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July 30, 2009

ADVICE LETTER 2098-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: SUBMITTAL OF SDG&E'S PROCUREMENT TRANSACTIONS FOR THE SECOND QUARTER OF 2009 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. 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 2nd Quarter 2009 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 29th, 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.¹ Therefore, SDG&E hereto refers to the Declaration of Ryan Miller filed with SDG&E Advice Letter 2062-E on February 6, 2009 to comply with D.06-06-066. In addition, SDG&E has filed with this Advice Letter a confidential Declaration of Ryan Miller to include the new Attachment O - Q2 Purchases and Sales in IFM. 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.

¹ 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) 57.²

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."³

By this filing, SDG&E provides its 2nd 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 August 29, 2009, 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:

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

³ D.02-10-062, page 47.

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

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian (inj@cpuc.ca.gov) and Maria Salinas (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: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1788
E-mail: MCaulson@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.

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: Christina Sondrini

Phone #: (858) 636-5736

E-mail: csondrini@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) #: 2098-E

Subject of AL: Submittal of SDG&E's Procurement Transactions for the Second Quarter of 2009

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 AL¹: 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: 8/29/09

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 proposed¹: 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: Megan Caulson

8330 Century Park Ct, Room 32C

San Diego, CA 92123

mcaulson@semprautilities.com

¹ 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

July 30, 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 Second Quarter Of 2009,” 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.¹ 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 Second Quarter Of 2009.”

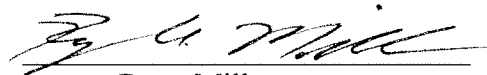
Per D.08-04-023, most of the data I this response is already protected by previous declarations. This declaration covers an additional attachment in the responses to the “Master Data Request for Quarterly Advice Letter Related to Activity in the Second Quarter of 2009”

Attachment O

- Q2 2009 Purchases and Sales in IFM.xls should be treated as confidential under Matrix category XI, as the document contains details of variable costs.
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 30th day of July, 2009, at San Diego, California.



Ryan Miller
Electric Trading Manager
San Diego Gas & Electric Company

¹ 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.

SAN DIEGO GAS & ELECTRIC
PROCUREMENT PLAN COMPLIANCE REPORT
FOR THE SECOND QUARTER OF 2009

July 30, 2009

List of Attachments and Workpapers

List of Attachments

- A. Confidential Attachment A
Q2 2009 Transactions
- B. Confidential Attachment B
Q2 2009 Counterparties Information
- C. Confidential Attachment C
Q2 2009 Electric Transactions
- D. Confidential Attachment D
Q2 2009 Natural Gas Transactions
- E. Confidential Attachment E
Q2 2009 Other Transactions
- F. Confidential Attachment F
Q2 2009 Key Briefing Packages
- G. Attachment G
Q2 2009 Independent Evaluator Reports
- H. Confidential Attachment H
Q2 2009 New Contracts Executed / Contracts Amended
- I. Attachment I
Q2 2009 Summary of Retained Generation Investments
- J. Confidential Attachment J
Q2 2009 Load Requirements and Conditions
- K. Confidential Attachment K
Q2 2009 Risk Management Strategy Communications
- L. Confidential Attachment L
Q2 2009 Description of Models
- M. Confidential Attachment M
Q2 2009 Transactions Subject to Strong Showing
- N. Confidential Attachment N
Timing of Q2 2009 Transactions
- O. Confidential Attachment O
Q2 Purchases and Sales in IFM

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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 Quarterly Compliance Report (QCR) demonstrating that its procurement-related transactions during the period April, 1 2009 through June 30, 2009 (Q2) 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 Q2, 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, *Q2 2009 Transactions* or Attachment H, *Q2 2009 New Contracts Executed and Amended*. All non-investment grade counterparties that SDG&E transacted with during Q2 are shown in confidential Attachment B, *Q2 2009 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 Q2. Confidential Attachment E, *Q2 2009 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.

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Therefore, volumes received during Q2 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.

This QCR submission is the first following the implementation of the CAISO's Market Redesign and Technology Upgrade (MRTU). A key MRTU feature—directly related to SDG&E's procurement activity—is the CAISO's new day-ahead Integrated Forward Market (IFM). SDG&E's mandatory participation in the IFM has significantly reduced SDG&E's need to mitigate the majority of its forecast day-ahead energy positions via brokered and bilateral trading. The table below summarizes some of the important procurement-related differences in the CAISO market before and after MRTU implementation.

