

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Fact-Finding Investigation of Potential)	Docket No.	PA02-2-000
Manipulation of Electric and Natural Gas)		
Prices)		
)		
)		

**RESPONSE OF SAN DIEGO GAS & ELECTRIC COMPANY (“SDG&E”) TO
STAFF’S FIRST SET OF DATA REQUESTS**

I. Requests for Admissions (“RFA”)

At no time during the period of 2000-2001 did San Diego Gas & Electric Company (“SDG&E”) engage in the trading activities described in the May 8, 2002 memorandum, as amended, from Donald J. Gelinias, Associate Director, Office of Markets, Tariffs and Rates, that had or could have had the effect of manipulating short-term prices for electric energy in the California Independent System Operator Real-Time Market (or Imbalance Energy Market) and California Power Exchange Day-Ahead and Hour-Ahead Markets, resulting in potentially unjust and unreasonable rates. SDG&E’s trading activities at all times were undertaken in a fashion that was consistent with market mechanisms approved by the Federal Energy Regulatory Commission.

RFA A.1.: Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “**Export of California Power**” during the period 2000-2001, in which the company buys energy at the Cal PX to export outside of California in order to take advantage of the price spread between California markets (which were capped) and uncapped markets outside California.

Response: SDG&E denies that it engaged in a pattern of activity referred to in the Enron memoranda as “Export of California Power” during the 2000-2001 period.

However, on one occasion on December 6, 2000 SDG&E purchased 100 MW per hour in the Cal PX Day-Ahead market during the on-peak hours for export to PacifiCorp. In doing so SDG&E was a price taker of congestion at Malin and, therefore, assumed the potential price risk should the export have resulted in congestion management charges being applied to deliveries to

PacifiCorp. SDG&E was willing to proceed with this transaction because it viewed that the likelihood of incurring such a congestion charge was acceptably small. The details of this transaction are that the purchase from the PX Day-Ahead Market was made during hours 08 through 22 at a total cost of \$653,282. This cost was comprised of energy costs at the PX Day-Ahead price of \$250/MWhr plus congestion charges of \$150/MWhr for 14 hours and \$200/MWhr for 2 hours. Total energy costs were \$400,000 and total congestion charges were \$250,000. Additionally, “wheeling out” charges were imposed on the transaction of approximately \$3,000. The sale price to PacifiCorp was \$285/MWhr. As a result of this transaction, SDG&E received payment from PacifiCorp of \$456,000, resulting in a net loss of \$197,282 to SDG&E.

RFA A.2.: If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all purchases and sales of energy and/or ancillary services, counterparties to the transactions, prices and volumes, delivery points, and corresponding Cal ISO schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response: See Response to RFA A.1.

RFA B.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Non-Firm Export**” during the period 2000-2001, in which the company gets a counterflow (scheduling energy in the opposite direction of a constraint) congestion payment from the Cal ISO by scheduling non-firm energy from a point in California to a control area outside of California, and cutting the non-firm energy after it receives such payment.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Non-Firm Export” during the 2000-2001 period.

RFA B.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, congestion payments received, corresponding Cal ISO schedules, counter parties, and delivery points. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not applicable.

RFA C.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as **“Death Star”** during the period 2000-2001, in which the company schedules energy in the opposite direction of congestion (counterflow), but no energy is actually put onto the grid or taken off of the grid. This allows the company to receive congestion payments from the Cal ISO.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Death Star” during the 2000-2001 periods.

RFA C.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all transmission and energy schedules, the counter parties, all congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not Applicable.

RFA D.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as **“Load Shift”** during the period 2000-2001. This variant of “relieving congestion” involves submitting artificial schedules in order to receive inter-zonal congestion payments. The appearance of congestion is created by deliberately over-scheduling load in one zone (*e.g.*, NP-15), and under-scheduling load in another, connecting zone (*e.g.*, SP-15); and shifting load from a congested zone to the less congested zone, thereby earning congestion payments for reducing congestion.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Load Shift” during the 2000-2001 period.

RFA D.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all schedules of load by zone, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not Applicable.

