STATE OF CALIFORNIA

Energy Resources Conservation and
Development Commission

In the Matter of:	)	
Application for Certification for the	)	
Carlsbad Energy Center Project	)	Docket No 07-AFC-6
(CECP)	)	
_____	)	

City of Carlsbad and Carlsbad Redevelopment Agency
Supplemental Testimony, Exhibits, Witness List and Time Estimates

December 5, 2011

Ronald R. Ball
City Attorney for City of Carlsbad and
General Counsel for Carlsbad Redevelopment Agency
1200 Carlsbad Village Drive
Carlsbad, CA 92008
(760) 434-2891

Allan J Thompson
Special Counsel for City of Carlsbad and
Carlsbad Redevelopment Agency
21 "C" Orinda Way, #314
Orinda, CA 94563
(925) 258-9962

Table of Contents

City of Carlsbad and Carlsbad Redevelopment Agency Supplemental Testimony, Exhibits, Witness List and Time Estimates 4

ALTERNATIVES PREPARED DIRECT TESTIMONY OF JOE GARUBA CITY OF CARLSBAD 8

PREPARED DIRECT TESTIMONY 0F MICHAEL M. HOGAN, ESQ. HOGAN GUINEY DICK LLP SPECIAL COUNSEL THE CITY OF CARLSBAD 23

LAND-2 and LAND-3 PREPARED DIRECT TESTIMONY OF DEBBIE FOUNTAIN CITY OF CARLSBAD 33

LAND -2 and LAND -3 DIRECT TESTIMONY OF RONALD R. BALL, CITY ATTORNEY OF THE CITY OF CARLSBAD AND GENERAL COUNSEL OF THE REDEVELOPMENT AGENCY OF THE CITY OF CARLSBAD REGARDING OFFICIAL NOTICE AND CONSEQUENCES OF THE RECENT CITY AMENDMENTS TO ITS GENERAL PLAN AND ZONING ORDINANCE 45

OVERRIDE PREPARED DIRECT TESTIMONY OF BOB THERKELSEN CITY OF CARLSBAD 48

Exhibit List 67

City of Escondido approval of Escondido Energy Center Project, July 12, 2011 ..... Exh 444

City of Escondido Staff Report on Escondido Energy Center Project, July 12, 2011 ..... Exh 445

Housing and Redevelopment Commission Resolution 513, dated ..... Exh 446
September 20, 2011

Staff Report "Update Report on Proceedings before the CEC on September 19, 2011, ... Exh 447
Carlsbad Energy Center"

Ordinance CS-159, an ordinance approving an amendment to the Encina Power Station ..... Exh 448
Precise Development Plan, dated October 11, 2011

Ordinance CS-160, an ordinance approving an amendment to the Encina Specific Plan ..... Exh 449
SP 144(N), dated October 11, 2011

Prepared Track I Testimony of San Diego Gas & Electric Company, in R 10-05-006, ... Exh 450
July 1, 2011

Testimony of the 2010 Long-term Procurement Planning Track I System Plan of ..... Exh 451
San Diego Gas & Electric Company, in R 10-05-006, dated August 5, 2011

Application of San Diego Gas & Electric Company for Authority to Enter Into ..... Exh 452
Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico
Energy Center and Quail Brush Power, dated May 19, 2011, Application A 11-05-023

Prepared Direct Testimony of San Diego Gas & electric Company in Support ..... Exh 453

Of Application for Authority to Enter into Purchase Power Agreements With Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power, dated May 19, 2011 in Application A 11-05-023

Rebuttal Testimony of Robert Anderson of Behalf of San Diego Gas & Electric Company in Support of Application of San Diego Gas & Electric Company for Authority to Enter into Purchase Power Tolling Agreements With Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power, dated October 21, 2011, in A 11-05-023 ..... Exh 454

SDG&E's Response to City of Carlsbad Data Requests in A 11-05-023, Dated September 6, 2011 ..... Exh 455

OFFICIAL NOTICE DOCUMENTS

Resolution 2011-230 A resolution approving a General Plan Amendment And Local Coastal Program Amendment Regarding the Generation and Transmission of Electric Energy, dated September 27, 2011 [Official Notice Requested]

Ordinance CS-158 An Ordinance Approving an Amendment to Zoning Ordinance Section 21.36.020 Table "A" regarding Generation and Transmission of electrical Energy as Permitted Uses in the Public Utility Zone, dated October 11, 2011 [Official Notice Requested]

STATE OF CALIFORNIA
CALIFORNIA ENERGY COMMISSION

In the Matter of	)	
Application for Certification for the	)	Docket No. 07-AFC-6
Carlsbad Energy Center Project	)	
(CECP)	)	
_____	)	

City of Carlsbad and Carlsbad Redevelopment Agency
Supplemental Testimony, Exhibits, Witness List and Time Estimates

1. Introduction

This Committee issued a document entitled "Notice of Prehearing Conference, Evidentiary Hearing and Committee Conference; Ruling on Motions for Additional Time to File Testimony" on November 29, 2011. In that Notice, this Committee set forth the topics that the Committee will take evidence. These topics include (1) the impacts of the three new PPAs on the cumulative and alternatives analysis, (2) Conditions LAND-2 and LAND-3, their environmental impacts and modifications, (3) Grid reliability issues, (4) the federal PSD permit, (5) recent land use LORS and amendments, and (6) evidence on whether it is appropriate to override unmitigated environmental impacts or noncompliance with state or local LORS. Testimony and exhibits on the above-listed topics are to be filed by 12:00 pm on December 5, 2011. The City of Carlsbad and the Carlsbad Redevelopment Agency (hereafter "Carlsbad") hereby responds to the Committee directives.

2. Carlsbad Witnesses and Testimony

(a) Alternatives Analysis. Mike Hogan sponsors testimony on the requirements for an adequate analysis of Alternatives. Mr. Hogan concludes that the current alternatives and cumulative analysis are inadequate under CEQA. Joe Garuba

sponsors testimony which evaluates the impacts of the three new SDG&E executed PPA projects (Escondido Repower, Pio Pico and Quail Brush) on the existing alternatives analysis. The testimony determines that the three PPA projects meet most or all of the project objectives. The testimony also conducts a site evaluation comparison and assesses the comparative environmental impacts of the three projects with the CECP. The testimony concludes that the three PPA projects are preferable to the CECP.

(b) LAND-2 and LAND-3. Mike Hogan sponsors testimony on the adequacy of the Alternatives analysis and Debbie Fountain sponsors testimony on the CECP proposal to eliminate or modify the Land-2 and Land-3 Conditions. CECP advanced three arguments (pages 4-8 of CECP's November 18 filing) which argue that the financial burden of the demolition and remediation of the Encina Power Station ("EPS" should not be borne by the CECP. Carlsbad agrees with CECP and further suggests that the EPS owner should be free to take partners in the redevelopment effort. Ms. Fountain reiterates that these conditions, with real deadlines, along with the type of community benefits offered by the Poseidon Desalination plant (a redevelopment precedent), could satisfy the "extraordinary public purpose" test of the Redevelopment Agency. Ms Fountain offers to negotiate a development agreement with the EPS owner. Finally, Ms Fountain reiterates that Land-2 and Land-3, as proposed by the CECP, add a third power plant on the California Coast and, thus, increases, not decreases blight.

(c) Grid Reliability. Carlsbad does not have a witness on grid reliability. In Mr. Garuba's testimony on Alternatives, and Mr. Therkelsen's testimony on Override, raise questions regarding the timing of the CECP and its ability to meet grid and regional reliability needs, the concern of the ISO.

(d) Recent Land Use LORS. Carlsbad City Attorney Ron Ball sponsors testimony clarifying the implications and effects of recently passed Carlsbad resolutions and ordinances. This testimony addresses effective dates of the resolutions and ordinances and the implications for electric generation facilities in the Public Utility zone.

(e) Override. Mr. Therkelsen sponsors testimony on the Energy Commission's "override" provision. He provides personal experiences and context for applying the override standard for a LORS non-conformance. There is a discussion of how the Commission has viewed various factors in making an override determination and concludes that the CECP attributes do not rise to the level that warrant an override.

3. Exhibit List (attached)

4. Time Estimates The following estimates are provided to the Committee in advance of any rebuttal testimony that may be filed on December 7, 2011. Carlsbad reserves the right to increase these estimates following review of any rebuttal testimony filed.

Witness	Area	Time Estimate
Joe Garuba	Alternatives analysis	15 minutes
Mike Hogan	CEQA Requirements	10 minutes
Debbie Fountain	LAND-2 and LAND-3	20 minutes
Ron Ball	City LORS	10 minutes
Bob Therkelsen	CEC Override	20 minutes

The following are estimates for cross-examination of CEC Staff and CECP witnesses. Please note that Carlsbad does not have any cross examination for the four staff witnesses on Land-2 and Land-3. In our opinion, these witnesses need not testify live.

Witness	Area	Time Estimates
CECP		
Scott Valentino	Land-2 and Land-3	20 minutes
Brian Theaker	Grid Reliability	15 minutes
Gary Rubenstein	Air quality/PSD	10 minutes
Ron Rouse	City Land Use LORS	20 minutes

CEC Staff

David Vidaver	Alternatives	10 minutes
Will Walters	Air quality/PSD	10 minutes
Mike Monasmith Erick Knight Alvin Greenberg Will Walters	Land-2 and Land-3 (environmental)	- 0 -
Robert Sparks Dennis Peters	System Reliability	15 minutes

12/5/2011

Date

/s/ Ronald R. Ball

RONALD R. BALL
City Attorney for the City of Carlsbad
And General Counsel for Carlsbad
Redevelopment Agency

CECP SUPPLEMENTAL EVIDENTIARY HEARING

ALTERNATIVES
PREPARED DIRECT TESTIMONY OF JOE GARUBA
CITY OF CARLSBAD

Q1. Please state your name and position.

A1. My name is Joe Garuba. I am the Municipal Property Manager for the City of Carlsbad.

Q2. What is the purpose of your testimony?

A2. The purpose of my testimony is to provide information on project alternatives as requested by the Assigned Committee. On November 29, the Assigned Committee in this proceeding issued a Notice of Prehearing Conference Evidentiary Hearing and Committee Conference. In that notice the Committee listed the topics on which they would hear testimony. Item 1 reads:

1. "The impact of the three new San Diego Gas & Electric Power Purchase Agreement projects on our cumulative impacts and alternative analysis"

This analysis is intended to summarize project specific information and to compare the benefits and impacts of the three identified projects with the Carlsbad Energy Center Project (CECP).

Q3. Please describe the alternatives considered for this testimony

A3. On May 19, 2011, San Diego Gas & Electric Company filed an application (Exhibit 452) with the California Public Utilities Commission seeking approval of three executed Power Purchase Agreements (PPA). SDG&E has filed testimony supporting these three projects (Exh. 453) and hearings are scheduled for the beginning of 2012, with a final decision expected by spring 2012. The three PPA projects clearly serve as alternatives to the CECP and need to be considered in light of the City's position

that there are significant adverse environmental impacts and LORS violations that would be created by the proposed CECP.

(a) Escondido Energy Center. This brownfield project is a 45 MW repower project that has a signed power purchase agreement with SDG&E. This project will consist of a single General Electric LM 6000 unit utilizing natural gas fuel. This unit has a rapid response and can go from a cold idle mode to full operation within 10 minutes. The project will be constructed at an existing facility in Escondido and is scheduled to come on-line in 2014. This project was approved by the City of Escondido on July 12, 2011, the time for filing a legal challenge has expired. It is therefore a final action.(Exh 454 , pages 28-32, and 011.Exh 444)

(b) Pio Pico Energy Center. This brownfield project is a 300 MW project located in the County of San Diego that has a signed power purchase agreement with SDG&E. It has an application pending before the CEC, and was deemed data adequate in April 2011. Based on the November 14, 2011 Revised Schedule, the Preliminary Staff Analysis in expected by the end of December 2011. This project consists of three General Electric LMS 100 units utilizing natural gas fuel. These units have a rapid response and can go from a cold mode to full load within 10 minutes. The proposed project will be located adjacent to the existing Otay Mesa combined cycle power plant and is scheduled to come on-line in 2014. (Exh. 454 pages 32-36)

(c) Quail Brush. This project is a 100 MW project to be located in the City of San Diego with a signed power purchase agreement with SDG&E. It has an application pending before the CEC, and was deemed data adequate on November 16, 2011. This project consists of eleven 9.1 MW Wartsila 20V34SG reciprocating units utilizing natural gas fuel. These units have a rapid response and can go from a cold mode to full load in 10 minutes and can operate from 50% to 100% load. The proposed project will be located adjacent to the Sycamore Canyon Landfill. It is scheduled to come on-line in 2014. (Exh. 454, pages 36-40)

Q4. Why is this important to the Committee?

A4. The purpose of my testimony is to identify and evaluate reasonably foreseeable projects that serve as potential alternatives to the proposed project based on the guidance provided by the California Environmental Quality Act (CEQA). I have been informed that CEQA provides the road map for this type of analysis. "An EIR shall describe a range of reasonable alternatives to the project, which would feasibly attain most of the basic objectives of the project but would avoid or substantially lessen any of the significant effects of the project, and evaluate the comparative merits of the alternatives." (CEQA Guidelines, section 15126.6 (a). The alternatives considered must include a "No Project" alternative, which compares the environmental effects of the property remaining in its existing state (i.e., the proposed project is not approved) against the environmental effects that would occur if the project were approved. If disapproval of the proposed project would

result in predictable actions by others, such as the proposal of some other project, this consequence should be addressed in the "No Project" discussion. (14 Cal. Code Reg. § 15126.6(e)(3)(B). The "No Project" alternative thus must consider what would be reasonably expected to happen in the foreseeable future if the project were not approved, based on current plans and consistent with available infrastructure and community services. (14 Cal. Code Reg. § 15126.6(e)(2).

The three projects identified above (Escondido, Pio Pico, and Quail Brush) have been offered PPAs by SDG&E. They either have applications pending with the CEC and are deemed data adequate or, in the case of the Escondido Energy Center, have already received approval from the city hosting the project. Thus, all three should serve as "reasonable alternatives" to the CECP. The three PPAs are currently being reviewed for approval by the California Public Utilities Commission (CPUC), and as the Applicant clearly states:

> A PPA is the central document in the development and construction of independent (nonutility owned) power plants and is a critical component to obtaining project financing. (CECP Supplemental Testimony, Page 6, November 18, 2011).

Q5. Describe the significant effects of the CECP project.

A5. It is the City of Carlsbad's position that construction and operation of the CECP presents significant adverse environmental impacts. These as-yet unmitigated impacts occur in three distinct areas: Land Use, Worker Safety/Fire Protection and the continued use of ocean water for power plant operations. Significant potential negative impacts have also been identified with regard to the visual impact of the proposed CECP because of the inability to provide screening on the east and west sides of the project when the cumulative impacts of Interstate 5 widening, a major sewer line and the forced relocation of the Coastal Rail Trail are taken into account.[1] There has been substantial information entered into this proceeding regarding these issues, so the following is not intended to repeat prior arguments but to merely summarize the main thrust of each.

a. Based on the official determinations by both the City of Carlsbad City Council and the Carlsbad Housing and Redevelopment Commission, the CECP does not conform to all applicable land use regulations. Most recently, the Carlsbad City Council, on Sept. 27, 2011, unanimously passed Resolution 2011-230, which amended the General Plan's Public Utilities Land Use designation, and simultaneously passed Ordinance CS-158, which amended the Public Utilities Zone to further define permitted uses. This action makes it clear that power production over 50 MW is only an acceptable land use outside the Coastal Zone. Although the Energy Commission has the power to

[1] CECP FSA, Nov. 12, 2009, p. 4.12-38

"override" local land use regulations, an override does not make this significant LORS violation disappear.

Furthermore, the CECP fails to meet the Carlsbad Housing and Redevelopment Commission requirement that the CECP demonstrate "extraordinary public purpose." (City of Carlsbad Direct Testimony, January 10, 2010, Fountain p. 5) As reinforced by the Applicant in its November 2011 submittal, the CECP is an addition, not a replacement, to the existing Encina Power Plant, which would exacerbate the existing blighted condition of the site.[2]

b. The CECP does not conform to the California Fire Code provisions that are designed to protect workers and firefighting personnel. In June 2011, the Energy Commission named itself as the local fire official for this project (Errata to the PMPD, page 16). As the local fire official, the Energy Commission would not only have the responsibility for establishing design standards, but would also have the responsibility for training, inspection and emergency response. The Energy Commission has not yet explained if it can responsibly fulfill these duties.

c. The CECP will continue to use ocean water for power plant operations, regardless of whether the Encina Power Station (EPS) complies with a state mandate to reduce the environmental impacts of coastal power plants that employ once through cooling (OTC) in their generation processes. The state adopted an OTC policy in May 2010 requiring coastal power plants to reduce ocean impacts, and EPS is required to comply with this policy by Dec. 31, 2017. The applicant has submitted an implementation plan with the State Water Resources Control Board by which EPS proposes to comply with the policy. However, whether or not EPS complies with the OTC policy, CECP proposes to desalinate and use ocean water in its industrial processes. The significance of the impact of this industrial use on the ocean environment is yet to be determined.

d. Severe Visual Impact – The cumulative impact of the CECP and the future widening of the Interstate 5 combined with a major sewer line that passes east of the plant, may result in the removal of a berm that supports a line of trees that screen the industrial plant. In addition, CECP's 140-foot-tall stacks will tower over the freeway, making them difficult to screen even with a line of trees. Without any screening, the site will stand exposed to motorists, residents and visitors.

[2] Carlsbad Energy Center LLC's Supplemental Testimony before the CEC, November 18, 2011, p. 7

e. Coastal Rail Trail – Condition LAND-1 in the Presiding Member's Proposed Decision would force relocation of the Coastal Rail Trail, a regional transportation link for pedestrians and bicyclists that is currently under development. As written, the condition would require the trail to be relocated west of the railroad tracks, which is not its current route. Setting aside the legal question of whether the Commission can dictate the trail's location and the City contends it can't, forcing its relocation could preclude the trail's development. This unresolved issue thwarts the efforts of the region and represents a potentially significant impact.

Q5. What were the project objectives considered by the CEC Staff in evaluating project alternatives?

A5. The CEC Staff focused its alternatives analysis contained in the FSA (page Alternatives 6-3 and 6-4) on the following project objectives:

1. Meet the expanding need for new, highly efficient, reliable electrical generating resources that are dispatchable by the CAISO (California Independent Systems Operator), and are located in the "load pocket" of the San Diego region;
2. Improve the San Diego regional electrical system reliability through fast starting generating technology, creating a rapid responding resource for peak demand situations, and providing a dependable resource to backup intermittent renewable resources like wind generation and solar;
3. Allow the retirement of existing EPS (Encina Power Station) Units 1, 2, and 3, and assist in the retirement of the South Bay power plant and the eventual retirement of existing EPS Units 4 and 5;
4. Modernize existing aging electrical generation infrastructure in north coastal San Diego County, which includes the retirement of aging once-through cooling (OTC) facilities. Retiring the use of OTC is an objective shared by the energy and environmental agencies in California, including the California Public Utilities Commission (CPUC), California Energy Commission (CEC), CAISO, and publicly owned utilities;
5. Utilize existing infrastructure to accommodate replacement generation and reduce environmental impacts and costs; and
6. Meet the commercial qualifications for long-term power contract opportunities in southern California.

Q6. How do the three PPA projects compare with the CECP in meeting the described objectives?

A6**.** The following addresses how the projects each meet the project objectives:

(1) Meets the expanding need for new, highly efficient, reliable generating resources that are dispatchable by the CAISO, and are located in the "load pocket" of the San Diego region.

Based on publicly accessible and project specific information where available, all three SDG&E PPA projects will utilize modern equipment.

Comparisons of the relative project efficiencies are as follows:

CECP	8,000 Btu/kWhr	(CECP AFC, p.2-34)
Pio Pico	7,894 Btu/kWhr	(Pio Pico AFC, p. 3-10)
Quail Brush	8,834 Btu/kWhr	(Quail Brush AFC, p. 2-6)
Escondido	8,348 Btu/kWhr	(GEaviation.com)

The reliability of each alternative generating system is as follows:

CECP	92%-98%	(AFC, p. 2-28)
Pio Pico	92%-98%	(Pio Pico AFC, p. 3-52)
Quail Brush	98% (summer)	(Quail Brush AFC, p. 2-6)
Escondido	99.7%	(GEaviation.com)

Each of the projects is located in the SDG&E "load pocket" and once operational would be available for dispatch by CAISO

Location of the projects (all located in SDG&E service territory):

CECP	Coastal San Diego County	
Pio Pico	Otay Mesa	(Exh. 454, p. 31)
Quail Brush	Sycamore Canyon	(Exh. 454, p. 37)
Escondido	Escondido	(Exh. 454, p. 28)

(2) Improves San Diego regional electrical system reliability through fast starting generating technology, creating a rapid responding resource for peak demand situations, and providing a dependable resource to back up intermittent renewable resources like wind generation and solar.

CECP – As identified by the applicant in its November 2011 filing, the CECP does not have a PPA at this time, so it fails to meet this objective.

Pio Pico, Quail Brush and Escondido have entered into PPAs with SDG&E:

> "Each of the three subject contracts are for environmentally friendly, quick start generation units utilizing the most advanced and efficient gas-fired technologies. They also provide the starting and/or ramping capabilities required by the Commission to accommodate sudden changes in resources or load. Further, these generation facilities provide flexibility that will help to mitigate the effects of intermittency associated with the increased deployment of renewable generation. In addition, each of these facilities will provide reliable capacity during periods of peak loads." (Exh. 454, page 5)

(3) Allows the retirement of existing EPS Units 1, 2, and 3, and assists in the retirement of the South Bay power plant and the eventual retirement of existing EPS Units 4 and 5.

South Bay has already been retired so this benefit is moot.

As a condition of the San Diego Air Pollution Control District, the applicant is required to retire EPS units 1-3 when the CECP commences operation due to the need to utilize EPS's existing air credits. With regard to the exiting EPS, retirement does not equal removal, so the existing EPS facility would remain intact until the proposed Land Use 3 condition is triggered at some point in the future. Additionally, the CECP needs to obtain approval by the EPA for compliance with air quality regulations and the San Diego Regional Water Quality Control Board for its continued use of ocean water for plant operations. Including the two-year construction time period as identified by the Applicant, the earliest units 1-3 could be retired would be in 2015.

Based on SDG&E's submittals to the CPUC, it appears that the three SDG&E PPAs offer the clearest opportunity to ultimately retire *all* the existing EPS units.

> "For this Application, SDG&E recommends that the Commission assess not only SDG&E's need in 2015 but also through 2018 on the reasonable assumption that the Encina Power Plant will be retired *in full* at the end of 2017. SDG&E assumes the retirement of Encina units 1, 2 and 3, representing a total of 320 MW by 2013, with the remaining capacity to be retired in 2017." (Exh. 454, page 10, emphasis added)

(4) Modernize existing aging electrical generation infrastructure in north coastal San Diego County, which includes the retirement of aging once-through cooling (OTC) facilities. Retiring the use of OTC is an objective shared by the energy and environmental agencies in California, including the California Public Utilities Commission (CPUC), California Energy Commission (CEC), CAISO, and publicly owned utilities.

