

Application No.: 17-06-006
Exhibit No.: _____
Witness: Ana Garza-Beutz
Date: October 24, 2017

**SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED REBUTTAL TESTIMONY OF
ANA GARZA-BEUTZ**

PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

October 24, 2017



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**PREPARED REBUTTAL TESTIMONY OF
ANA GARZA-BEUTZ
ON BEHALF OF SDG&E**

I. INTRODUCTION

The purpose of this rebuttal testimony is to respond to the testimony (ORA Testimony) of Ms. Ayat Osman on behalf of the Office of Ratepayer Advocates (ORA) regarding San Diego Gas & Electric Company’s (SDG&E) 2016 Energy Resource Recovery Account (ERRA) Review Application (Application). Ms. Osman’s testimony appears in Chapter 4 and reflects a review of SDG&E’s Greenhouse Gas (GHG) Compliance Instrument Procurement and Costs. Ms. Osman reviewed SDG&E’s showing to determine whether SDG&E addressed and complied with the applicable Commission requirements as they relate to Issues #6 and #7 in the August 18, 2017 Scoping Memo¹ in this proceeding:

- #6: “Whether SDG&E’s Greenhouse Gas Compliance Instrument procurement complied with its Conformed Bundled Procurement Plan, and was consistent with Commission and State policies and laws.”
- #7: “Whether the 2016 entries recorded in SDG&E’s Greenhouse Gas ERRA account are accurate and whether SDG&E met its burden of proof regarding its claim for these entries.”²

With regard to Issue #6, ORA states that it “is satisfied by SDG&E’s showing that its GHG compliance instrument procurement is within its Direct Compliance Obligation Limit for the 2016 Record Period.”³ Also, with respect to issue #6, “ORA recommends that the Commission require SDG&E to submit testimony including an explanation of its procurement

¹ Scoping Memo on the Application of San Diego Gas & Electric Company (U902E) for Approval of (i) Contract Administration, Least-Cost Dispatch and Power Procurement Activities in 2016, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account and Transition Cost Balancing account in 2016 and (iii) Costs Recorded in Related Regulatory Accounts at 3, A.17-06-006.

² *Id.*

³ ORA Testimony at 4-2, lines 2-4.

1 decisions, especially when such decisions appear to deviate from the Commission approved
2 Bundled Procurement Plan (BPP).”⁴ SDG&E disagrees with ORA’s recommendation to submit
3 testimony explaining its procurement decisions which “appear to deviate” from SDG&E’s BPP,
4 because SDG&E complied with every aspect of its BPP, as will be explained in detail in Section
5 III.⁵

6 With regard to Issue #7, ORA makes four recommendations:

7 **1. ORA’s Position:**

8 In future applications, SDG&E should “provide a clear distinction between its
9 procured compliance instruments eligible for a current compliance period, which would
10 be included in the calculation of its Direct GHG costs for the current Record Period, as
11 opposed to compliance instruments procured for future compliance periods under Cap-
12 and-Trade, and their associated costs.”⁶

13 **SDG&E’s Response:**

14 While this issue is not captured in the Scoping Memo, SDG&E is willing to provide
15 this information in a format similar to the one illustrated in Table 4-2 as recommended by
16 ORA in SDG&E’s future ERRA Compliance applications.⁷

⁴ ORA Testimony at 4-2, lines 12-14.

⁵ SDG&E’s BPP, Advice Letter 2850-E, Appendix F (“Greenhouse Gas/AB 32 Compliance Plan”) lists approved products, approved procurement method, limit and limit calculations, general strategy and reporting requirements.

⁶ ORA Testimony at 4-12, lines 8-12.

⁷ ORA Testimony at 4-13, Table 4-2.

1 **2. ORA’s Position:**

2 In future ERRA Compliance applications, SDG&E should “complete and submit
3 Template C of Attachment C, and Template D-2 of Attachment D of D.14-10-033, as
4 corrected by D.15-01-024, showing all calculations and formulas.”^{8,9}

5 **SDG&E’s Response:**

6 These Templates are already provided by SDG&E biannually in its ERRA Forecast
7 applications, as required by D.14-10-033 and D.15-01-024.¹⁰ SDG&E’s concern with
8 this proposal is that ORA doesn’t explain why it seeks this same information in both
9 ERRA Compliance and ERRA Forecast proceedings, and what recommendations ORA
10 might render with respect to each template in each proceeding. Providing the templates
11 in both proceedings creates a potentially problematic overlap and conflict between the
12 ERRA Compliance and ERRA Forecast proceedings.

13 SDG&E submits that SDG&E and other IOUs should be clear, from the outset of
14 both ERRA proceedings: (a) exactly what GHG-related information is needed for an
15 IOU to comply an applicable Commission or legal requirement, (b) under what legal and
16 regulatory requirements the submitted information is reviewed, and (c) what Commission
17 findings are needed by law. Currently it is unclear to SDG&E why, for example, these
18 templates should be provided in both ERRA forecast and compliance cases, which are

⁸ In this testimony D.15-01-024 should be understood to correct D.14-10-033 and to include Attachment C (hereafter, Attachment C). Attachment C is hereby attached as Attachment 1.

⁹ ORA Testimony at 4-21, line 24 and ORA at 4-22, lines 1-2.

¹⁰ D.15-01-024 at Attachment C at 4 (“When a utility files its GHG Forecast Revenue and Reconciliation Application, it shall use Template C to show its WAC calculations.”). *See also* D.14-10-033 at Attachment C at 4. Similarly, “Each utility should complete the five templates provided in Attachment D when submitting its GHG Revenue and Reconciliation Application or request.” D.15-01-024, Attachment D at 1.

