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February 6, 2009

**ADVICE LETTER 2062-E**  
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: SUBMITTAL OF SDG&E'S PROCUREMENT TRANSACTIONS FOR THE FOURTH QUARTER OF 2008 PURSUANT TO COMMISSION DECISION 02-10-062**

**PURPOSE**

San Diego Gas & Electric Company (SDG&E) is making this filing in compliance with Ordering Paragraph 8 of California Public Utilities Commission (Commission) Decision (D.) 02-10-062 issued on October 24, 2002 in Rulemaking (R.) 01-10-024. D.02-10-062 directs Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), and SDG&E to file each quarter's procurement transactions that conform to their respective adopted short-term procurement plan by advice letter within 15 days from the end of the quarter. Ordering Paragraph 19 of D.03-12-062, issued on December 18, 2003, granted an extension of the due date from within 15 days of the end of the quarter to within 30 days of the end of the quarter. **By letter dated July 30, 2008, Energy Division granted SDG&E's request for a five business day extension of time, to February 6, 2009, to submit this quarterly Advice Letter.** This Advice Letter contains all of the information in the Reformatted Master Data Request required by D.07-12-052. Quarterly compliance filings were first mandated in D.02-12-062, Appendix B, and were further clarified in D.03-06-076.

Accordingly, attached hereto is SDG&E's modified Master Data Response detailing the 4th Quarter 2008 Procurement Transactions. The extensive workpapers accompanying the report contain confidential information and therefore are protected from disclosure under the statutory provisions of the IOU Matrix (Matrix) attached to D.06-06-066 (the Phase I Confidentiality decision) dated June 29<sup>th</sup>, 2006. In accordance with D.08-04-023, dated April 10, 2008, SDG&E is no longer required to attach a confidential declaration to each submittal of quarterly procurement transactions.<sup>1</sup> However, SDG&E is providing a new confidential declaration that covers new material provided in response to the Reformatted Master Data Request for quarterly compliance filings. This Advice Letter is also subject to the provisions of the May 1, 2002 Protective Order, as subsequently modified, that has been adopted in R.01-10-024.

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<sup>1</sup> Ordering Paragraph 6 in D.08-04-023 allows IOUs who seek and receive confidential treatment for a regular compliance filing to simply cite the prior ruling or motion when making subsequent compliance filings of the same type.

**BACKGROUND**

D.02-10-062 adopts the regulatory framework under which SCE, PG&E, and SDG&E shall resume full procurement responsibilities on January 1, 2003. The framework adopted by the Commission contains requirements for updating the utility procurement plans that conform to the statutory requirements of Assembly Bill (AB) 57.<sup>2</sup>

On November 15, 2002, SDG&E filed its modified short-term procurement plan for 2003 consistent with the provisions of D.02-10-062. On December 19, 2002, the Commission issued D.02-12-074, which approved SDG&E's short-term procurement plan for 2003, as modified by the Confidential Appendix C of D.02-12-074. That Appendix has been further modified in part by D.03-06-076, Ordering Paragraph 16. In addition, D.03-06-076 modified Appendix B to clarify that the title of the Master Data Request Response for these quarterly filings is "Adopted Master Data Request for Quarterly Advice Letters", and that the first sentence of Appendix B should delete the word "month's" and replace it with "quarter's" (see Ordering Paragraphs 8 and 16 of D.03-06-076).

In accordance with D.02-10-062, "[O]nce a utility's short-term procurement plan is approved; all transactions entered into in compliance with the procurement plan should be filed for tracking purposes in a quarterly advice letter with the Commission Energy Division. The advice letter should include all information in the adopted master data request in Appendix B."<sup>3</sup>

By this filing, SDG&E provides its 4th Quarter Procurement Transactions that conform to its approved short-term procurement plan for 2006. This filing will not create any deviations from SDG&E's tariffs, cause withdrawals of service from any present customer, or impose any more or less restrictive conditions. Pursuant to D.04-12-048 this filing may be approved by the Energy Division.

**EFFECTIVE DATE**

SDG&E believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. Therefore, SDG&E respectfully requests that this compliance filing become effective on March 4, 2008, thirty days from the date filed.

**PROTEST**

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date this Advice Letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102

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<sup>2</sup> AB 57 was approved by Governor Davis on September 24, 2002; see Public Utilities Code Section 454.5.

<sup>3</sup> D.02-10-062, page 47.

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian ([jinj@cpuc.ca.gov](mailto:jinj@cpuc.ca.gov)) and Maria Salinas ([mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Todd Cahill  
Regulatory Tariff Manager  
8330 Century Park Court, Room 32C  
San Diego, CA 92123-1548  
Facsimile No. (858) 654-1788  
E-mail: [tcahill@SempraUtilities.com](mailto:tcahill@SempraUtilities.com)

**NOTICE**

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in R.01-10-024, by either providing them a copy electronically or by mailing them a copy hereof properly stamped and addressed.