The retirement or upgrade of existing power plants utilizing once-through-cooling is discussed in (3) above. With regard to modernization of aging electrical generation infrastructure, SDG&E selected three bids in its 2009 Request For Offers with the oversight of a CPUC appointed representative; SDG&E selected the three projects that best fit SDG&E's needs and the San Diego region's energy requirements. The CECP was not selected.[3] Without securing a PPA, the construction of the CECP is questionable, and as such, the ability to meet the project objective is in doubt. Thus, the CECP fails to meet this objective at this time.

(5) Utilize existing infrastructure to accommodate replacement generation and reduce environmental impacts and costs.

[3] Exh. 454, page 42

The CECP will utilize some existing infrastructure, but will have to construct an ocean water desalination plant and a new substation.

The Escondido Energy Center project is a repower of an existing generation unit designed to make the plant more efficient. The plant is located in an industrial zone on previously disturbed land, and was granted a Conditional Use Permit by the Escondido Planning Commission on July 12, 2011. It does not require a CEC license. It is adjacent to an existing switchyard and transmission line, and has water and a natural gas line on site. The rebuilt plant expects to be operational in 2014.

The Pio Pico facility is located on previously disturbed lands adjacent to the existing Otay Mesa power plant. It will utilize an existing switchyard and natural gas fuel line.

The Quail Brush facility will be constructed on previously disturbed lands adjacent to the Sycamore Canyon Landfill.

(6) Meet the commercial qualifications for long-term power contract opportunities in southern California.

The CECP does not have a PPA so it fails to meet this project objective.

It has to be assumed that the three SDG&E PPA projects meet this objective, because signed contracts are the best evidence of projects that meet qualifications for long-term power contracts. Contract term lengths are as follows:

Pio Pico	20 years (Exh. 453, p. 33)
Quail Brush	20 years (Exh. 453, p. 37)
Escondido	25 years (Exh. 453, p. 29)

Table 1 (below) condenses the assessment in graphic form of the proposed project and the PPA alternatives in achieving stated project objectives.

Table 1
COMPARISON OF CECP AND SDG&E PPA PROJECTS WITH CEC IDENTIFIED PROJECT OBJECTIVES

Project Objective	CECP[4]	Pio Pico[5]	Quail Brush[6]	Escondido[7]
1a. New, highly efficient, reliable	YES	YES	YES	YES
1b. Dispatchable	YES	YES	YES	YES

[4] Source: CEC Staff Final Staff Assessment
[5] Source: Testimony of Maurene Bishop, Exh. 453
[6] Source: Testimony of Brad Mantz, Exh. 453
[7] Source: Testimony of Thomas C. Saile, Exh. 453

1c. In San Diego Load Pocket	YES	YES	YES	YES
2a. Fast starting	YES	YES	YES	YES
2b. Rapid response for peak demand	YES	YES	YES	YES
2c. Back-up intermittent renewables	YES	YES	YES	YES
3. Allow retirement of EPS 1-3	YES	YES	YES	YES
4. Retire aging OTC facilities	**Partially.** Continues use of ocean water for power plant operations	YES	YES	YES
5. Use existing infrastructure	YES	YES	YES	YES
6. Long-term power contract	**NO – not selected in procurement**	YES – pending CPUC approval	YES – pending CPUC approval	YES – pending CPUC approval

Q7 How would you compare the CECP and the PPA projects in terms of meeting the project objectives?

A7. According to material submitted by SDG&E and project applicants, the PPA projects meet all of the project objectives adopted by the CEC staff. Many of these objectives are regional in nature and serve the needs of SDG&E's load pocket. The CECP, however, was not selected by SDG&E through its procurement process and has not been offered a long-term power contract by SDG&E or, to my knowledge, any other Southern California utility. Consequently, to date, the CECP is not able to fully meet the CEC Staff's stated project objectives.

Q8. What was the method the CEC staff used to compare project alternatives?

A8. In its FSA, the CEC Staff evaluated alternative sites according to the following criteria (FSA, page Alternatives 6-4):

1. Site suitability, including size (at least 23 acres are required for the power plant equipment, plus laydown and construction set-aside space);
2. Availability of infrastructure – the site should be within a reasonable distance of transmission, natural gas and water supply networks, as well as immediately accessible by roads capable of transporting large equipment and supplies;
3. Location that precludes significant noise, public health, and/or visual impacts to

adjacent residential areas or sensitive receptors (such as day care centers, nursing homes, schools, and public recreation areas);

4. Compliance with local land use and zoning designations;
5. Site control – the site should be void of any site encumbrances (physical or administrative obstructions to long-term use of property) and should be available for sale or long-term lease; and
6. Attainment of basic project objectives.

Q9. How do the CECP and PPA projects compare in terms of the CEC Staff's alternative site evaluation criteria?

A9. Using the CEC Staff's evaluation criteria, I evaluated the CECP and the PPA projects. The comparison is shown in Table 2.

Table 2
COMPARISON OF CECP AND SDG&E PPA PROJECTS WITH CEC ALTERNATIVE SITE EVALUATION CRITERIA

Evaluation Criteria	CECP[8]	Pio Pico[9]	Quail Brush[10]	Escondido[11]
1. Site suitability including size	23 acre parcel bordered by Interstate 5 freeway, lagoon, and railroad corridor. Approximately 8 acres used for plant operations **City contends that site is severely constrained**[12]	10 acres with no identified access concerns	21.6 acres with no identified access concerns	1.67 acres with no identified access concerns. Project approved by City of Escondido.
2a. Distance to transmission	150 feet	1,700 feet	1 mile	150 feet
2b. Distance to natural gas	1,100 feet	8,000 to 10,000 feet	2,200 feet	On site
2c. Distance to	Uses ocean water	Adjacent to	Nearby	On site

[8] Source: CEC Staff Final Staff Assessment unless otherwise noted
[9] Source: Pio Pico Application for Certification A2011-AFC-1, unless otherwise noted
[10] Source: Quail Brush Application for Certification A2011-AFC-3, unless otherwise noted
[11] Source: Exh. 454, Exh. 454 [File No. PHG 11-0005]
[12] Source: Testimony of City of Carlsbad Fire Chief Kevin Crawford, January 4, 2010

water		site		
2d. Immediate access	City: Limited access due to constrained location	No access issues identified	No access issues identified	No access issues identified
3a. Distance to residents	.3 miles	.9 miles	.3 miles	0.3 miles
3b. Distance to sensitive receptors	0.5 miles	.9 miles	.3 miles	Unspecified
4. Compliance with local land use and zoning	CEC Staff: **Undetermined City: NO – Redevelopment: NO**[13]	Yes. Specific Plan unlimited uses	No. Needs land use amendments or CEC override	Yes. Located in industrial zone. Project granted City approval.
5. Site control	Yes	Yes	Yes	Yes
6. Attainment of basic project objectives	**NO – not selected in SDG&E procurement**	YES – pending CPUC approval	YES – pending CPUC approval	YES – pending CPUC approval

Q10. How do the CECP and PPA projects compare in terms of the potential environmental consequences?

A10. In the FSA, the CEC Staff presented a brief "comparative analysis of impacts" discussing the potential environmental issues and impacts of the proposed alternative sites within the City of Carlsbad and provided a matrix summarizing their results in comparison with the CECP (FSA, pages 6-12 to 6-14). In contrast, the CEC Staff only evaluated the air quality and greenhouse gas emissions of the PPA projects.

Consistent with the approach used by the CEC Staff in the FSA, Table 3 compares the potential environmental impacts of the PPA projects with the CECP.

Table 3
COMPARISON OF CECP AND SDG&E PPA PROJECTS FOR POTENTIAL ENVIRONMENTAL IMPACTS[14]

Issue Area	CECP[15]	Pio Pico[16]	Quail Brush[17]	Escondido[18]

[13] Source: Evidentiary Hearing, Testimony of Murray Kane, Feb. 1, 2010, p. 144-146
[14] Gray shaded areas indicate environmental impacts less than CECP; red shaded areas indicate impacts greater than CECP
[15] Source: CEC Staff Final Staff Assessment unless otherwise noted
[16] Source: Pio Pico Application for Certification unless otherwise noted

Air Quality/Public Health	Requires EPA review. Uncertain what impacts may be required.	**Similar to CECP.**	**Less than CECP.** Only 3800 hours of operation per year and construction only 14 months	**Less than CECP**. Plant will operate up to 2600 hours per year. Reduces emissions 3-to-69 percent from current plant.
Land Use/Site Control	CEC Staff: CECP may not conform **City: Non conformance with LORS, including Coastal Act[19] Redevelopment Commission: Nonconformance with LORS**	**Less than CECP.** Adjacent to existing power plant. No apparent LORS issues**.**	**Similar to CECP.** Project will need land use amendments; not in the Coastal Zone	**Less than CECP.** Project approved by City of Escondido July 21, 2011.
Biological Resources	No significant unmitigated impact currently. Potential significant impact once EPS is retired. CECP is required to amend project once EPS retires per FSA pg. 4.9-23	**Similar to CECP.** Use of previously graded property. No potential impact to ocean environment.	**Similar to CECP.** Project on disturbed lands associated with landfill. No potential impact to ocean environment.	**Similar to CECP.** Brownfield project on disturbed land. No impacts.
Traffic and Transportation	CEC Staff: Impacts mitigable through conditions.	**Similar to CECP.** LOS levels similar, but shorter construction timetable and lower workforce	**Similar or less than CECP.** Lower construction workforce and shorter construction timetable	**Similar to CECP.** No significant impact during construction. Site will be remotely operated.
Noise	No significant	**Similar to**	**Similar to**	**Similar to**

[17] Source: Quail Brush Application for Certification, unless otherwise noted
[18] Source: City of Escondido Staff Report to Planning Commission, July 12, 2011 [File No. PHG 11-0005]
[19] Source: Exh. 420,

	impacts	**CECP.**	**CECP.**	**CECP.**
Waste Management	No significant impacts	**Similar to CECP**	**Similar to CECP**	**Similar to CECP**
Water Resources	Potential Significant Impact. Proposed desalination continues use of ocean water for power plant operations. CECP is required to amend project once EPS retires per FSA pg. 4.9-2	**Less than CECP.** Use of fresh water to be replaced by reclaimed water	**Less than CECP.** Uses potable water, but only 1.5 AFY	**Less than CECP.** Project already connected.
Visual Resources	CEC Staff: Severe visual impact. May be mitigable, however, project conditions have not yet been required.	**Less than CECP.** Closest residence is 4,700 feet distant and site is obscured from nearest residences.	**Less than CECP.** Project located next to landfill. Impacts from nearby viewpoints evaluated as less than significant and insignificant.	**Less than CECP.** Stack height under 60 feet. Surrounded by light and heavy industry.
Transmission Line Construction	No significant impacts	**Greater than CECP**. New 1,700 foot transmission connection required	**Greater than CECP.** Two alternatives at distances of 4,800 feet and 1.5 miles	**Similar to CECP**
Worker Safety and Fire Protection	Potential Significant Impact. PMPD Errata proposes that CEC assume role of local fire official. to avoid override **City: Insufficient access; plant's location in a pit and between rail and freeway**	**Less than CECP. No issues identified**	**Less than CECP**. No issues identified.	**Less than CECP.** No issues identified. Project approved by City of Escondido.

	present significant public safety concern[20]			

Q11. What is your conclusion in terms of comparing the CECP and PPA projects with respect to the CEC Staffs alternative site evaluation criteria and potential environmental consequences?

A11. Based on the method used by the CEC Staff in their prior evaluation of project alternatives, I conclude that each of the three alternatives is preferable to CECP.

A critical concern with respect to the evaluation criteria is attainment of the basic project objectives which can only be achieved realistically through securing a long-term power contract. Although the CECP competed in the SDG&E procurement process and has previously sought a long-term contract from SDG&E, it was not selected and consequently has not received a long-term contract offer. As David Vidaver, a CEC expert, pointed out "If San Diego Gas & Electric has said that it does not intend on entering into a power purchase agreement with a generator in the northern part of the county because it doesn't feel it's necessary, I would assume—I would conclude from that that San Diego doesn't feel it's necessary."[21]

Regarding the assessment of potential environmental impacts, Table 3 clearly identifies that the CECP presents equal, if not greater, environmental impacts. This is based on the CECP's

- Location within the coastal zone,
- Proximity to a railroad, lagoon and heavily traveled freeway, continued use of ocean-water for plant operations,
- Non-conformance with Land Use LORS
- Non-conformance with Public Safety LORS, and
- Severe visual impacts attributed to the project

Q12. What is your overall conclusion regarding the suitability of the three PPA projects in comparison to the CECP?

A12. My conclusion is that SDG&E, as the regional planner for San Diego's energy needs, is the responsible entity for determining what the region's needs are. SDG&E's selection of other projects in lieu of the CECP confirms the City's contention that the CECP is unnecessary. Over the past several years SDG&E has moved forward and provided a clear signal that it does not need another coastal power plant and that other, more viable alternatives exist that better meet the requirements of the region.

[20] Source: Testimony of City of Carlsbad Fire Chief Kevin Crawford, January 4, 2010
[21] Evidentiary Hearing, Testimony of David Vidaver, Feb. 3, 2010, p. 341

PREPARED DIRECT TESTIMONY
0F
MICHAEL M. HOGAN, ESQ.
HOGAN GUINEY DICK LLP
SPECIAL COUNSEL
THE CITY OF CARLSBAD

Q.1 Please state your name and employment.

A.1 My name is Michael Hogan and I am currently a partner in the law firm Hogan Guiney Dick LLP, which is located at 225 Broadway, Suite 1900, San Diego, California. My firm serves as special counsel to the City of Carlsbad and has provided legal services concerning compliance with the California Environmental Quality Act (CEQA).

Q.2 How long have you held this position?

A.2 I have been employed by Hogan Guiney Dick LLP for 16 years, since October 1995. For fifteen years before that, I was a partner and associate with the law firm Gray Cary Ware & Freidenrich (now DLA Piper) in San Diego, California. I have been a member of the bar admitted to practice law in the State of California since 1980.

Q.3 What is your expertise with the California Environmental Quality Act?

A.3 I have been an attorney practicing land use and CEQA law for over 30 years. Since 1980, I have represented public agencies property owners and organizations in CEQA matters involving a wide variety of public and private projects, including port facilities, cruise ship terminals, interstate highways, high speed rail projects, landfills and hazardous waste disposal facilities, hotels, casinos, and virtually every type of residential, commercial and industrial development. I have successfully prosecuted and defended scores of CEQA lawsuits in both the trial and appellate courts. Over the past 15 years, my practice has been devoted exclusively to the representation of public agencies. Presently, my firm serves as special counsel to eight cities, counties and special districts in Southern California and the Central Valley, providing legal assistance in the preparation of the environmental documents required by CEQA and in litigation concerning those documents.

Q.4 What is the purpose of your testimony in this proceeding?

A.4 The Committee's Revised Scheduling Order of November 9, 2011, identified the impact of the three new PPA projects on the cumulative impacts and alternatives analysis as one of the topics on which additional evidence and argument will be accepted. The purpose of my testimony is to discuss the impact of the three projects for which SDG&E has entered into Power Purchase Agreements ("PPAs"), including the Pio Pico Energy Center, Escondido Energy Center and Quail Brush Power

(collectively "PPA Projects"), on the analysis of project alternatives and cumulative impacts for the proposed Carlsbad Energy Center Project ("Proposed Project"). My testimony also is intended to suggest ways in which the analysis of cumulative impacts and the "No Project" Alternative can be modified to comply with the requirements of CEQA.

Q.5 Will you please summarize the key points of your testimony?

A.5 Yes. The key points of my testimony are:

- The analysis of alternatives to the Proposed Project does not comply with the requirements of CEQA because:

    - It failed to include the PPA Projects in its evaluation of the "No Project" Alternative with respect to what would reasonably be expected to happen in the foreseeable future if the Proposed Project is not approved; and

    - It failed to consider whether the project alternatives, including the "No Project" Alternative, would avoid or substantially lessen *any* of the Proposed Project's significant impacts, not just those which are unmitigable.

- The analysis of the cumulative impacts of the Proposed Project does not comply with the requirements of CEQA because:

    - It failed to include the PPA Projects as "probable future projects" on the list of cumulative projects considered.

Q.6 Is the Energy Commission required to consider the "No Project" Alternative?

A.6 Yes. Power plant site certification proceedings under Chapter 6 of the Warren-Alquist Act are considered a certified regulatory program under CEQA. (Pub. Res. Code ' 21080.5; 14 Cal. Code Reg. ' 15251(j).) The environmental documents prepared by a certified regulatory program may be used in place of an environmental impact report ("EIR") that otherwise would be required for a project. (Pub. Res. Code ' 21080.5(a); 14 Cal. Code Reg. ' 15250; *Californians for Alternatives to Toxics v. Cal. Dept. Of Pesticide Regulation* (2006) 136 Cal.App.4th 1049, 1067.) These environmental documents are considered the functional equivalent of an EIR. (*Citizens for Non-Toxic Pest Control v. Dept. of Food & Agriculture* (1986) 187 Cal.App.3d 1575, 1586.) An EIR must analyze alternatives to a proposed project and the analysis must include an evaluation of the "No Project" alternative. (14 Cal. Code Reg. ' 15126.6(e).) Accordingly, the Energy Commission must consider alternatives

to the proposed project, including the "No Project" Alternative, under both CEQA and the Warren-Alquist Act. (20 Cal. Code Reg., Appendix B, subdiv. Af.)

Q.7 What are the requirements for an adequate analysis of the "No Project" Alternative?

A.7 The purpose of the "No Project" Alternative is to allow the public and the decision-makers to compare the impacts of approving a proposed project with the impacts of not approving the project. (14 Cal. Code Reg. § 15126.6(e)(1).) If a proposed project involves development on an identifiable property, the "No Project" Alternative is the circumstance under which the proposed project does not proceed. The discussion of the "No Project" Alternative must compare the environmental effects of the property remaining in its existing state (i.e., the proposed project is not approved) against the environmental effects that would occur if the project were approved. If disapproval of the proposed project would result in predictable actions by others, such as the proposal of some other project, this consequence should be addressed in the "No Project" discussion. (14 Cal. Code Reg. § 15126.6(e)(3)(B).

CEQA thus requires the analysis of the "No Project" Alternative to discuss the existing conditions at the time the environmental analysis is commenced, as well as what would be reasonably expected to happen in the foreseeable future if the project were not approved, based on current plans and consistent with available infrastructure and community services. (14 Cal. Code Reg. § 15126.6(e)(2).)

Q.8 Have you formed an opinion regarding whether the analysis of alternatives to the Proposed Project adequately addressed the "No Project" Alternative in this case?

A.8 Yes.

Q.9 What is your opinion?

A.9 The analysis of alternatives at this point in the proceedings does not adequately address the "No Project" Alternative in the manner required by CEQA.

Q.10 What is the basis for your opinion?

A.10 In evaluating the "No Project" Alternative, CEQA requires a lead agency to compare what would happen if a proposed project is approved with what would happen if the project were not approved. If disapproval of a project would result in

predictable actions by others, such as the proposal of some other project, this consequence should be discussed in the "No Project" analysis. (14 Cal. Code Reg. § 15126.6(e)(3)(B).) The lead agency then should analyze the impacts of the "No Project" alternative "by projecting what reasonably may be expected to happen in the foreseeable future if the project were not approved, based on current plans and consistent with available infrastructure and community services." (14 Cal. Code Reg. § 15126.6(e)(3)(C).)

The Committee has taken official notice of SDG&E's plans to enter into PPAs for three separate power plant projects in the San Diego area totaling approximately 450 MW and SDG&E's application to the California Public Utilities Commission for approval of the PPAs. Under CEQA, therefore, the Committee is required to consider what would reasonably be expected to happen in the foreseeable future, based on SDG&E's having entered into PPAs with the PPA Projects, if the Proposed Project were not approved.

The Errata to the Presiding Member's Proposed Decision ("Errata") appears to expressly exclude the PPA Projects from consideration because "[t]he PPA candidate power plants do not presently exist." (Errata, p. 31.) However, CEQA does not require other projects to "presently exist" in order to be included in the evaluation of the "No Project" Alternative. Instead, CEQA assumes that the environmental review of a proposed project necessarily involves some degree of forecasting and requires a lead agency to use is best efforts to find out and disclose all that it reasonably can. (14 Cal. Code Reg. § 15144.) With respect to alternatives, CEQA specifically requires the Energy Commission to analyze the impacts of the "No Project" Alternative "by *projecting what would reasonably be expected to occur* in the foreseeable future if the project were not approved, *based on current plans* and consistent with available infrastructure and community services." [Emphasis added.] (14 Cal. Code Reg. § 15126.6(e)(3)(C).) The failure to project what could reasonably be expected to occur, based on SDG&E's current plans for the PPA Projects, violates CEQA.

Q.11 In your opinion, would consideration of the PPA Projects affect the analysis regarding the "No Project" Alternative in this case?

A.11 Yes. In most other cases, although it is considered the environmentally superior alternative, the "No Project" Alternative is rejected as "infeasible" because it will not achieve any of the objectives of a proposed project. Here, however, including the PPA Projects in the analysis of the "No Project" Alternative would lead to a different conclusion. Had it considered what would reasonably be expected to happen in the foreseeable future if the Proposed Project were not approved, based on SDG&E's current plans for the PPA Projects, the alternatives analysis would have found that

the "No Project" Alternative would attain most, if not all, of the project objectives (e.g, facilitate the retirement of Encina Units 1-3, use existing infrastructure, eliminate daily need for millions of gallons of ocean water for OTC, interconnect to SDG&E electricity system, provide employment for skilled labor in San Diego region) and therefore would be a feasible alternative to the Proposed Project.

Q.12 Does the alternatives analysis at this point in the proceedings fail to comply with CEQA's requirements regarding the "No Project" Alternative in any other way?

A.12 Yes. CEQA explicitly requires a lead agency to consider alternatives which "would avoid or substantially lessen *any* significant effects of the project." [Emphasis added.] (14 Cal. Code Reg. § 15126.6(a), (b), (c), (f); *Sierra Club v. City of Orange* (2008) 163 Cal.App.4th 523, 546-547.) However, a common error made by lead agencies is to consider only the *unmitigated* or *unavoidable* significant impacts of a proposed project in the alternatives analysis.

In Alternatives Finding 5, the Errata states: "No alternative, including the "no project" alternative would avoid or substantially lessen potentially significant environmental impacts *since no significant unmitigable impacts have been established*." [Emphasis added.] (Errata, p. 2.) This finding presumably is based on the FSA's discussion of alternatives which, rather than listing the Proposed Projects significant impacts and identifying a reasonable range of alternatives that could avoid or substantially lessen any of them, simply declared the project would have no *unmitigated* significant impacts. (FSA, pp. 6-4, 6-22 [Staff's environmental analysis has not identified any environmental impacts from the CECP that are significant in a CEQA context and cannot be mitigated to a level that is less than significant.].) As a result, the analysis at this point in the proceedings does not comply with CEQA because it has not considered whether the alternatives, including the "No Project" Alternative, would avoid or reduce *any* of the significant impacts of the Proposed Project.

