

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



May 11, 2010

Advice Letter 2121-E

Ronald van der Leeden, Director
Rates, Revenues and Tariffs
San Diego Gas and Electric
8330 Century Park Court, CP32C
San Diego, CA 92123-1548

**Subject: Submittal of SDG&E's Procurement Transactions for the
3rd Quarter of 2009 Pursuant to Commission D.02-10-062**

Dear Mr. van der Leeden:

Advice Letter 2121-E is effective November 29, 2009.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



Ron van der Leeden
Director
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October 30, 2009

ADVICE LETTER 2121-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: SUBMITTAL OF SDG&E'S PROCUREMENT TRANSACTIONS FOR THE
THIRD 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 3rd 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 also hereto refers to the Declaration of Ryan Miller filed with SDG&E Advice Letter 2098-E on July 30, 2009, to include 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 3rd 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 November 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) #: 2121-E

Subject of AL: Submittal of SDG&E's Procurement Transactions for the Third 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: 11/29/09

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
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Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill
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Dept. of General Services

H. Nanjo
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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

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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

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

October 30, 2009

List of Attachments and Workpapers

List of Attachments

- A. Confidential Attachment A
Q3 2009 Transactions
- B. Confidential Attachment B
Q3 2009 Counterparties Information
- C. Confidential Attachment C
Q3 2009 Electric Transactions
- D. Confidential Attachment D
Q3 2009 Natural Gas Transactions
- E. Confidential Attachment E
Q3 2009 Other Transactions
- F. Confidential Attachment F
Q3 2009 Key Briefing Packages
- G. Attachment G
Q3 2009 Independent Evaluator Reports
- H. Confidential Attachment H
Q3 2009 New Contracts Executed / Contracts Amended
- I. Attachment I
Q3 2009 Summary of Retained Generation Investments
- J. Confidential Attachment J
Q3 2009 Load Requirements and Conditions
- K. Confidential Attachment K
Q3 2009 Risk Management Strategy Communications
- L. Confidential Attachment L
Q3 2009 Description of Models
- M. Confidential Attachment M
Q3 2009 Transactions Subject to Strong Showing
- N. Confidential Attachment N
Timing of Q3 2009 Transactions
- O. Confidential Attachment O
Q3 Purchases and Sales in IFM

List of Attachments and Workpapers

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 & Electric Company (SDG&E) hereby provides its Quarterly Compliance Report (QCR) demonstrating that its procurement-related transactions during the period July, 1 2009 through September 30, 2009 (Q3) 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 Q3, 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, *Q3 2009 Transactions* or Attachment H, *Q3 2009 New Contracts Executed and Amended*. All non-investment grade counterparties that SDG&E transacted with during Q3 are shown in confidential Attachment B, *Q3 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 Q3. Confidential Attachment E, *Q3 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.

List of Attachments and Workpapers

Therefore, volumes received during Q3 pursuant to transactions executed in prior quarters are excluded. Also excluded are transactions in the California Independent System Operator's (CAISO's) real-time and ancillary services markets, since these transactions are, for the most part, made by the CAISO on behalf of SDG&E and are made without regard to the LTPP.

SDG&E procurement activity during the third quarter was under the CAISO New Market (formerly known as Market Redesign and Technology Upgrade or MRTU). A key feature of the CAISO New Market that is directly related to SDG&E's procurement activity is the CAISO's 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 implementation of the CAISO New Market.

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Topic	Before CAISO New Market	After CAISO New Market
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.

List of Attachments and Workpapers

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 Q3 was approved and executed either by, or under the direction of the Vice President of Electric and Fuel 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 Q3, 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 Q3 for large or unusual transactions are listed in confidential Attachment F, *Q3 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 Q3 are listed in Attachment F, and briefing packages are included in the workpapers.

List of Attachments and 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 Q3 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 for electric power as the result of competitive solicitations in Q3 were filed via a separate advice letter.

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

A summary of SDG&E's CAISO activity can be found in Attachment O. Because the CAISO New Market 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 Q3, SDG&E entered into market transactions of the following general types: 1) energy purchases; 2) energy sales; 3) financial swaps; and 4) 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, *Q3 2009 Electric Transactions*.

List of Attachments and Workpapers

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

The CAISO New Market 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 implementation of the CAISO New Market.

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 Q3, 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 Q3, 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 Q3, 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 implementation of the CAISO New Market, the liquidity for physical power trades in the CAISO has been greatly reduced. SDG&E now will also execute financial power swaps, which are much more actively traded than physical transactions in the CAISO. SDG&E's ability to execute these swaps conforms to its LTPP. These swaps are financially settled against the IFM. With the implementation of the CAISO New Market, SDG&E's exposure is to the Day Ahead and/or Real Time market clearing prices. Since the CAISO now has the responsibility for

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matching demand with supply, SDG&E can reduce its exposure to CAISO IFM prices just as effectively with 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.

Locational Swaps

Locational 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.