1 pending at the same time, which could potentially lead to conflicting regulatory
2 outcomes. Further, SDG&E observes that unless the Commission clarifies the above
3 points with specificity, this area of the ERRA compliance proceedings will be fraught
4 with conflict, confusion, and inconsistencies from case to case.

5 **3. ORA's Position**

6 In future years, SDG&E should “provide reasonable supporting testimony regarding
7 the methodologies and assumptions that it used in the calculations of the GHG emissions
8 and associated costs for the Record Period.”¹¹

9 **SDG&E Response:**

10 SDG&E is unclear as to what “reasonable supporting testimony” ORA is seeking and
11 why it is seeking that information. SDG&E is willing to work with ORA to define what
12 information is to be provided for future ERRA Compliance filings to clarify ORA’s
13 request and objectives. SDG&E further recommends that ORA and the other IOUs
14 convene a process, much like the process that culminated in D.15-05-005 to develop,
15 with specificity, what information should be provided in support of the Commission’s
16 objectives.

¹¹ ORA Testimony at 4-16-17, lines 18-2.

1 **4. ORA’s Position**

2 ORA recommends a disallowance in the amount of [REDACTED] claiming that “SDG&E’s
3 approach to the calculations of its (WAC) deviated from the requirements in D.14-10-033 as
4 corrected by D.15-01-024.”¹²

5 **SDG&E Response:**

6 SDG&E strenuously objects to this recommendation. First, SDG&E complied with
7 the methodology stated in D.15-01-024. Second, and closely related, SDG&E submitted
8 essentially the same GHG testimony, updated for Record Year 2016, including same
9 WAC calculation and showing SDG&E submitted for Record Year 2015, in which ORA
10 determined that “SDG&E’s correctly applied the methodologies required by the relevant
11 regulations and Commission Decisions.”¹³ Additionally, the Commission approved
12 SDG&E’s Record Year 2015 GHG showing, and the calculation SDG&E used in that
13 case is the same calculation used in the subject case.¹⁴

14 SDG&E finds it patently unfair, arbitrary and unreasonable for ORA to recommend
15 any disallowance regarding its GHG showing which is ORA’s unexplained deviation
16 from its prior year’s determination. This surprise deviation and inconsistency causes
17 SDG&E now to be uncertain as to what the compliance standard is to which it is being
18 held, and why ORA’s analysis has changed from last year without explanation. In fact,
19 ORA – not SDG&E – is inconsistent and unclear in how it reviews GHG accounting

¹² ORA Testimony at 4-3 (citation omitted).

¹³ ORA Testimony at 4-16, lines 1-3; *see also* ORA’s testimony at 4-17, A.15-06-002 (footnote omitted); *see also* D.17-03-016 at 10, Finding of Fact (FOF) 7, and Conclusions of Law (COL) 5 and 6).

¹⁴ D.17-03-016 at 10 at FOF 7, COL 5-6.

1 matters and fails to specify the exact standard and language by which it is determining
2 compliance. SDG&E expands on this central issue below.

3 This rebuttal testimony also observes that ORA’s GHG-related analysis lacks
4 consistency from case to case and from utility to utility. The IOUs, including SDG&E,
5 need to be quite clear about the standards to which they will be held accountable as a
6 matter of compliance. ORA should propose to the Commission clear, workable and fair
7 standards, grounded in established legal and regulatory requirements, on which all
8 utilities can then develop their demonstrations of compliance. SDG&E recommends that
9 ORA and the IOUs meet to clarify the applicable standards and work together to clarify
10 exactly how the utilities can demonstrate their compliance with those standards, much
11 like occurred in the processes leading up to D.15-05-005 in the area of least-cost
12 dispatch. In the meanwhile, ORA should withdraw its unfair, arbitrary, and unclear
13 analyses and unfounded disallowance recommendation.

14 Further, SDG&E also presents the separate, accompanying testimony of Ms. Monica
15 Chihwaro, an accounting expert, who addresses the applicable general accounting
16 standards aside from Commission-specific requirements and SDG&E’s compliance with
17 them. Ms. Chihwaro’s testimony demonstrates that SDG&E complied with all generally
18 accepted accounting principles as well as D.15-01-024.

19 SDG&E concludes this testimony in Section III, with several recommendations to
20 improve the overall GHG-related showing and review processes by establishing the exact
21 standards by which compliance is determined and the methodologies that SDG&E must
22 follow in establishing compliance with the standards.

23 SDG&E respectfully addresses each of these recommendations below.

1 **II. DISCUSSION**

2 **A. ORA’s Disallowance Recommendation is Based On Its Incorrect**
3 **Determination that SDG&E’s WAC Calculation Did Not Follow Commission**
4 **Requirements**

5 By way of overview, in reviewing SDG&E’s Record Year 2016 GHG showing, ORA
6 makes various determinations, including findings that SDG&E’s showing was reasonable or
7 consistent with Commission requirements;¹⁵ several forward-looking recommendations, as noted
8 immediately above; and one negative recommendation, the latter of which is the main focus of
9 this testimony. SDG&E strenuously objects to and opposes this unjust recommendation on
10 numerous grounds, indicated below. Further, ORA failed to clearly and consistently apply the
11 standards, notably Attachment C of D.15-01-024, by which it evaluated SDG&E’s GHG
12 showing.

13 As indicated below, the entirety of SDG&E’s GHG testimony and showing for Record
14 Year 2016 was substantively and methodologically identical to SDG&E’s Record Year 2015
15 GHG showing. After its review of last year’s showing, ORA determined that “SDG&E [sic]
16 correctly applied the methodologies required by the relevant regulations and Commission
17 decisions.”¹⁶ The Commission also approved SDG&E’s GHG showing.¹⁷ Additionally,
18 SDG&E followed D.15-01-024 in accordance with Generally Accepted Accounting Principles
19 (GAAP), which as a registrant with the Securities and Exchange Commission (SEC), Sempra
20 Energy and its subsidiaries must follow in developing its GHG WAC accounting. Because

¹⁵ ORA stated its satisfaction that SDG&E’s GHG procurement is within its Direct Compliance
Obligation Limit. ORA Testimony at 4-10, lines 14-16. ORA also states that SDG&E’s recorded 2016
Direct emissions were reasonable and in compliance. ORA Testimony at 4-16, lines 1-3.

