BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies	Rulemaking 06-04-009

BEFORE THE CALIFORNIA ENERGY COMMISSION

Order Instituting Informational Proceeding AB-32 Implementation: Greenhouse Gases	Docket 07-OIIP-01

Reply Comments of San Diego Gas & Electric Company and Southern California Gas Company On the Proposed Decision of Commissioner Peevey

KEITH W. MELVILLE
101 Ash Street, HQ12
San Diego, California 92101
Telephone: (619) 699-5039
Facsimile: (619) 699-5027
E-mail: kmelville@sempra.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY

October 7, 2008

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San Diego Gas and Electric Company and Southern California Gas Company, jointly the Sempra Energy Utilities ("SEU"), herein provide their reply comments on the Proposed Decision ("PD") of Commissioner Peevey. Pursuant to CPUC Rule 14.3(d), SEU's reply comments are limited to identifying misrepresentations of law, fact or condition of the record contained in the comments of other parties.

Reply to Comments of LADWP

LADWP's comments allege (without any citations to the record) that the CPUC and the CEC are intentionally using this GHG rulemaking proceeding as a means of "truing-up" rates among the state's investor-owned and publicly-owned utilities. LADWP Comments, p. 8. There is no evidence in the record of this intent, nor does LADWP point to any. LADWP correctly admits that any allowance method could have the result of changing rates. However, LADWP then argues that "Choosing financial winners and losers to resolve past competitive differences is inappropriate…" which again rests upon an unsupported inference as to the intent of the two Commissions (as well as upon LADWP's own arguments as to the source of any existing rate differentials, which is also not based on any record evidence). LADWP fails to acknowledge that it currently enjoys lower rates than most IOUs in part because of its heavy reliance on high GHG content coal and in part because it has failed to incur costs to reduce its emissions to levels close

to those of the IOUs. Ensuring an equitable distribution of GHG obligations under such circumstances is far different than "truing up rates." LADWP's suppositions misrepresent the condition of the record and should not be relied upon.

Reply to Comments of IEP

IEP notes that in the RPS decision, the CPUC deferred to CARB on the issues of "how to account for renewable energy generation that has GHG emissions, such as geothermal" and "whether GHG emissions from the use of biomass or biogas fuel to generate electricity create any compliance obligations under a GHG cap." IEP Comments, p. 3. However, despite this admission that the CPUC will defer to CARB on these issues, IEP's comments then propose modifying the PD to include an exemption for generators that emit 25,000 metric tones or less per year of fossil-based CO2(e). Since the Commission has already determined to let CARB decide these issues, the submission of a detailed proposal in comments on a PD (where parties have both time and page limitations) is inappropriate. IEP also asserts, with no citations to the record in this proceeding, that utilities would somehow favor their own generation, should they be allowed to conduct auctions of allowances. SDG&E and other IOUs have consistently advocated allowance auctions be conducted by a neutral third party contrary to IEP's assertion. IEP postulates an "unintended tilt, " but neither specifies any evidence in support of this "tilt" nor how any utility could possibly misuse the auction process to "favor their own generation". IEP's comments are speculative and not supported by the record. Finally, IEP argues at page 7 of its comments that "holders of existing contracts" should be reimbursed by ratepayers to recover the costs of allowances, allegedly in order to maintain electric reliability. In fact, IEP's threat that such generators would reduce output is hollow; if it occurs, LSEs would simply be procuring generation elsewhere. Ratepayers should not be required to buy allowances for generators in the transition period and then pay prices that incorporate the cost of the allowance.

Reply to Comments of L.A. County

The County of Los Angeles agrees with the PD's treatment of CHP, including the proposed new CHP rulemaking, but claims at page 4 of its comments that "both investor owned and municipal utilities are resistant to CHPs, as has been evidence by comments in this proceeding." This is a misrepresentation of the record. SEU's comments are

hardly evidence of its "resistance to CHPs;" they encourage the installation of efficient CHP.[1] The County of Los Angeles then alleges that the new proposed CHP workshop will "provide additional opportunities for the utilities to object to more CHP, raise roadblocks, and generally decelerate any movement towards increased CHP." Such claims neither help the Commission improve this PD nor provide useful suggestions for the new rulemaking. The County's comments should be disregarded.