RFA E.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Get Shorty**” during the period 2000-2001, also known as “paper trading” of ancillary services in which it: (i) sells ancillary services in the Day-Ahead Market; and (ii) the next day, in the Real-Time Market, the company “zeros out” the ancillary services by canceling the commitment to sell and buying ancillary services in the Real-Time Market to cover its position. The phrase “paper trading” is used because the seller does not actually have the ancillary services to sell.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Get Shorty” during the 2000-2001 period. In each and every case in which SDG&E sold ancillary services in the Day-Ahead Market, SDG&E denies that next day in the Real-Time Market, it “zeroed out” the ancillary services bid by canceling the commitment to sell and buying ancillary services in the Real-Time Market to cover its position. In each and every case in which SDG&E sold into the ISO’s Day-Ahead ancillary services markets SDG&E had the ability to either (i) deliver the services as contracted, or (ii) cancel its commitment to sell by buying back its Day-Ahead commitment in the ISO’s Hour-Ahead ancillary services market. Every sale by SDG&E into the ISO’s Day-Ahead and Hour-Ahead ancillary services markets was covered by a generating resource or, in the case of external imports, a selling entity.

RFA E.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this trading strategy, including the dates of all transactions; prices and volumes for sales of ancillary services in the Day-Ahead Market; the cancellation of such sales, prices and volumes for the purchase of ancillary services in the Real-Time Market to cover the company’s position; and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not applicable.

RFA F.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Wheel Out**” during the period 2000-2001. Knowing that an intertie is completely constrained (*i.e.*, its capacity is set at zero), or that a line is out of service, the company schedules a transmission flow over the facility. The company also knows that the schedule will be cut and it will receive a congestion payment without actually having to send energy over the facility.

- Response:** SDG&E denies that it engaged in the activity described in the Enron memoranda as “Wheeling Out” during the 2000-2001 period.
- RFA F.2.:** If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, counter parties, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.
- Response:** Not Applicable.
- RFA G.1.:** Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Fat Boy**” during the period 2000-2001 in which the company artificially increases load on the schedule it submits to the Cal ISO with a corresponding amount of generation. The company then dispatches the generation its schedules, which is in excess of its actual load. This results in the Cal ISO paying the company for the excess generation. Scheduling coordinators that serve load in California may be able to use this activity to include the generation of other sellers.
- Response:** SDG&E denies that it engaged in the activity described in the Enron memoranda as “Fat Boy” during the 2000-2001 period.
- RFA G.2.:** If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, and payments from the Cal ISO for excess generation (including both price and volumes). Also, provide all documents that refer or relate to the activity described immediately above.
- Response:** Not Applicable.
- RFA H.1.:** Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Ricochet**,” also known as “megawatt laundering,” during the period 2000-2001, in which the company: (i) buys energy from the Cal PX and exports to another entity, which charges a small fee; and (ii) the first company resells the energy back to the Cal ISO in the Real-Time Market.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Ricochet” during the 2000-2001 period.

RFA H.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, names of counter parties and whether they were affiliates, the fees charged, prices and volumes for energy that was bought and then resold. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not Applicable.

RFA I.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Selling Non-Firm Energy as Firm Energy**” during the period 2000-2001, in which the company sells or resells what is actually non-firm energy to the Cal PX, but claims that it is “firm” energy. This allows the company to receive payment from the Cal ISO for ancillary services that it claims to be providing, but does not in fact provide.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Selling Non-firm Energy as Firm Energy” during the 2000-2001 period.

RFA I.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, prices and volumes, and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not Applicable.

RFA J.1.: Admit or Deny: The company engaged in activity described in the Enron memoranda as “**Scheduling Energy to Collect Congestion Charge II**” during the period 2000-2001, in which the company: (i) schedules a counterflow even though it does not have any available generation; (ii) in real time, the Cal ISO charges the company for each MW that it was short; and (iii) the company collects a congestion payment associated with the counterflow scheduled. This activity is profitable whenever the congestion payment is greater than the charge associated with the energy that was not delivered.

Response: SDG&E denies that it engaged in the activity described in the Enron memoranda as “Scheduling Energy to Collect Congestion Charge II” during the 2000-2001 period.

RFA J.2.: If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, corresponding schedules, prices and volumes, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: Not Applicable.