As discussed above, the workpapers to this Advice Letter are confidential and are being treated in accordance with the May 1, 2002 Protective Order in R.01-10-024 and provisions of the IOU Matrix attached to D.06-06-066.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1788 or by e-mail at [SDG&ETariffs@semprautilities.com](mailto:SDG&ETariffs@semprautilities.com).

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RON VAN DER LEEDEN  
Director – Rates, Revenues & Tariffs

(cc list enclosed)

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Will Fuller

Phone #: (858) 654-1885

E-mail: wfuller@semprautilities.com

### EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2062-E

Subject of AL: Submittal of SDG&E's Procurement Transactions for the Fourth Quarter of 2008  
Pursuant to Commission Decision 02-10-062

Keywords (choose from CPUC listing): Procurement

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.02-10-062, D.03-06-076, D.07-12-052

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: N/A

Does AL request confidential treatment? If so, provide explanation: Workpapers accompanying the Master Data Request are confidential per the IOU matrix attached to D.06-06-066

Resolution Required?  Yes  No

Tier Designation:  1  2  3

Requested effective date: 3/4/08

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed<sup>1</sup>: N/A

Pending advice letters that revise the same tariff sheets: N/A

**Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:**

**CPUC, Energy Division**

**Attention: Tariff Unit**

**505 Van Ness Ave.,**

**San Francisco, CA 94102**

**mas@cpuc.ca.gov and jnj@cpuc.ca.gov**

**San Diego Gas & Electric**

**Attention: Todd Cahill**

**8330 Century Park Ct, Room 32C**

**San Diego, CA 92123**

**tcahill@semprautilities.com**

<sup>1</sup> Discuss in AL if more space is needed.

General Order No. 96-B  
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

DRA

D. Appling  
S. Cauchois  
J. Greig  
R. Pocta  
W. Scott

Energy Division

P. Clanon  
S. Gallagher  
H. Gatchalian  
D. Lafrenz  
M. Salinas

CA. Energy Commission

F. DeLeon  
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell  
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

N. Rader

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham  
E. Hull

City of Poway

R. Willcox

City of San Diego

J. Cervantes  
G. Lonergan  
M. Valerio

Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill  
J. Pau

Dept. of General Services

H. Nanjo  
M. Clark

Douglass & Liddell

D. Douglass  
D. Liddell  
G. Klatt

Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

K. Campbell  
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg  
J. Heather Patrick  
J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard  
R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

Pacific Gas & Electric Co.

J. Clark  
M. Huffman  
S. Lawrie  
E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

San Diego Regional Energy Office

S. Freedman  
J. Porter

School Project for Utility Rate Reduction

M. Rochman

Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander  
K. Cini  
K. Gansecki  
H. Romero

TransCanada

R. Hunter  
D. White

TURN

M. Florio  
M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi  
N. Furuta  
L. DeLacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing

Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

R.01-10-024

February 6, 2009

BEFORE THE PUBLIC UTILITIES  
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION  
OF RYAN MILLER

I, Ryan Miller, do declare as follows:

1. I am the Electric Trading Manager for San Diego Gas and Electric Company (“SDG&E”). I have reviewed the general request contained in “San Diego Gas & Electric Procurement Plan Compliance Report For The Fourth Quarter Of 2008,” required by D. 03-12-062. Additionally, as Electric Trading Manager, I am thoroughly familiar with the facts and representations in this declaration and if called upon to testify to the following based upon my personal knowledge.
2. I am providing this Declaration to demonstrate that the confidential information (“Protected Information”) being provided in response to the Data Request falls within the scope of the of the data being provided confidential treatment in the IOU Matrix (“Matrix” ) attached to D.06-06-066 ( the Phase I Confidentiality decision ). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas ( see pp. 5-6) for “Information Provided to Staff Outside of Formal Proceeding, “ I am addressing each of the five following features of Ordering paragraph 2 in D.06-06-066:
  - That the material constitutes a particular type of data listed in the Matrix,
  - Which category or categories in the Matrix the data correspond to,
  - That it 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.

The confidential information contained in the Data Request response constitutes material, market sensitive, electric procurement-related information that is within the scope of

Section 454.5(g) of the Public Utilities Code.<sup>1</sup> As such, the Protected information provided by SDG&E is allowed confidential treatment in accordance with Appendix I – IOU Matrix in D.06.06.066.

This declaration covers the attachments and workpapers to the “San Diego Gas & Electric Procurement Plan Compliance Report For The Fourth Quarter Of 2008.”,

**Attachment A**

- *Q4 2008 Transactions – Electric.xls* and *Q4 2008 Transactions – Gas.xls* should both be treated as confidential under Matrix category XI, as the documents are entirely composed of details of variable costs.

**Attachment B**

- *Q4 2008 Counterparty Information.xls* is considered confidential/privileged material; review and access restricted; subject to the Public Utilities Code Sections 454.5(g), 583 and GO 66-C.

**Attachment C**

- *Q4 2008 Electric Transactions.xls* should be treated as confidential under Matrix category XI, as the document are entirely composed of details of variable costs.

**Attachment D**

- *Q4 2008 Gas Transactions.xls* should be treated as confidential under Matrix category XI, as the document is entirely composed of details of variable costs.