Reply to Comments of SCPPA

SCPPA argues at page 9 of its comments that the PD's adoption of a sales-based allocation would be "…punishment for long-past decisions to enter into contractual commitments that were entirely justified by both economics and national politics at the time they were made." Nothing in the record of this proceeding supports such a claim. The PD adopts no penalties and expresses no intention to inflict "punishment" on any party or organization (nor does the record explore the justification of coal-fired generation over time for that matter). In essence, SCPPA's argument is that imposition of the same standard on all emitters in the electricity industry is somehow so unfair that it constitutes a "punishment." Of course, imposition of the same standard on all market participants is the essence of equity and fairness. The proposed "fixes" to counteract this, equity, which SCPPA describes as punishment (by delaying or modifying the sales based allocation) are unsupported and should not be adopted.

Reply to Comments of EPUC/CAC

EPUC/CAC raises an interesting point on pages 7-9 of their comments. They point out that fossil-fired merchant and all QF generation face regulatory uncertainty with respect to GHG cost recovery, while utility owned-generation and renewable resources do not. The current formulation of the administered SRAC price does not include carbon costs. "Consequently, if this formula remains in place in 2012, QFs will receive no compensation for carbon costs, immediately undermining the viability of existing projects. The Commissions thus should find that a QF may pass through any actual

[1] E.g., "If a CHP facility is in the commercial sector and not of very large size, the thermal output may be regulated as part of the residential and commercial natural gas sector that may not be included in the cap-and-trade program. Unless offsets are allowed for the increased efficiency in heat production in that sector, the full value of CHP will not be recognized. This fact would be a deterrent to the installation of efficient CHP." SEU Comments on PD.

demonstrated GHG compliance costs while this administrative price is in place." EPUC/CAC comments, p. 9. First, 50 percent of the Market Index Formula ("MIF") is based on electric forward prices and so would provide compensation for carbon costs that are embedded in the market price of electricity for 50 percent of the MIF. Second, the proposed GHG regulation will not begin until 2012, while MRTU will be in place in 2009. There should be ample time to transition to MRTU pricing prior to GHG regulation, so that QFs would paid a price similar to other market participants who have GHG obligations (and hence, SDG&E's avoided cost). The EPUC/CAC recommendation should not be adopted.

CONCLUSION

SEU supports the PD in most respects, as do many of the commenting parties. As set forth in its opening comments, SEU recommends that the Commission make changes to the PD to qualify its support for 33% renewables; make allocations to renewable deliverers (as well as emitters); allow borrowing; have a safety valve; make allocations to load serving entities on a sales basis over the whole time period, and ensure CHP thermal output receives offsets (or other consideration) when not in a capped sector.

Respectfully submitted,

/s/ KEITH W. MELVILLE

KEITH W. MELVILLE
101 Ash Street, HQ12
San Diego, California 92101
Telephone: (619) 699-5039
E-mail: kmelville@sempra.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY and SOUTHERN CALIFORNIA GAS COMPANY

October 7, 2008

CERTIFICATE OF SERVICE

I hereby certify that pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of **Reply Comments of San Diego Gas & Electric Company and Southern California Gas Company On the Proposed Decision of Commissioner Peevey** on each party named in the official service list in R.06-04-009 and Docket 07-OIIP-01 by electronic service. Those parties without an email address were served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

Copies were also sent by Federal Express to Commissioner Peevey and Administrative Law Judges Charlotte F. TerKeurst, Jonathan Lakritz and to the California Energy Commission Docket Office.

Copies were also served by email to the CEC docket office and to Nancy Ryan, Commissioner Peevey's advisor.

Executed this 7th day of October, 2008, at San Diego, California.

/s/ *LISA FUCCI-ORTIZ*

Lisa Fucci-Ortiz