

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



November 9, 2010

Mr. Clay Faber  
Director, Regulatory Affairs  
San Diego Gas & Electric Company  
8330 Century Park Court  
San Diego, CA 92123-1548

**Subject: Advice Letter 2168-E**

Dear Mr. Faber:

On April 30, 2010, San Diego Gas & Electric Company (SDG&E) filed a Tier-2 Advice Letter to comply with D.02-10-062, D.03-12-062, D.04-07-028, D.04-01-050, D.04-12-048 and D.07-12-052. Contained in the advice letter filing was the Procurement Transaction Quarterly Compliance Report (QCR) for period January through March 2010 (Q1-2010).

On May 20, 2010, Division of Ratepayer Advocates (DRA) filed a protest to Advice Letter (AL) 2168-E, requesting the Commission to "reject the advice letter without prejudice because the Advice Letter does not provide sufficient information for DRA to assess the adequacy of the filing". DRA attached additional confidential information it requires to perform its analyses.

On May 27, 2010, SDG&E filed a reply to DRA's protest, stating that SDG&E is willing to provide an explanation of its credit policy provisions as requested by DRA. SDG&E has provided a list of all its electric transactions and will provide additional information requested by DRA.

DRA is pursuing its data request to SDG&E for additional information. The information requested by DRA should not prevent the approval of this advice letter. If DRA is not able to get the information from SDG&E, it may return to the Commission.

For the reason stated above, Energy Division rejects DRA's protest and approves SDG&E's AL 2168-E.

Sincerely,

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

Julie Fitch  
Director, Energy Division

Cc: Robert Strauss - CPUC Energy Division  
Maria Salinas, Honesto Gatchalian - CPUC Energy Division  
Joseph Abhulimen - CPUC Division of Ratepayer Advocates  
Megan Caulson - SDG&E  
Christina Sondrini - SDG&E



Ron van der Leeden  
Director  
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April 30, 2010

**ADVICE LETTER 2168-E**  
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: SUBMITTAL OF SDG&E'S PROCUREMENT TRANSACTIONS FOR THE FIRST QUARTER OF 2010 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 1<sup>st</sup> Quarter 2010 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> Therefore, SDG&E hereto refers to the Declarations of Ryan Miller filed with SDG&E Advice Letter 2062-E on February 6, 2009 and Advice Letter 2098-E on July 30, 2009<sup>2</sup>, 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 an additional attachment in the responses to the Master Data Request for the Quarterly Advice Letter Related to Activity in the First Quarter

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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.

<sup>2</sup> To include the new Attachment O – Purchases and Sales in IFM

of 2010. 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.

## **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>3</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>4</sup>

By this filing, SDG&E provides its 1<sup>st</sup> 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 May 30, 2010, 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

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<sup>3</sup> AB 57 was approved by Governor Davis on September 24, 2002; see Public Utilities Code Section 454.5.

<sup>4</sup> D.02-10-062, page 47.

impact, and should be submitted expeditiously. The protest must be made in writing and must be received no later than May 20, 2010, which is 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

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian ([jni@cpuc.ca.gov](mailto:jni@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: 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](mailto: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](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: 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) #: 2168-E

Subject of AL: Submittal of SDG&E's Procurement Transactions for the First Quarter of 2010

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: 5/30/10

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: Megan Caulson**

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

**San Diego, CA 92123**

**mcaulson@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  
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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