¹⁶ ORA 2015 testimony at 4-17, A.16-06-002.

¹⁷ *See generally* D.17-03-016.

1 SDG&E adhered to each of these requirements, its WAC calculations meet the accuracy
2 requirement of Scope issue #7 and D.15-01-024, contrary to ORA’s assertions.

3 **1. SDG&E Followed Decision 15-01-024**

4 SDG&E’s WAC calculation¹⁸ is consistent with Attachment C of D.15-01-024. SDG&E
5 calculates its GHG costs as directed in D.15-01-024, and specifically Attachment C, which
6 provides: “These costs are calculated as the weighted average cost (WAC) of compliance
7 instruments held in inventory at the end of a month multiplied by the quantity of emissions
8 generated in that month for which the utility has a physical compliance obligation.”¹⁹ Further,
9 Attachment C more formally defines the WAC on page 4: “‘WAC’ is the weighted average cost
10 of all compliance instruments held in inventory that are **eligible** for that cap-and-trade
11 compliance period.”²⁰ In accordance with the directive to only include **eligible** compliance
12 instruments, SDG&E reduces its inventory volume **monthly** by the “quantity of emissions
13 generated in that month”²¹ to align with the recording of **monthly** costs, which are the “quantity
14 of emissions generated in that month”²² times the WAC.

15 Attachment C also states:

16 When a utility sells, transfers, surrenders, or **otherwise removes compliance**
17 **instruments from its inventory** it records:

- 18 • Transaction Date;
19 • Transaction Type (purchase, sale, etc.);
20 • Vintage (if applicable);
21 • Quantity of compliance instruments for transaction;
22 • Sales price for transaction;

¹⁸ Attachment 2: SDG&E WAC calculation.

¹⁹ D.15-01-024, Attachment C at 1.

²⁰ D.15-01-024, Attachment C at 4 (emphasis added).

²¹ D.15-01-024, Attachment C at 1.

²² *Id.*

- Total Cost calculated as quantity of compliance instruments for transaction multiplied by the current WAC;
- Inventory Balance in dollars; and
- Total Quantity of compliance instruments in inventory; and
- WAC of all **eligible** compliance instruments to date.²³

The eligibility criterion from Attachment C requires SDG&E to remove the emissions volumes from inventory every month as they are expensed to ERRRA, since expensed compliance instruments are no longer **eligible** to remain in the WAC inventory pool. Because the monthly expensed volumes are no longer “**eligible**,” as the Commission’s instructions above state, those volumes are accordingly no longer **eligible** to be included in the WAC calculation and must be removed. SDG&E’s inclusion of monthly GHG emissions as **monthly** reduction of inventory in the WAC calculation is expressly consistent with D.15-01-024. Thus, SDG&E finds that ORA is plainly incorrect in asserting that SDG&E did not follow the Commission’s requirements in its WAC calculations, and ORA has failed to prove that assertion, as indicated below.

2. ORA’s Testimony Fails to Demonstrate that “SDG&E’s Calculations of WAC are Inconsistent With Commission Requirements”²⁴

ORA’s testimony alleges that, “SDG&E’s approach to the calculations of its weighted average costs diverged from the requirements in D.14-10-033 as corrected by D.15-01-024.”²⁵ ORA quotes from D.15-01-024 that:

Each month, a utility records its GHG costs to its respective balancing account. These costs are calculated as the weighted average cost (WAC) of compliance instruments held in inventory at the end of a

²³ D.15-01-024, Attachment C at 2-3. (emphasis added).

²⁴ ORA Testimony at 4-17, lines 13-15.

²⁵ ORA Testimony at 4-17-18, lines 21-2.

1 month multiplied by the quantity of emissions generated in that
2 month for which the utility has a physical compliance obligation.²⁶

3 However, ORA does not explain what aspect of this quote SDG&E did not follow. As
4 stated above, SDG&E did expressly follow this directive.

5 SDG&E does, in fact, record its GHG costs to ERRR every month as required in the first
6 sentence quoted above. SDG&E's cost calculation is done by multiplying its end-of-month
7 WAC price times the monthly emissions volumes, as required in the second sentence quoted
8 above. SDG&E finds it possible that ORA misunderstood SDG&E's methodology, as SDG&E
9 did strictly and fully follow the requirement listed in the Decision excerpt above.

10 Additionally, ORA states: "SDG&E included its monthly GHG emissions in the
11 calculation of its WAC. This approach does not follow the Commission's required methodology
12 of calculating the WAC."²⁷ Again, ORA's testimony offers no explanation for its assertion that
13 SDG&E's inclusion of its monthly GHG emissions in the calculation of the WAC is inconsistent
14 with the D.15-01-024.

15 SDG&E agrees with ORA that the monthly WAC is calculated based on the average cost
16 of compliance instruments held in inventory.²⁸ As mentioned above, SDG&E reduces its
17 inventory by its monthly GHG emissions because once expensed that volume is no longer
18 **eligible** to be counted in the inventory pool and thus should be removed in the calculation of
19 WAC of the compliance instruments.

²⁶ ORA Testimony at 4-18 (*citing* D.15-01-024, Attachment C at 1-5.). It is unclear from ORA's description of the "requirements" whether ORA is referring specifically to the text from D.15-01-024 that it quoted, or to some additional requirements in Attachment C.

²⁷ ORA Testimony at 4-18, lines 3-5.

