

Application No.: A.22-06-XXX

Exhibit No.: _____

Witness: Scott Lewis

PREPARED DIRECT TESTIMONY OF

SCOTT LEWIS

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

PUBLIC VERSION

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



JUNE 1, 2022

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1 on this showing, SDG&E requests that the Commission find that SDG&E’s 2021 GHG product
2 procurement complies with D.12-04-046, SDG&E’s BPP, and D.19-04-016.

3 **II. DEVELOPMENT OF CALIFORNIA’S CAP-AND-TRADE PROGRAM**

4 In 2006, Assembly Bill (“AB”) 32 became law. The bill requires California to lower
5 GHG emissions to 1990 levels by 2020. To achieve AB 32’s goals, the California Air
6 Resource’s Board (“CARB”) created a scoping plan that included multiple comprehensive
7 actions. One such action was creating California’s Cap-and-Trade Program, intended to
8 establish a market-based price for GHG emissions, provide market signals to promote investment
9 in Energy Efficiency (“EE”) activities and encourage the use of low emitting electric generation
10 to reduce GHG emissions. The Cap-and-Trade Program covers compliance years 2013 to 2030.
11 The 2013-2023 compliance years are divided into four separate compliance periods: Compliance
12 Period 1 (“CP1”) covers years 2013-2014; Compliance Period 2 (“CP2”) covers years 2015-
13 2017; Compliance Period 3 (“CP3”) covers years 2018-2020; and Compliance Period 4 (“CP4”)
14 covers years 2021-2023. Compliance periods for 202-2030 are described in the recent Cap-and-
15 Trade regulation.²

16 CARB has set declining GHG Emissions Caps for each year of the program to provide a
17 trajectory to achieve the State’s 2020 and 2030 GHG emissions goals. An Emission Cap equals
18 the amount of California GHG allowances issued by CARB for that year. The program was
19 designed so that allowances can be banked for use in future years. Future vintages, however,
20 cannot be used to satisfy an obligation for a prior year.

² See Section 95840 of the Cap-and-Trade Regulation for further details on Compliance Periods for 2024-2030. California Air Resources Board, *Article 5: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms* at 109-110 available at https://ww2.arb.ca.gov/sites/default/files/2021-02/ct_reg_unofficial.pdf

1 Compliance instruments consist of GHG allowances and CARB-verified offsets, the
2 latter of which is a verified reduction of GHG emissions from sectors outside the Cap-and-Trade
3 Program. While one offset is equivalent to one allowance and can be used for compliance, their
4 use is limited. For compliance years 2013 – 2020, no more than 8% of compliance year
5 obligations can be fulfilled with offsets. Compliance years 2021-2025 have a 4% annual limit
6 and years 2026-2030 have a 6% annual offset limit.³

7 **A. Covered Entities**

8 Emitters covered under the Cap-and-Trade Program must procure one Compliance
9 Instrument for every metric ton (“MT”) of carbon dioxide equivalent (“CO₂e”) that they emit.
10 Only entities that exceed emissions thresholds and are in sectors covered by the program are
11 subject to compliance. Entities subject to compliance are called Covered Entities.⁴ Electric
12 generators that exceed 25,000 MTs of emissions in a calendar year and electric imports are
13 covered entities. As such, SDG&E must purchase Compliance Instruments for its imported
14 power and for its Utility-Owned Generation (“UOG”) plants. Imported power includes generic
15 out-of-state market purchases as well as specified power such as electricity generated from the
16 SDG&E-owned Desert Star Energy Center and from SDG&E contracted Yuma Cogeneration
17 Associates (“YCA”). At the time of SDG&E’s updated 2021 GHG forecast within its BPP,
18 SDG&E had two California UOG plants that were Covered Entities in the program: Palomar
19 Energy Center and Miramar Energy Facility. In addition, as a result of contractual agreements
20 pursuant to its Purchased Power Agreements (“PPAs”), SDG&E has procurement obligations for

³ Note that offsets, although calculated annually, do not need to be surrendered until the end of the compliance period. *See id.* at 136.

⁴ *See* Section 95811 of the Cap-and-Trade Regulation for further details on Covered Entities and Thresholds. *Id.* at 64-66.