**SAN DIEGO GAS & ELECTRIC COMPANY**  
**PROCUREMENT PLAN COMPLIANCE REPORT**  
**FOR THE FIRST QUARTER OF 2010**

**April 30, 2010**

## List of Attachments and Workpapers

### List of Attachments

- A. Confidential Attachment A  
Q1 2010 Transactions
- B. Confidential Attachment B  
Q1 2010 Counterparties Information
- C. Confidential Attachment C  
Q1 2010 Electric Transactions
- D. Confidential Attachment D  
Q1 2010 Natural Gas Transactions
- E. Confidential Attachment E  
Q1 2010 Other Transactions
- F. Confidential Attachment F  
Q1 2010 Key Briefing Packages
- G. Attachment G  
Q1 2010 Independent Evaluator Reports
- H. Confidential Attachment H  
Q1 2010 New Contracts Executed / Contracts Amended
- I. Attachment I  
Q1 2010 Summary of Retained Generation Investments
- J. Confidential Attachment J  
Q1 2010 Load Requirements and Conditions
- K. Confidential Attachment K  
Q1 2010 Risk Management Strategy Communications
- L. Confidential Attachment L  
Q1 2010 Description of Models
- M. Confidential Attachment M  
Q1 2010 Transactions Subject to Strong Showing
- N. Confidential Attachment N  
Timing of Q1 2010 Transactions
- O. Confidential Attachment O  
Q1 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 & Electric Company (SDG&E) hereby provides its Quarterly Compliance Report (QCR) demonstrating that its procurement-related transactions during the period January, 1 2010 through March 31, 2010 (Q1) 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 Q1, 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, *Q1 2010 Transactions* or Attachment H, *Q1 2010 New Contracts Executed and Amended*. All non-investment grade counterparties that SDG&E transacted with during Q1 are shown in confidential Attachment B, *Q1 2010 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 Q1. Confidential Attachment E, *Q1 2010 Other Transactions*, is a description of any additional transactions that occurred during Q1. The quantities shown in these attachments are based on the delivery period specified in the transactions. Therefore, volumes received during Q1 pursuant to transactions executed in prior quarters are

## **List of Attachments and Workpapers**

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 Q1 was under the CAISO New Market (formerly known as Market Redesign and Technology Upgrade or MRTU). A key feature of the CAISO New Market is that it is directly related to SDG&E's procurement activity in 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. A summary of SDG&E's CAISO activity can be found in Attachment O. 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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<b>Topic</b>	<b>Before CAISO New Market</b>	<b>After CAISO New Market</b>
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 Q1 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 Q1, 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 Q1 for large or unusual transactions are listed in confidential Attachment F, *Q1 2010 Key Briefing Packages*, and included in the workpapers.

In addition, copies of presentations made by SDG&E to its Procurement Review Group (PRG) during Q1 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 Q1 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 execute any transactions for electric power as the result of competitive solicitations in Q1.

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

In Q1, SDG&E entered into market transactions of the following general types: 1) energy purchases; 2) energy sales; and 3) financial 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, *Q1 2010 Electric Transactions*.

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.

## **List of Attachments and Workpapers**

For all of the above products, SDG&E traders monitor voice brokers, electronic exchanges, and bilateral offers from counterparties, so as to facilitate transactions 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. SDG&E continues to make purchasing decisions outside of IFM activity 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 Q1, SDG&E purchased energy in the day-ahead markets that are executed within the Western Systems Power Pool (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 to forecast energy needs: (1) *GenTrader*, a dispatch model from Power Costs Inc. (PCI); and (2) Financial Engineering Associates (FEA), a financial option model. Both PCI and FEA are described further in *Attachment L –Description of Models*.

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### Energy Sales

In Q1, 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 Q1, SDG&E made sales at then-current market prices, but above the incremental cost of generation. At times, SDG&E may make sales seemingly below the cost of the marginal generating unit, 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.

SDG&E's market energy purchases and sales, including non-standard transactions, are included in Attachment C, *Q1 2010 Electric Transactions*. This attachment includes a comparison of SDG&E's non-standard transactions with the CAISO markets.

Please note the following regarding the comparison of: (1) the notional value of non-standard over-the-counter (OTC) transactions executed by SDG&E during Q1; and (2) the pricing of similar products subsequently transacted in the applicable CAISO markets:

- The non-standard transactions in the comparison include all physical and financial electric deals reported in the QCR in Confidential Attachment C that were not listed as standard day-ahead on-peak or off-peak products.