²⁸ ORA Testimony at 4-18, lines 6-7.

1 SDG&E, however, respectfully disagrees with ORA’s position that “SDG&E must not
2 include its monthly GHG emissions in the calculation of its monthly weighted average costs.”²⁹
3 ORA’s testimony provides no citation to D.15-01-024, to that Decision’s Attachment C, or any
4 other Commission precedent for this assertion. It is wrong and unsupported.

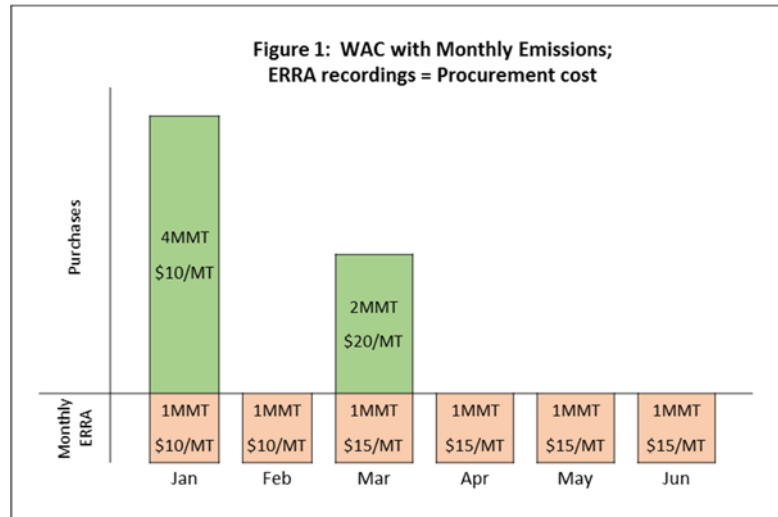
5 **3. ORA’s Unsupported Position that Excludes Monthly Emissions from**
6 **the WAC Calculation, If Adopted, Leads to Stranded Costs**

7 If, as ORA suggests, monthly emission volumes were excluded in the WAC calculation,
8 doing so will lead to SDG&E’s unjustified incurrence of stranded costs. Without including
9 monthly emissions volumes as an inventory reduction, the WAC calculation begins to double-,
10 triple-, quadruple-..... count the earlier transactions that comprise the WAC inventory pool. If
11 monthly emissions are excluded from the calculation, the WAC no longer represents the true cost
12 of the compliance instruments. This occurs because the transactions in the inventory pool are not
13 given the appropriate weighting, which in turn will cause SDG&E to incur unjustifiable stranded
14 costs – a consequence that certainly was not intended by the Commission’s GHG accounting
15 instructions in Attachment C.

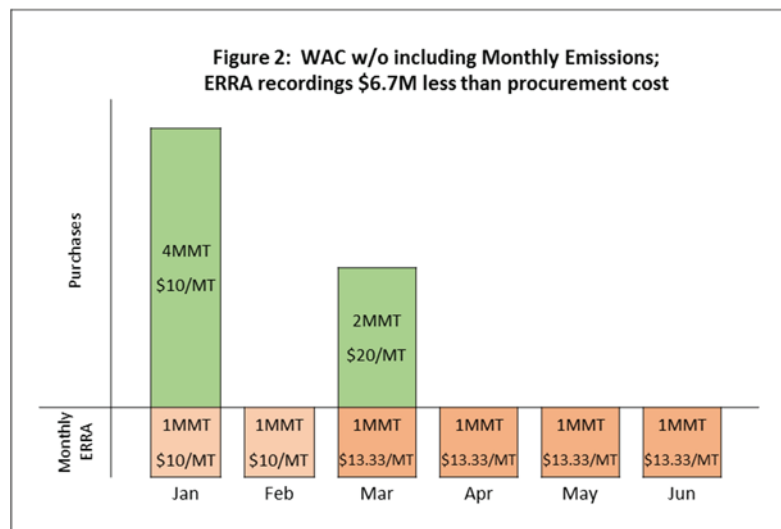
16 If ORA’s position were to be adopted – and it should not be adopted – utilities would be
17 incentivized to modify their procurement of compliance instruments to avoid stranded costs. To
18 illustrate, consider a simplified example where the Cap-and-Trade program spans January-June
19 2016 and has aggressive price increases; assume the utility makes only two purchases – 4MMT
20 (million metric tons) at \$10/MT (metric ton) and 2MMT at \$20/MT; and monthly emissions are
21 1MMT per month. The drastic price increases are meant to make up for the condensed time

²⁹ ORA Testimony at 4-18, lines 10-11 (emphases omitted).

1 period and to simplify the example. Figure 1 illustrates the WAC that includes monthly
 2 emissions, and Figure 2 illustrates the WAC that excludes monthly emissions.



3
 4 In Figure 1, both the total procurement costs (in green) and the sum of the monthly
 5 ERRAs recordings (in orange) are \$80M. Thus, in this scenario, ratepayer costs equal
 6 procurement costs. Of note, all scenarios that include monthly emissions in the WAC
 7 calculation, no matter the timing or pricing structure of the GHG transactions, result in equal
 8 procurement costs and ratepayer costs.



9

1 In Figure 2, the total procurement costs (in green) are still \$80M, however by excluding
2 monthly emission volumes in the WAC calculation, the sum of the monthly ERRA recordings
3 (in orange) is \$73.3M. Here procurement costs **do not equal** ratepayer costs, and the utility is
4 unable to recover all its costs. The amount charged to ratepayers is \$6.7M **below** the utility's
5 procurement costs. This outcome cannot be what the Commission intended.

6 SDG&E opposes ORA's methodology if for no other reason that it fails to mention these
7 serious and significant implications and flaws, which would lead to significant unjust and
8 unreasonable results.