1 various tolling agreements. For compliance years 2018 – 2021, SDG&E forecasted that it would
2 have compliance obligations for the following tolling agreements: Otay Mesa Energy Center
3 (“OMEC”),⁵ Goal Line,⁶ Pio Pico Energy Center, Carlsbad Energy Center, Orange Grove
4 Energy⁷ and Escondido Energy Center.⁸

5 **B. LTPP Approved Procurement Methods**

6 The Commission recognized the utilities’ need to procure compliance instruments to
7 fulfill requirements with California’s Cap-and-Trade Program. As a result, the Commission
8 granted procurement authority of GHG compliance instruments along with limitations on
9 procurement methodologies, vintages, and volumetric limits in D.12-04-046 and in SDG&E’s
10 BPP. In accordance with SDG&E’s BPP, SDG&E is authorized to procure seller-guaranteed
11 offsets through a Request for Offering (“RFO”) or via approved broker. SDG&E is also
12 authorized to purchase and sell allowance futures via approved exchanges and allowances from
13 CARB-run quarterly auctions and Price Containment Reserve Sales. For SDG&E’s 2021

⁵ In October 2019, the OMEC-PPA expired and was replaced by a new capacity-only agreement which shifts the burden of purchasing compliance instruments back to Otay Mesa. As such Otay Mesa no longer contributes to SDG&E’s Cap-and-Trade Obligation portfolio, though it did contribute during 2018-2019. *See* AL 3476-E.

⁶ In August 2019, Goal Line was removed from the Cap-and-Trade program as it emitted below the 25,000 MT threshold for an entire compliance period. This occurred during CP2 from 2015-2017. If, in any year Goal Line exceeds the threshold, it will re-enter the program as of that year and remain a covered entity through the end of that compliance period and the entire following compliance period.

⁷ Orange Grove Energy and Escondido Energy Center are both eligible to be removed from the Cap-and-Trade program as they have both emitted below the annual 25,000 MT threshold for the entire compliance period CP3. Both entities are currently working with CARB to remove themselves from the program and SDG&E will continue to report emissions and forecasts in its ERRRA proceedings for Orange Grove and Escondido Energy Center until their removal is officially approved by CARB.

⁸ *See* AL 3660-E, approved January 20, 2021 and effective December 16, 2020 at Appendices, Sheet F-12, and AL 2850 E-A, approved March 30, 2016 and effective February 19, 2016 at Appendix F, Sheet F-12.

1 procurement period, the LTPP authorized purchases and sales of Vintages 2013 – 2024.
2 SDG&E’s BPP GHG Limit for the 2021 procurement period was 0.391 Million MT.⁹

3 **III. 2021 GHG COMPLIANCE INSTRUMENT PROCUREMENT**

4 SDG&E seeks the Commission’s determination in this proceeding that SDG&E’s
5 procurement of GHG-related products during 2021 was in compliance with the Commission’s
6 approach on GHG procurement, as stated in the Track III Decision of the LTPP Proceeding,
7 D.12-04-046. In that Decision, the Commission issued a procurement limit regarding
8 Compliance Instruments that “provides the utilities broad latitude, particularly giving them the
9 opportunity to forward procure to the degree they believe compliance instrument prices are
10 favorable, or to postpone procurement to when they believe pricing will become more
11 favorable.”¹⁰

12 Accordingly, SDG&E developed a procurement strategy to allow SDG&E to remain
13 within the Commission-approved SDG&E GHG procurement limit of 0.391 Million MT for
14 compliance years 2013-2024.¹¹ The soft cap of \$65.00 and hard floor of \$17.71 for the 2021
15 auctions served as the maximum and minimum prices expected in the auctions. The average
16 settlement price in 2021 for the Vintage 2021 quarterly auctions was \$22.04. The Vintage 2024
17 quarterly auctions settled at an average price of \$23.69. SDG&E’s procurement activity in 2021
18 is shown in Appendix A.

⁹ *Id.* at Sheets F-18 and F-19.

¹⁰ D.12-04-046 at 57.

¹¹ *See* AL 3660-E, approved January 20, 2021 and effective December 16, 2020 at Appendices, Sheet F-12, and AL 2850 E-A, approved March 30, 2016 and effective February 19, 2016 at Appendix F, Sheets F-18, and F-19.

1 SDG&E purchased [REDACTED]¹² and sold [REDACTED] MT of Compliance Instruments in the 2021
2 procurement period; net sales were [REDACTED] MT, which was below SDG&E's limit of [REDACTED] MT.
3 SDG&E's 2021 Quarterly Compliance Report ("QCR") Attachment Q tables in Appendix A
4 herein show the specific transactions executed in 2021 and the individual costs associated with
5 each transaction. SDG&E's total net revenues earned from GHG procurement in 2021 was
6 \$ [REDACTED].