The Proposed Project will have numerous significant impacts which have not been considered in the analysis regarding alternatives. In virtually every resource area, the FSA identified direct and/or cumulative impacts which require conditions of certification in order to be reduced to a level below significance. (*See, e.g.*, FSA, pp. 4.1-59 [air quality], 4.2-8, 4.2-13 [biological resources], 4.3-16, 4.3-19 [cultural resources], 4.4-19 [hazardous materials management], 4.6-18 [noise], 4.9-27 (soils & water resources), 4.10-22 [traffic & transportation], 4.12-38 [visual resources], 4.13-17 [waste management].) The Committee must consider these significant impacts in its findings regarding alternatives, including the "No Project" Alternative, even if they can be mitigated by the proposed conditions of certification. (*Kings*

County Farm Bureau v. City of Hanford (1990) 221 Cal.App.3d 692, 732.)

By rejecting alternatives, including the "No Project" Alternative, because the Proposed Project will have no *unmitigable* significant impacts, the analysis of alternatives fails to comply with CEQA's mandate to consider alternatives or alternative locations which could avoid or substantially lessen *any* of the significant impacts of the Proposed Project.

Q.13 Can the inadequacy of the analysis of alternatives be remedied?

A.13 Yes. The inadequacy of the analysis of alternatives, including the "No Project" alternative, can be remedied by revising it (i) to address a "No Project" Alternative which considers what can reasonably be expected to happen if the Proposed Project CECP is not approved, based on SDG&E's having entered into PPAs with the PPA Projects, and (ii) to consider alternatives and alternative locations, including the "No Project" Alternative, which would avoid or substantially lessen *any* of the significant impacts of the Proposed Project.

Q.14 Is the Energy Commission required to consider the cumulative impacts of the Proposed Project?

A.14 Yes. Power plant site certification proceedings under Chapter 6 of the Warren-Alquist Act are considered a certified regulatory program under CEQA. (Pub. Res. Code ' 21080.5; 14 Cal. Code Reg. ' 15251(j).) The environmental documents prepared pursuant to a certified regulatory program may be used in place of an environmental impact report ("EIR") that otherwise would be required for a project. (Pub. Res. Code ' 21080.5(a); 14 Cal. Code Reg. ' 15250; *Californians for Alternatives to Toxics v. Cal. Dept. Of Pesticide Regulation* (2006) 136 Cal.App.4th 1049, 1067.) These environmental documents are considered the functional equivalent of an EIR. (*Citizens for Non-Toxic Pest Control v. Dept. of Food & Agriculture* (1986) 187 Cal.App.3d 1575, 1586.) CEQA requires an EIR to analyze the cumulative impacts of a proposed project. (14 Cal. Code Reg.'15130.) Accordingly, the Energy Commission must consider the CECP's cumulative impacts on the environment under both CEQA and the Warren-Alquist Act. (20 Cal. Code Reg., Appendix B, subdiv. Ag.)

Q.15 What are the requirements for an adequate analysis of the cumulative impacts of a proposed project?

A.15 A "cumulative impact" is an impact which is created as a result of the combination of the project evaluated in the EIR together with other projects causing related impacts. (14 Cal. Code Reg. § 15130(a)(1).) Cumulative impacts thus refer to the change in the environment which results from the incremental impact of a proposed

project when added to other closely related past, present and reasonably foreseeable probable future projects. (14 Cal. Code Reg. § 15355(b).)

The following elements are required by CEQA for an adequate discussion of cumulative impacts:

- First, the environmental document must provide either (a) a list of cumulative projects, which includes all past, present and probable future projects producing related or cumulative impacts, including, if necessary, those projects outside the control of the agency, or (b) a summary of projections contained in an adopted planning document which describes or evaluates regional or area-wide conditions contributing to the cumulative impact;

- Second, when utilizing a list of cumulative projects, the agency should consider the nature of each environmental resource being examined, the location of the project and its type when determining whether to include a related project on the list;

- Third, the agency should define the geographic scope of the area affected by the cumulative impact and provide a reasonable explanation for the geographic limitation used;

- Fourth, the environmental document must include a summary of the expected environmental effects to be produced by the cumulative projects, with specific reference to additional information stating where that information is available; and

- Fifth, the environmental document must provide a reasonable analysis of the cumulative impacts of the relevant projects in which the assumptions and conclusions are supported by scientific data or other empirical evidence.

(14 Cal. Code Reg. § 15130(b)(1)-(5).)

Q.16 Have you formed an opinion regarding whether the analysis of the Proposed Project's cumulative impacts complies with the requirements of CEQA?

A.16 Yes.

Q.17 What is your opinion?

A.17 The analysis at this point in the proceedings does not address the cumulative impacts of the Proposed Project in the manner required by CEQA because it fails to include the PPA Projects as "probable future projects" on the list of cumulative projects considered.

Q.18 What is the basis for your opinion?

A.18 In evaluating cumulative impacts, CEQA allows a lead agency to use either a "list of past, present, and probable future projects producing related or cumulative impacts, including projects outside the control of the lead agency, or a summary of projections in an adopted plan or related planning document which describes or evaluates the conditions contributing to cumulative impacts. (14 Cal. Code Reg. § 15130(b)(1).) Where a lead agency uses the "list of projects" approach, CEQA requires the list to include all past, present and reasonably foreseeable probable future projects that may have related environmental effects. (14 Cal. Code Reg. §§ 15130(b)(1)(A), 15355.)

The test for determining whether a development proposal has reached the stage where it should be considered a "probable future project" and included on the list of cumulative projects is whether the project has submitted an application for approval. (*San Franciscans for Reasonable Growth v. City and County of San Francisco* (1984) 151 Cal.App.3d 61, 74-75.) A project that has begun the application process must be included on the list of cumulative projects even though its environmental review or approval process is in its early stages or is expected to be lengthy. (*Friends of the Eel River v. Sonoma County Water Agency* (2003) 108 Cal.App.4th 859, 870.) In compiling the list of projects, the lead agency also should consider the nature of the resource affected and the location and type of project under review. (14 Cal. Code Reg. § 15130(b)(2).) For example, where air quality impacts are concerned, the discussion of cumulative impacts of a proposed energy facility requires consideration of other projects throughout the air basin. (*Kings County Farm Bureau v. City of Hanford* (1990) 221 Cal.App.3d 692, 721.)

The analysis of the Proposed Project's potential cumulative impacts in the FSA used the "list of cumulative projects" approach. Although the list of projects considered in the FSA did not include the PPA Projects, the Committee subsequently took official notice of the fact that SDG&E has submitted applications to the California Public Utilities Commission ("CPUC") for approval of PPAs for three separate power plant projects in the San Diego area totaling approximately 450 MW. However, the Errata to the PMPD appears to dismiss consideration of the PPA Projects because "[t]he PPA candidate power plants do not presently exist" and "the construction and operation of the three plants with which SDG&E has entered into a power purchase agreement are far from certain." (Errata, pp. 31-32.) This conclusion reflects a misunderstanding of CEQA's requirements for determining which projects with related impacts should be included on the list of cumulative projects.

CEQA does limit cumulative projects to those which "presently exist." Instead, CEQA requires the analysis of cumulative impacts to include not only past and present projects, but also all other "reasonably foreseeable probable future projects" with related impacts. "Probable future projects" include those projects for which an application for approval has been submitted, including projects outside the

jurisdiction of the lead agency, even if their environmental review or approval process is in its early stages or is expected to be lengthy.

There is no dispute that SDG&E has submitted an application to the CPUC for approval of PPAs for all three PPA Projects and that Pio Pico and Quail Brush have submitted applications for certification to the Energy Commission which have been found data adequate. These facts are clearly sufficient to qualify the PPA Projects as cumulative projects under CEQA. Any future project for which the applicant has devoted significant time and resources to prepare for regulatory review should be considered as a "probable future project" for purposes of cumulative impact analysis. (*Gray v. County of Madera* (2008) 167 Cal.App.4th 1099, 1127-1128.) A refusal to consider the PPA Projects because of uncertainty as to whether they ultimately will receive permits, or will be financed or constructed, or will be approved by the CPUC, would violate CEQA. This is especially true in light of the fact that the same concerns apply to the Proposed Project.

A discussion of cumulative impacts is only as good as the list of projects it uses. (Kotska and Zischke, *Practice Under The California Environmental Quality Act* (2d ed. 2009), § 13.41, p. 650.) When relevant projects are omitted from the list of cumulative projects, the type and severity of potential cumulative impacts will be understated and the analysis of cumulative impacts will be inadequate. (*Bakersfield Citizens for Local Control* (2004) 124 Cal.App.4th 1184, 1214-1218; *Friends of the Eel River, supra,* 108 Cal.App.4th at p. 868; *San Joaquin Raptor/Wildlife Rescue Center v, County of Stanislaus* (1994) 27 Cal.App.4th 713, 739-741; *Kings County Farm Bureau*, *supra*, 221 Cal.App.3d at pp. 721-724.)

The analysis of cumulative impacts is not complete because it omits the PPA Projects from the list of cumulative projects. These projects satisfy CEQA's requirements for inclusion in the analysis of cumulative impacts as reasonably foreseeable probable future projects because they have commenced regulatory review, they are within the geographic scope of the affected area, they are located in the same air basin as the Proposed Project site, and their potential impacts on the environment are closely related to the impacts the Proposed Project. Accordingly, the analysis of cumulative impacts at this point in the proceedings does not comply with CEQA.

Q.19 In your opinion, would the inclusion of the PPA Projects affect the analysis of cumulative impacts in this case?

A.19 Yes. The PPA Projects consist of three separate power plant projects in the San Diego area totaling approximately 450 MW. Their inclusion on the list of cumulative projects obviously would affect the analysis of the Proposed Project's cumulative impacts on air quality and greenhouse gas emissions because they are located in the same air basin. A thorough review of the PPA Projects' potential impacts on other

resource areas is needed to determine the extent to which they would contribute to the Proposed Project's cumulative impacts. Such review is essential to ensuring that the public and the decision-makers are fully informed of the potential cumulative impacts of the Proposed Project.

Q.20 Can the inadequacy of the analysis of cumulative impacts be remedied?

A.20 Yes. The inadequacy of the analysis of cumulative impacts can be remedied by revising it to include the PPA Projects as "probable future projects" on the list of cumulative projects and by conducting a thorough review of the nature and significance of the cumulative impacts of the Proposed Project and all other past, present and probable future projects with related impacts.

CECP SUPPLEMENTAL EVIDENTIARY HEARING

LAND-2 and LAND-3
PREPARED DIRECT TESTIMONY OF DEBBIE FOUNTAIN
CITY OF CARLSBAD

Q1. Please state your name and position.

A1. My name is Debbie Fountain. I am the Director of the Housing and Neighborhood Services Department for the City of Carlsbad, which includes administration of redevelopment programs.

Q2. What is the purpose of your testimony?

A2. As described in the Committee's Revised Scheduling Order, the purpose of my testimony is to discuss "issues associated with Conditions LAND-2 and LAND-3 and their environmental impacts."

Q3. What do you believe are the "issues associated with Conditions LAND-2 and LAND-3?

A3. I believe there are two issues associated with these two conditions:

1. Are they necessary for meeting the local LORS requirement for the CECP to provide an extraordinary public benefit?
2. Are they sufficient, by themselves, to meet the requirement for the CECP to meet the extraordinary public benefit requirement?

Q4. Do you believe these two conditions are necessary to meet the Redevelopment Agency's extraordinary public benefits requirement? Could they be part of a benefits package to meet the extraordinary public benefit test?

A4. Yes, the two conditions are necessary and could be part of a benefits package offered by the applicant for the CECP and/or the land owner for both the EPS and CECP. As I have testified previously, the primary purpose for establishing the South Carlsbad Coastal Redevelopment Project Area (SCCRA) which includes the property upon which the Encina Power Station (EPS) and proposed CECP are located was to eliminate blight and environmental deficiencies or other blighting influences. There are many objectives for the SCCRA, but one very important objective is to convert the industrial land occupied by the EPS to a more appropriate land use that would also provide for public amenities beneficial to the Carlsbad community. Per the SCCRA Plan, new industrial uses, such as power generating and transmission facilities, are only permitted in the SCCRA if they provide **extraordinary** public benefits. (PMPD

Hearing Transcript, May 19, 2011, pages 217 and 218). Please note this requirement is not for ordinary public benefits but for extraordinary public benefits. The scale of a project, not only in terms of its size and height but also its long term potential environmental impacts and potentially negative influence on adjacent land uses determines the Redevelopment Agency's threshold for what constitutes an extraordinary public benefit. For the proposed CECP, the threshold is understandably very high. Land Use 2 and 3 are required to meet this threshold. The modified Land Use 2 and 3 conditions proposed by the applicant do nothing to further the redevelopment goals or address the blighting conditions caused by the new and existing power plants. They simply require more planning for future action. This is a standard protocol for development but makes no binding commitment to move forward with the demolition or removal of the EPS; they provide no benefit to the SCCRA or the City.

In my testimony, I also provided information on the Poseidon Desalination project as an example of a project that met the extraordinary public benefits requirement for comparison purposes. This testimony was instructive as to the level of benefits required for the Redevelopment Agency to make the extraordinary public benefits findings to approve a new industrial use within the SCCRA.

In my written testimony of January 4, 2010 (page Fountain 7), I said that one reason the Redevelopment Agency was not able to support the CECP was because there was:

> "No guaranteed time commitment for demolition of the existing power plant. This raises a serious concern that the SCCR Area could potentially have two highly industrial uses operating on key coastal property for many years. This is detrimental to the redevelopment goals for the area."

Conditions LAND-2 and LAND-3 go a long way to meeting this requirement and are necessary to meeting the Agency's extraordinary public benefits requirement as noted above. As I recommended in my updated report to the Redevelopment Agency following the Commission's September 19, 2011 Business Meeting (included as an attachment to the City's September 23, 2011 Comments), "inclusion of Land-2 and Land-3 is a minimum requirement for project approval…"

Q5. How could LAND-2 and LAND-3 be improved to meet the extraordinary public benefits test?

A5. As noted on page 19 of the City's comments on the Errata to the Presiding Members Proposed Decision, that while LAND-2 and LAND-3 call for demolition plans, financing plans, redevelopment applications and permit applications, there is no guaranteed date of demolition and remediation. For the condition to be truly effective, a specific date should be identified and only delayed as the result of positive action by the California Independent System Operator or an appropriate government

agency rather than the other way around. As I said on page 7 of my January 4, 2010 written testimony, the lack of a guaranteed time commitment for demolition of the existing power plant "…raises a serious concern that the SCCR Area could potentially have two highly industrial uses operating on key coastal property for many years. This is detrimental to the redevelopment goals for the area." The potential for two power plants within the SCCRA for an unknown period of time exacerbates the conditions of blight which is not acceptable and is inconsistent with the goals and objectives for the SCCRA. The CECP without removal of the EPS within a specified period of time is inconsistent with the SCCRA Plan, which is a clear violation of the redevelopment LORS, because the project does not result in the elimination of blight and does not provide for extraordinary public benefit. These are the most basic requirements for approval of a project within the redevelopment area.

To improve the conditions, the CECP would need to offer a plan that includes the following:

(a) CECP would not sign new bilateral contracts with SDG&E for energy deliveries after January 1, 2015.
(b) Each year starting on January 1, 2015 the EPS owner would apply to the California ISO and the CPUC for permission to retire and demolish the EPS. If these agencies do not approve the request, NRG will re-apply every year until the request is approved,
(c) When no longer under a "must run" contract and immediately following CPUC/ISO permission to retire the EPS, demolition and remediation would commence.
(d) Finally, NRG/CECP would not oppose other SDG&E projects, such as the three PPA projects before the CPUC.

Another improvement in the conditions could be to clarify the financial obligation of the project relative to the redevelopment effort. We agree that placing the entire financial burden of demolition/remediation on the CECP may not be appropriate or necessary, and we would agree to such an obligation backed by CECP's parent, NRG. For example, I believe the City and Redevelopment Commission would be open to discussing a Letter of Credit or corporate guarantee by the parent company to finance the demolition/remediation of the EPS site

Q6. Was your recommendation you made in the staff update following the September 19, 2011 Business Meeting supported by the Redevelopment Commission?

A6. Yes, the Housing and Redevelopment Commission adopted on September 20, 2011 Resolution 513 (also included as an attachment to the City's September 23, 2011 Comments) which stated:

"…without those conditions (Land-2 and Land-3) the project clearly does not serve any extraordinary public purpose for such a redevelopment project…"

"…without the conditions Land-2 and Land-3 the Housing and Redevelopment Commission would not issue a redevelopment permit for this proposed redevelopment project since it would not eliminate the blighting influence of a second power plant in the project area."

Q7. Do you believe that LAND-2 and LAND-3, by themselves, are sufficient to meet the extraordinary public benefit LORS?

A7. No, but they need to be part of the benefit package. Again as I stated in my written testimony in January 4, 2010, I was and continue to be concerned that the size, visual appearance, visual impacts, and lack of public access and recreational amenities associated with the proposed project add to the blighted conditions of the site and run counter to the intent of the Redevelopment Plan. That is why I identified on pages 7, 8, and 14 of that testimony a list of concerns and examples of actions that could be taken to provide an extraordinary public benefit. As demonstrated in the attachment to my January 4, 2010 written testimony, I believe the benefits currently attributed to the CECP are ordinary, typical of any power plant or industrial facility and do not rise to the status of extraordinary public benefits.

I would note that the Redevelopment Agency also made this clear on page 7 of its comments on the Errata to the Presiding Members Proposed Decision: "The proposed conditions, (Land 2 and Land 3) are necessary but not sufficient to provide those extraordinary public benefits." The reason for this conclusion was explained on page 19 of the City's comments on the Errata to the Presiding Members Proposed Decision – by themselves; these two conditions do not go far enough to meet the Agency's extraordinary public benefit requirements. However, they definitely could be part of the benefit package offered by the applicant with some date certain improvements on demolition and remediation of the EPS as noted in A5 above.

Q8. Realizing that the Redevelopment Agency has not been provided with any type of list of additional benefits, do you have any examples of other actions the applicant could take or offer to meet the LORS related to the extraordinary public purpose/benefit finding?

A8. To reiterate from my previous testimony, examples of extraordinary public purpose or benefits could include but may not be limited to:

- A binding commitment that the existing power plant (EPS) be decommissioned and all buildings and related facilities be demolished by a

date certain. This commitment has been provided for in Land Use Conditions 2 and 3 as set forth by the CEC. The Agency has suggested modifications to the conditions to set forth a schedule for actions related to demolition. However, as indicated here, this is only part of the extraordinary public purpose or benefit package. There needs to be other substantial public benefit as noted in the following examples to meet the test.

- An Owner Participation Agreement (OPA) with the City of Carlsbad and Carlsbad Redevelopment Agency prior to start of CECP project construction binding NRG on decommissioning and demolition of the existing power plant (EPS), and requires NRG to deposit funds with the City and/or Agency to initiate and complete a comprehensive Conceptual Master Plan and/or Land Use Development Strategy for the subject property and to bond for removal of the existing plant by a date certain.
- Select a developer to redevelop the existing power plant site as soon as the above noted Conceptual Master Plan and/or Land use Development Strategy is complete and approved by the City Council and the Housing and Redevelopment Commission.
- Substantially improve the landscaping and fencing on the perimeter of their property to aesthetically enhance the area as a temporary measure until such times as the property can be redeveloped.
- Provide public parking on their property for visitors and/or residents that wish to enjoy the beach and/or coastal resources in the area.
- Assist SDGE/Sempra to relocate the switchyard off the property of the existing power plant at the time the new power plant is constructed.
- Dedicate at least 32 acres of land on the most northern end of the NRG property (adjacent to the lagoon and north of existing power plant) to the Redevelopment Agency at no cost for public access and public coastal recreational amenities.

The above benefits would be considered satisfactory to the Agency and would allow us to make the extraordinary public purpose finding.

Q9. Has the Redevelopment Agency reviewed a package of benefits to be offered by the applicant as part of the CECP? If so, what was their response?

A9. No, the applicant did not apply for a redevelopment permit from the Agency and also made no offer of extraordinary public benefit for its consideration. The examples noted in A8 demonstrate the type of benefits that would be considered extraordinary by the Agency. There, however, have been no offers from the applicant for the CECP to be considered by the Agency.

Q10. Do you have an opinion on when all five units of the EPS could be retired and demolished, and the land remediated to allow for new development?

A10. My initial opinion from my previous testimony was that the EPS could be demolished by 2013. This was based on initial indications of schedule from the applicant for the CECP. However, I have been recently informed that SDG&E believes that the EPS could be retired in 2017, without the CECP. Therefore, I have accepted the fact that the EPS could not be retired before 2017. Based on the CECP testimony (pages 5-7), a power purchase agreement (PPA) with a "load serving entity" is required for a successful project. Based on my understanding of the status of these agreements and that the three SDG&E executed PPAs are meeting opposition from a part of the CPUC staff as "not needed", it has become clear to me that the retirement/demolition of the EPS will not occur much sooner than 2017. Therefore, I have accepted this fact and drafted proposed timing conditions for demolition, as indicated in A5, with this date in mind.

Q11. The applicant filed testimony (November 18, 2011) for the CECP which lists a number of CECP project benefits. Do you have an opinion on these benefits?

A11. Yes. The applicant identified ten "benefits that justify override" and nine items that are economic and development benefits. None are compelling, and all represent ordinary benefits of a power generating plant. As noted in my previous testimony, the SCCRA Plan, which is a LORS, requires **extraordinary** public benefit in order to obtain approval by the Redevelopment Agency.

Q12. Would you please comment on the ten items that applicant has indicated justify an override?