RFA K.1.: Admit or Deny: The company engaged in any activity during the period 2000-2001 that is a variant of any of the above-described activities or that is a variant of, or uses the activities known as, “**inc-ing load**” or “**relieving congestion,**” as described above.

Response: SDG&E denies that it engaged in the activity referred to as “inc-ing load” and in “relieving congestion”, as described in the Enron memoranda, during the 2000-2001 period. An explanation of SDG&E’s bidding policies and practices is set forth in response to Data Request III.A.

RFA K.2.: If you so admit, provide a narrative description of each specific time in which the company engaged in such activity and provide complete details of those transactions, including the dates of the transactions, counter parties, prices and volumes bought or sold, corresponding schedules, and any congestion payments received. Also, provide all documents that refer to or relate to such activities.

Response: Not applicable.

II. Requests for Production of Documents

Request A: Provide copies of all communications or correspondence, including e-mail messages, instant messages, or telephone logs, between your company and any other company (including your affiliates or subsidiaries) with respect to all of the trading strategies discussed in the Enron memoranda (both the ten “representative trading

strategies” as well as “**inc-ing load**” and “**relieving congestion**”). This request encompasses all transactions conducted as part of such trading strategies engaged in by your company and the other company in the U.S. portion of the WSCC during the period 2000-2001.

Response: See Attachment 3.

Request B: Provide copies of all material, including, but not limited to, opinion letters, memoranda, communications (including e-mails and telephone logs), or reports, that address or discuss your company’s knowledge of, awareness of, understanding of, or employment or use of any of the trading strategies discussed in the Enron memoranda, or similar trading strategies, in the U.S. portion of the WSCC during the period 2000-2001. The scope of this request encompasses all material that address or discuss your company’s knowledge or awareness of *other* companies’ use of the trading strategies discussed in the Enron memoranda, or similar trading strategies, including, but not limited to: (i) offers by such other companies to join in transactions related to such trading strategies, regardless of whether such offers were declined or accepted; and (ii) possible responses by your companies to other companies’ use of such trading strategies. To the extent that you wish to make a claim of privilege with respect to any responsive material, please provide an index of each of those materials, which includes the date of each individual document, its title, its recipient(s) and its sender(s), a summary of the contents of the document, and the basis of the claim of privilege.

Response: See Attachment 3.

III. Requests for Other Information

Request A: On page 2 of the December 8, 2000, Enron memorandum, the authors allege that traders have learned to build in under-scheduling of energy into their models and forecasts. State whether your company built under-scheduling into any of its models or forecasts during the period 2000-2001, and provide a narrative description of such activity. Provide copies of all such models or forecasts prepared by or relied on by your company during the period 2000-2001 that had under-scheduling built into them.

Response:

SDG&E did not incorporate under-scheduling into any of the tools that it used in implementing its bidding strategy for load or supply.

Attachment 3 contains, in part, the testimony of Wayne Sakarias, SDG&E's Director of Fuel and Power Supply, dated October 2, 2000, which was submitted to the California Public Utilities Commission as part of SDG&E's application, among other things, to review the reasonableness of SDG&E's energy procurement practices. This testimony describes SDG&E's daily activities during the period of July 1, 1999 through August 31, 2000 for procuring energy for SDG&E's bundled service customers through the PX's Day-Ahead and day-of-markets and the ISO's Real-Time or imbalance market. It also describes SDG&E's bidding policies and practices, including its daily forecasting activities, which SDG&E followed in carrying out its energy procurement obligations during this July 1, 1999 through August 31, 2000 period so as to minimize the net cost of power for its bundled retail electric customers. These practices and policies were not utilized to increase profits. These policies and practices continued throughout 2000. An extract from Mr. Sakarias' more detailed discussion of these bidding policies and practices is set out immediately below. (See Sakarias Testimony, pages WS-22 through WS-36 for the complete discussion.)