7 *See Appendix A for SDG&E's four 2021 QCR Attachment Q tables.*

8 **IV. CONCLUSION**

9 SDG&E's procurement activity was consistent with the approach prescribed by the
10 Commission in D.12-04-046, D.15-10-031, and SDG&E's BPP in Advice Letter 2850-E-A and
11 AL 3660-E, discussed above, for procuring GHG compliance instruments. Therefore, SDG&E
12 requests that the Commission find that SDG&E complied with D.12-04-046, D.15-10-031,
13 Commission-approved AL 2850-E-A and AL 3660-E, and D.21-05-004 based on the testimony
14 provided herein for the record period January 1, 2021 through December 31, 2021.
15

¹² Due to the retirement of the OMEC PPA, SDG&E's cap and trade portfolio was positioned such that it did not need to procure any additional allowances in 2021 to meet its compliance obligations for the period.

1 **V. QUALIFICATIONS**

2 My name is Scott D. Lewis. My business address is 8315 Century Park Court, San Diego,
3 CA 92123. I am employed by San Diego Gas & Electric as the Electric & Fuels Trading
4 Manager in the Energy Supply and Dispatch Department. My responsibilities include managing
5 the execution of SDG&E's GHG portfolio and the day ahead and forward procurement of
6 electricity and natural gas that serves SDG&E's electric portfolio. I assumed my current position
7 in August 2014.

8 I have been employed by SDG&E in numerous positions including Senior Electric Fuels
9 Trader, Electricity Trader, Electricity Pre-scheduler, and Electric Real Time Operations. I have
10 been responsible for natural gas scheduling and trading, electricity scheduling and trading,
11 outage management and demand forecasting.

12 I hold a Bachelor's degree in Business Administration with an emphasis in Finance from
13 California State University, Chico.