9 **4. SDG&E's GHG Showing for Record Year 2016 Was Identical as its**
10 **Record Year 2015 GHG Showing, Which ORA Found To Be**
11 **Compliant With Commission D.15-01-024, and Was Approved in**
12 **D.17-03-016**

13 SDG&E's GHG submission in its 2016 Record Year ERRA Compliance proceeding was
14 informed by ORA's recent review of the same subject matter in SDG&E's 2015 Record Year
15 proceeding. In the course of reviewing SDG&E's Record Year 2015 showing, ORA determined
16 that "SDG&E correctly applied the methodologies required by the relevant regulations and
17 Commission decisions."³⁰

18 Moreover, the Commission approved that same showing, stating:

19 ORA also reviewed SDG&E's testimony on GHG Compliance
20 instruments. From this review, ORA concluded that SDG&E procured
21 GHG Compliance instruments in accordance with its approved GHG
22 procurement plan, contained within its Bundled Procurement Plan, and
23 complied with the Commission's reporting requirement for utility
24 procurement of GHG compliance instruments.³¹
25

26 Additionally, the Commission stated:
27

³⁰ ORA 2015 testimony, 4-17.

³¹ D.17-03-016 at FOF 7.

1 SDG&E’s GHG compliance instrument procurement activity for Record
2 Year 2015 was reasonable and within SDG&E’s GHG procurement
3 authority and **is consistent with the Commission’s current directives**
4 **applicable to those compliance instruments.**³²
5

6 The entirety of SDG&E’s GHG testimony and showing for Record Year 2016 was
7 substantively and methodologically identical to SDG&E’s Record Year 2015 GHG showing,
8 quoted above.

9 ORA has offered no explanation why its testimony in this proceeding offers such wildly
10 differing conclusions, given the fact that SDG&E applied the same methodology that was
11 derived from D.15-01-024 in both proceedings, and given the Commission’s findings and
12 conclusions noted above.³³ In this proceeding, consistent with the prior year, SDG&E followed
13 the Commission-approved GHG methodology and showing for the current Record Year 2016
14 proceeding.

15 **5. ORA’s Testimony Should Not Include Costs for SDG&E Record Year**
16 **2015 in Its Calculations**

17 Aside from SDG&E’s strenuous disagreement with ORA’s recommendation of any
18 disallowance, ORA’s recommendation specifically includes a significant amount “in true-up
19 costs of SDG&E’s 2015 Record Period.”³⁴ SDG&E’s 2015 Record Year ERRA Compliance
20 Case was closed by D.17-03-016. ORA offers no explanation or justification for this
21 substantively brazen and procedurally improper recommendation that attempts to circumvent the
22 Commission’s requirements for changing a Commission Order.

³² D.17-03-016 at COL 5 (emphasis added).

³³ SDG&E finds it all the more troubling and mystifying that the same ORA witness authored both GHG Testimonies in these back-to-back SDG&E ERRA Compliance cases.

³⁴ ORA Testimony at 4-22.

1 **6. SDG&E followed GAAP**

2 In addition to the reasons listed above, Generally Accepted Accounting Principles
3 (GAAP) dictate that the WAC calculations need to include the monthly emissions. This topic is
4 discussed in the accompanying prepared testimony of Monica Chihwaro.

5 **B. ORA is Incorrect that SDG&E Deviated from its BPP**

6 ORA’s testimony claims that SDG&E “did not apply its strategy for procuring offsets³⁵”
7 ORA misreads SDG&E’s BPP. SDG&E’s BPP states that, [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]

11 [REDACTED]³⁶ The current “compliance period” refers to the 3-year period running from 2015-
12 2017. The “up to” requirement is not satisfied on a yearly basis, but over the course of the
13 compliance period.

14 SDG&E purchased [REDACTED] of offsets in the 2016 record year. Thus, SDG&E met
15 the “up to the maximum 8%” requirement in the BPP. ORA is incorrect that SDG&E did not
16 follow the BPP because SDG&E’s purchases of offsets complied with the “up to” requirement
17 over the course of the compliance period.

18 In addition, ORA also recommends that SDG&E should be required “to submit testimony
19 including an explanation of its procurement decisions, especially when such decisions appear to
20 deviate from the Commission approved BPP.”³⁷ SDG&E disagrees with this recommendation
21 because, as stated above, SDG&E did follow its BPP.

³⁵ ORA Testimony at 4-14, lines 3-4.

³⁶ SDG&E’s 2014 BPP, Advice Letter 2850-E, Appendix F, Sheet F-15 [emphasis added].

³⁷ ORA Testimony at 4-2, lines 12-14.

In further demonstration of SDG&E’s compliance with the BPP, the tables below provide a summary of the BPP requirements and how SDG&E complied with them.

Products and Transaction Method permitted by BPP	SDG&E 2016 Activity
Allowances via Auction (Vintage 2019 or earlier)	
Allowances via Broker (Vintage 2019 or earlier)	
Allowance Futures via Exchange (Vintage 2019 or earlier)	
Allowance Forwards via RFO (Vintage 2019 or earlier)	
Offset Forwards via RFO (any Vintage)	
Offsets via RFO (any Vintage)	
Offsets via Broker (any Vintage)	
Allowance Sales by any method (Vintage 2019 or earlier)	
Total	

Other BPP Requirements	Did SDG&E Comply?
Report broker activity in the QCR	Yes ³⁸
Adhere to Limits	Yes ³⁹
Procurement Strategy	Yes
Consult with PRG re: Independent Evaluators for RFOs	N/A as no RFO was run
Forecast updates to be reported to PRG	Yes ⁴⁰
Forecast updates to be reported in QCR	Yes ⁴¹

In sum, SDG&E complied with its BPP, contrary to ORA’s contention. Thus, ORA’s recommendation that SDG&E “explain its procurement decisions in future applications” is unjustified because it was based on ORA’s incorrect premise that SDG&E failed to follow its BPP.