A12. Yes. Please refer to the Exhibit 446 and 447: "Housing and Redevelopment Commission Resolution No. 513" and "Update Report on Proceedings Before the CEC on September 19, 2011, Carlsbad Energy Center Project" attached to City of Carlsbad and Carlsbad Redevelopment Agency Comments Following September 13, 2011 Carlsbad Committee Conference". This approving resolution and Redevelopment Agency staff report were submitted to the Agency and I am its sponsor. A discussion of these benefits starts at page 4 of this document. Only two benefits advanced by Mr. Rouse are not covered in this staff report. Following is a summary of the supposed benefits indicated by the applicant, with some combined, with my response;

CECP	Agency Staff Response
Achievement of goals of SCCRA.	While it is true that the CECP will be a smaller, more efficient plant located east of the railroad track,the project itself does not eliminate blight or any

	blighting conditions with its construction. It is both visually and physically a highly industrial use, which creates new blighting conditions and does nothing to eliminate the blight or blighting conditions caused by the existing power plant, or the EPS. This is a basic principle of redevelopment – elimination of blight – and all projects must address it. The SCCRA Plan also anticipated development of the property on the west side of the railroad tracks. The CECP has made no binding commitment to demolish the EPS and prepare the site for development to a higher and better use from a public benefit standpoint.
Retirement & decommissioning of existing units 1-3.	There will be some benefit from the retirement of these three units. However, this benefit will most likely occur with or without the CECP by 2017 due to restrictions placed on certain coastal power plants by the State Water Resources Control Board. With no commitment to demolish the massive building that houses the units, there is no significant benefit from this action, and the blight from the building will remain.
Consistency with the City's goal to phase-out existing power plant for community and commercial redevelopment, and provision of new energy supplies that are critically needed in San Diego by 2012..	It has become clear that SDG&E may not need this electric capacity in order to retire the EPS. SDG&E filed a request with the PUC on 5/19/11 requesting approval of 3 new power purchase agreements representing 400 MW of new capacity. In addition, there has been no commitment to retire the EPS units. Actually, the indication has been that Units 4 & 5 will continue to operate for as long as they are profitable. No commitment to date to demolish existing plant.
Use of highly efficient natural gas fueled generating units burn 30% less fuel, resulting in 30% better GHG	The applicant offers no proof that there will be increased reliability, or any assurances that Carlsbad residents will

performance.	benefit directly from the CECP. While there will be a reduction in pollution from the retirement of EPS 1-3, the new plant could be operated more hours per year and, therefore, there may be no significant benefit.
Installation of two low profile, high-efficient new units totaling 558 MW, and consistency with State policies on power generation.	These benefits are not localized; they are regional benefits which are typical of any new power plant. They do not represent extraordinary public benefits to the Carlsbad community, and do not address the elimination of blight or a blighting condition to address the redevelopment need.
Provision of new revenues to the City of Carlsbad of $5 million per year.	The CECP does represent a sizeable investment and will generate additional tax revenues. However, Agency staff has learned over the past 10 years that power plants depreciate in value fairly quickly. Therefore, more desirable commercial developments on the subject property would provide more public benefits from a use standpoint, but also provide for a more stable revenue source in the future.
Replacement of 225 million gallons per day of ocean water for cooling with air cooling to protect marine life. CECP will decommission and demolish	The CECP does represent an improvement or enhancement of marine protection. However, this is a required action and does not represent any additional benefit offered by the CECP.

Q13. Do you concur with the CEC staff's evaluation of the potential environmental impacts of implementing Conditions LAND-2 and LAND-3?

A13. I have read the CEC staff's assessment of the potential environmental impacts associated with the demolition removal, and remediation of the Encina Power Station beginning on page 14 of their Supplemental Testimony. I agree with their overall analysis and conclusions. My expectation is that removal of the Encina Power Station will be a significant benefit to the community, adjacent state park and land owners, travelers on Interstate-5 and the rail line. It will also be a major step in reducing the blighted conditions within the South Carlsbad Coastal Redevelopment area. The magnitude of this step, however, will be partially eliminated by the construction of the CECP which will continue a heavy industrial presence in the

Redevelopment Area for another 30 years or more. A greater travesty, however, would be for the CEC's decision to result in the existence of two power plant buildings within the Redevelopment Area by not requiring the timely removal of the EPS.

Q14. The Committee has previously suggested that there may be a role for the Redevelopment Agency in the removal of the Encina Power Station. Can you explain how the redevelopment process works?

A14. Redevelopment agencies typically have negotiated development or owner participation agreements with private developers/property owners to set forth each party's role and responsibilities if there is going to be any type of partnership in development. In order for there to be an incentive for the redevelopment agency to take a financial role in the redevelopment of a site or use its other resources to assist, there needs to be assurances that the redevelopment effort will produce substantial tax increment funds and that the activity will result in the elimination of blight or blighting influences.

Tax increment is received by the Redevelopment Agency when there is new development that increases the value of a property over its base value when the redevelopment plan was adopted (2000). Due to reassessments of the existing power plant (EPS) by the State over time which substantially lowered the value of the plant, the Redevelopment Agency currently receives no tax increment for the SCCRA. Therefore, it has no funds that it can loan or bond against to provide any financial assistance to any new development project. It is possible that the City could advance funds to the Redevelopment Agency for an activity, and that the Agency could repay this debt over time. However, there needs to be assurances that the tax increment to be generated by the Agency investment will be substantial enough to allow for repayment of any advances or loans from the City in a reasonable period of time. At this time, the Agency has no assurances that the EPS will be demolished and the site remediated in a timely manner to allow for private development that benefits the SCCRA and the larger community, and that blight or blighting influences will be eliminated as a result of the redevelopment effort. In addition, the Agency has discovered over the past 10 years that power plants lose their value fairly quickly even during a strong economy. Therefore, investment which results in the production of a power plant rather than commercial or other type of visitor-serving uses is not a prudent business decision for the Agency.

Q15. The Applicant has raised concerns regarding the financing of the demolition and remediation for the Encina Power Station. What can the potential role of the Redevelopment Agency be in assisting with financing?

A15. As I discussed in my written testimony of January 4, 2010 and in my testimony above, the primary financing source to implement blight removal programs is tax increment revenue. Tax increment is the difference between the value of the property when the redevelopment area was adopted and the new value after redevelopment of a property. For example, if the current value of a property is $10,000,000 and after redevelopment it is $30,000,000, there is tax increment of $20,000,000. The Redevelopment Agency and other taxing agencies would receive 1% of this tax increment, or $200,000. For redevelopment purposes, the Agency receives approximately 80% of this revenue ($160,000) for redevelopment activities; 20% of the funds ($32,000) must be used to provide for affordable housing. The remainder of these funds ($128,000) can be used for non-housing projects. These funds have been successfully used throughout the State in previous years by Redevelopment Agencies to facilitate redevelopment of blighted areas, create new jobs, provide public infrastructure and other community amenities, and to prevent the further decline of neighborhoods. Unfortunately, the State of California has recently approved legislation which would eliminate redevelopment programs or allow programs to remain but substantially reduce their funding. The legislation was legally challenged and a court decision is currently pending. At this time, we would not be able to enter into any new agreement to finance redevelopment activities of any kind with tax increment.

If the owner of the Encina Power Station (EPS) had already entered into a development or owner participation agreement with the Redevelopment Agency and both parties had agreed to their respective roles in redevelopment of the EPS site with the appropriate assurances provided for future redevelopment activity, it is possible that the Agency could have used its resources (financial or other) to play a role in the elimination of the EPS and ultimately to redevelop the site. Several past attempts have been made by City and Agency staff to negotiate this type of agreement with the current property owner(s) with no success to date. Because the Housing and Redevelopment Commission on behalf of the Redevelopment Agency indicated that it does not support the current CECP and there is no timeline or binding commitment from the applicant for redevelopment of the EPS site, there is no incentive for the Agency to continue negotiations for any type of partnership for redevelopment. If the applicant were to demonstrate a good faith effort to meet the requirements of the redevelopment plan and provide for the extraordinary public purpose, the Agency would have more incentive to continue negotiations to financially participate in the redevelopment of the CECP or EPS properties.

The applicant has stated on several occasions that they intend to redevelop the site of the EPS. However, over the past 11 years, the applicant has never been willing to enter into a binding commitment to this redevelopment effort. It is disingenuous at this time for the applicant to indicate that the conditions requiring the demolition and remediation of the site are now not financially feasible.

Q16. The PMPD states that the massive turbine generator building and 400 foot stack could lie idle after the plants useful life. Do you agree?

A16 Yes, with the exception that there is a condition of project approval by the City Council requiring the demolition of the stack when it is no longer needed for air dispersion as determined by the Council. This, however, remains a concern for the Redevelopment Agency. Whether the plant continues to operate or remains idle, it represents a blight or blighting influence within the area and is a deterrent to a more appropriate land use and development that will provide greater public benefit to the community. We understand that NRG cannot be forced to demolish or remediate this power plant. We do, however, believe that the real estate asset is quite valuable for a use other than power generating facility, and it will ultimately be developed to its highest and best use. NRG will likely redevelop this land when feasible to realize income for its shareholders. We, however, continue to believe that they need to commit to this action if they are going to build another power generating facility on the property that will remain a blighting influence for the next 30 to 50 years.

Q17. Do you have any concluding observations?

A17. Yes. I believe that adding a new power plant in the redevelopment zone, on the coast, flies in the face of all that the citizens of Carlsbad have been trying to achieve for many years. It also does not meet the most basic LORS of the redevelopment plan for the area; it does not eliminate a blight or blighting influence within the area and the CECP as a stand-alone project provides no extraordinary public purpose. The CECP should not be approved if it can't meet these basic LORS for projects of its type in the redevelopment area. I do not believe that the new plant can demonstrate an "extraordinary public purpose", or demonstrate that it is removing blight or a blighting influence. The extraordinary public purpose/benefit findings were incorporated into the SCCRA Plan in 2005 in order for the Agency to take all reasonable actions necessary to ensure the continued fulfillment of the redevelopment purposes of the Plan and to prevent the recurrence or spread of conditions of blight in the SCCRA. The proposed CECP without Land Use 2 and Land Use 3 conditions only serves to intensify the industrial use of the subject property and provides only ordinary benefits of a power generating plant. The CECP will create additional conditions of both physical and economic blight which is contrary to the purpose of redevelopment and the goals and objectives set forth within the SCCRA Plan. Although I have testified that Land Use 2 and 3 do not go far enough to satisfy the extraordinary public benefit requirements of the SCCRA Plan, without those conditions there is no non-ordinary benefit at all. At a minimum, those conditions must be required. It is also my contention that additional timing concerns should be addressed for these land use conditions to provide appropriate benefit.

Q.18 Are you sponsoring any exhibits?

A.18 Yes. I am sponsoring two exhibits (1) Housing and Redevelopment Commission Resolution 513, dated September 11, 2011; (2) Staff Report "Update Report on Proceedings before the CEC on September 19, 2011, Carlsbad Energy Center. They are Exhibits No. 446 and 447, respectively.

CECP SUPPLEMENTAL EVIDENTIARY HEARING

LAND -2 and LAND -3
DIRECT TESTIMONY OF RONALD R. BALL, CITY ATTORNEY OF THE CITY OF CARLSBAD AND GENERAL COUNSEL OF THE REDEVELOPMENT AGENCY OF THE CITY OF CARLSBAD REGARDING OFFICIAL NOTICE AND CONSEQUENCES OF THE RECENT CITY AMENDMENTS TO ITS GENERAL PLAN AND ZONING ORDINANCE

Q1. Please state your name and position.

A1. I am the City Attorney of the City of Carlsbad and General Counsel for the Redevelopment Agency of the City of Carlsbad.

Q2. Please state your qualifications and background as relevant to these proceedings.

A2. I graduated from Stanford University in 1966 with a Bachelor of Science Degree in Civil Engineering and was an engineer for Caltrans in its San Francisco office and an engineer for the Boeing Company.

I graduated from the University of California, Berkley in 1969 with a Masters Degree in Business Administration with an emphasis on finance and economics. I was a mortgage banker for a construction and development real estate and investment trust for large commercial projects throughout the Southeastern United States.

I graduated from University of Santa Clara School of Law in 1976 with a Juris Doctorate Degree and was admitted to the California State Bar thereafter. I have continuously practiced law since that time. I was in private practice in the San Francisco bay area from 1977 through 1980 and then an attorney for the County of Mendocino from 1980-1986 specializing in land use. From 1986 through 1991, I was Assistant City Attorney for the City of Carlsbad and appointed to the position of City Attorney for the City of Carlsbad and General Counsel for the Redevelopment Agency of the City of Carlsbad in 1991. I have continued in those capacities until the present time. I have prepared or approved all legal documents for the City of Carlsbad and the Carlsbad Redevelopment Agency since that time including Resolution No. 2011-229, Urgency Ordinance No. CS-067, Housing and Redevelopment Commission Resolution No. 514, City Council Ordinance No.'s CS-158, CS-159, and CS-160 and Resolution No. 2011-230 which are relevant to these proceedings and the Committee's Order of November 9, 2011.

Q3. Explain how these ordinances and resolutions amending the land use regulations apply in this proceeding.

A3. These ordinances and resolutions were adopted following a two year moratorium on the location of power plants in the City of Carlsbad Coastal Zone. Ordinance No. CS-158 amends the Zoning Ordinance as it pertains to generation and transmission of electricity in the Public Utility Zone. It authorizes generation of electricity as a primary use outside of the City's coastal zone only. It provides for the generation of electricity in the Coastal Zone of fewer than 50 megawatts, as an accessory use only by governmental entity or a private company that is selling electrical energy to a governmental entity or a company that has received a CPCN from the CPUC. It is the final action taken by the City Council of the City of the Carlsbad and will not become effective until approved by the California Coastal Commission.

Ordinance No. CS-159 amends the Precise Development Plan to make it clear that the Encina Power Station is not consistent with the General Plan or the Zoning Ordinance due to its location in the Coastal Zone and it generating capacity. The Precise Development Plan encompasses the 95-acre Encina Power Station, which includes the proposed CECP. It became effective on November 11, 2011.

Ordinance No. CS-160 amends the Encina Specific Plan which encompasses approximately 680-acres and requires all uses within it to be consistent with the General Plan and the Zoning Ordinance. It was first adopted by the City Council in 1971 and has been amended and restated through the years with this being the latest amendment. Among other things, it makes clear that power plants, including the proposed power plant, are inconsistent with the General Plan, the Zoning Ordinance and this Specific Plan. It does not contemplate any future power plants and the heights of all buildings shall not exceed 35 ft. It continues the requirement that when the existing 400 ft. stack is no longer necessary, it shall be removed at the applicant's expense (Ordinance No. 9456, adopted May 4, 1976 . It became effective on November 11, 2011.

Resolution No. 2011-230 approved a General Plan Amendment and a Local Coastal Program Amendment. The General Plan Amendment became effective on October 27, 2011 and the LCPA will become effective when approved by the California Coastal Commission.

Q4. The Applicant quarrels with the effectiveness of these resolutions and ordinances. Do you have an opinion on that?

A4. Yes. The resolutions and ordinances became effective on the dates I specified above. If the Applicant disagreed with those ordinances and resolutions, its remedy is to challenge them in the superior court. It has not done so and they are presumed to be lawful and operative by their terms. Applicant may not collaterally attack them in these proceedings. Therefore, these resolutions and ordinances are entitled to the dignity and respect of any other law and regulation in the State of California except that they operate within the corporate boundaries of the City of Carlsbad.

Although the Applicant must comply with these ordinances and regulations, the Energy Commission can overrule them if it chooses to exercise its paramount jurisdiction.

Q5. In your opinion does the proposed plant comply with the City's land use lors?

A5. No, it violates the terms and conditions of Ordinance No.'s CS-158, CS-159 and CS-160 and Resolution No. 2011-230. It also violates the terms, conditions and prohibitions of the South Hedionda Local Coastal Plan and the Redevelopment Plan as set forth in previous testimony.

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

12/1/2011	/s/ Ronald R. Ball
Date	RONALD R. BALL

CECP SUPPLEMENTAL EVIDENTIARY HEARING

OVERRIDE
PREPARED DIRECT TESTIMONY OF BOB THERKELSEN
CITY OF CARLSBAD

Q1. Please state your name and position.

A1. My name is Bob Therkelsen. I am a consultant on energy and environmental permitting and policy. I am an advisor to the City of Carlsbad and Carlsbad Redevelopment Agency in this proceeding.

Q2. What is your experience with the Energy Commission siting process?

A2. I worked for the Energy Commission between 1975 and 2005. For 15 of those years I served as Deputy Director of what was then called the Energy Facility Siting and Environmental Protection Division, the division responsible for managing the Commission's power plant siting and compliance monitoring programs. Previously I had worked as an Office Manager, supervisor, and technical staff in the Division. For the last several years of my employment at the Commission, I served as the Executive Director.

Q3. What is the purpose of your testimony?

A3. The Committee's Revised Scheduling Order of November 29, 2011, identified one of the topics as "Additional evidence, not previously presented, regarding whether it is appropriate to override either unmitigated environmental impacts or noncompliance with state or local LORS." The purpose of my testimony is to provide context for the Committee's consideration and discuss the appropriateness of an override in this case.

Q4. What exhibits are you sponsoring?

A4. I am sponsoring exhibits 450, 451, 452, 453, 454, and 455.

Q5. Will you briefly summarize the applicable override provisions?

A5. There are two types of "overrides" which may come into play in a power plant siting case. The first arises under CEQA and the second under the Warren-Alquist Act.

Under CEQA, a finding of overriding considerations is required whenever the lead agency proposes to approve a project that will have significant, adverse environmental impacts that cannot be reduced or avoided by feasible mitigation measures or alternatives. The lead agency cannot approve the project unless they find: (1) there are no feasible alternatives which could avoid or substantially lessen the unmitigated significant impacts, and (2) such impacts are acceptable due to overriding concerns. (Pub. Res. Code § 21002; 14 Cal. Code Reg., § 15092(b)(2).) In arriving at these overriding considerations, the agency must balance, as applicable, "the economic, legal, social, technological, or other benefits, including region-wide or statewide environmental benefits, of a proposed project against its unavoidable environmental risks when determining whether to approve the project." (14 Cal. Code Reg., § 15093(a).) If, in the agency's judgment, the benefits of the proposed project outweigh the adverse environmental impacts, the impacts may be considered "acceptable" and the project may be approved.

The second arises under the Warren-Alquist Act and is required if the Commission wishes to approve a proposed project that does not conform to state or local laws, ordinances, regulations, or standards (LORS). Under the Act, where a proposed project does not conform to state or local LORS, the Commission cannot license that project unless it determines that (1) the project is required for "public convenience and necessity," and (2) there are not "more prudent and feasible means of achieving such public convenience and necessity". (Pub. Res. Code § 25525; 20 Cal. Code Reg., § 1752(k).) This determination must be based on the totality of the evidence of record and must consider environmental impacts, consumer benefits and electrical system reliability. In essence, a project's lack of conformity with LORS must be balanced against its anticipated benefits.

All of the Commission's override findings must be supported by substantial evidence in the record. (14 Cal. Code Reg. §§ 15091(b), 15093(b).)

My testimony primarily focuses on LORS overrides.

Q6. How frequently have overrides been used in Energy Commission proceedings?

A6. The use of either CEQA or LORS overrides has been very infrequent in CEC proceedings. CEQA overrides are more common. Out of the approximately 70 Applications for Certification the Energy Commission reviewed and reached a final decision on since 1996, only four natural gas projects were approved with a LORS override. Those projects were Metcalf (99-AFC-3), Los Esteros 2 (03-AFC-2), El Segundo (00-AFC-14), and Morro Bay (00-AFC-12). LORS overrides were also extensively discussed in Eastshore (06-AFC-6) and were subsequently denied.

While I do not have numbers prior to 1996, my recollection is that CEQA overrides were also infrequent and LORS overrides were rare.

One of the primary reasons for that infrequent use of either CEQA or LORS overrides is that the Commission staff and Committees work diligently to avoid or correct significant adverse environmental impacts or LORS non-conformance. As noted in the Los Esteros II motion by staff for an override:

> "Commission overrides of inconsistency with local government ordinances are uncommon, in part because the Commission solicits local government participation in the siting process (Pub. Resources Code, §§ 25519(f), 25538), but also because the Commission is required to 'consult and meet' with local government officials in an effort to avoid the necessity for an override. (Pub. Resources Code, § 25523(d)(1).)" (Staff Motion, May 26, 2006, page 8)

Q7. What is your view of a LORS override by the Energy Commission in a siting case?

A7. Let me start by saying that there are typically two circumstances for a LORS override. The first I refer to as a "friendly" override and exists where a state or local agency cannot or prefers not to eliminate a LORS non-conformance for administrative or timing reasons and does not object to the Commission exercising its override authority. This has happened when a county, for example, did not want to process a General Plan Amendment for administrative reasons and requested the Commission to override the provisions. The second I refer to as a "hostile" override where there is a state or local conformity issue, discussions between the Energy Commission and agency were not able to resolve the non-conformance, and the state or local agency believed that approval of the project was inappropriate because of the non-conformance.

In my opinion, the use of a "hostile" LORS override is a serious action; it should not be taken lightly. LORS are established by state or local agencies for specific purposes – to protect critical resources, protect the public health and safety, direct actions to achieve specific policies or objectives. I believe the Commission should respect those determinations. Having said that, our electricity system is of critical importance to the broader state and region. There clearly have been and will be instances where the Commission needs to exercise its override authority in the broader public interest. In instances where there is a demonstrated critical local, regional, or statewide electricity system need that cannot be met by other means in a reasonable timeframe consistent with the need, I believe an override is appropriate.

This opinion has also been reflected in previous Commission decisions. The first instance of a LORS override since 1996 was in the Metcalf Energy Center project (99-AFC-3). Metcalf was an extremely controversial case that was not able to

comply with all applicable local LORS. The assigned Committee engaged in a thorough and thoughtful analysis of the issues in that case and the necessity of a LORS override. The Final Decision, adopted by the full Commission, noted the significance of a LORS override. They stated on page 469:

> "Exercise of our override authority is an extraordinary measure which, in our opinion, must be done in as limited a manner as possible."

In denying an override on the Eastshore project, the Commission also emphasized the limited use of an override. They said:

> "… the Commission has consistently regarded a LORS override 'an extraordinary measure which . . . must be done in as limited a manner as possible.' " (Final Decision, Eastshore Energy Center, October 8, 2008, page 453)

Q8. What criteria or basis has the Energy Commission used in the past when making a LORS override determination?

A8. To exercise its LORS override authority, the Commission must find that the project is required for public convenience and necessity and there are not more prudent and feasible means of achieving such public convenience and necessity.

More Prudent and Feasible Means - The finding that there are not more prudent and feasible means of achieving the public convenience and necessity has typically focused on an analysis of alternative technologies and alternative sites within the region. In its previous determinations, the Commission has emphasized the importance of the word "more" in looking for prudent and feasible options. As noted on page 595 of the Morro Bay Final Decision:

> "Under the Warren-Alquist Act, the existence of a 'prudent and feasible' means of achieving the public convenience and necessity does not prevent an override; only the existence of a 'more prudent and feasible' means prevents the Commission from overriding LORS."

Factors that the staff and Commission have historically considered in this analysis of override alternatives have included significant adverse impacts, expected conformance with LORS, and timing.

Public Convenience and Necessity - The Commission has traditionally looked to the California Public Utilities Code when considering a finding of public convenience and necessity, since those terms are not defined in the Warren-Alquist Act. The Metcalf Final Decision, on page 464, noted that the phrase "public convenience and necessity":

> "… is well-settled by judicial decisions on Section 1001 that 'public convenience and necessity' has a broad and flexible meaning, and that the phrase 'cannot be defined so as to fit all cases.' " (*San Diego & Coronado Ferry Co. v. Railroad Commission (1930)* 210 Cal. 504*.)* In this context, 'necessity' is not used in the sense of something that is indispensably requisite. Rather, any improvement which is highly important to the public convenience and desirable for the public welfare may be regarded as necessary. It is a relative rather than absolute term whose meaning must be ascertained by reference to the context and the purposes of the statute in which it is found."

I strongly agree that there is a fair amount of discretion in making an override finding and a requirement to balance often competing policies and interests. I applied these considerations in directing the CEC staff and making recommendations to the Commission. I also believed that an override finding requires a <u>significant</u> local, regional, and/or statewide justification.