**Attachment E**

- Q4 2008 Other Transactions.doc should be treated as confidential under matrix category IX.C. Category IX.C refers under “Item Description” to “Discussion of various means, both physical and financial, which utility may employ to hedge energy cost risk *without quantification* of hedging strategy, hedging products used or hedged volumes.” The CRRs referred to in the attachment are means which SDG&E employs to hedge energy cost risk. That information is to be made public. However, the analysis of CRR costs provided here are *quantitative*, therefore this section must be interpreted to mean that such information should be protected because it provides *detailed, quantitative information* on SDG&E’s “hedging strategy, hedging products used or hedged volumes.” SDG&E assumes that this confidential treatment would last for three years.

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<sup>1</sup> In addition to the details addressed herein, SDG&E believes that the information being furnished in response to the Energy Division Master Data Request is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of this data under those provisions as applicable.

## Attachment F

- The workpapers *Oct PRG Confidential 10-16-08 PRG Conf Call.ppt*, *Nov PRG Nov 2008 PRG - Final.ppt*, *Nov PRG SDGE RPS Procurement Scenarios - 12-30-09.ppt* are covered by a non disclosure agreement under PU Code 583 and GO 066-C.
- The workpapers *Monthly RA Summary Feb 2009.xls*, *Monthly RA Summary Jan 2009.xls*, *Monthly\_RA\_Highlights\_December\_and 2008.doc* are confidential under Matrix category VI.C as these workpapers include information on the net open capacity position for SDG&E.
- The workpapers *Plan to Relieve Liquidity Metric 10-28-08 (2).ppt* and *Hedge Plan for 2010-2012 12-2.ppt* as they contain information on natural gas hedging activity.
- *Workpaper 2009-2010 Storage Proposal and Plan Nov 26.* is confidential under Category IX.C refers under “Item Description” to “Discussion of various means, both physical and financial, which utility may employ to hedge energy cost risk without quantification of hedging strategy, hedging products used or hedged volumes.” Gas Storage is one of the means which SDG&E employs to hedge energy cost risk. That information is to be made public. However, the analysis of Gas Storage costs provided here are quantitative, therefore this section must be interpreted to mean that such information should be protected because it provides detailed, quantitative information on SDG&E’s “hedging strategy, hedging products used or hedged volumes”. SDG&E assumes that this confidential treatment would last for three years.

## Attachment H

- *Q4 2008 New Contracts Executed and Amended.doc* the information in the table under the columns Price and Nominal Value are confidential under Matrix category VII.B. as these items are confidential information from a contract.
- The workpapers *2008-11-17 RA Capacity Confirm (SCE-El Cajon)\_Amended.pdf*, *2008-11-17 RA Capacity Confirm (SCE-Kearny GT)\_Amended.pdf*, *2008-11-17 RA Capacity Confirm (SCE-MMC Escondido)\_Amended.pdf*, and *So Calif Co Gas Co Storage Agreement.pdf* are confidential under Matrix category VII.B. as they are third party contracts.
- *Workpaper 2009-2010 Storage Analysis.doc* is confidential under Category IX.C refers under “Item Description” to “Discussion of various means, both physical and financial, which utility may employ to hedge energy cost risk without quantification of hedging strategy, hedging products used or hedged volumes.” Gas Storage is one of the means which SDG&E employs to hedge energy cost risk. That information is to be made public. However, the analyses of Gas Storage costs provided here are quantitative, therefore this section must be interpreted to mean that such information should be protected because it provides detailed, quantitative information on SDG&E’s “hedging strategy, hedging products used or hedged volumes”. SDG&E assumes that this confidential treatment would last for three years.

## Attachment J

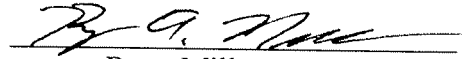
- *Q4 2008 Load Requirement and Conditions* has a sentence containing information on the reliance on a particular resource that information should be confidential under IX.B. The net short position when expressed in detail, and not annual percentages, is protected under Matrix category IX.B. Category IX.B refers under “Explanation of Item” to “Forecasts or recorded data on broad categories of supply sources used to serve bundled load, expressed as annual percentages.” That information is to be made public. Where that same data is more granular or specific than “annual percentages,” however, this section must be interpreted to mean that the inverse of the public annual data should be protected because it provides detailed, quantitative, information which would reveal SDG&E’s “reliance on specific resources” and should be protected under Section IX.B of the IOU Matrix. SDG&E assumes that this confidential treatment would last for three years.
- The same document has a table containing information on peak loads and capacity. This table should be treated as confidential under VI.C. as this information indicates SDG&E’s open capacity.
- The workpaper *Q4 2008 Resources.xls* should be confidential under IX.B. The net short position when expressed in detail, and not annual percentages, is protected under Matrix category IX.B. Category IX.B refers under “Explanation of Item” to “Forecasts or recorded data on broad categories of supply sources used to serve bundled load, expressed as annual percentages.” That information is to be made public. Where that same data is more granular or specific than “annual percentages,” however, this section must be interpreted to mean that the inverse of the public annual data should be protected because it provides detailed, quantitative, information which would reveal SDG&E’s “reliance on specific resources” and should be protected under Section IX.B of the IOU Matrix. SDG&E assumes that this confidential treatment would last for three years.