## List of Attachments and Workpapers

- DA OTC deals were compared with CAISO IFM hourly prices for the same OTC delivery hours using comparable delivery locations.
- Hour-ahead OTC deals were compared with CAISO real-time market (RTM) prices for the same delivery hours using comparable delivery locations.
- These after-the-fact comparisons are provided for illustrative and informational purposes only. Public Utilities Code section 454.5(d)(2) requires that the Commission “eliminate the needs for after-the-fact reasonableness reviews of an electrical corporation’s actions in compliance with an approved procurement plan.” To that end, section 454.5(b)(7) requires that a procurement plan include “upfront standards and criteria by which the acceptability and eligibility for rate recovery of a proposed procurement transaction will be known by the electrical corporation **prior to execution of the transaction.**” (emphasis added)
- Accordingly, comparisons of SDG&E’s executed over-the-counter transactions to transactions that occurred after-the-fact may not be used to determine whether SDG&E’s transactions complied with SDG&E’s Commission approved AB57 Procurement Plan.
- These cost comparisons ignore relevant market information known to traders at the time of OTC execution (e.g., knowledge of transmission constraints at a particular delivery location).

## Financial Swaps

Since implementation of the CAISO New Market, the liquidity for physical power trades in the CAISO has been greatly reduced. As a result, SDG&E will also execute

## **List of Attachments and Workpapers**

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 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.

A further benefit to using financial swaps is that financial swaps can be cleared through ICE. This reduces the potential credit problems, because ICE acts as a clearing house with established margining provisions

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

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

The approved procurement processes used during Q1 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.

## List of Attachments and Workpapers

### *Justification for Procurement Processes*

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

In Q1, 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, Otay Mesa, and Encina plants. The physical gas products SDG&E transacted in Q1 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, *Q1 2010 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, transacting at 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 physical gas requirements throughout the month in the spot market at prevailing prices. These are purchases

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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.

### **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. In addition to

## List of Attachments and Workpapers

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 Q1, including references to the workpapers containing copies of any agreements and analysis for any storage deals, can be found in confidential Attachment H, *Q1 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 Q1, the financial hedges transacted by SDG&E were futures, call options, 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 Q1 were as follows:

- CRR Monthly Allocation

## List of Attachments and Workpapers

### *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 Resource Adequacy (RA) requirement capacity by issuing a Request for Bids (RFB) in January for March, February for April, and in March for May. SDG&E received no bids in response to these RFBs.

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

#### **CRRs**

During Q1, CRR activity was limited to February, March and April 2010 monthly processes.

SDG&E submitted its February 2010 nominations for the two allocation rounds on January 11 and January 14, 2010. The monthly auction was held on January 22 through January 26. 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 CRRs.

March nominations for the two allocation rounds were submitted on February 9 and February 12, and the auction was conducted on February 22 through February 23. April nominations for the two allocation rounds were submitted on March 10 and March 15, and the auction was conducted from March 23 to March 24.

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.

## List of Attachments and Workpapers

### Other Products

Any other products transacted by SDG&E during Q1 are included in confidential Attachment H, *Q1 2010 Other Transactions*.

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

Throughout Q1, 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 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, and to reduce exposure to the spot gas price.

Further explanation of the timing of SDG&E's transactions can be found in confidential Attachment N, *Q1 2010 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, *Q1 2010 Load Requirements and Conditions*.

## List of Attachments and Workpapers

### **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 Q1, 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, *Q1 2010 Risk Management Communication*.

### **7. Copy of each contract.**

A list of contracts over three months executed and/or modified by SDG&E during Q1 are included in confidential Attachment H, along with references to the workpapers containing the contracts.

## List of Attachments and Workpapers

### **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, *Q1 2010 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, 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
- CMEGroup.com – Gas futures and basis price data

## **List of Attachments and Workpapers**

- 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 Q1.