14 I have previously testified before the Commission.

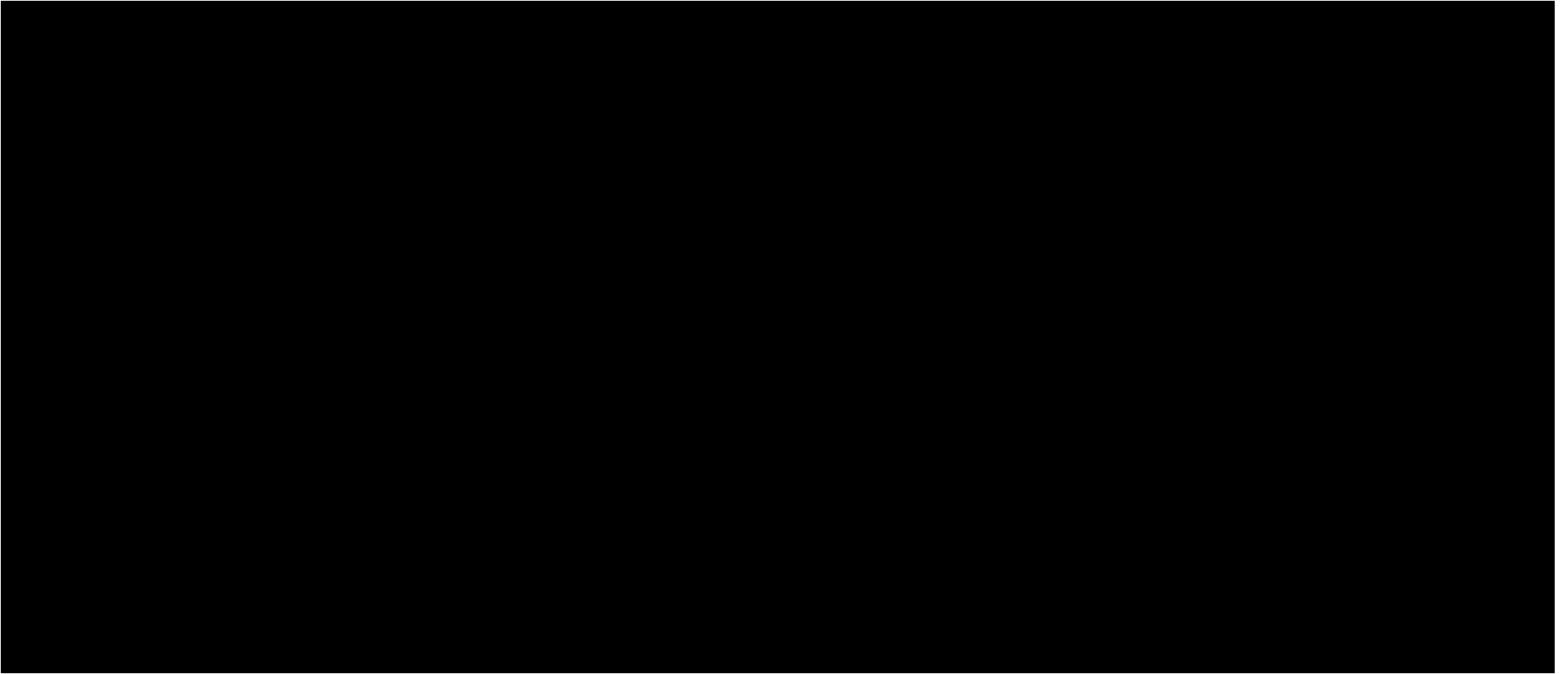
APPENDIX A

QCR ATTACHMENT Q – GHG DEALS –2021

CONFIDENTIAL

This data is considered confidential/privileged material; review and access restricted; subject to PUC Sections 454.5(g), 583, GO 66-D, and D.06-06-066.

QCR Attachment Q - GHG DEALS - Q1 2021



* Initiation Date refers to the date that SDG&E committed to the purchase/sale. Transfer Date refers to the date SDG&E received/delivered the allowances/offsets or will receive/deliver the allowances/offsets.

For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances

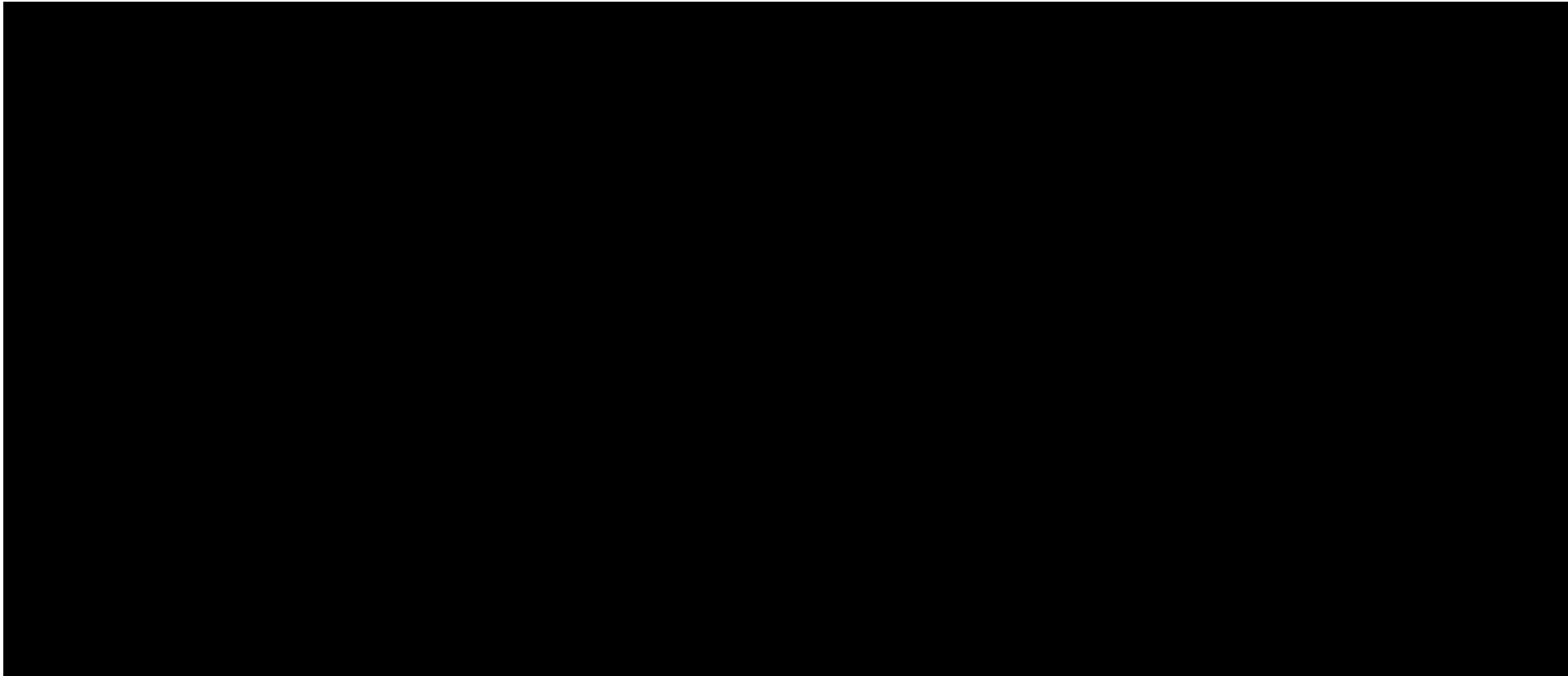
For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