## Attachment N

- The Financial Hedges section in *Timing of Q4 2008 Transactions.xls* should be treated as confidential under Matrix category I.A.4 as it contains natural gas hedging information.
3. I am not aware of any instances where the Protected Information has been disclosed to the public.
  4. I will comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.
  5. 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 partial disclosure of the 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 6<sup>th</sup> day of February, 2009, at San Diego, California.

A handwritten signature in black ink, appearing to read "R. A. Miller", is written over a horizontal line.

Ryan Miller  
Electric Trading Manager  
San Diego Gas & Electric Company

**SAN DIEGO GAS & ELECTRIC**  
**PROCUREMENT PLAN COMPLIANCE REPORT**  
**FOR THE FOURTH QUARTER OF 2008**

**February 6, 2009**

## **List of Attachments**

- A. Confidential Attachment A  
Q4 2008 Transactions
  
- B. Confidential Attachment B  
Q4 2008 Counterparties Information
  
- C. Confidential Attachment C  
Q4 2008 Electric Transactions
  
- D. Confidential Attachment D  
Q4 2008 Natural Gas Transactions
  
- E. Confidential Attachment E  
Q4 2008 Other Transactions
  
- F. Confidential Attachment F  
Q4 2008 Key Briefing Packages
  
- G. Attachment G  
Q4 2008 Independent Evaluator Reports
  
- H. Confidential Attachment H  
Q4 2008 New Contracts Executed / Contracts Amended
  
- I. Attachment I  
Q4 2008 Summary of Retained Generation Investments
  
- J. Confidential Attachment J  
Q4 2008 Load Requirements and Conditions
  
- K. Confidential Attachment K  
Q4 2008 Risk Management Strategy Communications
  
- L. Confidential Attachment L  
Q4 2008 Description of Models
  
- M. Confidential Attachment M  
Q4 2008 Transactions Subject to Strong Showing
  
- N. Confidential Attachment N  
Timing of Q4 2008 Transactions

## **Introduction**

As required by Ordering Paragraph 8 of Decision (D.) 02-10-062, and clarified in D.03-06-076, D.03-12-062, D.04-07-028, D.04-12-048 and D.07-12-052, San Diego Gas and Electric Company (SDG&E) hereby provides its report demonstrating that its procurement-related transactions during the period October, 1 2008 through December 31, 2008 (Q4), were in compliance with the latest CPUC-approved AB 57 Long-Term Procurement Plan (LTPP) adopted by the Commission in Resolution E-4189.

## **Summary**

During Q4, SDG&E executed transactions consistent with least cost dispatch, as described in its LTPP. All transactions were conducted using processes specified in the LTPP. Any transactions executed with affiliates are disclosed in confidential Attachment A, *Q4 2008 Transactions* or Attachment H, *Q4 2008 New Contracts Executed and Amended*. All non-investment grade counterparties that SDG&E transacted with during Q4 are shown in confidential Attachment B, *Q4 2008 Counterparty Information*. Furthermore, the top 10 counterparties transacted with by dollar value for both electric and gas transactions are also listed in confidential Attachment B.

Confidential Attachments C, *Electric Transactions Summary*, and D, *Natural Gas Transactions Summary*, are summaries of the electric and gas transactions executed during Q4. Confidential Attachment E, *Q4 2008 Other Transactions*, is a description of any additional transactions that occurred during the quarter. The quantities shown in these attachments are based on the delivery period specified in the transactions. Therefore, volumes received during Q4 pursuant to transactions executed in prior

quarters are excluded. Also excluded are transactions in the ISO's real-time and ancillary services markets, since these transactions are, for the most part, made by the ISO on behalf of SDG&E and are made without regard to the LTPP.

## Master Data Request Documentation

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in this report. Each element is discussed below.

### **1. Identification of the ultimate decision maker(s) up to the Board level, approving the transactions.**

All procurement-related activity during Q4 was approved and executed either by, or under the direction of the Vice President of Electric and Gas Procurement, consistent with the delegation of authority effective for the period.

### **2. The briefing package provided to the ultimate decision maker.**

The “decision maker” for a particular contemplated transaction depends on many factors, including term, volume, notional value, etc. For many of the transactions during Q4, the “decision maker” was a gas or power transaction employee executing transactions (e.g., day-ahead or hour-ahead power purchases and sales) per the established LTPP or to achieve a particular objective (such as balancing the portfolio supply and demand). For such transactions, briefing packages are not prepared. Any Briefing packages prepared during Q4 for large or unusual transactions are listed in confidential Attachment F, *Q4 2008 Key Briefing Packages* and included in the workpapers.

In addition, copies of presentations made by SDG&E to its Procurement Review Group (PRG) during Q4 are listed in Attachment F, and briefing packages are included in the workpapers.