³⁸ SDG&E reported all its transactions in the 2016 QCRs including broker transactions. See Att. A of my April 15, 2016 ERRA Compliance Testimony.

³⁹ ORA agrees that SDG&E adhered to its BPP limits. ORA Testimony at 4-2, lines 2-4.

⁴⁰ SDG&E reported its 2016 Forecast and Limit to the PRG on slide 21 of the December 18, 2015 Confidential PRG Presentation.

⁴¹ SDG&E reported 2016 Forecast and Limit in Attachment R- GHG Forecast and Limit Updates of SDG&E’s Q4 2015 QCR.

1 **C. SDG&E Agrees With ORA’s Recommendation that SDG&E Clearly**
2 **Delineate Between the Procurement Costs of GHG Compliance Instruments**
3 **and the GHG Compliance Costs Recorded in ERRA in Future Applications**

4 ORA’s testimony recommends that SDG&E “... provide a clear distinction between its
5 procured compliance instruments eligible for a current compliance period, which would be
6 included in the calculation of its Direct GHG costs for the current Record Period, as opposed to
7 compliance instruments procured for future compliance periods under Cap-and-Trade, and their
8 associated costs.”⁴² While this issue is not captured in the Scoping Memo, SDG&E is willing to
9 provide this information in a format similar to the one illustrated in Table 4-2 as recommended
10 by ORA in future SDG&E ERRA Compliance applications.⁴³

11 **D. SDG&E Disagrees with ORA’s Recommendation that SDG&E Provide**
12 **Attachment C and Template D-2 in Future Applications**

13 ORA’s Testimony recommends that SDG&E be required “to complete and submit
14 Template C of Attachment C, (and Template D-2 of Attachment D of D.14-10-033, as corrected
15 by D.15-01-024, showing all calculations and formulas.”⁴⁴

16 These Templates are already provided by SDG&E biannually in its ERRA Forecast
17 applications, as required by D.14-10-033 and D.15-01-024.⁴⁵ SDG&E’s concern with this
18 proposal is that ORA doesn’t explain why it seeks this same information in both ERRA
19 Compliance and ERRA Forecast proceedings, and what recommendations ORA might render
20 with respect to each template in each proceeding. Providing the templates in both proceedings

⁴² ORA Testimony at 4-12, lines 8-12.

⁴³ ORA Testimony at 4-13, Table 4-2.

⁴⁴ ORA Testimony at 4-21, line 24; *see also* ORA at 4-22, lines 1-2.

⁴⁵ “When a utility files its GHG Forecast Revenue and Reconciliation Application, it shall use Template C to show its WAC calculations.” D.15-01-024, Attachment C at 4. Similarly, “Each utility should complete the five templates provided in Attachment D when submitting its GHG Revenue and Reconciliation Application or request.” D.15-01-024, Attachment D at 1.

1 creates a potentially problematic overlap and conflict between the ERRA Compliance and ERRA
2 Forecast proceedings.

3 SDG&E submits that SDG&E and other IOUs should be clear, from the outset of both
4 ERRA proceedings: (a) exactly what GHG-related information is needed for an IOU to comply
5 an applicable Commission or legal requirement, (b) under what legal and regulatory
6 requirements the submitted information is reviewed, and (c) what Commission findings are
7 needed by law. Currently it is unclear to SDG&E why, for example, these templates should be
8 provided in both ERRA forecast and compliance cases, which are pending at the same time,
9 which could potentially lead to conflicting regulatory outcomes. Further, SDG&E observes that
10 unless the Commission clarifies the above points with specificity, this area of the ERRA
11 compliance proceedings will be fraught with conflict, confusion, and inconsistencies from case
12 to case.

13 **E. SDG&E Disagrees with ORA’s Recommendation for Additional Testimony**
14 **on Methodology**

15 In future years, ORA recommends that SDG&E “provide reasonable supporting
16 testimony regarding the methodologies and assumptions that it used in the calculations of the
17 GHG emissions and associated costs for the Record Period.”⁴⁶

18 As noted above in SDG&E’s summary, SDG&E is unclear as to what “reasonable
19 supporting testimony” ORA is seeking and why it is seeking that information. SDG&E is
20 willing to work with ORA to define what information is to be provided for future ERRA
21 Compliance filings to clarify ORA’s request and objectives. SDG&E further recommends that
22 ORA and the other IOUs convene a process, much like the process that culminated in D.15-05-

⁴⁶ ORA Testimony at 4-16, line 18; *see also* ORA at 4-17, lines 1-2.

1 005 to develop, with specificity, what information should be provided in support of the
2 Commission's objectives.

3 SDG&E highly recommends that the Commission should be very precise and clear in
4 identifying the requirements for the contents of SDG&E's GHG showing in its ERRA
5 Compliance applications. As noted above, ORA found SDG&E's 2015 GHG showing to be
6 acceptable; for Record Year 2016, based on essentially the same showing, ORA's testimony
7 finds its WAC calculation unacceptable (a point with which SDG&E disagrees).

8 The Commission should take steps to (a) identify with precision the applicable GHG
9 legal and regulatory requirements, and (b) identify how the IOUs can demonstrate compliance
10 with the applicable legal and regulatory requirements. Doing so will for future proceedings will
11 lead to far less contention and confusion on the very important matter of compliance.

12 In the meanwhile, given these many and significant compliance uncertainties, the
13 Commission should reject ORA's recommendation as to any disallowance.