** Offsets marked as Vintage 2009- can be Vintage 2007 - 2009; Compliance Instruments marked as YYYY- were transacted as vintage YYYY, but deliveries from counterpart can include prior vintages

*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023

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QCR Attachment Q - GHG DEALS - Q2 2021



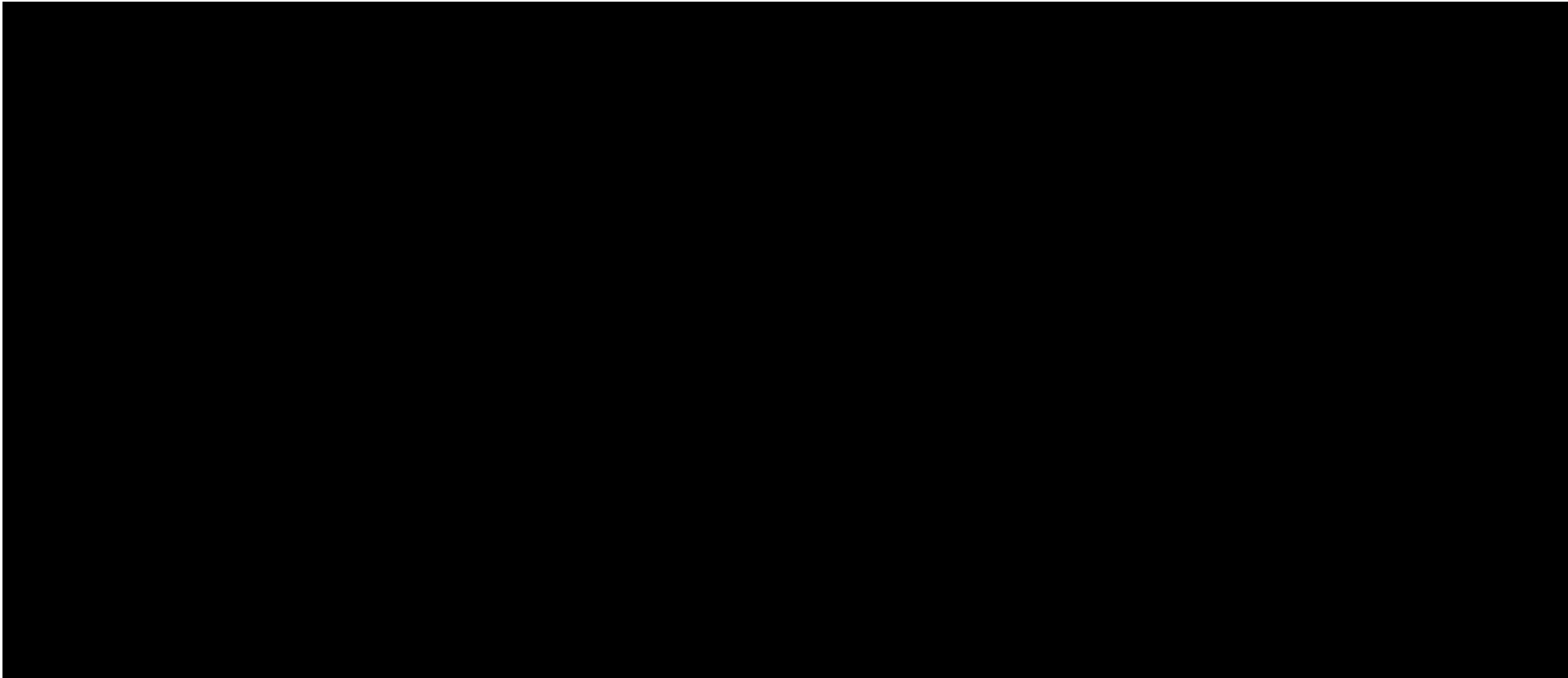
* Initiation Date refers to the date that SDG&E committed to the purchase/sale. Transfer Date refers to the date SDG&E received/delivered the allowances/offsets or will receive/deliver the allowances/offsets.