**3. Description of and justification for the procurement processes used to select the transactions.**

*a) Electric*

*Description of Procurement Processes*

The approved procurement processes used during Q4 were as follows:

- Bilateral Contracts - Description can be found on sheets 24-25 of the LTPP.
- Voice brokers and Exchanges - Description can be found on sheets 29-30 of the LTPP.

*Justification for Procurement Processes*

*For competitive solicitations, describe the process used to rank offers and select winning bid(s).*

SDG&E did not issue any competitive solicitations, nor did SDG&E execute any transactions as a result of competitive solicitations for electric power in Q4.

*For other transactional methods, provide the documentation supporting the selection of the chosen products.*

In Q4, SDG&E entered into market transactions of the following general types: 1) energy purchases; 2) energy sales; 3) energy exchanges; and 4) swaps. The details of these transactions can be found in confidential Attachment A, and a summary of the transactions can be found in confidential Attachment C, *Q4 2008 Electric Transactions*.

Included in confidential Attachment A, for comparison purposes, are the day-ahead ICE (Intercontinental Exchange) high and low prices for all standard deals. ICE information is only available for standard deals at liquid trading hubs. This type of transaction does not always best meet SDG&E's needs. A portion of SDG&E's purchases are non-standard deals for which there are no exchanges to compare.

For all of the above products, SDG&E traders monitor voice brokers, electronic exchanges, and bilateral offers from counterparties, and will transact using the transaction method with the best available price.

### **Energy Purchases**

SDG&E makes market energy purchases when it is less expensive than dispatchable generation or to secure energy to meet peak load. When buying such energy, SDG&E compares variable generation costs (e.g., fuel, variable O&M for generation, and start up costs.) to the delivered costs for market purchases.

In Q4, SDG&E purchased energy in the term markets, in which the delivery extend period is beyond the Western System Power Pool (WSPP) scheduling guidelines; day-ahead markets that are executed within the to the WSPP scheduling guidelines (usually the day prior to delivery for weekdays and two or three days prior for weekends and holidays); and the hour-ahead trades that are executed after day-ahead trades and before the CAISO hour-ahead scheduling deadline. For day-ahead and hour-ahead markets, SDG&E compared market prices to actual generation. For purchases in the term market, SDG&E used two different models, one from Power Costs Inc. (PCI) named *GenTrader*, and another from Financial Engineering Associates (FEA) to forecast energy needs. Both PCI and FEA are described further in *Attachment L –Description of Models*.

### **Energy Sales**

Energy sales allowed SDG&E to match must-take energy to load (sell excess must-take) or to make excess capacity available to the market, thus monetizing excess capacity not being used for serving SDG&E's load and making that spare capacity

available to the market. Consistent with the LTPP, SDG&E has pursued a sales strategy that optimizes portfolio value and ratepayer benefit. In Q4, SDG&E made sales at then-current market prices, but always above the incremental cost of generation, with the following exceptions: 1) those times in which the volume of SDG&E's must take contracts, including standard block products purchased to help economically meet demand, are greater than the demand; and 2) those times when rather than shutting down a unit and paying for the start-up costs, it was decided that the best least cost dispatch decision was to carry a unit and sell the energy below the cost to generate.

In Q4, SDG&E had bilateral sales in the day-ahead and hour-ahead markets for least cost dispatch.

### **Energy Exchanges**

An energy exchange is a transaction whereby SDG&E both delivers and receives energy from the same counterparty during different time periods. Typically, the volumes and delivery points on either side of the transaction are the same, although this is not a requirement. An energy exchange may be desirable when SDG&E is long energy for certain hours and short for other hours. When another party is found with the offsetting energy need, an energy exchange allows SDG&E to "sell" its long position and "buy" its short position in one transaction at a fixed price spread. This process is beneficial because of the relatively limited overall interest by market participants in non-standard hours. While energy exchanges lead to savings versus generation, SDG&E will not enter into an energy exchange transaction unless it is as

good as or better than SDG&E can do with regular market transactions. The majority of energy exchanges are negotiated bilaterally.

## **Swaps**

Swaps are transactions in which SDG&E sells energy at one delivery point and purchases the same amount of energy at another delivery point for the same time period, usually with different counterparties. Swaps benefit SDG&E by helping to avoid congestion charges, reducing delivery cost to its load or monetizing transmission rights between two points.

### ***b) Natural Gas***

#### ***Description of Procurement Processes***

The approved procurement processes used during the Q4 were as follows:

- Bilateral Contracts - Description can be found on sheets 24-25 of the LTPP.
- Voice brokers and Exchanges - Description can be found on sheets 29-30 of the LTPP.

#### ***Justification for Procurement Processes***

***For competitive solicitations, describe the process used to rank offers and select winning bid(s).***

SDG&E did not issue any competitive solicitations, nor did SDG&E execute any transactions as a result of competitive solicitations for natural gas, in Q4.