The volume of swaps has decreased considerably since SDG&E started transacting financial swaps, as described above. SDG&E still would sell at one location and purchase at another location, but the majority of the purchases were financial swaps, while sales were physical energy sales. Because these are different products, they are not technically swaps, but they have the same financial impact as a locational swap.

b) Natural Gas

Description of Procurement Processes

The approved procurement processes used during Q3 were as follows:

- Bilateral Contracts - description can be found on sheets 24-25 of the LTPP.

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- 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 Q3, 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 Q3 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, *Q3 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 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.

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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 the CAISO New Market, 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 Q3, 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 Q3 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 August for October and September for November and December for June. SDG&E received no bids in response to these RFB's.

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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 Q3 through bilateral negotiations. Further information on the details of these deals can be found in Attachment H.

CRR's

The 2010 CRR Annual Allocation and Annual Auction process was started by the CAISO during September 2009. 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 CRR's consists of two allocation rounds, followed by a single auction, which must be completed before the first trade day of the month.

During Q3, CRR activity was limited to August, September, October and November 2009 monthly processes.

SDG&E submitted its August nominations for the two allocation rounds on July 13 and July 17, 2009. The monthly auction was held on July 24 through July 27. The nomination limit for the first allocation round is 50% of the monthly limit less previously awarded CRR's. The limit for the second allocation round is the monthly limit less previously awarded CRR's. Unlike the annual process, there is no CRR renewal feature in the monthly process.

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September nominations for the two allocation rounds were submitted on August 11 and August 17, and the auction was conducted on August 24 through August 25. October nominations for the two allocation rounds were submitted on September 10 and September 16, and the auction was conducted from September 23 to September 24.

SDG&E submitted its September 2009 load forecast on July 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. The October 2009 load forecast was submitted on August 14, and the November load forecast was submitted on September 14, 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. Thus, the 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 Q3 are included in confidential Attachment H, *Q3 2009 Other Transactions*.

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

Throughout Q3, 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 CAISO. This objective was achieved by gradually reducing the

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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 CAISO, 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, *Q3 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, *Q3 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 Q3, 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, *Q3 2009 Risk Management Communication*.

7. Copy of each contract.

A list of contracts over three months executed and/or modified by SDG&E during Q3 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, *Q3 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 Q3.

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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 Q3.

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 Q3, 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	Q3 2009 Transactions - Gas.xls	A
Electric transactions detail	Q3 2009 Transactions - Electric.xls	A
Write-up on the 2009 Q3 Transactions	2009 Q3 Transactions.doc	A
Counterparties - Top ten and Non-investment grade (includes embedded collateral agreements)	Q3 2009 Counterparty Information.xls	B
Electric transaction summary	Q3 2009 Electric Transactions.xls	C
Gas transaction summary	Q3 2009 Gas Transactions.xls	D
Table and description of other transactions	Q3 2009 Other Transactions.doc	E
RA Confirm	2009 RA RRI Energy Confirm Executed_Revised Final.pdf	E
Contract	SDG&E - Cabrillo I-NRG-Encina Toll Amendment 2 - executed - 9-17-09.pdf	E
Contract	SDG&E-PacifiCorp Selection of add'l LORS Dates - 8-31-09.pdf	E
Contract	SDG&E-SES PPA Amend 2 - executed - 9-30-09.pdf	E
List of Attachment F Workpapers	Q3 2009 Key Briefing Packages and PRG Presentations.xls	F
PRG briefing presentation	CONFIDENTIAL SDGE PRG August 20 2009.ppt	F
PRG briefing presentation	CONFIDENTIAL SDGE PRG September 25 2009.ppt	F
PRG briefing presentation	Confidential 2009 RPS RFO LCBF Ranking.xls	F
PRG briefing presentation	CONFIDENTIAL Prelim Offers 08 18 09.xls	F
PRG briefing presentation	PA Consulting Presentation - SDGE 2009 Renewables RFO_9-25-2009.ppt	F
PRG briefing presentation	Van Horn Consulting Presentation - SDGE 2009 All Source RFO_9-25-2009.ppt	F
PRG presentation update	CONFIDENTIAL - Update - SDG&E August 20 PRG Meeting Material Update .msg	F
RA Filing Highlights	September Monthly RA Summary.xls	F
RA Filing Highlights	October Monthly RA Summary.xls	F
RA Filing Highlights	November Monthly RA Summary.xls	F
Hedge Plan Briefing	Q3 2009 Hedge Plan.ppt	F
List of Independent Evaluator Reports	Q3 2009 Independent Evaluator Report.doc	G
List of New Contracts Executed and Amended	Q3 2009 New Contracts Executed and Amended.doc	H
List of URG Investments	Q3 2009 Summary of URG Investments.doc	I
Write-up on Load Requirements and Conditions	Q3 2009 Load Requirements and Conditions.doc	J
List of Risk Management Communication	Q3 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

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Write-up on Description of Models	Q3 2009 Description of Models.doc	L
List of Transactions Subject to Strong Showing	Q3 2009 Transactions Subject to Strong Showing.doc	M
Write-up on Timing of Q3 2009 Transactions	Timing of Q3 2009 Transactions.doc	N
Summary Of CAISO Day Ahead Market Transactions Q3 2009	Q3 Purchases and Sales in IFM.xls	O