Evaluation Considerations - Based on my experience at the Commission and review of Commission decisions, there is no single criteria for making a LORS override decision. Each case considering a LORS override at the Commission has looked at the previous cases presumably in an effort to maintain some consistent threshold of significance. But in denying the Eastshore override, the Commission made it clear each project and its evaluation criteria are unique:

> "… (W)e realize that our PMPD discussion may have inadvertently suggested that we have essentially established precedential and non-regulatory standards specifying elements necessary to justify an override or constitute a showing of 'public convenience and necessity.' This is not the case. Consistent with our fact-finding role, the *Metcalf*, *Los Esteros*, and *El Segundo* rationales were driven by the specific facts, issues, and evidence unique to each project. Such is also true here." (Eastshore Energy Center, Final Decision, October 8, 2008, page 454)

Range of Factors Considered - The public convenience and necessity considerations the five cases where the Commission considered a LORS override and their page references (from the Final Decision or the Presiding Members Proposed Decision if the PMPD was only adopted) were:

CONSIDERATION	METCALF	LOS ESTEROS 2	MORRO BAY	EL SEGUNDO	EAST SHORE
Project is reasonable related to the Warren-Alquist goals and policies	X - 464	X - 397	X - 593	X - 296	1/
Electricity is needed within the local area	X – 99, 464	X - 367	X - 597	X - 296	X - 453

The local area faces serious electricity shortages	X – 99				
The region is generation deficient	X – 99				
The Integrated Energy Policy Report (IEPR) identified the statewide need for substantial generation additions		X - 368	X - 594	X - 297	
The IEPR identified the regional need for increased electricity supplies				X - 297	
Profound electricity reliability benefits	X – 85, 467				
Significant transmission system benefits	X - 99	X - 370			X – 453
Improvements in electricity system operation	X - 100		X - 594	X - 297	
Reduce the cost of electricity to consumers	X - 467	X - 371			X – 453
Make substantial use of existing infrastructure			X - 594	X - 297	
Reduce the impact of the existing power plant on the community through required removal of existing equipment, reduced stack height, etc.			X - 594	X - 173	
Replace aging generation	X - 99		X - 597	X - 297	X - 453
Environmental benefits			X – 556, 562	X - 297	

Notes: 1/ This factor was not discussed in Eastshore. I am not sure why.

In each of these cases, the initial and most compelling consideration in the Commission's use of the LORS override was a critical and clearly articulated need for additional local, regional, or statewide electricity generation as established in the IEPR, Executive Orders, or other major policy document. Although the Commission no longer has a "needs test" for approving energy facilities, it does when it comes to approving a LORS override. This is appropriate because an evaluation of electricity system needs is consistent with the Commission's expertise. It is also appropriate given the Commission's responsibility to ensure "… a reliable supply of electrical energy is maintained at a level consistent with the need for such energy for protection of public health and safety, for promotion of the general welfare, and for environmental quality protection" is one of the Commissions expressed mandates. (Public Resources Code Section 25001)

An override on the Eastshore project was rejected because it did not display any critical electricity system benefits:

> "In the context of certain statutory factors that section 25525 requires us to examine – consumer benefits and electric system reliability – we find the benefits of EEC are modest at best." (Final Decision, Eastshore Energy Center, October 8, 2008, page 453)

> "There are no other major benefits of the project that would serve the public convenience and necessity. There is also no credible suggestion in the record that the level of benefits associated with the EEC is greater than could normally be expected with another project of a similar nature, nor does the record establish that the EEC will provide benefits to the system which are unique or of a highly compelling nature." (Final Decision, Eastshore Energy Center, October 8, 2008, page 454)

Other considerations must be considered and have also been important in supporting the Commission's decision to approve an override. These include environmental protection and consumer benefits. These factors have, however, generally been a secondary consideration. The driving factor behind a LORS override has been the project's significant benefits to the electricity system.

Geography and Timing - Previous override considerations have also factored in geographical area and timing. In Metcalf and El Segundo for example, the Commission quickly determined that the electricity generated by the facility would be consumed in the local area. They went on, however to say:

> "The statute does not, however, focus on public convenience and necessity solely in a limited geographical context. Rather, the focus is on electricity's essential nature to the welfare of the state as a whole." (Metcalf Final Decision, date, page 465, also El Segundo Final Decision, February 5, 2005, page 297)

Timing was important in Metcalf, Morro Bay, and, to a lesser extent, El Segundo because of the precarious condition of the state's electricity system. In evaluating an override for Metcalf, the Commission observed:

> "Moreover, the evidence shows that the area's supply-demand imbalance and the need to augment electrical system reliability in the south Bay and the greater Bay Area require prompt action. The evidence establishes that the MEC is a substantial positive step in this regard, and is in fact the only identified major generation project capable of becoming reality within the near-term future." (Metcalf Final Decision, September 24, 2001, page 468)

Earlier the Metcalf decision noted:

> "We have, however, only the Metcalf project before us, and it is only that project which currently appears reasonably likely of being online in the near-term future. Furthermore, the simple fact is that the MEC is the sole generation project which possesses the potential to provide these benefits in a reasonably ascertainable time period." (Metcalf Final Decision, September 24, 2001, page 457 and 458)

Policy Balance – In addition to considering and balancing a number of factors, the Commission's decision on an override finding also requires a careful balancing determination between the objective of the non-conforming LORS and the benefits of the project in question. Again, as stated in the Eastshore decision:

> "Therefore, the purposes of any LORS, which we may be asked to override, must be weighed or balanced against the stated goals and policies of the Warren-Alquist Act and the consequences of the override assessed. In other words, we must make a judgment, based upon the unique fact situation before us, which of the competing public purposes is paramount. Is it more important and/or beneficial to the public to positively affect the supply of electricity or is the public interest best served by declining to override and thus avoid hindering the purposes of the LORS in question?" (Final Decision, Eastshore Energy Center, October 8, 2008, page 455)

Q9. During your experience at the Energy Commission, did you have occasion to direct the staff in the use of an override?

A9. While I was the Executive Director, Deputy Director, and Siting Office Manager, there were numerous occasions when I worked with the project manager, technical staff, and staff attorneys to formulate a recommendation on CEQA and LORS overrides. There were times when the staff was split on which position to take and, as the Executive or Deputy Director, I was responsible for making the final determination on whether or not to recommend an override.

One of the more challenging recommendations was on the Metcalf case. As I mentioned earlier, there was significant opposition to the project by the City, citizens groups, and many of the residents. After lengthy discussion with the City in which I personally participated, we were not able to resolve the LORS conformity issues. These issues and significant adverse environmental impacts required the Commission to make override findings if they were to approve the project. Because of internal differences of opinion on whether the staff should recommend an override, I made the final decision and made my recommendation at the Committee hearing on override. The primary reason for my recommendation was because of the critical and well documented regional and statewide energy system needs that

existed at that time. While recognizing the nature of the LORS compliance issue and the environmental concerns associated with the project, my conclusion was:

> "… in the opinion of the Staff, those concerns do not outweigh the statewide, regional benefits associated with the project, in terms of increasing supply, increasing reliability of the system, lowering system costs, and stabilizing the whole system, the statewide electricity problem." (Metcalf Hearing Transcript, March 23, 2001, page 33, line 5)

I also participated in the Commission staff's override discussions on Morro Bay, El Segundo and other project previous to 1996. The staff did not make a recommendation to the Committees on Morro Bay or El Segundo because we had concerns with unresolved environmental impacts and Coastal Act LORS issues.

Q10. Do you have any conclusions on the use of an override with respect to the CECP?

A10. The Energy Commission staff recently stated that the CECP is not in conformance with local LORS. The City has contended that the project is not in conformance with the:

- City of Carlsbad General Plan and other land use requirements (City of Carlsbad, Prepared Direct Testimony of Scott Donnell, January 4, 2010, page Donnell-9-15),
- South Carlsbad Coastal Redevelopment Plan (Testimony by Mr. Kane - RT, Feb. 1, 2010, pp. 94-96 and testimony by Ms. Fountain - Direct Testimony, 1/4/2010, Fountain-9-12; RT, Feb. 1, 2010, p. 110),
- Fire access determinations of the Carlsbad Fire Department and the State Fire Code (Written Testimony of Kevin Crawford, May 19, 2011, page 7)
- California Coastal Act (City of Carlsbad, Prepared Direct Testimony of Mr. Faust, January 4, 2010, page Faust-9)

If the Commission agrees that any of these LORS are in non-conformance, it can only approve the project by making the required override findings. When asked my opinion regarding whether the proposed CECP meets the requirements of a LORS override, I looked at the factors considered in previous override determinations, the geography of the benefits, timing, and policy tradeoffs. While these are not an absolute list, they do provide some guidance. My assessment is as follows:

1. *Is the project is reasonable related to the Warren-Alquist goals and policies?* Yes – As the Metcalf Final Decision noted on page 464:

> "The Warren-Alquist Act expressly recognizes that electric energy is essential to the health, safety, and welfare of the people of California, and to the state's economy. Moreover, the statute declares that it is

> the responsibility of state government to ensure that the state is provided with an adequate and reliable supply of electrical energy. (Pub. Resources Code, § 25001.)"

Virtually any power plant will meet the general goals and policies of the Warren-Alquist Act. It will provide electricity and help ensure an adequate and reliable supply.

2. *Is electricity needed within the local area?* Yes – In its 2006 long-term procurement planning decision, the CPUC recognized the need for future electrical generation in the San Diego service area and authorized SDG&E to procure 530 MW of new generation (CPUC, Opinion Adopting Pacific Gas and Electric Company's, Southern California Edison's and San Diego Gas & Electric Company's Long-Term Procurement Plans, December 20, 2007, page 301). SDG&E's electricity demand and supply analysis, included in its testimony before the CPUC, states that its service area potentially faces "…a local capacity shortage of 213 MW in 2018, increasing to 319 MW in 2020," assuming the addition of additional demand side combined heat and power, uncommitted energy efficiency, and demand response (Exhibit 454, page RA-3). As shown on the accounting table on page RA-4, this amount reflected 320 MW of OTC retirement beginning in 2014 and 960 MW of OTC retirement beginning in 2018. SDG&E proposes to meet its projected shortfall by purchasing power from the three projects selected in its 2009 procurement process. The total generating capacity of these projects is 450 MW.

   SDG&E's assessment of its need for additional generation is disputed by the CPUC's Division of Ratepayer Advocates. They have filed a protest giving SDG&E authority to enter into the power purchase agreements and testimony stating they oppose "…authorization of any new resources in the SDG&E service area" (Exhibit 451, page 1)

   Both SDG&E and DRA have filed and the assigned Administrative Law Judge has approved a motion delaying hearings on the three power purchase agreements following a decision by the CPUC on the 2010 Long-Term Procurement Plans. This will allow the need for the three projects to be based on the most current assessment and decision by the CPUC.

   In addition to regional electricity needs, the CAISO had identified a 20 MW requirement for additional generation in the "Encina sub-area" (CAISO, 2013-2015 Local Capacity Technical Analysis, Report and Study Results, December 30, 2010). In a data response submitted through the CPUC's proceeding on the three PPA, SDG&E stated:

> "According to the CAISO's December 30, 2010 report, the outage of the Encina 230/138 kV transformer, followed by the loss of the 138 kV Sycamore Canyon-Santee #1 line, results in the thermal overload of the 138 kV Sycamore Canyon-Chicarita line. This is an N-1-1 outage which is categorized as a Category C outage under CAISO and NERC reliability criteria. Acceptable mitigation for this Category C outage includes controlled load drop, generation that feeds into the Encina 138 kV bus and reconductoring the 138 kV Sycamore Canyon-Chicarita #1 line. SDG&E has estimated that the reconductoring the 138 kV Sycamore Canyon-Chicarita #1 line is expected to cost about $1 million. SDG&E's resource planning analyses, including its analyses submitted to the CPUC in A.11-05-23, take into account resources needed for the entire San Diego area." (Exhibit 455, page 5)

3. *Does the local area face serious electricity shortages?* No – The discussion on the need for local electricity needs above indicates that additional local generation is not needed until 2018.

   In terms of timing, SDG&E expects the power from the three power purchase agreements to be available in 2012 (Escondido Energy Center) and 2014 (Pio Pico Energy Center and Quail Brush (Exhibit 453, pages 2 and 3). This is possible if the CPUC make its 2010 LTPP decision in December 2011, CPUC to make a decision on the three power purchase agreements by June 2012, the CEC to make decisions on the Pio Pico and Quail Brush projects by the end of 2012, and a typical two years for construction.

4. *Is the region generation deficient?* No – The discussion on the need for local electricity needs above demonstrates that the area is not generation deficient and additional local generation is not needed until 2018 at the earliest.

5. *Has the Integrated Energy Policy Report (IEPR) identified the statewide need for substantial generation additions?* No – There is not a critical regional or statewide need for additional generation described in the latest Energy Commission Integrated Energy Policy Report. The 2011 IEPR is expected to be adopted by the Commission in December 2011 and is expected to focus on renewables and attaining the state's Renewables Portfolio Standard. The 2009 IEPR is the most recent adopted polity report and, unlike previous IEPRs, it did not discuss the need for additional generation but rather discussed challenges associated with changes in the electricity system such as the need for energy efficiency, to reduce GHG emissions, to add more renewable generation, to integrate renewables into the grid, and to eliminate once-through power plants.

6. *Has the IEPR identified the regional need for increased electricity supplies?* No – The 2009 IEPR recognized that demand has dropped by over three percent both statewide and in the San Diego areas and noted that:

> "The current forecast is markedly lower than the forecast in the 2007 Integrated Energy Policy Report, primarily because of lower expected economic growth in both the near and long term as well as increased expectations of savings from energy efficiency." (2009 Integrated Energy Policy Report, p. 3)

   It also stated that: "A lower demand forecast would require fewer central station generating facilities within load pockets to satisfy reliability criteria." (2009 IEPR, p. 176)

7. *Does the project have profound electricity reliability benefits?* No – I did not find any testimony indicating that the CECP had "profound electricity reliability benefits" of the nature attributed to the Metcalf project.

8. *Does the project provide significant transmission system benefits?* No – I did not find any testimony indicating that the CECP provided "significant transmission system benefits" of the nature attributed to other projects with an approved LORS override.

9. *Does the project result in improvements in electricity system operation?* Yes – As the Applicant, CEC staff, and CAISO witnesses have testified, the proposed CECP provide system benefits including quick start, ramping, and renewables integration capabilities. CEC staff witness Layton stated:

> "The Carlsbad plant does meet some aspects of what the dispatchable generation would be expected to be in a higher-renewable, low-gHG environment. (RT, 2/03/10, p. *300.)*

   At the February 2010, the CAISO witness stated regarding the CECP that:

> "The project as described is essential to the needs of California and to the electrical grid to meet the challenges that are presented by the new variable generation coming onto the system." (RT, February 3, 2010, page 164, line 22)

   The 2009 IEPR also noted the importance of various electricity system benefits as the system evolves to meet greenhouse gas emission reduction targets and increased dependence on renewables. In this report the Commission stated on pages 110 and 111 that:

> …(A)s California's integrated electricity system evolves to meet GHG emissions reduction targets, the operational characteristics associated with increasing renewable generation will increase the need for flexible generation to maintain grid reliability. The report asserts that natural gas-fired power plants are generally well-suited for this role and that California cannot simply replace all natural-gas fired power plants with renewable energy without endangering the safety and reliability of the electric system. The report acknowledges that California will need to modernize its natural gas generating fleet to reduce environmental impacts, however. Overall, the report found that the future of natural gas plants will likely fill five auxiliary roles: 1) intermittent generation support, 2) local capacity requirements, 3) grid operations support, 4) extreme load and system emergencies support, and 5) general energy support.

The report also noted on page 111 however that: "The question remains as to the quantity, type, and location of natural gas-fired generation to fill remaining electricity needs once preferred resource targets are achieved."

This question of location required to providing the electricity system benefits attributed to the CECP was also raised during the evidentiary hearings. This testimony states that the attributes provided by the CECP, particularly renewables integration, can be provided by similar power plants at a variety of locations:

> "MR. ROSTOV: Do you know how much generation is necessary for integrated renewables?
>
> MR. McCLARY: More than we have.
>
> MR. ROSTOV: Do you know the locations for those type of plants?
>
> MR. McCLARY: Not specifically." (RT, 2/3/10, Page 296 Line 13)

In response to Mr. Rostov's question: "Did you show that this specific plant is critical to renewables integration?" Mr. Layton responded: "I believe the FSA analysis does not say that." (RT, 2/03/10, p. 311, ll. 15-18.)

Mr. Vidaver further explained that:

> "The ability to incorporate renewables in large quantities into the system can be -- is a function that can be performed by power plants located virtually anywhere in California. The ability to provide dispatchable or dependable capacity in the San Diego local reliability area, and thereby retiring the existing units at Encina can be

> accomplished, as far as I know, by any replacement capacity located anywhere in the San Diego area.
>
> So to say that the Carlsbad energy project is critical is setting -- at the very least it's setting a standard that's not possible to meet. " (RT, 2/03/10, p. 325, ll. 14-25.)

According to SDG&E, the three PPA projects they selected through their procurement process also provide these electricity system attributes:

> "Each of the three subject contracts are for environmentally friendly, quick start generation units utilizing the most advanced and efficient gas-fired technologies. They also provide the starting and/or ramping capabilities required by the Commission to accommodate sudden changes in resources or load. Further, these generation facilities provide flexibility that will help to mitigate the effects of intermittency associated with the increased deployment of renewable generation. In addition, each of these facilities will provide reliable capacity during periods of peak load." (Exhibit 453, page 5; see also Exhibit 452, page 5 and 6))

Timing is also an important consideration in evaluating a project's electricity system benefits. This consideration is discussed in relation to environmental benefits below.

10. *Will the project reduce the cost of electricity to consumers?* Unknown – NRG submitted the CECP in response to the 2006 Long-term Procurement Process and San Diego Gas & Electric Company's 2009 Request of Offers. SDG&E was allowed to procure up to 530 MW of new, local generation. In establishing its procurement guidelines, SDG&E used a "least cost – best fit" approach described in its testimony to the CPUC. (Exhibit 453, Page 26, beginning line 6) This assessment begins with an assessment of the cost of electricity from each proposal. Since the CECP was not selected through the RFO process, SDG&E is likely to have determined electricity was either more expensive than other proposals or there was some other concern that made electricity from the CECP less attractive to SDG&E and its ratepayers. However, since the electricity costs contained in the proposals are not public, conclusions related to this consideration are unknown.

11. *Will the project make substantial use of existing infrastructure?* No – The CECP will use some of the existing EPS infrastructure. This includes the existing transmission infrastructure to connect to the transmission system and the existing EPS intake and outfall discharge facilities to obtain ocean water. The generation equipment, natural gas pipeline, and transmission switchyard would be new. (CEC Staff, Carlsbad Energy Center Project Final Staff

Assessment, November 12, 2009, beginning page Project Description 3-1) In its Supplemental Testimony dated November 18, 2011, the Applicant stated that the:

> "…CECP does not make substantial use of the existing EPS…" (page 4)

12. *Will the project reduce the impact of the existing power plant on the community through required removal of existing equipment, reduced stack height, etc.?* Uncertain – While the Applicant and staff assert that the CECP will result in the closure of Units 1-3 of the Encina Power Station, there had been no proposal to physically remove the existing EPS buildings and structures until hearings on the Presiding Members Proposed Decision. During those hearings the Applicant and City discussed, the Applicant proposed, and the City supported Conditions LAND-2 and LAND-3 as a vehicle to provide a greater public benefit from the project. These conditions were included on page 33 of the Errata to the PMPD and established the expectation that the project owner would:

    - prepare a demolition, removal, and remediation plan,
    - submit a study of the estimated cost of implementing the plan,
    - demonstrate they had the fiscal ability to implement the plan,
    - initiate a redevelopment process for the property,
    - submit applications for the required permits and approvals, and
    - begin implementation of the plan upon commissioning of the CECP and approval by the CPUC.

    On page 3 of its Supplemental Testimony dated November 18, 2011, the Applicant now "…believes the complete removal of the Land Use Enhancement Conditions is most appropriate…" and proposes modifications to the conditions to remove certain financial burdens.

    Because of the uncertainty over the status of LAND-2 and LAND-3, at this point it is uncertain whether the CECP will result in removal of any existing equipment other than the existing abandoned tanks.

13. *Will the project replace aging generation?* Yes – The Encina Power Station has been in operation since 1954. It is one of the oldest power plants in California and has lower efficiency and lower availability than most other facilities. As Robert Sparks stated in his testimony:

    > "(T)he ISO believes that either repowering at the existing Encina Power Station site or development of some project comparable to the proposed Carlsbad Energy Center will be necessary to allow the generating units at the Encina Power Station to comply with the OTC policy." (Robert Sparks, pages 7 and 8)

The CEC staff have stated that construction and operation of the CECP will facilitate the retirement of EPS Units 1 to 3 (CEC Staff, Carlsbad Energy Center Project Final Staff Assessment, November 12, 2011, page Executive Summary 1-7) and could be initial steps that could lead to the retirement of all five EPS units (CEC Staff Supplemental Testimony, November 17, 2011, page 11).

The CECP, however, is not essential for the retirement of the Encina Power Station. SDG&E stated in its written testimony to the CPUC, that the results of its 2009 procurement factored in the ability to fully retire the EPS:

> "These three PPTAs are needed to ensure there is adequate capacity in SDG&E's service area for all customers, both bundled and direct access to meet local resource adequacy ("RA") needs. Additionally, the new, locally sourced, long-term generation will help mitigate the effects of intermittency, facilitate the retirement of aging and Once Through Cooling ("OTC") generation resources, and will comply with Greenhouse Gas (GHG") requirements specified in D.07-01-039." (Exhibit 453, page 3)
>
> "… (W)ith the resource additions that are proposed in this Application, the SDG&E load pocket will have sufficient resources to meet total local RA needs for all customers. It also shows that sufficient resources would exist to allow for the full retirement of the Encina Power Plant prior to the end of 2017, the date at which it would need to meet the State's new OTC policy." (Exhibit 453, page 12 and 13)

14. *Does the project result in other environmental benefits?* Yes/No – Whether the CECP provides environmental benefits or significant adverse impacts is obviously in the eye of the beholder. The CEC Staff has concluded that the project will result in no significant adverse environmental benefits and represents a benefit in terms of:
    - eliminating the daily need for millions of gallons of once-through ocean water cooling, and its associated fish impingement and biological impacts (CEC Staff Final Staff Assessment, November 12, 2009, page Executive Summary 1-7)
    - accomplishing a brownfield redevelopment (CEC Staff Final Staff Assessment, November 12, 2009, page Executive Summary 1-7)
    - reducing the use of ocean water for power plant cooling (CEC Staff Supplemental Testimony, November 17, 2011, page 11)
    - allowing completion of the City's Coastal Rail Trail (CEC Staff Supplemental Testimony, November 17, 2011, page 11)

- providing dollars for socioeconomic benefits. (CEC Staff Supplemental Testimony, November 17, 2011, page 11)
- Initiating steps that could lead to the retirement of all five EPS units, ultimately resulting in the redevelopment of over nearly 70 acres of existing industrial property (CEC Staff Supplemental Testimony, November 17, 2011, page 11)

The City has concluded that the project represents:

- significant visual impacts and questions the viability of proposed visual mitigation (Prepared Rebuttal Testimony of Donald Nue, January 4, 2010, page 2)),
- creates a fire protection and public safety concern (Prepared Direct Testimony of Kevin Crawford, Chris Heiser, and James Weigand, January 4, 2010),
- interferes with completion of the Coastal Rail Trail (Prepared Direct Testimony of Scott Donnell, January 4, 2010, page Donnell-17),
- contributes to blight (Prepared Direct Testimony of Debbie Fountain, January 4, 2010), and
- impedes their plans and vision for development within the coast (Prepared Direct Testimony of Lisa Hildebrand, January 4, 2010, pages 4 to 6)

The most significant potential environmental benefits of this project are eliminating the use of ocean water for cooling and contributing to the removal of the existing Encina Power Station. These benefits, however, are likely to be achieved regardless of the CECP because of the state's once-through cooling (OTC) policy and structure of our electricity market. With or without the CECP, the OTC policy requires reduction in the use of ocean water or closure of the EPS by 2017 unless the units are needed for reliability purposes. As noted above, the three projects selected by SDG&E through their procurement process were intended to provide sufficient local generation to meet local and regional reliability requirements and allow the EPS to retire (Exhibit 453, page 12 and 13).