***For other transactional methods, provide the documentation supporting the selection of the chosen products.***

Gas transactions are made in order to supply gas, manage imbalances, and reduce price risk for the Miramar, Palomar, Encina, and South Bay plants. The physical gas products SDG&E transacted in Q4 were 1) Baseload Gas; 2) Swing Gas; 3) Operational Gas; 4) Gas Storage; and 5) Financial Hedges. The details of these transactions can be

found in confidential Attachment A, and a summary of the transactions can be found in confidential Attachment D, *Q4 2008 Gas Transactions*.

For all of the above products, as with the electric products, SDG&E traders monitor voice brokers, electronic exchanges, and bilateral offers from counterparties, and will transact using the transaction method with the best available price.

### **Baseload Gas**

SDG&E baseloads part of its gas requirements as forecasted by FEA and PCI for generation which serves SDG&E customer load. Purchasing baseload gas assures that the major portion of gas to be used to serve bundled customers remains hedged after financial hedges expire, a few days prior to the delivery month.

### **Swing Gas**

SDG&E expects to procure the balance of its UEG physical gas requirements throughout the month in the spot market at prevailing prices. These are purchases made during normal trading hours to meet the daily expected gas requirement at the plants.

### **Operational Gas Trades**

Operational gas trades are trades to manage operational factors such as real-time dispatch and pipeline imbalances. Most operational trades occur during cycles 2 through 4 or late in cycle 1 where market liquidity is lower than cycle 1 trading. These trades were made for changes in operations that could potentially lead to penalties for operational flow orders (OFOs) or imbalances, or where the real-time economic dispatch of the generation units, taking into consideration the gas expense, warranted the trade. The price for operational gas prices are accounted for in

calculating generation cost at the dispatchable power plants (gas costs there will be discounted for electric dispatch purposes by any anticipated operational premium on that gas, if it were not consumed at the plant). Because these trades typically occur after normal time period for trading activity, operational gas trades are usually transacted bilaterally.

### **Gas Storage**

Gas Storage gives SDG&E the operational flexibility for generating facilities because it allows SDG&E to inject gas into storage during periods of OFOs and withdraw gas during winter balancing to avoid operational penalties or operational gas transactions. In addition to avoiding penalties, storage gives SDG&E the opportunity to hedge winter exposure at summer natural gas prices.

Summaries of all SDG&E's gas storage deals executed in Q4, including references to the workpapers containing copies of any agreements and analysis for any storage deals, can be found in confidential Attachment H, *Q4 New Contracts Executed / Contracts Amended*.

### **Financial Hedges**

These hedges were made to reduce portfolio open positions or to close out previously executed financial hedges. Forward open positions are based on the volumes produced by SDG&E's FEA model. In Q4, the financial hedges transacted by SDG&E were futures and basis swaps.

The purpose of hedging is to add price stability and act as a hedge against adverse market price movements for the ratepayer. The deals were done at market prices at the time of the transaction, and any price movements that occur after the execution of

a term trade cannot be known at the time of purchase, and therefore comparison of forward hedges to settlement prices does not provide meaningful information or comparison.

### *c) Other Commodities*

#### *Description of Procurement Processes*

The approved procurement processes used during Q4 were as follows:

- Competitive Solicitations
- Bilateral negotiations
- CRR Annual Allocation and Annual Auction - The 2009 CRR Annual Allocation and Annual Auction processes were conducted by the CAISO during the last three months of 2008. CAISO conducted the processes assuming that the Market Redesign and Technology Upgrade (MRTU) would launch on February 1, 2009. In anticipation of MRTU launching in April 2008, a similar Annual Allocation and Auction process was conducted in 2007. Since MRTU is now anticipated to launch on April 1, 2009, CRRs awarded for the 2008 term are not effective.

#### *Justification for Procurement Processes*

*For competitive solicitations, describe the process used to rank offers and select winning bid(s).*

SDG&E issued a RFO for resource adequacy capacity (RA) for the 2009 annual showing. Offers were for a uniform product, and SDG&E accepted offers based on 1) offer price up to CPUC established price trigger<sup>1</sup> for RA, and 2) the lesser of SDG&E's need or the quantity of RA offered. Details of the executed contracts can be found in confidential Attachment H.

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<sup>1</sup> If a load serving entity (LSE) does not receive price under \$40 it would be able to apply for a waiver

SDG&E sought to sell excess RA requirements capacity by issuing a Request for Bids (RFB) in October and December for December and February, respectively. No parties submitted formal bids to the monthly RFBs during Q4.

***For other transactional methods, provide the documentation supporting the selection of the chosen products.***

### ***CRR's***

While 2008 CRRs never became effective, the CAISO did invoke the CRR tariff rules for the “Year 2” allocation for the second, third and fourth quarters of 2009, since CRRs for those quarters had already been awarded to market participants in the 2008 process. The CRR allocation for first quarter in 2009 were conducted in accordance with the CRR tariff rules for “Year 1,” since no CRRs were awarded for the first quarter of 2008.