For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances

For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.

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*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023



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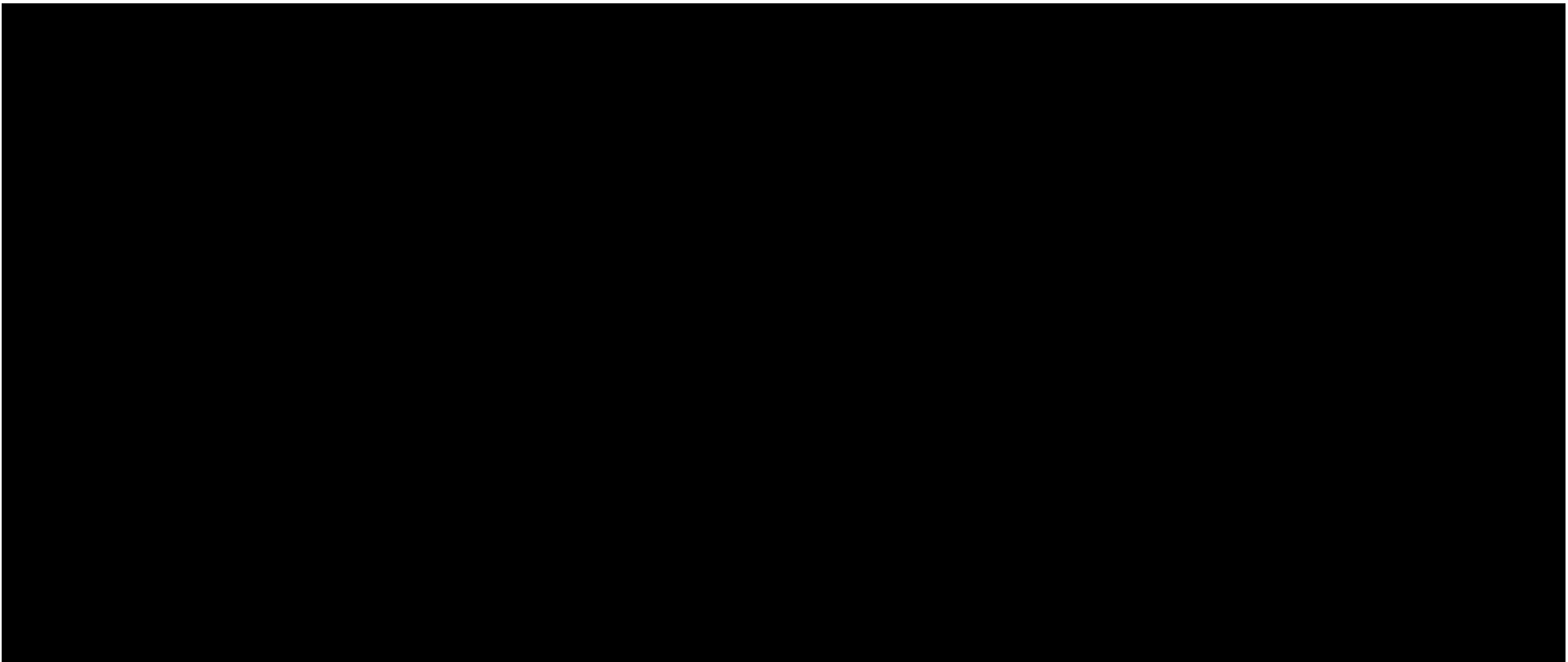
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*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023

This data is considered confidential/privileged material; review and access restricted; subject to PUC Sections 454.5(g), 583, GO 66-D, and D.06-06-066.
QCR Attachment Q - GHG DEALS - Q4 2021