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Topic	Before MRTU	After MRTU
Supply Scheduling	Market participants submitted day-ahead schedules for energy that were then accepted by the CAISO without fully reflecting transmission bottlenecks and operating limitations of generators. This forced the CAISO's grid operators to correct infeasible schedules in real-time.	Day-ahead schedules are physically feasible because the CAISO's computer software fully considers all transmission bottlenecks and generator operating limitations.
Resource Dispatch	The CAISO decided which resources would be used for reserves (ancillary services) in a manner that was independent from its energy dispatch decisions.	The IFM enables the CAISO to simultaneously consider which resources to use for energy and which resources to use for reserves. This creates a more efficient dispatch.
Day-Ahead Market	No CAISO day-ahead market existed. Utilities needed to rely on brokered and bilateral trading to minimize long and short energy positions before submitting schedules to the CAISO.	The CAISO's day-ahead market enables all suppliers and customers to submit offers to buy and/or sell electricity in advance of real-time. The CAISO selects the lowest cost mix of suppliers to serve customers' needs.
Wholesale Market Prices	Prices were based on delivery to only three CAISO locations and failed to reflect the true market value of electricity at each location, as well as the cost of alleviating congestion between any two locations.	Prices are based on Locational Marginal Pricing (LMP), which varies among thousands of locations and reflects the incremental cost of meeting customer demand at each location.

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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 Q2 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 Q2, 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 Q2 for large or unusual transactions are listed in confidential Attachment F, *Q2 2009 Key Briefing Packages*, and included in the workpapers.

In addition, copies of presentations made by SDG&E to its Procurement Review Group (PRG) during Q2 are listed in Attachment F, and briefing packages are included in the workpapers.

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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 Q2 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).

All transactions SDG&E executed as the result of competitive solicitations in Q2 were filed via a separate advice letter.

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

As noted above, on April 1, 2009, the CAISO implemented MRTU. MRTU had a significant impact on SDG&E's daily procurement activity. A summary of SDG&E's CAISO activity can be found in Attachment O. Because MRTU was implemented fairly recently, SDG&E has not completely developed the data it will be reporting, so in the future this attachment will become more extensive.

In Q2, SDG&E entered into market transactions of the following general types: 1) energy purchases; 2) energy sales; 3) financial swaps 4) energy exchanges; and 5) locational 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, *Q2 2009 Electric Transactions*.

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Included in confidential Attachment A, for comparison purposes, are the day-ahead Intercontinental Exchange (ICE) 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

MRTU has reduced SDG&E's reliance on physical energy trades, but they still play an important role in protecting SDG&E from prices that clear in the IFM. Accordingly, SDG&E continues to make purchasing decisions in the same manner as before MRTU.

SDG&E makes market energy purchases when it is less expensive than dispatchable generation. 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 Q2, SDG&E purchased energy in the term markets, in which the delivery period extends beyond the Western System Power Pool (WSPP) scheduling guidelines; day-ahead markets that are executed within 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

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and hour-ahead markets, SDG&E compared market prices to actual generation. For purchases in the term market, SDG&E used two different models to forecast energy needs: (1) Power Costs Inc. (PCI), named *GenTrader*; and (2) Financial Engineering Associates (FEA). Both PCI and FEA are described further in *Attachment L – Description of Models*.

Energy Sales

In Q2, SDG&E had bilateral sales in the day-ahead and hour-ahead markets for least cost dispatch. Consistent with the LTPP, SDG&E has pursued a sales strategy that optimizes portfolio value and ratepayer benefit. In Q2, SDG&E made sales at then-current market prices, but above the incremental cost of generation. At times, SDG&E may make sales below the incremental cost of generation, because when considering the cost associated with a unit shutdown and next-day start-up, the overall most cost-effective and least-cost dispatch decision was to carry the particular unit and sell the energy in the bilateral market at below the cost to generate and have the unit available to meet next-day expected demand.

Financial Swaps

Since MRTU was implemented, the liquidity for physical power trades in the CAISO has been greatly reduced. During Q2, SDG&E began executing financial power swaps. SDG&E's ability to execute these swaps conforms to its LTPP. These swaps are financially settled against the IFM. With the implementation of MRTU, SDG&E's exposure is to the Day Ahead and/or Real Time market clearing prices. Since the CAISO now has the responsibility for matching demand with supply, SDG&E can reduce its exposure to CAISO IFM prices just as effectively with

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financial swaps as with physical trades. The economic decision to buy or sell is the same for financial products as for physical products described above. SDG&E monitors both physical and financial prices, and will select the product(s) that provide the best price for SDG&E's customers.

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.

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b) Natural Gas

Description of Procurement Processes

The approved procurement processes used during the Q2 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).

In Q2, SDG&E did not issue any competitive solicitations; nor did SDG&E execute any transactions as a result of competitive solicitations for natural gas.

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 Q2 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, *Q2 2009 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

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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 periods for trading activity, operational gas trades are usually transacted bilaterally.

Under MRTU, the need for operational gas trades are more frequent, because day-ahead generation schedules are not known until after the day-ahead IFM market is published by the CAISO, which is after the cycle one scheduling deadline.

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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 Q2, 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. 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 Q2 were as follows:

- Response to Competitive solicitation
- Bilateral Negotiation
- CRR Monthly Allocation

Justification for Procurement Processes

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

SDG&E sought to sell excess RA requirement capacity by issuing a Request for Bids (RFB) in April for June. SDG&E received no bids in response to this RFB.