The primary difference between “Year 1” and “Year 2” CRR allocation rules is that the “Year 1” rules require an LSE to submit source verification documentation for the CRRs that it intends to nominate in the initial two allocation rounds. With source verification, an LSE certifies that it could schedule energy at a specified source based on its contractual or ownership rights. “Year 2” CRR allocation rules no longer require source verification, and instead, allow renewal of a specified quantity of CRRs awarded in the prior year’s allocation. “Year 2” rules apply in all subsequent CRR allocations.

The 2009 CRR Allocation process was also influenced by the Long Term CRRs (LTCRR) awarded in the 2008 process. Those LTCRRs had a 10 year term (i.e., 2008 to 2017). While the 2008 term for the LTCRRs was never in effect, the 2009

term for those LTCRRs was reflected in CRR quantities that could be renewed under the “Year 2” rules.

For the 2009 CRR process, SDG&E relied on the same congestion analysis it used in 2008 for the development of its CRR nomination strategy. That congestion analysis had been conducted by Global Energy Decisions, Inc. (GED), using its proprietary production cost and power flow models. In addition, the 2008 auction resulted in another measure of CRR valuation that SDG&E could use in developing its CRR nomination strategy. While the absolute CRR value for SDG&E resources from the GED study differed from the 2008 auction prices, the relative ranking of CRR value of SDG&E resources was consistent between the two studies. Since the 2009 SDG&E portfolio was very similar to its 2008 portfolio, the high priority CRRs selected for nomination or renewal in 2009 were essentially the same as those from 2008. Prior to its first round CRR nominations, SDG&E reviewed with the PRG (1) the relative CRR valuation of the resources in its portfolio; (2) its nomination strategy for the “Year 1” and “Year 2” allocations, including its LTCRR strategy; and (3) its auction strategy.

### **Other Products**

Any other products transacted by SDG&E during the Quarter are included in confidential Attachment H, *Q4 New Contracts Executed / Contracts Amended*.

#### **4. Explanation/justification for the timing of the transactions.**

Throughout Q4, SDG&E attempted to enter into electric transactions needed to match forecast supply and demand ahead of the deadline for submitting final hour-ahead schedules to the ISO. This objective was achieved by gradually reducing the forecasted open (i.e., short or long) energy positions through the use of term, day-ahead, and hour-ahead transactions, etc., employing both standard and non-standard products. When selecting electric transactions to match forecast supply and demand, the best-priced bids/offers were selected first (merit-order selection) among those available for the required products at the time of the transaction, subject to credit and other limitations and operational constraints. Such operational constraints include the local area reliability requirements of the ISO, as set forth in D. 04-07-028.

The timing of gas transactions was largely driven by the requirement to ensure that the delivery of fuel to the gas-fired electric facilities managed by SDG&E matched such facilities' forecast burn.

Further explanation of the timing of SDG&E's transactions can be found in the confidential Attachment N, *Q4 2008 Transaction Timing*.

#### **5. Discussion of the system load requirements/conditions underlying the need for the Quarter's transactions.**

Discussion of the monthly system conditions is included in confidential Attachment J, *Q4 2008 Load Requirements and Conditions*.

**6. Discussion of how the quarter's transactions meet the goals of the risk management strategy reflected in the Plan.**

The goal of the LTPP's risk strategy is to produce stable rates by managing the portfolio's open position such that overall procurement costs do not exceed the baseline forecast of total procurement costs by more than the Consumer Risk Tolerance (CRT). Toward that end, SDG&E monitors the risk associated with market price movements and its effect on the remaining open position and CRT. SDG&E's Risk Strategy is detailed in its LTPP, SDG&E may, after considering its overall hedge position and market condition, further increase or reduce its hedges as necessary in an attempt to mitigate the metric position(s).

Throughout Q4, SDG&E executed transactions in accordance to its risk management strategy and LTPP. SDG&E briefed the PRG on SDG&E's open position and CRT. This information is included in the PRG briefing packages in confidential Attachment F. To the extent there were any notifications to the PRG of one of the metric triggers, the notifications are included in Attachment K, *Q4 2008 Risk Management Communication*.

**7. Copy of each contract.**

A list of contracts over three months executed and/or modified by SDG&E during Q4 are included in confidential Attachment H, along with references to the workpapers containing the contracts.

**8. The valuation results for the contract(s) (for contracts of three months or greater duration).**

SDG&E provides the valuation results for the contracts filed via this QCR in Attachment H, Q4 2008 New Contracts Executed and Amended, with details of the valuation method contained in the workpapers.

**9. An electronic copy of any data or forecasts used to analyze the transactions.**

SDG&E relies on a number of information sources to assess and make trading decisions. SDG&E has purchased licenses and subscriptions for the data services listed in the categories below. The Commission is familiar with these information sources and subscribes to many of the same services used by SDG&E. Due to their large quantity, copyright restrictions, and relatively short-lived usefulness (e.g., weather forecasts, spot price and market data), electronic copies of these information sources have not been included. SDG&E will provide samples of any of the sources used to analyze transactions upon Commission request, if doing so complies with licensing agreements with the providers.