Timing is an important factor in terms of achieving the OTC policy and removing the existing EPS. Retirement and then removal of the EPS is dependent on the CPUC and CAISO determining that the plant is no longer necessary to ensure electricity system reliability or provide ancillary services in the region. As discussed under the third factor above, SDG&E is proposing the three power purchase agreement projects to allow for retirement of the EPS. While there is some uncertainty regarding the operational dates for these facilities, it is very possible that they could be on line before the 2017 OTC closure target date.

It is unclear, however, when the CECP can be operational. Even if the Energy Commission approves the project in early 2012, the project may not be on line until 2015 at the earliest with an on line date of 2016 to 2020 being very possible. The three critical path items in terms of the CECP beginning a two-year construction period are receipt of an NPDES permit from the Regional Water Quality Control Board, PSD permit, and a power purchase agreement. The CEC staff implied that the PSD permit could be received in a matter of months in its supplemental testimony (Energy Commission Staff Response to Committee Order, November 18, 2011, pages 3 and 4) but the Applicant laid out a PSD permitting process that could take up to two years once they begin preparing the application (Carlsbad Energy Center LLC's Supplemental Testimony, Exhibits, Witness List, And Time Estimates For Examination Of Witnesses, November 18, 2011, pages 16 and 17).

The time required and ability to obtain a power purchase agreement is the greatest uncertainty. It could take two to six years for the CECP to obtain a power purchase agreement if they participate in a utility procurement process. Without a power purchase agreement, the Applicant has stated it will not be able to construct the CECP:

> "Not unlike other new generation projects in the state, CECP will require a PPA with a load serving entity in order to secure project financing and commence construction. … A PPA is the central document in the development and construction of independent (non utility owned) power plants and is a critical component to obtaining project financing." (Carlsbad Energy Center LLC's Supplemental Testimony, Exhibits, Witness List, And Time Estimates For Examination Of Witnesses, November 18, 2011, page 6)

SDG&E noted the lack of a power purchase agreement and concerns over the status of the CECP in its testimony before the CPUC:

> "First, the NRG repower proposal, called the Carlsbad Energy Center, has yet to receive CEC approval of the Application for Certification (AFC) which is required before any construction activities can begin. The facility is not under construction and, so far as SDG&E knows, no contracts exist to provide the revenue stream that would be needed to move the project forward. NRG testimony in this case specifically states that the Carlsbad Energy Center 'may not reach fruition, as the project does not currently have a long term contract supporting its construction.' The fact remains that the proposed Carlsbad Energy Center remains an uncertainty for various reasons." (Exhibit 454, Page RA-18)

The importance of the CECP obtaining a power purchase agreement to provide any of the environmental or electricity system benefits ascribed to it was underscored by the CEC staff at the initial evidentiary hearing:

> "MR. LAYTON: Again, if they are needed, they will get a power purchase agreement and they will operate. If they are not needed, they may not get a power purchase agreement and they will not operate." (RT, 2/03/10, p. 258, ll. 21-24.)

> "MR. VIDAVER: If San Diego Gas & Electric has said that it does not intend on entering into a power purchase agreement with a generator in the northern part of the county because it doesn't feel it's necessary, I would assume – I would conclude from that that San Diego doesn't feel it's necessary." (RT, 2/03/10, p. 341, ll. 5-10.)

Considering my assessment of the factors above, I do not believe the CECP meets the same level local, regional, or statewide importance as previous LORS override cases and would not recommend that the Commission make an affirmative finding regarding a LORS override for the CECP.

Q11. Does that conclude your testimony?

A11. Yes.

Exhibit List

Exhibit No.	Description	Sponsor
444	City of Escondido approval of Escondido Energy Center Project, July 12, 2011	Garuba
445	City of Escondido Staff Report on the Escondido Energy Center Project Dated July 12, 2011	Garuba
446	Housing and Redevelopment Commission Resolution 513, dated September 20, 2011	Fountain
447	Staff Report "Update Report on Proceedings before the CEC on September 19, 2011, Carlsbad Energy Center	Fountain
448	Ordinance CS-159, an ordinance approving an amendment to the Encina Power Station Precise Development Plan, dated October 11, 2011	Ball
449	Ordinance CS-160, an ordinance approving an amendment to the Encina Specific Plan SP 144(N), dated October 11, 2011	Ball
450	Prepared Track I Testimony of San Diego Gas & Electric Company, in R 10-05-006, July 1, 2011	Therkelsen
451	Testimony of the 2010 Long-term Procurement Planning Track I System Plan of San Diego Gas & Electric Company, in R 10-05-006, dated August 5, 2011	Therkelsen
452	Application of San Diego Gas & Electric Company for Authority to Enter Into Purchase Power Tolling Agreements with Escondido Energy Center. Pio Pico Energy Center and Quail Brush Power, dated May 19, 2011, Application A 11-05-023	Therkelsen
453	Prepared Direct Testimony of San Diego Gas & electric Company in Support Of Application for Authority to Enter into Purchase Power Agreements With Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power, dated May 19, 2011 in Application A 11-05-023	Therkelsen
454	Rebuttal Testimony of Robert Anderson of Behalf of San Diego Gas & Electric Company in Support of Application of San Diego Gas & Electric Company for Authority to Enter into Purchase Power Tolling Agreements With Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power, dated October 21, 2011, in A 11-05-023	Therkelsen

455	SDG&E's Response to City of Carlsbad Data Requests in A 11-05-023, Dated September 6, 2011	Therkelsen

OFFICIAL NOTICE DOCUMENTS

Resolution 2011-230 A resolution approving a General Plan Amendment And Local Coastal Program Amendment Regarding the Generation and Transmission of Electric Energy, dated September 27, 2011 [Official Notice Requested]

Ordinance CS-158 An Ordinance Approving an Amendment to Zoning Ordinance Section 21.36.020 Table "A" regarding Generation and Transmission of electrical Energy as Permitted Uses in the Public Utility Zone, dated October 11, 2011 [Official Notice Requested]

Planning Commission
Hearing Date: July 12, 2011

Effective Date: July 26, 2011

RESOLUTION NO. 5930

A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF ESCONDIDO, CALIFORNIA APPROVING A CONDITIONAL USE PERMIT MODIFICATION TO UPGRADE AN EXISTING "PEAKER" ELECTRIC GENERATING FACILITY

APPLICANT: Escondido Energy Center, LLC

CASE NO: PHG 11-0005

WHEREAS, the Planning Commission of the City of Escondido did, on July 12, 2011, hold a noticed public hearing to consider a request for a modification of the Conditional Use Permit to allow an upgrade to the existing "peaker" electric generating facility, located at 1968 Don Lee Place and more particularly described in Exhibit "C".

WHEREAS, the following determinations were made:

1. That a notice was published and mailed as required by the Escondido Zoning Code and applicable State law.

2. That the application was assessed in conformance with the California Environmental Quality Act and that a Notice of Exemption was issued on June 30, 2011, in conformance with CEQA Section 15301, Class 1(b)(e), "Existing Facilities," and CEQA Section 15302, Class 1(b)(c), "Replacement or Reconstruction."

3. That a staff report was presented discussing the issues in the matter.

4. That a public hearing was held and that all persons desiring to speak did so.

NOW, THEREFORE, BE IT RESOLVED by the Planning Commission of the City of Escondido:

1. That the above recitations are true and correct.

2. That the Planning Commission certifies that it has reviewed and considered the environmental review and determined that it is complete and adequate for this project, and there are no significant environmental effects which are not mitigated.

3. That the Findings of Fact and Factors to be Considered, attached as Exhibit "A," were made by said Commission.

4. That, considering the Findings and Factors, as well as applicable law, the Planning Commission hereby makes a motion to approve of said Conditional Use Permit with a requirement to utilize the permit within two years of the effective date subject to the Conditions of Approval attached as Exhibit "B."

BE IT FURTHER RESOLVED that, pursuant to Government Code Section 66020(d)(1):

1. NOTICE IS HEREBY GIVEN that the project is subject to certain fees described in the City of Escondido's Development Fee Inventory on file in both the Community Development and Public Works Departments. The project also is subject to dedications, reservations, and exactions, as specified in the Conditions of Approval.

2. NOTICE IS FURTHER GIVEN that the 90-day period during which to protest the imposition of any fee, dedication, reservation, or other exaction described in this resolution begins on the effective date of this resolution, and any such protest must be in a manner that complies with Section 66020.

PASSED, ADOPTED AND APPROVED by a majority vote of the Planning Commission of the City of Escondido, California, at a regular meeting held on the 12th day of July, 2011, by the following vote, to wit:

AYES:	COMMISSIONERS:	Campbell, Caster, McQuead, Weber, Winton and Yerkes.
NOES:	COMMISSIONERS:	None.
ABSTAINED:	COMMISSIONERS:	None.
ABSENT:	COMMISSIONERS:	Lehman.

DAROL H. CASTER, Chairman
Escondido Planning Commission

ATTEST:

BILL MARTIN, Secretary of the
Escondido Planning Commission

I hereby certify that the foregoing Resolution was passed at the time and by the vote above stated.

TY PAULSON, Minutes Clerk
Escondido Planning Commission

ESCONDIDO
City of Choice

Barbara J. Redlitz, AICP
Director of Community Development
Planning Division
201 North Broadway, Escondido, CA 92025
Phone: 760-839-4671 Fax: 760-839-4313

July 13, 2011

Paul Z. Cummins, V.P.
Escondido Energy, LLC
650 Bercut Drive, Suite C
Sacramento, CA 95811

Subject: Planning Commission Action - Case File No. PHG 11-0005
Address of Project: 1968 Don Lee Place, Escondido, CA

Dear Mr. Cummins:

Your request for the subject application was conditionally approved by the Planning Commission on July 12, 2011. Enclosed for your records is a copy of Planning Commission Resolution No. 5930 documenting this action.

Pursuant to Zoning Code Section 33-1303, decisions of the Planning Commission become effective on the eleventh calendar day following the date of the Planning Commission action, unless a timely appeal is received by filing a written request and paying the required appeal fee to the City Clerk. The Planning Commission action becomes final on the effective date shown on the enclosed resolution for the purpose of issuance of building or grading permit or establishment of a use not involving construction unless the aforementioned appeal is filed.

Please be advised that if you seek judicial review of the final decision in this matter, pursuant to Code of Civil Procedure section 1094.5, the time within which judicial review must be sought is governed by California Civil Code of Procedure section 1094.6.

Please call Paul Bingham at (760) 839-4306 if you have any questions.

Sincerely,

BILL MARTIN, Secretary of the
Escondido Planning Commission

Enclosure

CC: Jason Meyer, Wellhead Services

ESCONDIDO
City of Choice

Barbara J. Redlitz, AICP
Director of Community Development
Planning Division
201 North Broadway, Escondido, CA 92025
Phone: 760-839-4671 Fax: 760-839-4313

July 13, 2011

Paul Z. Cummins, V.P.
Escondido Energy, LLC
650 Bercut Drive, Suite C
Sacramento, CA 95811

Subject: Planning Commission Action - Case File No. PHG 11-0005
Address of Project: 1968 Don Lee Place, Escondido, CA

Dear Mr. Cummins:

Your request for the subject application was conditionally approved by the Planning Commission on July 12, 2011. Enclosed for your records is a copy of Planning Commission Resolution No. 5930 documenting this action.

Pursuant to Zoning Code Section 33-1303, decisions of the Planning Commission become effective on the eleventh calendar day following the date of the Planning Commission action, unless a timely appeal is received by filing a written request and paying the required appeal fee to the City Clerk. The Planning Commission action becomes final on the effective date shown on the enclosed resolution for the purpose of issuance of building or grading permit or establishment of a use not involving construction unless the aforementioned appeal is filed.

Please be advised that if you seek judicial review of the final decision in this matter, pursuant to Code of Civil Procedure section 1094.5, the time within which judicial review must be sought is governed by California Civil Code of Procedure section 1094.6.

Please call Paul Bingham at (760) 839-4306 if you have any questions.

Sincerely,

BILL MARTIN, Secretary of the
Escondido Planning Commission

Enclosure

CC: Jason Meyer, Wellhead Services

Planning Commission
Hearing Date: July 12, 2011

Effective Date: July 26, 2011

RESOLUTION NO. 5930

A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF ESCONDIDO, CALIFORNIA APPROVING A CONDITIONAL USE PERMIT MODIFICATION TO UPGRADE AN EXISTING "PEAKER" ELECTRIC GENERATING FACILITY

APPLICANT: Escondido Energy Center, LLC

CASE NO: PHG 11-0005

WHEREAS, the Planning Commission of the City of Escondido did, on July 12, 2011, hold a noticed public hearing to consider a request for a modification of the Conditional Use Permit to allow an upgrade to the existing "peaker" electric generating facility, located at 1968 Don Lee Place and more particularly described in Exhibit "C".

WHEREAS, the following determinations were made:

1. That a notice was published and mailed as required by the Escondido Zoning Code and applicable State law.

2. That the application was assessed in conformance with the California Environmental Quality Act and that a Notice of Exemption was issued on June 30, 2011, in conformance with CEQA Section 15301, Class 1(b)(e), "Existing Facilities," and CEQA Section 15302, Class 1(b)(c), "Replacement or Reconstruction."

3. That a staff report was presented discussing the issues in the matter.

4. That a public hearing was held and that all persons desiring to speak did so.

NOW, THEREFORE, BE IT RESOLVED by the Planning Commission of the City of Escondido:

1. That the above recitations are true and correct.

2. That the Planning Commission certifies that it has reviewed and considered the environmental review and determined that it is complete and adequate for this project, and there are no significant environmental effects which are not mitigated.

3. That the Findings of Fact and Factors to be Considered, attached as Exhibit "A," were made by said Commission.

4. That, considering the Findings and Factors, as well as applicable law, the Planning Commission hereby makes a motion to approve of said Conditional Use Permit with a requirement to utilize the permit within two years of the effective date subject to the Conditions of Approval attached as Exhibit "B."

BE IT FURTHER RESOLVED that, pursuant to Government Code Section 66020(d)(1):

1. NOTICE IS HEREBY GIVEN that the project is subject to certain fees described in the City of Escondido's Development Fee Inventory on file in both the Community Development and Public Works Departments. The project also is subject to dedications, reservations, and exactions, as specified in the Conditions of Approval.

2. NOTICE IS FURTHER GIVEN that the 90-day period during which to protest the imposition of any fee, dedication, reservation, or other exaction described in this resolution begins on the effective date of this resolution, and any such protest must be in a manner that complies with Section 66020.

PASSED, ADOPTED AND APPROVED by a majority vote of the Planning Commission of the City of Escondido, California, at a regular meeting held on the 12th day of July, 2011, by the following vote, to wit:

AYES:	COMMISSIONERS:	Campbell, Caster, McQuead, Weber, Winton and Yerkes.
NOES:	COMMISSIONERS:	None.
ABSTAINED:	COMMISSIONERS:	None.
ABSENT:	COMMISSIONERS:	Lehman.

DAROL H. CASTER, Chairman
Escondido Planning Commission

ATTEST:

BILL MARTIN, Secretary of the
Escondido Planning Commission

I hereby certify that the foregoing Resolution was passed at the time and by the vote above stated.

TY PAULSON, Minutes Clerk
Escondido Planning Commission

ESCONDIDO
City of Choice

PLANNING COMMISSION

Agenda Item No.: G.2
Date: July 12, 2011

CASE NUMBER:	PHG 11-0005
APPLICANT:	Escondido Energy Center, LLC.
LOCATION:	Between Don Lee Place and Mission Road, east of Auto Park Way, addressed as 1968 Don Lee Place (APN 228-381-7800).
TYPE OF PROJECT:	Conditional Use Permit Modification
PROJECT DESCRIPTION:	A proposed Modification to the previously approved Conditional Use Permit to allow an upgrade with more modern and efficient equipment to the existing "peaker" generating facility now owned by Escondido Energy Center, LLC. The improvements will include façade and equipment changes, a reduction in stack height and modifications to the footprints of the buildings as previously approved, an improvement in the present facility's air quality emissions, and a reduction in operating hours to 2900 hours per year.
STAFF RECOMMENDATION:	Approval
GENERAL PLAN DESIGNATION/TIER:	GI (General Industrial)
ZONING:	M-2 (General Industrial) and within the HCO (Hazardous Chemical Overlay)

BACKGROUND/SUMMARY OF ISSUES:

On December 11, 2007, the Planning Commission approved the CUP modification (case 2007-28-CUP) for a project involving the upgrading of an existing "peaker" electric generating plant owned by MMC Energy. The project request also included amending the Zoning Code to allow the processing of CUP applications by the City prior to the Air Pollution Control District (APCD) issuing their Permits to Construct, which was subsequently approved by Council. On January 27, 2009 the Planning Commission approved an Extension of Time for MMC Energy's upgrade project (PHG 08-0043). Still without any upgrading work begun, the existing plant was later acquired by Escondido Energy Center, LLC (EEC). They were granted a 2-year Extension of Time on November 23, 2010 with no changes to the planned plant upgrades as originally reviewed and approved by the Planning Commission in December 2007 and January 2009. EEC has been working with their engineers on detailed plans to construct the upgrades and they have discovered several substantive problems, concluding that the plant cannot be constructed in the original configuration approved back in 2007. The group has submitted revised plans showing a new layout that meets all of the original upgrade intentions and is requesting a modification to the 2007 CUP (case 2007-28-CUP).

The proposal includes a reduction in the maximum annual operating hours from 4500 to 2900. The upgrade also includes the use of a more efficient turbine, which requires that new components be installed. These will be within essentially the same foot print of the current structures on the site. Much of the plant will remain at the same or a lower profile than the existing one, but the existing stack height will have to be raised approximately 10 feet resulting in an overall height of less than 60 feet. The modification approved in 2007 included a new cylindrical stack 70 high. Increases in height are allowed within the M-2 zone. The Design Review Board evaluated the proposal's aesthetic changes in comparison to the existing plant on April 14, 2011 and approved the new design.

The pollutant constituents after the plant upgrade associated with the current CUP modification case will change when compared to those of the existing approved plant.

Staff feels that the issues are as follows:

1. Whether the configuration and appearance of the facility, including the increased height of the exhaust stack, is appropriate.

2. Whether the changes in air quality constituents and power output are adequate reasons for the reconstruction necessary to upgrade the existing plant.

REASONS FOR STAFF RECOMMENDATION:

1. The 2007 CUP modification approved an exhaust stack to a height of 70 feet. In the new configuration, the existing stack constructed at between 45 and 47 feet high will be used and extended approximately 10 feet to an overall height of less than 60 feet. The stack height proposed is allowed within the M-2 zone and subject only to the UBC (Uniform Building Code) which the project will have to meet. Other tall structures are already present within the vicinity. None of the other structures on the project site will approach the height of the stack. The Design Review Board evaluated the new configuration on April 14, 2011. The revised plans were unanimously approved as submitted.

2. Because the reductions in pollution constituents are substantial and the output of electrical energy for our area will increase with a reduction in fuel burned, and a voluntary reduction in annual operating hours from 4,500 down to 2,900, staff feels the proposal is a reasonable trade-off with the short-term impacts of the construction activity required by the upgrade. In addition, the proposed modifications will enable the facility to meet the required 65dBA noise limits at the property lines.

Respectfully Submitted,

Paul K. Bingham
Assistant Planner II

EXHIBIT "B"

CONDITIONS OF APPROVAL

PHG11-0005

General

1. Prior to the issuance of building permits, the applicant must obtain an Authorization to Construct from the San Diego APCD (Air Pollution Control District). Documentation must be provided to the Planning Division that all final conditions of construction for application # 985693 have been met. Provisions for the submittal of Air Emissions Reports to the City shall be executed to the satisfaction of the Community Development Director and City Attorney's Office.

2. Prior to or concurrent with the issuance of building permits, the appropriate development fees and Citywide Facility fees shall be paid in accordance with the prevailing fee schedule in effect at the time of building permit issuance, to the satisfaction of the Community Development Director.

3. Prior to building permit issuance, an acoustical analysis of the final plant modification design shall be completed. The analysis shall be based on the manufacturer's data or engineering estimates for major noise generating sources from the facility once upgraded. The analysis will document project features that will account for the appropriate level of ambient noise (adjusted for the time of day), zoning categories, residential land uses, the sound characteristics of the plant, and potential emergency operations during nighttime and early morning hours.

4. Prior to final inspection and as soon as practical during construction, acoustical tests of the plant should be completed following the Escondido Noise Ordinance. The report shall identify any additional noise control measures required to meet 65 dB standards at all property lines, and the noise ordinance standards at the property lines of parcels with residential and M-1 zoning, accounting for the time of day differential and the reduction of 10 dB for the noise characteristics of the facility. The applicant shall implement any additional noise control measures identified in the report to the satisfaction of the Community Development Director.

5. Within one (1) week of the completion of construction, a final acoustical test of the plant shall be completed and a Noise Monitoring Report prepared to the satisfaction of the Community Development Director. If the noise level at any of the property lines exceeds 65 dB(A), or exceeds the noise threshold adjusted for time of day and tonal characteristics at the property lines of residentially zoned and M-1 zoned parcels, plant operations shall cease and the plant design shall be modified to achieve the required levels of noise reduction. In this case a new acoustical analysis shall be performed and a new report submitted to the Planning division.

6. All construction shall comply with all applicable requirements of the Escondido Zoning Code and requirements of the Planning Division, Building Official, and the Fire Chief.

7. The legal description attached to the application has been provided by the applicant and neither the City of Escondido nor any of its employees, commissioners, or board members assume responsibility for the accuracy of said legal description.

8. Fire hydrant spacing and location must be approved by the Fire Department. The number, timing and minimum GPM fire flow shall be coordinated with the Fire Chief. Any necessary fire protection facilities and improvements shall be subject to the review and approval of the Fire Department.

9. Any blasting within the City of Escondido is subject to the provisions of Ordinance No. 95-6 and a Blasting Permit must be obtained from the Escondido Fire Department. If blasting occurs, verification of a San Diego County Explosive Permit and a policy or certificate of public liability insurance shall be filed with the Fire Chief and City Engineer prior to any blasting within the City of Escondido.

10. Access for use of heavy fire fighting equipment, as required by the Fire Chief, shall be provided to the job site at the start of any construction and maintained until all construction is complete. Also, there shall be no stockpiling of combustible materials, and there shall be no foundation inspections given until on-site fire hydrants with adequate fire flow are in service to the satisfaction of the Fire Marshall.