* Initiation Date refers to the date that SDG&E committed to the purchase/sale. Transfer Date refers to the date SDG&E received/delivered the allowances/offsets or will receive/deliver the allowances/offsets.
For Auctions, Initiation Day is the Auction Date and Transfer Date is when SDG&E received the allowances
For Offsets and Bilateral transactions, Initiation Date is the date the confirm was signed or formal agreement was made and Transfer date is when SDG&E received/delivered the compliance instruments.
** Offsets marked as Vintage 2009- can be Vintage 2007 - 2009; Compliance Instruments marked as YYYY- were transacted as vintage YYYY, but deliveries from counterpart can include prior vintages
*** Compliance Periods are as follows: CP1 is 2013-2014; CP2 is 2015-2017; CP3 is 2018-2020; CP4 is 2021-2023

APPENDIX B

**DECLARATION OF CHRIS SUMMERS REGARDING CONFIDENTIALITY OF
CERTAIN DATA/DOCUMENTS PURSUANT TO D.16-08-024, *et al.***

**BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA**

**DECLARATION OF CHRIS SUMMERS
REGARDING CONFIDENTIALITY OF CERTAIN DATA/DOCUMENTS
PURSUANT TO D.16-08-24, *et al.***

I, Chris Summers, do declare as follows:

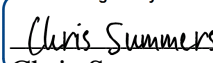
1. I am the Director of Origination, Energy Supply & Dispatch in the Electric and Fuel Procurement department for San Diego Gas & Electric Company (“SDG&E”). I have been delegated authority to sign this declaration by Estela de Llanos, Vice President of Energy Procurement and Sustainability. I have reviewed Scott Lewis’ Prepared Direct Testimony (“Testimony”) in support of SDG&E’s June 1, 2022 “Application ... for Approval of ERRA Compliance of Record Period 2021” (“Application”). I am personally familiar with the facts in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or information and belief.

2. I hereby provide this Declaration in accordance with Decisions (“D.”) D.16-08-024, D.17-05-035 and D.17-09-023 to demonstrate that the confidential information (“Protected Information”) provided in Mr. Lewis' Testimony is within the scope of data protected as confidential under applicable law.

3. In accordance with the legal citations and narrative justification described in Attachment A, the Protected Information should be protected from public disclosure.

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

Executed this 24th day of May 2022, at San Diego.

DocuSigned by:

Chris Summers
Director of Origination, Energy Supply & Dispatch

ATTACHMENT A

SDG&E Request for Confidentiality on the following information contained in Scott Lewis' Testimony in support of SDG&E's Application

Location of Protected Information	Legal Citations	Narrative Justification
<p>1. SL-5, lines 2 and 13; SL-6, line 2</p> <p><i>(SDG&E's 2021 volumetric limit)</i></p>	<p>D.08-04-023</p> <p>D.14-10-033, D.16-08-024, D.17-05-035, D.17-09-023, Public Utilities Code Section 454.5(g)</p> <p>General Order ("GO") 66-D</p> <p>17 CCR § 95914(c) (the "ARB Confidentiality Regulations")</p> <p>The GHG Confidential Information Matrix in Attachment A of D.14-10-033 and revised in D.15-01-024</p> <p>I.ii. of Attachment A makes the following confidential: CPUC-approved procurement limits for compliance exposure and financial exposure</p> <p>Gov't Code §§6254(k), 6254.7 (d), Evidence Code 1060, Civil Code §3426 et seq.</p>	<p>The Protected Information is entitled to confidential treatment under applicable law, including, but not limited to, the legal authority cited herein. The information does not expressly fall within any category of the IOU Matrix applicable to electric procurement information but is market-sensitive information.</p> <p>Among other things, 17 CCR Section 95914(c)(1) of the Cap-and-Trade regulations prohibits disclosure of any auction-related information. Violation of Section 95914 may subject SDG&E to penalties by the California Air Resources Board.</p> <p>In addition, Attachments A, C & D of D.15-01-024 and Appendices A & B of D.15-10-032 require Auction-related information, forecasts of emissions intensity, forecasts of greenhouse gas (GHG) costs, GHG transactions, compliance instrument prices, weight average cost ("WAC") and other GHG information to be kept confidential.</p> <p>Additionally, the Protected Information also includes trade secret information because SDG&E's bidding/consignment strategies contain "commercial value," which gives SDG&E "an opportunity to obtain a business advantage over competitors who do not know or use it."</p> <p>Disclosure of this information would place SDG&E at an unfair business disadvantage relative to other Cap-and-Trade market participants and result in higher Cap-and-Trade compliance costs for SDG&E and its end-use ratepayers.</p>
<p>2. SL-6, lines 1-2, and 6</p>	<p>D.08-04-023</p> <p>D.14-10-033, D.16-08-024, D.17-05-035, D.17-09-023,</p>	<p>The Protected Information is entitled to confidential treatment under applicable law, including, but not limited to, the legal authority cited herein. The information does not expressly fall within any category of the IOU Matrix applicable to electric procurement information but is market-sensitive information.</p>