14 **III. SUMMARY OF GOING-FORWARD RECOMMENDATIONS**

15 SDG&E urges that ORA withdraw its disallowance recommendation as it is not justified
16 for reasons explained above, and instead work with SDG&E in doing the following:⁴⁷

- 17 1) Pinpoint the exact GHG-related legal and regulatory requirements – and the exact
18 language -- to which SDG&E must comply;

⁴⁷ SDG&E is interested in widening this discussion to include the other IOUs. But since this is an SDG&E-specific proceeding, one which is designed to review an SDG&E-specific showing, SDG&E finds it in appropriate to have major compliance or policy determinations result from this proceeding: they should be put forward in a Petition for Modification and enable all affected parties to participate, as all IOUs should be subject to the same compliance obligations and all should be aware of what showing is necessary to demonstrate compliance.

- 1 2) Identify exactly how SDG&E can demonstrate compliance with the clearly identified
- 2 standards so that SDG&E can include that demonstration in its case-in-chief;
- 3 3) Ensure that ORA’s data requests clarify matters within the scope of the case and
- 4 within the Commission’s stated requirements, and not supplant the required
- 5 compliance standards;
- 6 4) Determine that SDG&E can comply with both applicable Commission decisions and
- 7 GAAP standards and any other applicable accounting and legal standards and
- 8 requirements;
- 9 5) Avoid applications of the Commission’s WAC accounting instructions that may or
- 10 will result in stranded costs;
- 11 6) Avoid inconsistent outcomes between IOUs on very similar showings;
- 12 7) Avoid duplication in the required GHG showings as between ERRA Forecast
- 13 proceedings and ERRA Compliance proceedings and create a clear demarcation of
- 14 the respective compliance obligations in each case, and a clear demarcation in the
- 15 findings that the Commission should make in each case.

16 Unless and until all these very important yet currently murky areas are vetted, worked
17 through and clarified, the Commission must not determine that SDG&E be found in non-
18 compliance, especially when SDG&E’s very recent, virtually identical GHG showing, utilizing
19 the same methodology was deemed compliant by ORA and approved by the Commission.

20 **IV. CONCLUSION**

21 SDG&E urges the Commission to reject ORA’s unjust, unreasonable, arbitrary and unfair
22 recommendation, one that is based on its incorrect application of Commission-specific

1 accounting instructions, to disallow recovery of GHG related costs for the many reasons stated
2 herein. SDG&E has, in fact, complied with all of the Commission's GHG-related requirements
3 stated in the scope of this proceeding.

4 This concludes my prepared rebuttal testimony.

Attachment 1

Attachment C of D.15-01-024

ATTACHMENT C

Calculation of Weighted Average Cost of Compliance Instruments

A utility's recorded direct costs include two variables: emissions and costs of compliance instruments. Recorded year direct greenhouse gas (GHG) costs represent the actual costs for utility owned generation, imports, tolls and other contracts for which the utility has responsibility for Cap-and-Trade costs.

Each month, a utility records its GHG costs to its respective balancing account. These costs are calculated as the weighted average cost (WAC) of compliance instruments held in inventory at the end of a month multiplied by the quantity of emissions generated in that month for which the utility has a physical compliance obligation. For financially settled tolling agreements that a utility records as a direct cost, these direct GHG costs should be based on actual contract settlement, not on the WAC. The recorded direct costs for the year are the sum of the monthly GHG expense entries for the year.

Under California's Cap-and-Trade Program, a covered entity must surrender one compliance instrument (an allowance or an offset) for each metric ton of GHG emissions. Allowances are designated with a vintage year. An entity may bank allowances from previous vintage years, but not borrow from future vintage years, to meet a compliance obligation. For example, if a utility holds a vintage year 2013 allowance in its inventory, it can surrender the allowance to meet its 2013 obligation, or bank the allowance to surrender in future years.

There are no restrictions on which vintage year of offsets a utility can use to meet a compliance obligation.⁷

When a utility purchases or otherwise receives compliance instruments, it records:

- Transaction Date;
- Transaction Type (purchase, sale, etc.);
- Vintage (if applicable);
- Quantity of compliance instruments for transaction;
- Cost per compliance instrument for transaction;
- Total Cost of compliance instruments for this transaction calculated as the quantity multiplied by the cost;
- Inventory Balance in dollars;
- Total Quantity of compliance instruments in inventory; and
- WAC of all compliance instruments to date.

When a utility sells, transfers, surrenders, or otherwise removes compliance instruments from its inventory, it records:

- Transaction Date;
- Transaction Type (purchase, sale, etc.);
- Vintage (if applicable);
- Quantity of compliance instruments for transaction;
- Sales price for transaction;

⁷ ARB. Regulatory Guidance Document, Chapter 3. April 2013.
<http://www.arb.ca.gov/cc/capandtrade/guidance/20130419%20Guidance%20Document%20Ch%203%20posting.pdf>.

- Total Cost calculated as quantity of compliance instruments for transaction multiplied by the current WAC;
- Inventory Balance in dollars; and
- Total Quantity of compliance instruments in inventory; and
- WAC of all eligible compliance instruments to date.

When a utility calculates the WAC of compliance instruments in inventory, it should consider all compliance instruments in its inventory that are valid for the current compliance period. Specifically, the calculation shall include all ARB Offsets, and allowances with a vintage year equal to or prior to the recorded year. For example, in recording 2014 costs, a utility shall calculate its WAC based on its inventory of all ARB Offsets and allowances with vintage years 2013 and 2014.

When a utility purchases compliance instruments, it holds these environmental assets in inventory at the purchase price. When a utility procures additional compliance instruments, its inventory increases and its WAC might change. At any period of time, the WAC is calculated as the total cost of all compliance instruments held in inventory, divided by the total quantity of compliance instruments.

For purposes of the WAC calculation, when compliance instruments are sold, transferred, or surrendered, they are taken out of inventory at the WAC; these transactions do not change the WAC of the remaining compliance instruments held in inventory. If the compliance instruments are sold at a higher (lower) price than the WAC, the utility will record a gain (loss) on the sale. For WAC calculation purposes, allowances remain on the balance sheets as inventory (current or noncurrent) until surrendered to ARB. When allowances are

surrendered to ARB, the balance sheet will be reduced by the number of allowances surrendered to ARB.