11. All requirements of the Public Partnership Program, Ordinance No. 86-70 shall be satisfied prior to building permit issuance. The ordinance requires that a public art fee be added at the time of the building permit issuance for the purpose of participating in the City Public Art Program

12. All exterior lighting shall conform to the requirements of Article 1072, Outdoor Lighting (Ordinance No. 86-75).

13. Prior to building permit issuance, all containment for aqueous ammonia shall be approved by the City of Escondido Fire Department.

14. Obtain a Hazardous Materials clearance from the San Diego County Department of Environmental Health (DEH) pursuant to Assembly Bill 3205, prior to issuance of a construction permit or occupancy certificate by the Building Division.

15. An inspection by the Planning Division shall be required prior to operation of the project. Everything should be installed prior to calling for an inspection, although preliminary inspections may be requested. Contact the project planner at 760-839-4306 to arrange an inspection.

16. The applicant shall submit copies of air quality compliance to the City of Escondido as well as to the APCD, as requested. The documentation submitted to the City shall address conformance with emissions levels as described in the comparison chart which appears in the Analysis section of this staff report.

17. Any proposed signage associated with this project must comply with the City's Sign Ordinance (Ord. 92-47).

18. Colors, materials and design of the project shall conform to the exhibits and references in the staff report to the satisfaction of the Planning Division. The colors shall be as shown on the approved color scheme "3" as reviewed by the Design Review Board on April 14, 2011 and implemented per their motion.

19. Prior to building permit issuance, the applicant shall provide detailed information to the satisfaction of the Community Development Director, detailing measures to prevent detectable vibrations beyond property lines.

20. Prior to grading or building permit issuance, the applicant shall submit a complete discharge permit application to the City's Industrial Waste Department and obtain approval of the department official.

21. All phases of construction and the final improvements to the facility must comply with all current Storm Water requirements.

22. Prior to construction and issuance of grading and building permits, a site-specific analysis and report shall be prepared by a qualified professional to the satisfaction of the Director of Public Works and Building Official to determine equipment and methods necessary to protect adjacent properties from adverse air-born pollutants which may result from construction.

23. The City of Escondido hereby notifies the applicant that the County Clerk's office requires a documentary handling fee of $50.00 in order to file a Notice of Exemption for the project (environmental determination for the project). In order to file the Notice of Exemption with the County Clerk, in conformance with the California Environmental Quality Act (CEQA) Section 15062, the applicant should remit to the City of Escondido Planning Division, within two working days of the final approval of the project (the final approval being the hearing date of the Planning Commission or City Council, if applicable), a certified check payable to the "County Clerk" in the amount of $50.00. The filing of a Notice of Exemption and the posting with the County Clerk starts a 35 day statute of limitations period on legal challenges to the agency's decision that the project is exempt from CEQA. Failure to submit the required fee within the specific time noted above will result in the Notice of Exemption not being filed with the County Clerk, and a 180 day statute of limitations will apply.

<u>Landscaping</u>

1. Five copies of a detailed landscape and irrigation plan(s) shall be submitted prior to issuance of Grading or Building permits. A plan check fee will be collected at the time of submittal. The required landscape and irrigation plan(s) shall

comply with the provisions, requirements and standards in Article 62. The plans shall be prepared by, or under the supervision of a licensed landscape architect.

2. Prior to the issuance of a grading permit, the grading plans and landscaping plans shall include the location and type of any mature trees located on the site. Each tree shall be labeled on the plan as to whether it will remain or be relocated and staked in the field, as necessary.

3. All landscaping elements and associated irrigation systems approved in 2001 for the original facility shall be restored, and additional landscaping elements per the conditions approved by the Design Review Board on November 29, 2007 shall also be installed to the satisfaction of the Planning Division. All replacement perimeter trees shall be 24-inch box sized stock or larger.

4. Prior to final occupancy of the upgraded facility, all required landscape improvements shall be installed and all vegetation growing in an established, flourishing manner. All irrigation shall be maintained in fully operational condition. The required landscaped areas shall be free of all foreign matter, weeds and any unapproved plant material.

5. The installation of the landscaping and irrigation shall be inspected by the project landscape architect upon completion. He/she shall complete a Certificate of Landscape Compliance certifying that the installation is in substantial compliance with the approved landscape and irrigation plans and City standards. The applicant shall submit the Certificate of Compliance to the Planning Division and request a final inspection.

ENGINEERING CONDITIONS

STREET IMPROVEMENTS

1. All improvements shall be constructed in a manner that does not damage existing public improvements. Any damage shall be determined by and corrected to the satisfaction of the Director of Engineering Services.

2. The project developer shall be responsible for removal and replacement of all existing damaged public improvements along project frontage to the satisfaction of the Director of Engineering Services.

GRADING

1. A site drainage and erosion control plan shall be submitted to and approved by the Engineering Services Department prior to issuance of building permits. The project developer shall implement Best Management Practices during all phases of construction in accordance with the approved erosion control plan.

2. All private driveways and parking areas shall be paved with a minimum of 3" AC over 6" of AB or 5 1/2" PCC over 6" AE All paved areas exceeding 15% slope or less than 1.0% shall be paved with PCC.

3. All proposed paved areas shall drain to landscaping or erosion protected natural vegetation.

4. The developer shall be responsible for the recycling of all excavated materials designated as Industrial Recyclables (soil, asphalt, sand, concrete, land clearing brush and rock) at a recycling center or other location(s) approved by the City Engineer.

5. Erosion control, including riprap, interim sloping planting, gravel bags, or other erosion control measures shall be provided to control sediment and silt from the project. The developer shall be responsible for maintaining all erosion control facilities throughout the development of the project.

*All site grading and erosion control plans shall be prepared by a Registered Civil Engineer. A separate submittal to the Engineering Department is required for the site grading and erosion control plans. Plans will **not** be forwarded from the Building Department.*

WATER SUPPLY

1. This project is located within the Rincon Del Diablo Municipal Water District. It shall be the developer's responsibility to make all arrangements with the Rincon District as may be necessary to provide water service for commercial and domestic use, and for fire protection.

BOUNDARIES and EASEMENTS

1. All property ownership and leasing boundaries and all easements, both private and public, affecting subject property shall be shown and labeled on the drainage and erosion control plans.

2. A current preliminary title report shall be submitted with the grading/drainage plans.

CASH SECURITY AND FEES

1. A cash security or other security satisfactory to the City Engineer shall be posted to pay any costs incurred by the City for cleanup or damage caused by erosion of any type, related to project grading. Any moneys used by the City for cleanup or damage will be drawn from this security. The remaining portion of this cleanup security shall be released upon final acceptance of the grading for this project. The amount of the cash security shall be 10% of the total estimated cost of the grading, drainage, and best management practices items of work with a minimum of $5,000 up to a maximum of $50,000, unless a higher amount is deemed necessary by the City Engineer.

2. The developer will be required to pay all development fees of the City then in effect at the time, and in such amounts as may prevail when building permits are issued.

EXHIBIT 3

RESOLUTION NO. 513

A RESOLUTION OF THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF CARLSBAD, CALIFORNIA CONCURRING WITH THE ISSUANCE OF A WRITTEN REPORT BY THE CITY COUNCIL DESCRIBING THE MEASURES TAKEN BY THE CITY TO ALLEVIATE THE CONDITION THAT LEAD TO THE ADOPTION OF URGENCY ORDINANCE CS-067, CONSISTENT WITH GOVERNMENT CODE SECTION 65858(D).

WHEREAS, at its regular meeting of October 20, 2009, the City Council adopted Urgency Ordinance No. CS-067, prohibiting any new or expanded thermal electric power generation facilities in Carlsbad's Coastal Zone pending studies and changes in the General Plan and Zoning Ordinances and other land use regulations; and declaring the ordinance to be an emergency ordinance adopted as an urgency measure to protect the public health, safety and welfare and based on the facts stated in the ordinance that represent a current and immediate threat to the public health, safety, or welfare; and

WHEREAS, as authorized by Government Code Section 65858, Urgency Ordinance CS-067 was extended by urgency ordinances CS-070 and CS-110, the latter adopted October 12, 2010, and set to expire October 20, 2011; and

WHEREAS, Government Code Section 65858(d) requires, ten days prior to the expiration of an urgency ordinance extension, the legislative body to issue a written report describing the measures taken to alleviate the condition which led to the adoption of the ordinance; and

WHEREAS, said written report is attached as Exhibit A to City Council Resolution No. 2011-_____, and is incorporated herein by reference.

NOW, THEREFORE, BE IT RESOLVED by the Housing and Redevelopment Commission of the City of Carlsbad, California as follows:

1. That the above recitations are true and correct.

2. That the Housing and Redevelopment Commission of the City of Carlsbad concurs with the issuance of the written report issued by the City Council of the City of Carlsbad describing the measures taken by the City to alleviate the condition that led to the adoption of Urgency Ordinance CS-067.

3. This action is final the date this resolution is adopted by the Housing and Redevelopment Commission. The Provisions of Chapter 1.16 of the Carlsbad Municipal Code, "Time Limits for Judicial Review," shall apply:

"NOTICE TO APPLICANT"

The time within which judicial review of this decision must be sought is governed by Code of Civil Procedure, Section 1094.6, which has been made applicable in the City of Carlsbad by Carlsbad Municipal Code Chapter 1.16. Any petition or other paper seeking review must be filed in the appropriate court not later than the ninetieth day following the date on which this decision becomes final; however, if within ten days after the decision becomes final a request for the record is filed with a deposit in an amount sufficient to cover the estimated cost or preparation of such record, the time within which such petition may be filed in court is extended to not later than the thirtieth day following the date on which the record is either personally delivered or mailed to the party, or his attorney of record, if he has one. A written request for the preparation of the record of the proceedings shall be filed with the City Clerk, City of Carlsbad, 1200 Carlsbad Village Drive, Carlsbad, CA. 92008."

PASSED AND ADOPTED at a joint special meeting of the Housing and Redevelopment Commission and City Council and of the City of Carlsbad on the _____ day of _____ 2011, by the following vote, to wit:

AYES:

NOES:

ABSENT:

_____
MATT HALL, Chairman

ATTEST:

_____
LISA HILDABRAND, Secretary

(SEAL)

CITY OF
CARLSBAD

For the Information of the members of the Housing & Redevelopment Commission

re: Agenda Item #1

September 19, 2011

To: HOUSING AND REDEVELOPMENT COMMISSION

From: CITY ATTORNEY

Subject: *SPECIAL MEETING OF SEPTEMBER 20, 2011 – UPDATE OF CALIFORNIA ENERGY COMMISSION COMMITTEE PROCEEDINGS ON THE PROPOSED SECOND POWER PLANT IN THE SOUTH CARLSBAD COASTAL REDEVELOPMENT AREA*

This special meeting of the Housing and Redevelopment Commission is necessary as a result of a request for comments by the assigned committee of the California Energy Commission (CEC) on, among other things, whether or not a redevelopment permit would be issued by the Housing and Redevelopment Commission without conditions Land-2 and Land-3. The deadline for comments is 5:00 p.m. on Friday, September 23, 2011. Attached as Exhibit 1 to this memorandum is a copy of the hearing officer's memorandum of Wednesday, September 14, 2011.

But for the paramount jurisdiction of the CEC, this commission would be required to issue a redevelopment permit for the Project. At the hearing in Sacramento on September 13, 2011, the applicant, NRG, asked for relief of conditions which it proposed a few months previously because it had now determined they were too expensive. Those conditions are known as Land-2 and Land-3 and basically would require demolition and remediation of the existing Encina Power Station. Copies of those proposed conditions are attached as Exhibit 2.

Since, as the hearing officer noted, this request by NRG was made without notice to the other parties, he has requested additional comments by September 23, 2011.

Even though the CEC has paramount jurisdiction for the licensing of power plants exceeding 50 megawatts, it must respect and consider local laws and regulations before it exercises that paramount jurisdiction and then may override local law but only when it makes the additional findings that the project is necessary despite a conflict with the local law due to public convenience and necessity and there are no better feasible alternatives.

City Attorney
1200 Carlsbad Village Drive | Carlsbad, CA 92008 | 760-434-2891 | 760-434-8367 fax | www.carlsbadca.gov

If the Housing and Redevelopment Commission possessed jurisdiction to consider NRG's application for a second power plant to be located between I-5 and the railroad tracks, it would be issuing that redevelopment permit under the South Carlsbad Coastal Redevelopment Plan adopted in 2000 and amended in 2005. Among other things, a proposed project in this redevelopment area must further the goals of the Redevelopment Agency to eliminate blight. The Redevelopment Commission recently approved such a finding for the Wavecrest Resort and Hotel which is now under construction. The Housing and Redevelopment Commission determined that a first class, high-quality hotel on a formerly underutilized property would help eliminate blight.

The purpose of a redevelopment project area within a city or county is to eliminate blight in that area. The Housing and Redevelopment Commission determines whether or not a proposed project will do that and, if so, may issue a redevelopment permit with conditions. In the South Carlsbad Coastal Redevelopment Project area which basically runs south from Agua Hedionda Lagoon to the southern city limits and includes the proposed project, it must make this finding for electrical generation projects that it serves an extraordinary public purpose within the area.

For certain specific uses the Housing and Redevelopment Commission requires that those uses serve an extraordinary public purpose. Among those uses were desalination projects and projects for the generation of electrical energy.

This Commission has made the finding of an extraordinary public purpose for the desalination plant (Housing and Redevelopment Commission Resolution Number 420, adopted on June 13, 2006). Among other things, the extraordinary public purpose was served by the safe, reliable and secure local water supply at a favorable price, a class-A looking office building housing the desalination plant, and the dedication of land and resources over and above what would normally be required from any other redevelopment project.

On June 15, 2011 and again on June 30, 2011, the California Energy Commission considered the recommendation of the Committee that the siting of a second proposed power plant with the inclusions of Land-2 and Land-3 would present extraordinary public benefits in the South Carlsbad Coastal Redevelopment Plan. The Commission was not convinced that it should license the proposed project and remanded the case for reconsideration by the Committee (attached is a copy of that order dated June 30, 2011). Under that order, the committee was to take additional evidence and hold additional hearings and to consider among other things those issues associated with

conditions Land-2 and Land-3 and their environmental impacts. The Committee may still do that, however, as explained above, in an "unnoticed motion" NRG has requested relief from these conditions.

Based on direction from the Committee, the applicant proposed conditions Land-2 and Land-3 as a way to satisfy this finding. It did not submit it to the Housing and Redevelopment Commission but instead submitted it to the assigned committee of the Energy Commission.

City staff has opined that, the future demolition and remediation of the existing Encina power station would eliminate a blighting condition. However, the construction of a new power plant would present a new blighting condition since it would perpetuate an industrial use in a coastal area better served by other redevelopment projects that would enhance the use and enjoyment of coastal resources to the betterment of Carlsbad citizens. However, if the CEC were to issue a license for the construction of the proposed power plant, it would assist in eliminating blight if the existing Encina power station were removed and land remediated. This does not, however, constitute an extraordinary public purpose since the proposed project does not provide any benefits over and above those normally required such as additional land dedications or additional funds that would be used to further eliminate blight. Attached to this memo is a staff report further explaining the background of this issue.

Therefore, it is recommended that the Housing and Redevelopment Commission adopt Resolution No. 513 finding that the proposed 2nd power plant, without proposed conditions Land-2 and Land-3 is not sufficient to eliminate blight and to serve an extraordinary public purpose.

Very truly yours

Ronald R. Ball
CITY ATTORNEY

cc: City Clerk
City Manager
Available for public distribution

EXHIBIT 5

ORDINANCE NO. CS-159

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING AN AMENDMENT TO THE ENCINA POWER STATION PRECISE DEVELOPMENT PLAN PDP 00-02(E) TO (1) CLARIFY THE ENCINA POWER STATION IS NOT CONSISTENT WITH THE GENERAL PLAN OR ZONING ORDINANCE DUE TO ITS LOCATION IN THE COASTAL ZONE AND ITS GENERATING CAPACITY, AMONG OTHER THINGS; (2) REVISE THE CONTENTS OF THE PRECISE DEVELOPMENT PLAN AS NECESSARY TO REFLECT THIS INCONSISTENCY AND (3) MAKE MINOR HOUSEKEEPING CHANGES TO REFLECT, AMONG OTHER THINGS, THE APPROVED STATUS OF THE CARLSBAD SEAWATER DESALINATION PLANT. THE ENCINA POWER STATION PRECISE DEVELOPMENT PLAN ENCOMPASSES THE 95-ACRE ENCINA POWER STATION AT 4600 CARLSBAD BOULEVARD, LOCATED ALONG THE SOUTH SHORE OF AGUA HEDIONDA LAGOON AND WEST OF INTERSTATE 5 AND WITHIN LOCAL FACILITIES MANAGEMENT ZONES 1 AND 3.

CASE NAME: CHANGES TO POWER PLANT STANDARDS
CASE NO.: PDP 00-02(E)

WHEREAS, the City Council of the City of Carlsbad, California has reviewed and considered a request, consistent with Chapter 21.36 of the Municipal Code, to approve amendment "(E)" to the Encina Power Station Precise Development Plan, PDP 00-02; and

WHEREAS, after procedures in accordance with the requirements of law, the City Council has determined that the public interest indicates that PDP 00-02(E) be approved.

NOW, THEREFORE, the City Council of the City of Carlsbad does ordain as follows:

SECTION I: That PDP 00-02(E), dated September 7, 2011, on file in the Planning Department, and incorporated herein by reference, is approved. PDP 00-02(E) shall constitute the development plan for the property and all development within the plan area shall conform substantially to the plan.

SECTION II: That the findings of the Planning Commission in Planning Commission Resolution No. 6806 shall constitute the findings of the City Council.

///

///

///

EFFECTIVE DATE: This ordinance shall be effective thirty days after its adoption, and the City Clerk shall certify to the adoption of this ordinance and cause it to be published at least once in a publication of general circulation in the City of Carlsbad within fifteen days after its adoption.

INTRODUCED AND FIRST READ at a regular meeting of the Carlsbad City Council on the 27th day of September 2011, and thereafter.

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Carlsbad on the 11th day of October 2011, by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED AS TO FORM AND LEGALITY

_____
RONALD R. BALL, City Attorney

_____
MATT HALL, Mayor

ATTEST:

_____
LORRAINE M. WOOD, City Clerk

(SEAL)

EXHIBIT 6

ORDINANCE NO. CS-160

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING AN AMENDMENT TO THE ENCINA SPECIFIC PLAN SP 144(N) THAT (1) INCORPORATES PRECISE DEVELOPMENT PLAN PDP 00-02(E) AS APPROVED BY CITY COUNCIL ORDINANCE NO. CS-159; (2) DELETES STATEMENTS REGARDING FUTURE POWER GENERATING FACILITIES; AND (3) CLARIFIES THE ENCINA POWER STATION IS NOT CONSISTENT WITH THE GENERAL PLAN OR ZONING ORDINANCE. THE ENCINA SPECIFIC PLAN EXTENDS BETWEEN THE PACIFIC OCEAN AND CANNON ROAD, ENCOMPASSES THE AGUA HEDIONDA LAGOON, THE ENCINA POWER STATION, AND PROPERTIES WITHIN LOCAL FACILITIES MANAGEMENT ZONES 1, 3, AND 13.

CASE NAME: CHANGES TO POWER PLANT STANDARDS
CASE NO.: SP 144(N)

WHEREAS, the Encina Specific Plan SP 144 was originally adopted by the City Council as Ordinance No. 9279 on August 3, 1971, and has since been amended several times; and

WHEREAS, SP 144 contains the rules and regulations for the orderly development of 680 acres of land, which includes the Agua Hedionda Lagoon, agricultural operations and natural open space, and the Encina Power Station; and

WHEREAS, the City Council of the City of Carlsbad has reviewed and considered Specific Plan Amendment SP 144(N) for the Encina Specific Plan; and

WHEREAS, after procedures in accordance with requirements of law, the City Council has determined that the public interest indicates that said SP 144(N) be approved.

NOW, THEREFORE, the City Council of the City of Carlsbad does ordain as follows:

SECTION I: That SP 144(N), dated September 7, 2011, on file in the Planning Department, and incorporated herein by reference, is approved. SP 144(N) shall constitute the development plan for the property and all development within the plan area shall conform substantially to the plan.

SECTION II: That the findings of the Planning Commission in Planning Commission Resolution No. 6807 shall constitute the findings of the City Council.

EFFECTIVE DATE: This ordinance shall be effective thirty days after its adoption, and the City Clerk shall certify to the adoption of this ordinance and cause it to be published at least once in a publication of general circulation in the City of Carlsbad within fifteen days after its adoption.

INTRODUCED AND FIRST READ at a regular meeting of the Carlsbad City Council on the 27th day of September 2011, and thereafter.

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Carlsbad on the 11th day of October 2011, by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED AS TO FORM AND LEGALITY

_____
RONALD R. BALL, City Attorney

_____
MATT HALL, Mayor

ATTEST:

_____
LORRAINE M. WOOD, City Clerk

(SEAL)

Application No: R.10-05-006
Exhibit No.: SDG&E-1
Witness: Robert Anderson

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.	Rulemaking 10-05-006 (Filed May 6, 2010)

PREPARED TRACK I TESTIMONY

OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

July 1, 2011

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND 1
II. PURPOSE 2
III. CAISO LOCAL RESOURCE ADEQUACY REQUIREMENT 2
IV. LOCAL CAPACITY REQUIREMENTS IN THE CPUC-REQUIRED SCENARIOS 3
V. LOCAL CAPACITY REQUIREMENTS IN THE IOU COMMON SCENARIOS 7
VI. LOCAL CAPACITY NEED FOR SDG&E SERVICE AREA 9
VII. WITNESS QUALIFICATIONS 13

PREPARED TRACK I TESTIMONY OF

SAN DIEGO GAS & ELECTRIC COMPANY

I. INTRODUCTION AND BACKGROUND

In the *Assigned Commissioner and Administrative Law Judge's Joint Scoping Memo and Ruling* issued December 3, 2010 ("Scoping Memo"), the Commission directed the investor-owned utilities ("IOUs") to consider four "required" scenarios (the "CPUC-Required Scenarios") using an analytic framework developed by the California Independent System Operator ("CAISO") in order to perform a system need determination in Track I.[1/] Separate testimony sponsored by the CAISO provides a detailed description of the methodology, input assumptions and results for the CPUC-Required Scenarios analysis.

As a supplement to the CPUC-Required Scenarios, San Diego Gas & Electric Company, Pacific Gas and Electric Company ("PG&E") and Southern California Edison Company ("SCE") developed three alternative scenarios (the "IOU Common Scenarios") and a sensitivity analysis using the same input databases used for the four CPUC-Required Scenarios. Certain variables in the input databases were modified, however, to reflect alternative assumptions that align with the IOUs' expectations. In addition, all of the IOU Common Scenarios include new resources necessary to meet SDG&E's Local Capacity Requirement ("LCR").[2/]

The IOUs have prepared joint testimony (the "Joint IOU Testimony") that provides modeling analysis and results of the CPUC-Required Scenarios and the IOU Common Scenarios and sensitivity (the "Joint Analysis"). SDG&E submits this testimony concurrently with the Joint IOU Testimony in order to support the calculation of the LCR for SDG&E's service

---

[1/] Scoping Memo, p. 24.

