Tolerance (CRT), there needs to be greater consideration given to how best to achieve this.

10. In Resolution E-3838 (p.17), the Commission ordered the company to present in its second GSP an elaborated discussion of the tradeoffs between being caught short (if and when the market price skyrockets) and being caught long (if and when the market price dives). The utility failed to adequately provide such an analysis in this GSP.
11. The Commission should require a two-fold course of action. First, several small corrections should be made to the draft GSP to prepare it for final approval. Second, the Energy Division should coordinate with SDG&E before the company files its next GSP in February 2004, to improve some aspects of the risk analysis and its presentation.
12. It is reasonable that SDG&E report on all affiliate dealings the utility has entered into related to DWR fuel procurement, along with an explanation of how these dealings comply with the pertinent rules and regulations, but this report may be presented in another appropriate forum, such as the Annual Affiliate Transactions Report or the Annual Audit.
13. The affiliate guidelines that were articulated in the previous SDG&E GSP resolution (E-3838) continue to be in effect for this GSP. The utility should also take note that certain of these policies are under review in the Procurement Proceeding (R.01-10-024).
14. Beginning with the next GSP, it is reasonable that the company should file the GSP two months before the beginning of the period of fuel procurement which it covers. For the next GSP, this means the company should file the GSP on February 1, 2004. As is now the case, the PRG should be given an advance preview. Parties should be given 20 days to file comments on the GSP.
15. SDG&E's second GSP should be approved, subject to certain modifications.

THEREFORE IT IS ORDERED THAT:

1. DWR's late-filed protest is allowed.
2. The Gas Supply Plan, as proposed by SDG&E in AL 1518-E, is approved with modifications.
3. The final GSP shall be modified as follows. The table of contents shall be modified to delete "5. Regulatory Issues", and the the corresponding changes shall be made to the numbering of "DWR Fuels Protocols" in the table of contents and in the text of the GSP. The second sentence in paragraph 4.a ("Williams Long-Term Physical Gas Contract") on page 7 ,

referring to an advice letter filed on July 1, 2003, shall be deleted, as it is in error. The sub-tables (part of Table 3) containing data on fuel requirements which were called to SDG&E's attention by the DWR protest shall be corrected and refiled. The GSP text and tables should be modified to reflect the Commission's allocation, in D.03-10-016, of the Williams gas supply. Typographical errors on Table 5 should be corrected -- the words "Table 4B" and "Table 4C" shall be replaced with "Table 2B" and "Table 2C", respectively.

4. In the period following the approval of this GSP and well in advance of filing the next GSP, SDG&E shall coordinate with ED. The aim of this coordination will be, among other things, to improve the clarity of the tables, to add graphical elements to the report, to review the calculation of credit requirements, to review some aspects of the storage cost/benefit analysis, to develop an analytical framework comparing countervailing risks of being caught short versus being caught long, to develop a strategy for hedging when operating well inside the CRT envelope, and to address how much ratepayers should pay to be safe from various degrees of price risk.
5. SDG&E shall report on all affiliate dealings the utility has entered into related to DWR fuel procurement, along with an explanation of how these dealings comply with the pertinent rules and regulations, but this report may be presented in another appropriate forum, such as the Annual Affiliate Transactions Report or the Annual Audit.
6. Beginning with the next GSP, the company shall file the GSP two months before the beginning of the fuel procurement period which it covers. For the next GSP, this means the company shall file its third GSP on February 1, 2004. As is now the case, the PRG shall be given an advance preview. Parties should be given 20 days to file protests on the GSP.
7. The utility shall refile the modified AL within 10 days of this order.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 13, 2003; the following Commissioners voting favorably thereon:

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WILLIAM AHERN
Executive Director