### **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 Q1.

### **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 Q1, 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	Q1 2010 Transactions - Gas.xls	A
Electric transactions detail	Q1 2010 Transactions - Electric.xls	A
Counterparties - Top ten and Non-investment grade (includes embedded collateral agreements)	Q1 2010 Counterparty Information.xls	B
Electric transaction summary	Q1 2010 Electric Transactions.xls	C
Gas transaction summary	Q1 2010 Gas Transactions.xls	D
Description of other transactions	Q4 2010 Other Transactions.doc	E
List of Attachment F Workpapers	Q4 2009 Key Briefing Packages and PRG Presentations.xls	F
PRG presentation update	CONFIDENTIAL - SDG&E PRG Follow Up and Meeting Minutes of 1 15 2010.msg	F
PRG briefing presentation	Confidential SDG&E PRG January 15 2010.ppt	F
PRG briefing presentation	IE Presentation (VHC) SDGE 2009 All Source RFO.pdf	F
PRG briefing presentation	PRG Presentation March 19 2010.ppt	F
PRG briefing presentation	SDG&E's IE RFO 2010.pdf	F
RA Filing Highlights	April Monthly RA Summary.xls	F
RA Filing Highlights	March Monthly RA Summary.xlsx	F
RA Filing Highlights	May Monthly RA Summary.xlsx	F
Gas Storage Briefing	2010-2011 Storage2.doc	F
List of Independent Evaluator Reports	Q1 2010 Independent Evaluator Report.docx	G
List of New Contracts Executed and Amended	Q1 2010 New Contracts Executed and Amended.docx	H
New Contract	S05P_SDGE_executed.pdf	H
List of URG Investments	Q1 2010 Summary of URG Investments.doc	I
Write-up on Load Requirements and Conditions	Q1 2010 Load Requirements and Conditions.doc	J
List of Risk Management Communication	Q1 2010 Risk Management Communication.xls	K
Write-up on Description of Models	Q1 2010 Description of Models.doc	L
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
List of Transactions Subject to Strong Showing	Q1 2010 Transactions Subject to Strong Showing.doc	M
Write-up on Timing of Transactions	Timing of Q1 2010 Transactions.doc	N
Summary Of CAISO Day Ahead Market Transactions	Q4 Purchases and Sales in IFM.xls	O

**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 First Quarter Of 2010,” 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 I could and would testify to the following based upon personal knowledge.

2. I am providing this Declaration to demonstrate how the confidential information (“Protected Information”) being provided in response to this Data Request is within the scope of data provided confidential treatment in the IOU Matrix of D.06-06-066. Pursuant to the procedure described in D.08-04-02 for “Information Provided to Staff Outside of Formal Proceeding,” I am addressing each of the following five features of Ordering Paragraph 2, D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E 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.

3. The confidential information contained in SDG&E’s 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 1 – IOU Matrix of the Commission’s Confidentiality Decision 06-06-066.

Per D.08-04-023, most of the data in 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 First Quarter of 2010.

In the spreadsheet *The Q1 2010 Electric Transactions.xls* the new tab “Electric NonStd Price Equiv” contains details of monthly variable costs on energy and utility operation, and as such is Protected Information pursuant to Matrix category XI (Monthly Procurement Costs). This Protected Information is confidential for three years.

4. I am not aware of any instances where the Protected Information has been disclosed to the public.

5. I will comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

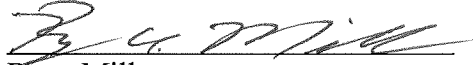
6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized and continue to be responsive to the Commission’s Data Request. However SDG&E is willing to work with the Energy Division to attempt to devise means of aggregating or masking any confidential data which the Energy Division feels may be useful in any public reports that they produce as a result of this audit.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

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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 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.

Executed this thirtieth day of April, 2010, at San Diego, California.

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

Ryan Miller  
Electric Trading Manager  
San Diego Gas & Electric Company