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

RA

SDG&E executed RA deals in Q2 through two different procurement processes:

1) responses to an RFO and 2) bilateral negotiations. Further information on the details of these deals can be found in Attachment H.

CRR's

The 2009 CRR Annual Allocation and Annual Auction processes were completed by the CAISO during the last three months of 2008. While nominally 75% of SDG&E's CRR portfolio is acquired through the annual process, the monthly CRR process is used to fulfill the remaining 25%. The monthly CRR process is a scaled down version of the annual process. The process begins with the submittal of a load forecast for the target month to establish monthly CRR limits. The monthly allocation and auction of CRRs consists of two allocation rounds, followed by a single auction, which must be completed before the first trade day of the month.

During Q2, CRR activity was limited to May, June, July and August 2009 monthly processes.

SDG&E submitted its May nominations for the two allocation rounds on April 9 and April 15, 2009. The monthly auction was held on April 23 and April 24. The nomination limit for the first allocation round is 50% of the monthly limit less previously awarded CRRs. The limit for the second allocation round is the monthly limit less previously awarded CRRs. Unlike the annual process, there is no CRR renewal feature in the monthly process.

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June nominations for the two allocation rounds were submitted on May 11 and May 15 and the auction was conducted on May 22 through May 26. July nominations for the two allocation rounds were submitted on June 10 and June 16 and the auction was conducted from June 23 to June 24.

SDG&E submitted its June 2009 load forecast on April 15. The CRR load forecast was based on the forecast used to establish SDG&E's 2009 Resource Adequacy Requirements, with an adjustment for Direct Access load migration. The load migration adjustment was also based on adjustments used in the monthly Resource Adequacy process. July 2009 load forecast was submitted on May 14 and August load forecast was submitted on June 12, 2009.

For the monthly CRR process, SDG&E relied on the same set of congestion analyses that it used to develop its nomination strategy for the 2009 annual allocation. SDG&E nomination strategy for the monthly process was essentially an extension of the strategy applied in the annual process

Other Products

Any other products transacted by SDG&E during Q2 are included in confidential Attachment H, *Q2 New Contracts Executed / Contracts Amended*.

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

Throughout Q2, 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-

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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, *Q2 2009 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, *Q2 2009 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

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condition, further increase or reduce its hedges as necessary in an attempt to mitigate the metric position(s).

Throughout Q2, 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, *Q2 2009 Risk Management Communication*.

7. Copy of each contract.

A list of contracts over three months executed and/or modified by SDG&E during Q2 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, *Q2 2009 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

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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, assuming 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.

There were no follow up analyses requested by the Commission during Q2.

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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 Q2.

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 Q2, 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.

Description	File/Attachment Name	Attachment / Workpaper
Gas transactions detail	Q2 2009 Transactions - Gas.xls	A
Electric transactions detail	Q2 2009 Transactions - Electric.xls	A
Write-up on the 2009 Q2 Transactions	2009 Q2 Transactions.doc	A
Counterparties - Top ten and Non-investment grade (includes embedded collateral agreements)	Q2 2009 Counterparty Information.xls	B
Electric transaction summary	Q2 2009 Electric Transactions.xls	C
Gas transaction summary	Q2 2009 Gas Transactions.xls	D
Table and description of other transactions	Q2 2009 Other Transactions.doc	E
RA Confirm	2009_RA_PG&E_Confirmation_Agreement_Final-executed.pdf	E
RA Confirm	Jul 2009_RA_PG&E_Confirmation_Agreement_Fully_Executed.pdf	E
RA Confirm	Jul2009_RA_Commerce_Energy_Confirmation_Agreement_Fully_Executed.pdf	E
List of Attachment F Workpapers	Q2 2009 Key Briefing Packages and PRG Presentations.xls	F
PRG briefing presentation	CONFIDENTIAL SDGE PRG April 16 2009.ppt	F
PRG briefing presentation	CONFIDENTIAL SDGE PRG May 21 2009.ppt	F
RA Filing Highlights	June Monthly RA Summary.xls	F
RA Filing Highlights	July Monthly RA Summary.xls	F
RA Filing Highlights	August Monthly RA Summary.xls	F
List of Independent Evaluator Reports	Q2 2009 Independent Evaluator Report.doc	G
List of New Contracts Executed and Amended	Q2 2009 New Contracts Executed and Amended.doc	H
List of URG Investments	Q2 2009 Summary of URG Investments.doc	I
Write-up on Load Requirements and Conditions	Q2 2009 Load Requirements and Conditions.doc	J
List of Risk Management Communication	Q2 2009 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	Q2 2009 Description of Models.doc	L
List of Transactions Subject to Strong Showing	Q2 2009 Transactions Subject to Strong Showing.doc	M
Write-up on Timing of Q2 2009 Transactions	Timing of Q2 2009 Transactions.doc	N
Summary Of CAISO Day Ahead Market Transactions Q2 2009	Q2 Purchases and Sales in IFM.xls	O