“SDG&E's bidding practice was to bid at least one hundred percent of SDG&E's forecast metered bundled load into the PX Day-Ahead energy market. Bids into this market specify the price the buyer is willing to pay, and the amount of energy the buyer is willing to buy at that price. SDG&E's bids typically specify different price and quantity levels (the PX effectively permitted 14 different price/quantity pairs), to enable us to maximize the quantity we can buy at the lowest price possible in the Day-Ahead [Hour-Ahead and Real-Time] Markets. And to the extent we defer purchases to the day-of and imbalance markets, SDG&E tries to make purchases in those markets at prices that are lower than in the Day-Ahead market. These price-sensitive bids are structured such that at relatively lower Day-Ahead market clearing prices SDG&E buys more than its forecast bundled load. At relatively higher Day-Ahead market clearing prices SDG&E buys less than its forecast bundled load. SDG&E also submits Day-Ahead adjustment bids to the PX that the ISO used to manage congestion in its Day-Ahead congestion market. These adjustment bids may cause SDG&E's final Day-Ahead load schedules to be more or less than the quantities of load cleared through the PX Day-Ahead energy market.

“After the final Day-Ahead load schedules are determined, SDG&E submitted bids into the PX day-of market. SDG&E’s bids into the PX day-of market are structured such that if day-of prices are low enough, SDG&E will buy incremental amounts of energy that would result in final gross Hour-Ahead load schedules that exceeded SDG&E’s final Day-Ahead load schedules. Similarly, SDG&E’s bids into the PX day-of market are structured such that if Hour-Ahead prices were high enough, SDG&E will sell incremental amounts of energy that would result in final gross Hour-Ahead load schedules that are less than SDG&E’s final Day-Ahead load schedules. SDG&E also submits Hour-Ahead adjustment bids to the PX that the ISO uses to manage congestion in its Hour-Ahead congestion market. These adjustment bids may cause SDG&E’s final Hour-Ahead load schedules to be more or less than the quantities of load cleared through the PX Hour-Ahead energy market.

“SDG&E also participates in the PX Post Close Quantity Match (PCQM) market after the close of both the Day-Ahead and Day-Of markets. This market allows SDG&E to make small adjustments to its final schedules at the closing market clearing price.

“In summary, SDG&E always bids at least 100% of its forecasted metered bundled load into the PX Day-Ahead energy market. The extent to which the PX ultimately schedules SDG&E’s bid load depended on the price/quantity bids that other buyers and sellers offered into the PX markets. Depending on the quantity of load, which is included in SDG&E’s final Day-Ahead load schedules, some portion of SDG&E’s metered bundled load was bid into the PX day-of market. Bids into the PX’s day-of energy markets, and bids used by the ISO in its Hour-Ahead congestion market, are structured such that different quantities of energy are bought or sold at different market clearing prices. Therefore, the percentage of SDG&E’s bundled metered load bid into the California PX day-of market and ISO Hour-Ahead congestion market varies by hour and may be either positive or negative. These bids are all designed to maximize benefits to SDG&E’s customers by minimizing their cost of energy.”

In response to the FERC’s December 15, 2000 order in *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services et al.*, 93 FERC ¶ 61,294, SDG&E’s bidding policies and practices for procurement of energy dramatically changed from what was described by Mr. Sakarias. This order, in part, eliminated the mandatory PX buy-sell requirement imposed on each California public utility and required each utility to use its own generation and supply contracts to serve its retail load. Accordingly, effective January 1, 2001, SDG&E “self scheduled”

all available generation and nearly all contract energy against its bundled retail load until February 7, 2001. Thereafter SDG&E “self-scheduled” all contract energy against its bundled retail load. Effective on February 7, 2001, the State of California Department of Water Resources (“DWR”) began serving SDG&E’s retail customers net short requirements.

Request B: Refer to the discussion of the trading strategy described as “**Ricochet**” in the Enron memoranda. State whether your company purchased energy from, or sold energy to, any Enron company, including Portland General Electric Company, as part of a “**Ricochet**” (or megawatt laundering) transaction during the period 2000-2001. Provide complete details as to such transactions, including the dates of the transactions; the names, titles, and telephone numbers of the traders at your company who engaged in such transactions; the prices at which your company bought and sold such energy (on a per transaction basis); the volumes bought and sold (on a per transaction basis); delivery points; and all corresponding schedules.

Response: During the 2000-2001 period SDG&E did not purchase energy from, or sell energy to, any Enron company, including Portland General Electric Company, as part of the activity referred to as “Ricochet” (or megawatt laundering) transactions.