<p><i>(SDG&E’s 2021 Direct GHG procurement: volumes and cost)</i></p>	<p>Public Utilities Code Section 454.5(g)</p> <p>General Order (“GO”) 66-D</p> <p>17 CCR § 95914(c) (the “ARB Confidentiality Regulations”)</p> <p>The GHG Confidential Information Matrix in Attachment A of D.14-10-033 and revised in D.15-01-024</p> <p>1b of Attachment A makes the following confidential: Utility GHG compliance instrument inventories or quantities that can be used to derive GHG compliance instrument holdings</p> <p>Gov’t Code §§6254(k), 6254.7 (d), Evidence Code 1060, Civil Code §3426 et seq.</p>	<p>Among other things, 17 CCR Section 95914(c)(1) of the Cap-and-Trade regulations prohibits disclosure of any auction-related information. Violation of Section 95914 may subject SDG&E to penalties by the California Air Resources Board.</p> <p>In addition, Attachments A, C & D of D.15-01-024 and Appendices A & B of D.15-10-032 require Auction-related information, forecasts of emissions intensity, forecasts of greenhouse gas (GHG) costs, GHG transactions, compliance instrument prices, weight average cost (“WAC”) and other GHG information to be kept confidential.</p> <p>Additionally, the Protected Information also includes trade secret information because SDG&E’s bidding/consignment strategies contain “commercial value,” which gives SDG&E “an opportunity to obtain a business advantage over competitors who do not know or use it.”</p> <p>Disclosure of this information would place SDG&E at an unfair business disadvantage relative to other Cap-and-Trade market participants and result in higher Cap-and-Trade compliance costs for SDG&E and its end-use ratepayers.</p>
<p>3. <i>Tables on SL-A-1, SL-A-2, SL-A-3, and SL-A-4</i></p> <p><i>(SDG&E’s 2021 Direct GHG procurement: volumes, prices and costs appear in Appendix A of</i></p>	<p>D.08-04-023</p> <p>D.14-10-033, D.16-08-024, D.17-05-035, D.17-09-023, Public Utilities Code Section 454.5(g)</p> <p>General Order (“GO”) 66-D</p> <p>17 CCR § 95914(c) (the “ARB Confidentiality Regulations”)</p> <p>The GHG Confidential Information Matrix in Attachment A of D.14-10-033 and revised in D.15-01-024</p>	<p>The Protected Information is entitled to confidential treatment under applicable law, including, but not limited to, the legal authority cited herein. The information does not expressly fall within any category of the IOU Matrix applicable to electric procurement information but is market-sensitive information.</p> <p>Among other things, 17 CCR Section 95914(c)(1) of the Cap-and-Trade regulations prohibits disclosure of any auction-related information. Violation of Section 95914 may subject SDG&E to penalties by the California Air Resources Board.</p> <p>In addition, Attachments A, C & D of D.15-01-024 and Appendices A & B of D.15-10-032 require Auction-related information, forecasts of emissions intensity, forecasts of greenhouse gas (GHG) costs, GHG transactions, compliance instrument prices, weight average cost (“WAC”) and other GHG information to be kept confidential.</p> <p>Additionally, the Protected Information also includes trade secret information because SDG&E’s bidding/consignment strategies contain “commercial value,” which gives SDG&E “an opportunity to obtain a business advantage over competitors who do not know or use it.”</p>

<p><i>Scott Lewis’ Testimony</i></p>	<p>1b of Attachment A makes the following confidential: Utility GHG compliance instrument inventories or quantities that can be used to derive GHG compliance instrument holdings</p> <p>1c of Attachment A makes the following confidential: Negotiated contract terms of non-public contract terms of Utility AB32 GHG transactions</p> <p>Gov’t Code §§6254(k), 6254.7 (d), Evidence Code 1060, Civil Code §3426 et seq.</p>	<p>Disclosure of this information would place SDG&E at an unfair business disadvantage relative to other Cap-and-Trade market participants and result in higher Cap-and-Trade compliance costs for SDG&E and its end-use ratepayers.</p>
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