- *Gas Daily* – Gas industry news and daily price data
- *Megawatt Daily* – Power industry news and daily price data
- Reuters – Live market price data
- Bloomberg – Live market price data
- Intercontinental Exchange (ICE) – Live market price data
- Tullett Liberty – Forward price data
- Prebon – Forward price data

- TFS – Forward price data
- NYMEX.com – Gas futures and basis price data
- CAISO – State-wide load forecasts, unit curtailments, transmission capacity availability; imbalance energy prices

***WEATHER FORECASTS***

- Earth Satellite Corporation – Weather data and forecast

**10. Provide a reasonable number of analyses requested by the Commission or the Procurement Review Group (PRG) and provide the resulting outputs.**

To the extent any analyses requested by the Commission or PRG during Q4 were not already included as a part of SDG&E’s response to items 1 through 9 above, such additional analyses are contained in the confidential workpaper entitled *SDGE RPS Procurement Scenarios - 12-30-09.ppt*, which was part of the Attachment F.

**11. Any other information sought by the Commission under the Public Utilities**

**Code.**

The Commission has not sought any further information pertaining to the transactions executed during Q4.

**Additional Reporting Requirement Pursuant To Decision 07-01-039**

As required by Ordering Paragraph 12 of D.07-01-039, SDG&E has included in confidential Attachment I, *Summary of Retained Generation Investments*, investments in retained generation that were completed during Q4, as well as any multiple contracts of less than five years with the “same supplier, resource or facility.” (See confidential Attachment I at Section 5.1, p. 152).

## List of Attachments and Workpapers

Below is a list of all attachments and workpapers submitted with this report.

<b>Description</b>	<b>File/Attachment Name</b>	<b>Attachment / Workpaper</b>
Gas transactions detail	Q4 2008 Transactions - Gas.xls	A
Electric transactions detail	Q4 2008 Transactions - Electric.xls	A
Write-up on the 2008 Q4 Transactions	2008 Q4 Transactions.doc	A
Counterparties - Top ten and Non-investment grade (includes embedded collateral agreements)	Q4 2008 Counterparty Information.xls	B
Electric transaction summary	Q4 2008 Electric Transactions.xls	C
Gas transaction summary	Q4 2008 Gas Transactions.xls	D
Table and description of other transactions	Q4 2008 Other Transactions.doc	E
Analysis on proposed Storage capacity purchase presented to VP Electric and Gas Procurement.	2009-2010 Storage Proposal and Plan Nov 26.doc	F
Briefing on Hedging Activity	Hedge Plan for 2010-2012 12-2.ppt	F
RA Filing Highlights	Monthly RA Summary Feb 2009.xls	F
RA Filing Highlights	Monthly RA Summary Jan 2009.xls	F
RA Filing Highlights	Monthly_RA_Highlights_December_2008.doc	F
November 2008 PRG Presentation	Nov PRG Nov 2008 PRG - Final.ppt	F
RPS Procurement Scenarios additional information requested at the November 2008 PRG meeting	Nov PRG SDGE RPS Procurement Scenarios - 12-30-09.ppt	F
October 2008 PRG Presentation	Oct PRG Confidential 10-16-08 PRG Conf Call.ppt	F
Briefing on Hedging Activity	Plan to Relieve Liquidity Metric 10-28-08 (2).ppt	F
List of Attachment F Workpapers	Q4 2008 Key Briefing Packages and PRG Presentations.xls	F
List of Independent Evaluator Reports	Q4 2008 Independent Evaluator Report.doc	G
Contract / Confirmation	So Calif Gas Co Storage Agreement.pdf	H
Contract / Confirmation	2008-11-19-Occidental RA Confirm FINAL.pdf	H
Contract / Confirmation	2008-11-17 RA Capacity Confirm (SCE-MMC Escondido)_Amended.pdf	H
Contract / Confirmation	2008-11-17 RA Capacity Confirm (SCE-EI Cajon)_Amended.pdf	H
Contract / Confirmation	2008-11-17 RA Capacity Confirm (SCE-Kearny GT)_Amended.pdf	H
Final Storage Analysis prior to signing contract	2009-2010 Storage Analysis.doc	H
List of New Contracts Executed and Amended	Q4 2008 New Contracts Executed and Amended.doc	H
List of URG Investments	Q4 2008 Summary of URG Investments.doc	I
Write-up on Load Requirements and Conditions	Q4 2008 Load Requirements and Conditions.doc	J

## List of Attachments and Workpapers

SDG&E resources for the Q4 delivery period	Q4 2008 Resources.xls	J
List of Risk Management Communication	Q4 2008 Risk Management Communication.xls	K
Description of the PROSYM model	PROSYM.pdf	L
Description of the FEA-based model	FEA-based model.doc	L
Description of the PCI GenTrader system	PCI GenTrader.pdf	L
Write-up on Description of Models	Q4 2008 Description of Models.doc	L
List of Transactions Subject to Strong Showing	Q4 2008 Transactions Subject to Strong Showing.doc	M
Write-up on Timing of Q4 2008 Transactions	Timing of Q4 2008 Transactions.doc	N