When the WAC is calculated at the end of the month, a utility will calculate recorded direct costs for the month as follows:

$$D_{m,h} = W \times D_{E,Q_{m,h}}$$

Where:

“WAC” is the weighted average cost of all compliance instruments held in inventory that are eligible for that cap-and-trade compliance period.

“Direct Emissions Quantity” is the direct emissions for the entire month calculated in accordance with ARB standards, regardless of whether compliance instruments have been surrendered for these emissions. The emissions quantity is updated on at least a quarterly basis based on best available information. Emissions from financially settled tolling agreements should not be included in Direct Emissions Quantity for purposes of this calculation.

For example, when recording 2014 costs a utility shall calculate its WAC based on its inventory of all ARB Offsets and allowances with vintage years 2013 and 2014. Any allowances with vintage year 2015 will not be calculated in the WAC used for recording 2014 costs since the second compliance year begins in 2015. When recording 2015 costs, a utility shall calculate its WAC based on its inventory of all offsets and allowances with vintage years 2015, 2016 and 2017, plus any 2013 or 2014 allowances or offsets not used to meet its obligation in the first compliance period.

When a utility files its GHG Forecast Revenue and Reconciliation Application, it shall use Template C to show its WAC calculations. Each utility will use Template C to develop a calculation worksheet for each applicable compliance period. The application should also show a calculation of direct costs

Attachment 2

SDG&E's WAC Calculation

CONFIDENTIAL GHG Data

ELECTRIC Portfolio: CP2 WAC Calculation

Monthly WAC Recordings

Month	Transaction Date	Transaction Type	Quantity		Purchase \$ (\$/MT)	Sales \$ (\$/MT)	Total Cost (\$)	Total Sales (\$)	Inventory Balance (\$)	Total Qty in WAC* Inventory (\$)
			Pur/(Sales) (MT)							
Jan-15	1/1/2015	CP1 WAC Transfer (From the CP1 WAC worksheet)								
Jan-15	11/14/2012	ARB Auction			\$10.00					
Jan-15	2/19/2013	ARB Auction			\$10.71					
Jan-15	5/16/2013	ARB Auction			\$10.71					
Jan-15	8/16/2013	ARB Auction			\$11.10					
Jan-15	11/19/2013	ARB Auction			\$11.10					
Jan-15	2/19/2014	ARB Auction			\$11.38					
Jan-15	5/16/2014	ARB Auction			\$11.34					
Jan-15	8/18/2014	ARB Auction			\$11.34					
Jan-15	11/24/2014	ARB Auction			\$11.86					
Feb-15										
Feb-15	2/18/2015	ARB Auction			\$12.21					
Feb-15										
Feb-15										
Mar-15										
Mar-15										
Mar-15										
Mar-15										
Apr-15										
Apr-15										
Apr-15										
Apr-15										
May-15										
May-15	5/21/2015	ARB Auction			\$12.29					
May-15										
May-15										
Jun-15										
Jun-15										
Jun-15										
Jun-15										
Jul-15										
Jul-15										
Jul-15										
Jul-15										
Aug-15										
Aug-15										
Aug-15	8/18/2015	ARB Auction			\$12.52					
Sep-15										
Sep-15										
Sep-15										
Oct-15										
Oct-15										

Month	Jan-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Feb-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Mar-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Apr-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	May-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Jun-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Jul-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Aug-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Sep-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Oct-15
End of Month WAC	
Monthly Emissions (MT)	

Oct-15		
Oct-15		
Nov-15		
Nov-15	11/17/2015 ARB Auction	\$12.73
Nov-15		
Nov-15		
Nov-15		
Dec-15		
Dec-15		
Dec-15		
Dec-15		
Dec-15		
Jan-16		
Jan-16		
Jan-16		
Jan-16		
Jan-16		
Feb-16		
Feb-16		
Feb-16	2/17/2016 ARB Auction	\$12.73
Feb-16		
Feb-16		
Mar-16		
Mar-16		
Mar-16		
Mar-16		
Mar-16		
Apr-16		
Apr-16		
Apr-16		
Apr-16		
Apr-16		
May-16		
May-16		
May-16	5/18/2016 ARB Auction	\$12.73
May-16		
May-16		
Jun-16		
Jun-16		
Jun-16		
Jun-16		
Jun-16		
Jul-16		
Jul-16		
Jul-16		
Jul-16		
Jul-16		
Aug-16		
Aug-16		
Aug-16	8/16/2016 ARB Auction	\$12.73
Aug-16		
Aug-16		
Sep-16		
Sep-16		
Sep-16		
Sep-16		
Sep-16		
Oct-16		
Oct-16		
Oct-16		
Oct-16		

Balancing Account Entry for Month	
Month	Nov-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Dec-15
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Jan-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Feb-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Mar-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Apr-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	May-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Jun-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Jul-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Aug-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Sep-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	
Month	Oct-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	

Oct-16	
Nov-16	
Nov-16	
Nov-16	11/15/2016 ARB Auction
Nov-16	
Nov-16	\$12.73
Dec-16	
Dec-16	
Dec-16	
Dec-16	
Dec-16	
Jan-17	
Jan-17	

Month	Nov-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	

Month	Dec-16
End of Month WAC	
Monthly Emissions (MT)	
Balancing Account Entry for Month	

* If Total Quantity in Inventory at the end of a month is zero, the utility shall use the most recent ARB auction clearing price instead of the WAC.

CONFIDENTIAL GHG Data

WAC	
Sum of Monthly Balancing Account Entries	

Unassigned costs	
Final WAC * Unassigned volume	

Unassigned Volume	
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