

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



December 7, 2010

Advice Letter 2187-E

Clay Faber, Director
Regulatory Affairs
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 Second Quarter of 2010 Pursuant to Commission D.02-10-062

Dear Mr. Faber:

Advice Letter 2187-E is effective August 29, 2010.

Sincerely,

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

Julie A. Fitch, Director
Energy Division



Clay Faber - Director
Regulatory Affairs
8330 Century Park Court
San Diego, CA 92123-1548

Tel: 858.654.3563
Fax: 858.654.1788
cfaber@semprautilities.com

July 30, 2010

ADVICE LETTER 2187-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 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 2nd 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 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. Lastly, SDG&E also hereto refers to the Declaration of Ryan Miller filed with SDG&E Advice Letter 2168-E, filed April 30, 2010, to include the responses to the Master Data Request for the

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.

Quarterly Advice Letter Related to Activity in the Second Quarter 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) 57.²

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 2010 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, 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 impact, and should be submitted expeditiously. The protest must be made in writing and must be received no later than August 19, 2010, which is 20 days of the date this Advice Letter was

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.

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) 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.

CLAY FABER
Director – Regulatory Affairs

(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) #: 2187-E

Subject of AL: Submittal of SDG&E's Procurement Transactions for the Second 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 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: 8/29/10

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 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

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

July 30, 2010

List of Attachments

- A. Confidential Attachment A
Q2 2010 Transactions
- B. Confidential Attachment B
Q2 2010 Counterparties Information
- C. Confidential Attachment C
Q2 2010 Electric Transactions
- D. Confidential Attachment D
Q2 2010 Natural Gas Transactions
- E. Confidential Attachment E
Q2 2010 Other Transactions
- F. Confidential Attachment F
Q2 2010 Key Briefing Packages
- G. Attachment G
Q2 2010 Independent Evaluator Reports
- H. Confidential Attachment H
Q2 2010 New Contracts Executed / Contracts Amended
- I. Attachment I
Q2 2010 Summary of Retained Generation Investments
- J. Confidential Attachment J
Q2 2010 Load Requirements and Conditions
- K. Confidential Attachment K
Q2 2010 Risk Management Strategy Communications
- L. Confidential Attachment L
Q2 2010 Description of Models
- M. Confidential Attachment M
Q2 2010 Transactions Subject to Strong Showing
- N. Confidential Attachment N
Timing of Q2 2010 Transactions
- O. Confidential Attachment O
Q2 Purchases and Sales in IFM

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 June 30, 2010 (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 2010 Transactions* or Attachment H, *Q2 2010 New Contracts Executed and Amended*. All non-investment grade counterparties that SDG&E transacted with during Q2 are shown in confidential Attachment B, *Q2 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 Q2. Confidential Attachment E, *Q2 2010 Other Transactions*, is a description of any additional transactions that occurred during Q2. The quantities shown in these attachments are based on the delivery period specified in the transactions. Therefore, volumes received during Q2 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 Q2 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.

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 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 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 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 Q2 are listed in Attachment F, and briefing packages are included in the workpapers.

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

a) Electric

Description of Procurement Processes

The approved procurement processes used during 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).

SDG&E did not execute any transactions for electric power as the result of competitive solicitations in Q2.

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

In Q2, 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, *Q2 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.

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 Q2, 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*.

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 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, *Q2 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 Q2; 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.
- 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 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.

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 ratepayers by helping to avoid congestion charges, reducing the cost of delivering to load or monetizing transmission rights between two points.

In certain instances, SDG&E's transactions had the intent of a swap, but did not meet the technical definition of a locational swap. In such cases, SDG&E would sell at one location and purchase at another location. Under the CAISO New Market, however, 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 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 Energy Facility, Palomar Energy Center, Otay Mesa Energy Center, Orange Grove Energy Center, El Cajon Energy Center, and Encina Power Station plants. The physical gas products SDG&E transacted in Q2 were: (1) Baseload Gas; (2) Swing Gas; (3) Operational Gas; and (4) 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 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 meet the balance of its physical gas requirements throughout the month in the spot market at prevailing prices. These are purchases or sales 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.

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:

- 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 Resource Adequacy (RA) requirement capacity by issuing a Request for Bids (RFB) in April for June RA and May for July RA. SDG&E received no bids in response to these RFBs. In June, SDG&E did execute RA transactions for August as a result of a RFO. SDG&E also executed another RA transaction as a result of the discussions surrounding an offer into the 2009 Conventional RFO.

The description of these transactions can be found in Attachment E, and the details can be found in Attachment H.

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

Congestion Revenue Rights (CRRs)

During Q2, CRR activity was limited to [May](#), [June](#) and [July](#) 2010 monthly processes.

SDG&E submitted its [May](#) 2010 nominations for the two allocation rounds on [April 9](#) and [April 15](#), 2010. The monthly auction was held on [April 22](#) through [April 23](#). 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.

[June](#) nominations for the two allocation rounds were submitted on [May 11](#) and [May 17](#), and the auction was conducted on [May 24](#) through [May 25](#). [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](#).

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 2010 annual allocation. Thus, the SDG&E nomination strategy for the monthly process was essentially an extension of the strategy applied in the annual process.

Further description of the CRRs that SDG&E procured can be found in Attachment E.

Other Products

Any other products transacted by SDG&E during Q2 are included in confidential Attachment H, *Q2 2010 Other Transactions*.

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 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, *Q2 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, *Q2 2010 Load Requirements and Conditions*.

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

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

Throughout 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 2010 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 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
- 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.

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).

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

Description	File/Attachment Name	Attachment / Workpaper
Gas transactions detail	Q2 2010 Transactions - Gas.xls	A
Electric transactions detail	Q2 2010 Transactions - Electric.xls	A
Counterparties - Top ten and Non-investment grade (includes embedded collateral agreements)	Q2 2010 Counterparty Information.xls	B
Electric transaction summary	Q2 2010 Electric Transactions.xls	C
Gas transaction summary	Q2 2010 Gas Transactions.xls	D
Description of other transactions	Q2 2010 Other Transactions.docx	E
List of Attachment F Workpapers	Q2 2009 Key Briefing Packages and PRG Presentations.xls	F
PRG briefing presentation	PRG Presentation April 16 2010 (final).ppt	F
PRG briefing presentation	CONFIDENTIAL SDGE PRG May 2010.pptx	F
RA Filing Highlights	June Monthly RA Summary.xlsx	F
RA Filing Highlights	July Monthly RA Summary.xlsx	F
RA Filing Highlights	August Monthly RA Summary.xlsx	F
Hedge Plan	Q210 Hedge Plan.pptx	F
List of Independent Evaluator Reports	Q2 2010 Independent Evaluator Report.docx	G
IE Report	IE Report for Pacific Wind.pdf	G
IE Report	IE Report for Centinela Solar.pdf	G
List of New Contracts Executed and Amended	Q2 2010 New Contracts Executed and Amended.docx	H
New Contract	LD2D-#244096-v5-RFO09_Escondido_RA_Confirm FULLY EXECUTED 01JUN2010.pdf	H
New Contract	SDGE RA Purchase Confirm-Aug_2010 - RRI Energy.pdf	H
New Contract	SDGE RA Sale Confirm-Aug_2010 - RRI Energy.pdf	H
List of URG Investments	Q2 2010 Summary of URG Investments.docx	I
Write-up on Load Requirements and Conditions	Q2 2010 Load Requirements and Conditions.docx	J
List of Risk Management Communication	Q2 2010 Risk Management Communication.xls	K
Write-up on Description of Models	Q2 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	Q2 2010 Transactions Subject to Strong Showing.doc	M
Write-up on Timing of Transactions	Timing of Q2 2010 Transactions.doc	N
Summary Of CAISO Day Ahead Market Transactions	Q2 Purchases and Sales in IFM.xls	O