[2/] In Application ("A.") 11-05-023, SDG&E identified a need for additional new generation in the San Diego Local Capacity Area.

territory included in both the CAISO's analysis of the CPUC Required Scenarios and the IOU Joint Analysis, and to address the need for new units to meet LCR in SDG&E's service area.

II. PURPOSE

The purpose of this testimony is to provide a calculation of the LCR requirements based on the CPUC Required Scenarios and the IOU Joint Analysis and show whether the assumed additions will meet the LCR or if, instead, additional resources are needed.

III. CAISO LOCAL RESOURCE ADEQUACY REQUIREMENT

Since the creation of the CAISO, SDG&E's service area has been treated as a single load pocket. Accordingly, the CAISO determines on an annual basis if there are sufficient resources in the load pocket to meet grid reliability criteria, referred to as the G-1, N-1 criteria. These criteria require that SDG&E be capable of serving the entire load in its service area on a hot summer day – which is defined as a summer day that is expected once every ten years – while the largest transmission line and the largest generator are both out of service. These criteria have been endorsed by the Commission, which has used them to set the LCR requirement in its resource adequacy program.[3/] The Commission also applied these criteria in determining the authorization for new resources approved in the 2006 LTPP proceeding.[4/] Thus, even if system-wide studies do not identify a need for additional resources on a statewide basis, there may nevertheless still be a need for new resources to meet local resource adequacy criteria.

[3/] *See* R.09-10-032.
[4/] D.07-12-052, *mimeo*, p. 113.

IV. LOCAL CAPACITY REQUIREMENTS IN THE CPUC-REQUIRED SCENARIOS

As noted above, the Scoping Memo requires the IOUs to develop a system need determination using the four CPUC-Required Scenarios, and includes standardized planning assumptions to be used for the CPUC-Required Scenarios.[5/] A table with the loads and resources for SDG&E for the "Trajectory" Case is located on page 19 of Attachment A to the Scoping Memo (the "Attachment A Table"). The table provides no information, however, regarding whether the LCR would be met in the SDG&E load pocket. Therefore, SDG&E performs this calculation below.

Table 1 below shows the calculation of the LCR for the San Diego load pocket based on the Trajectory Case. Since most of the assumptions regarding loads and resources that are required in order to calculate the LCR are identical in all of the CPUC-Required Scenarios, SDG&E calculated the LCR only for the Trajectory Case. However, the other cases would produce similar results. Table 1 includes two components: 1) expected need for resources based on loads and changes to existing resources; and 2) a showing as to whether the assumed additions, including uncommitted energy efficiency ("EE") and demand response ("DR") would be sufficient to meet the LCR.

The analysis started with the data included in the Attachment A Table. It is important to note, however, that the Scoping Memo defined the SDG&E service area as including all resources in the SDG&E load pocket plus all the generation that would be connected to the Imperial Valley substation. This is inconsistent with the CAISO definition of the current

[5/] *See* Scoping Memo, Attachment A.

SDG&E local capacity area.[6] Under CAISO's definition, resources connected to the Imperial Valley substation and imports delivered to the SDG&E load pocket over the Sunrise Powerlink and the Southwest Powerlink are not located in the load pocket and therefore are not used to meet LCR. Thus to calculate the LCR, these resources must be excluded from the supply.[7]

The analysis set forth in Table 1 demonstrates that in the Trajectory Case, after accounting for the retirement of the local once-through cooling ("OTC") facilities, a local capacity need of 522 MW in 2017 growing to 722 MW in 2020 is identified. The Trajectory Case meets this need by assuming substantial amounts of uncommitted EE, growth in DR, new local RPS resources, and allocating a portion of a state-wide CHP goal to be in SDG&E's service area. The addition of these resources results in the Trajectory Case meeting the CAISO LCR with a cushion of approximately 300MW.

/ / /

/ / /

[6] This analysis addresses SDG&E's current Local RA area. The CAISO may also create a new San Diego–Imperial Valley local area after the Sunrise Powerlink transmission line goes into service, which in some years might be more constraining and determine a given years LCR. Any capacity in the current SDG&E Local RA area will count towards meeting requirements for the new, larger area.

[7] This required that the generation located in Mexico, Imperial Valley and some East San Diego County resources that will be connected to the proposed ECO substation be excluded from the supply. The addition of the Sunrise Powerlink increases the import capability in 2013, thus reduces the need for local resources.

Table 1

Peak Load Calculations (MW):	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Forecast Peak-Hour 1-in-2	4658	4738	4797	4856	4911	4973	5032	5094	5157
Forecast Peak-Hour 1-in-10	5124	5212	5277	5341	5402	5470	5535	5603	5673
Transmission Capability (-)	2500	3500	3500	3500	3500	3500	3500	3500	3500
Generation Contingency (+)	604	604	604	604	604	604	604	604	604
Local Resource Need	**3228**	**2316**	**2381**	**2445**	**2506**	**2574**	**2639**	**2707**	**2777**
Existing Local Supply Resources	1894	1894	1894	1894	1894	1894	1894	1894	1894
Existing OTC	1271	1271	1271	1271	1271	1271	1271	1271	1271
Small Hydro	4	4	4	4	4	4	4	4	4
Existing CHP	136	136	136	136	136	136	136	136	136
Local Renewable Energy	21	21	21	21	21	21	21	21	21
Total Existing Capacity	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**
OTC Retirement	311	311	311	311	311	1271	1271	1271	1271
Other Retirements	0	0	0	0	0	0	0	0	0
Net Local Capacity	**3015**	**3015**	**3015**	**3015**	**3015**	**2055**	**2055**	**2055**	**2055**
Capacity (Need) or Surplus	**-213**	**699**	**634**	**570**	**509**	**-519**	**-584**	**-652**	**-722**
Proposed Resources									
Known High Probability Adds	55	55	55	55	55	55	55	55	55
RPS in service area	0	34	68	68	68	68	68	68	68
Additional Supply CHP	6	8	11	14	17	20	22	25	28
Additional Demand Side CHP	13	19	25	32	39	45	51	57	64
Uncommitted EE	4	73	133	197	272	353	438	518	598
Demand Response	226	270	277	285	289	293	298	302	302
Total Assumed Additions	**305**	**458**	**569**	**650**	**739**	**834**	**931**	**1025**	**1115**
Capacity (Need) or Surplus	**92**	**1157**	**1203**	**1220**	**1248**	**315**	**347**	**373**	**393**

/ / /

/ / /

In considering the Trajectory Case, and indeed all the CPUC-Required Scenarios, however, the Commission must remain mindful of the fact that the LCR is met in these cases through reliance on assumptions that may not be realized in the future. These include:

- **Energy Efficiency ("EE")**: The CPUC-Required Scenarios assume substantial new energy efficiency reductions, including reductions from programs that have not yet been defined or shown to be cost effective. As a practical matter, a high degree of uncertainty continues to exist regarding whether these reductions will be achieved. While proposing stretch goals and aggressive new measures such as those reflected in the Energy Efficiency Strategic Plan's Big Bold Energy Efficiency Strategies ("BBEES") may be appropriate in certain non-LTPP contexts, the need to preserve system reliability makes it imperative that future uncommitted EE impacts not be overstated for purposes of resource planning. Public Utilities Code § 454.5 makes clear that the IOUs' procurement plans should include only those energy efficiency resources ". . . that are ***cost effective, reliable and feasible***."[8] Thus, resource planning assumptions must take into account what is reasonably expected to occur.
- **Demand Response ("DR")**: the DR assumptions were based on early estimates of the impact of future DR programs. Subsequent filings have forecasted peak reductions that were significantly less than those included in the CPUC- scenarios.
- **Combined Heat and Power ("CHP")**: The incremental CHP assumption is based on a straight allocation across all the service areas rather than an analysis specific to the SDG&E service area. It also assumes 100% of the demand side capacity will be performing at the time of peak and the resource adequacy value of the supply side

[8] Pub. Util. Code § 454.5(b)(9)(C) (emphasis added).

will be 100% of the installed capacity. This is wholly inconsistent with current projects and is not likely to occur with future projects.

The Trajectory Case also includes assumptions regarding existing and future resources that are likely not to be realized in the long term.

- **Cabrillo II Peakers**: In all of the CPUC-Required cases, these peaker facilities are assumed to be in service for the entire planning period. It is anticipated, however, that these units will retire in 2013 when their current land leases expire. This will result in the elimination of 188 MW of supply.
- **Celerity Contract**: The Trajectory Case assumes as a "likely addition" 15 MW of new supply from the Celerity contract. This contract has not been able to obtain Resource Adequacy value, and ends in 2016. Thus it is not reasonable to expect that this resource will be available over the planning period.

With the removal of the 188 MW Cabrillo II peakers and the 15 MW "likely addition" of Celerity, SDG&E's LCR is met by only 112 MW in 2017 growing to about 190 MW in 2020. Thus the Trajectory Case, as modeled, did meet the LCR, however it did so with substantial assumptions about new resources that may not be realized.

V. LOCAL CAPACITY REQUIREMENTS IN THE IOU COMMON SCENARIOS

For the IOU Common Scenarios, SDG&E developed assumptions and calculated an LCR table based upon its current outlook regarding loads and resources in its service area. It includes updates to the load forecast, energy efficiency, demand response, and existing resources, including the retirement of the Cabrillo II units.[9/] Table 2 below shows the local capacity need and proposed solutions as included in the IOU Joint Analysis. As can be seen, this analysis

[9/] A more detailed discussion of these inputs is in the Joint IOU testimony, in Chapter 5.

identifies a need for 573 MW in 2017 growing to 846 MW in 2020. Adding high probability additions adjusted for contract end dates, uncommitted EE, DR, new CHP and local renewables, the case shows a shortage of 41 MW growing to 180 MW in 2020. Thus, under the Joint Analysis, SDG&E added 300 MW of new resources to address this shortage and add a slight cushion.

Table 2

Peak Load Calculations (MW):	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Forecast Peak-Hour 1-in-2	4438	4536	4615	4696	4772	4851	4930	5014	5099
Forecast Peak-Hour 1-in-10	4882	4990	5077	5166	5249	5336	5423	5516	5609
Transmission Capability (-)	2500	3500	3500	3500	3500	3500	3500	3500	3500
Generation Contingency (+)	604	604	604	604	604	604	604	604	604
Local Resource Need	**2986**	**2094**	**2181**	**2270**	**2353**	**2440**	**2527**	**2620**	**2713**
Existing Local Supply Resources	1894	1894	1894	1894	1894	1894	1894	1894	1894
Existing OTC	1271	1271	1271	1271	1271	1271	1271	1271	1271
Small Hydro	4	4	4	4	4	4	4	4	4
Existing CHP	136	136	136	136	136	136	136	136	136
Local Renewable Energy	21	21	21	21	21	21	21	21	21
Total: Existing Capacity	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**	**3326**
OTC Retirement	311	311	311	311	311	1271	1271	1271	1271
Other Retirements	0	0	188	188	188	188	188	188	188
Net Local Capacity	**3015**	**3015**	**2827**	**2827**	**2827**	**1867**	**1867**	**1867**	**1867**
Capacity (Need) or Surplus	**29**	**922**	**647**	**557**	**474**	**-573**	**-660**	**-752**	**-846**
Proposed Resources									
Known High Probability Adds	55	55	55	55	55	40	40	40	40
RPS in service area	0	34	68	68	68	68	68	68	68
Additional Supply CHP	0	3	5	8	10	31	34	36	39
Additional Demand Side CHP	0	2	3	5	7	12	14	16	17
Uncommitted EE	0	34	60	87	126	169	213	251	284
Demand Response	158	196	205	208	210	212	214	217	219
Total Assumed Additions	**213**	**324**	**396**	**430**	**475**	**532**	**582**	**627**	**666**
Capacity (Need) or Surplus	**242**	**1245**	**1042**	**987**	**949**	**-41**	**-78**	**-126**	**-180**

VI. LOCAL CAPACITY NEED FOR SDG&E SERVICE AREA

The above analysis establishes that there will be a substantial need for new resources in the SDG&E LCR area in order to meet key planning criteria. The need will result from load growth and the likely retirement of existing capacity associated with OTC facilities and older peaker plants. In addition to uncertainty regarding underlying load growth, it is not clear how much of this resource need will be met through demand-side resources such as EE and DR. Thus, in considering the authorization for new local resources, SDG&E believes it is prudent for the Commission to consider a number of factors in addition to the pure resource need calculation shown above.

The need shown in this filing is based on conservative demand forecasts. The expected peak load forecast, after EE and demand side CHP, actually declines by 14 MW in the CPUC-Required Scenarios and increases at 1.1% annual growth for the years between 2011 and 2020 in the IOU Common Scenarios.[10/] This growth rate is very low when compared with historical peak load growth. Looking at the average growth rate for the ten-year periods ending in 2000 through 2010, the historical ten-year growth has been approximately 2%, or about twice as high as the IOU Common Scenarios forecast.

Moreover, there was only one ten-year period – the period ending in 2001 – in which load growth was as low as 1.1% on average. This unusually low load growth was mainly driven by substantial load decreases due to the energy crisis in 2000 and 2001. Examination of load growth rates over 5-year periods for the periods ending in 2000 through 2010 produces a similar result – the growth rate averages 2%. It is important to note, however, that load growth does not typically occur in a steady pattern. SDG&E has observed 5-year growth rates as high as 5.5%

[10/] The load after all demand-side reductions are taken into account is used since this is the best to compare to historical load, which also reflects reductions from the same demand-side resources. Although not called out, the load forecasts are also reduced for growth in roof top photovoltaics.

(for the period ending in 2006). Given that the Commission expects reliability standards to be met in *every* year, not just on average, and that SDG&E is currently escalating the loads from the low point in an economic cycle, the load growth shown in both cases is very conservative. If load growth returns to historical averages, the need for resources will be increased by over 900 MW in 2020 in the Trajectory Case, and by about 400 MW in the IOU Joint Analysis.

The Commission has made clear that it does not support "just in time" capacity procurement, and that planning for and procuring new resources must occur well in advance of the need for the resources. In D.07-12-052, for example, the Commission noted that "recent experience suggests that the time required to develop and carry out competitive long-term RFOs, then finance, permit and construct new generation resources – including a cushion to account for unanticipated delays – requires that these procurement decisions be made up to seven years in advance of when the resources are needed."[11/] Similarly, the Commission emphasized in D.09-01-008 the need to take proactive steps to prevent development of a reliability crisis in which there exists insufficient time to engage in additional procurement:

> We carefully reviewed and considered IEP and WPTF's comments and although we are approving MEF II, we are also admonishing SDG&E to have **adequate procedures in place to ensure that they do not again find themselves in a reliability crisis without sufficient time to follow the procurement protocols set forth in D.07-12-052**.[12/]

To address the Commission's clear directive to avoid "just in time" resource additions, need authorizations must be made far enough in advance to allow sufficient time to carry out the Commission's procurement protocols, including the time needed to conduct a second round of procurement, to the extent it is necessary to do so. Should any one or more of the units included in SDG&E's LCR analysis not reach commercial operation, SDG&E would then have greater

---

[11/] D.07-12-052, *mimeo*, p. 21.
[12/] D.09-01-008, *mimeo*, p. 18 (emphasis added).

opportunity to identify and explore options that follow the preferred Commission methods. Given the long lead time to add new resources – which can easily be 5 years or more – by the time these adjustments might be fully recognized, it will be too late to add the resources needed to address the shortage. Thus, it is essential that the need for additional local resources be addressed in this LTPP proceeding. This will encourage prudent planning and will help to protect system reliability – an obligation shared by the Commission and the IOUs. Thus, taking into account future load growth, the uncertainty in the amount of demand-side resources, the lead time required to add new plants and the State's OTC policy, it is clear that new resources must be added to SDG&E's local area in this LTPP planning cycle.

In terms of filling the local need reflected in Table 2 and the IOU Joint Analysis, SDG&E notes that currently pending before the Commission is SDG&E's Application ("A.") 11-05-023, in which SDG&E requests approval of contracts with three new facilities located in the SDG&E load pocket. Together, these new facilities would add 450 MW of local RA. These units are being pursued under the new generation allocation from the 2006 LTPP, adjusted for additional potential retirements that were not assumed in the 2006 authorization.[13/] One of these is the repower of an existing facility that was not shown as retired in the LTPP cases, and thus a 35 MW plant would retire, for a net gain of 415 MW.[14/] If approved, these units would meet the anticipated need for local units in SDG&E's service area reflected in Table 2 and the IOU Joint Analysis. Although the capacity requested in A.11-05-023, is slightly greater the 300 MW shown in this filing, SDG&E believes it prudent to plan for a bit more of cushion above the minimum requirements, given the load and resource uncertainty. Accordingly, the Commission

---

[13/] *See* D.07-12-052, *mimeo*, p. 113.

[14/] The Wellhead Escondido Project would retire the existing 35 MW combustion turbine and replace it with a new 45 MW combustion turbine. This existing unit was included in the IOU Joint Analysis since the net change was not critical to the Joint Analysis results, and because the contract for the repowering had not been publicly announced at the time the Joint Analysis assumptions were being locked in.

should authorize in the instant LTPP proceeding the need of 415 MW of new generation, which will be met by the approval of A.11-05-023.

This concludes my prepared testimony.

VII. WITNESS QUALIFICATIONS

My name is Robert B. Anderson. My business address is 8330 Century Park Court, San Diego, California, 92123.

I am employed by San Diego Gas & Electric Company as Director - Resource Planning. My responsibilities mainly include electric resource planning. I have been employed by SDG&E since 1980, and have held a variety of positions in resource planning, corporate planning, power plant management, and gas planning and operations.

I have a BS in Mechanical Engineering and a MBA - Finance. I am a registered professional engineer in Mechanical Engineering in California.

I have previously testified before this Commission.

Docket:	:	R.10-05-006
Exhibit Number	:	DRA-1
Commissioner	:	Michael R. Peevey
Admin. Law Judge	:	Peter V. Allen
Witnesses:		Sudheer Gokhale Jordan Parrillo David Peck Nika Rogers Peter Spencer

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Testimony on the 2010 Long-Term Procurement Planning Track I System Plan of San Diego Gas and Electric Company (SDG&E) and Track III Procurement Rules

(PUBLIC VERSION)

R.10-05-006

San Francisco, California
August 5, 2011

458171

TABLE OF CONTENTS

MEMORANDUM 1

I. EXECUTIVE SUMMARY 1

A. TRACK I ISSUES 1

1. SDG&E's Local Capacity Requirements 1

B. TRACK III ISSUES 2

1. Procurement Rules Related to Once-Through Cooling (OTC) 2

2. Bid Evaluation (Utility-Owned Generation versus Power Purchase Agreements) 3

3. Greenhouse Gas Procurement Plans 4

4. Procurement Oversight Rules (Independent Evaluator Reporting Requirements) 5

II. INTRODUCTION 6

A. BACKGROUND 6

B. 2010 LONG-TERM PROCUREMENT PLANNING CYCLE 7

C. ORGANIZATION OF DRA'S TESTIMONY 9

III. TRACK I ISSUES 10

A. SDG&E'S LOCAL CAPACITY REQUIREMENTS 10

B. OTC RETIREMENT AND LCR IN SDG&E'S SERVICE AREA 11

C. SDG&E'S RELIANCE UPON JOINT IOU COMMON SCENARIOS 13

1. Assumptions regarding Demand Response 14

2. Other OTC/LCR Considerations 15

D. RECOMMENDATIONS AND CONCLUSIONS 16

IV. TRACK III ISSUES 17

A. PROCUREMENT RULES RELATED TO ONCE-THROUGH COOLING 17

1. Introduction 17

a) Staff Proposal on Once-Through Cooling 17

b) The IOU's Positions on the Staff Proposal 18

c) DRA's Position 19

2. The Commission Should Address OTC Issues as Part of this LTPP Cycle 19

3. The Commission Should Modify the Staff Proposal that Limits OTC Contracts to One-Year in Duration 19

4. DRA's General OTC Policy Recommendations 22

5. Conclusion 26

B. BID EVALUATION (UTILITY-OWNED GENERATION VS. POWER PURCHASE AGREEMENTS) 28

1. Introduction 28

2. Party Positions 29

3. DRA's Position and Recommendations 29

a) Most UOG Applications Are Introduced Outside of an RFO 30

b) The Process of Comparing UOG and PPA Bids Requires Refinements 32

c) SCE's UOG Proposal 33

d) Fair and Equal Treatment of UOG and PPA Projects 34

C. GREENHOUSE GAS PROCUREMENT PLANS 35

1. Summary 35

2. Background 36

3. General Policy Recommendations 38

a) Timing of Commission Authorization of IOU GHG Procurement Plans 38

b) Forward Procurement of GHG Compliance Products 39

c) Forward Price Curve for GHG Prices 42

d) Physical GHG Products versus Financial GHG Products 43

e) Management of GHG Compliance Costs Associated with Electricity Procurement 44

4. Discussion of Specific IOU GHG Procurement Plan Proposals 46

5. Proposals for Future Commission Processes 47

a) Commission Evaluation of the Proposed GHG Procurement Plans 47

b) Reporting Requirements 49

c) Commission Review After One Year of GHG Procurement 49

6. Conclusion 50

D. PROCUREMENT OVERSIGHT RULES (INDEPENDENT EVALUATOR REPORTING REQUIREMENTS) 51

MEMORANDUM

This testimony was prepared by the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) in Rulemaking (R.)10-05-006. In this docket, among other things, the California Independent System Operator (CAISO) completes and files an evaluation of potential operational and resource capacity needs driven by California's 33% Renewable Portfolio Standard (RPS) by 2020 (33% RPS). Also, the three Investor Owned Utilities (IOUs) of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E) complete and file Track I long-term system resource plans based on the standardized planning assumptions for the period of 2011-2021. In addition, the IOUs complete and file Track III testimony on various procurement rules. In this testimony DRA presents its analysis of SDG&E's Track I long-term system resource plans and the Track III procurement rules served on July 1, 2011 in accordance with the January 13, 2011, Assigned Commissioner's and Administrative Law Judges Ruling and Scoping Memo (Scoping Memo/ACR).

I. EXECUTIVE SUMMARY

This Executive Summary contains the Division of Ratepayer Advocates' (DRA) recommendations for both the Track I System Resource Plans and the Track III Procurement Rules and Policy Issues of the Long-Term Procurement Planning proceeding, Rulemaking (R.) 10-05-006. For Track I, DRA provides its recommendations on San Diego Gas & Electric Company's (SDG&E) system resource needs. For Track III, DRA provides its recommendations on the Commission's Staff Proposals on procurement rules and policy issues set forth in the Scoping Memo from December 12, 2010 and the Ruling from June 13, 2011.

DRA reviewed the Investor Owned Utilities' (IOUs') long-term procurement plans for reliability, diversity of resources with environmentally sound choices, and to ensure reasonable costs for California ratepayers. DRA has a statutory mandate to promote reliable and safe electricity service for all public utility customers at the most cost effective rates (Public Utilities Code Section 309.5(a)).

A. Track I Issues

1. SDG&E's Local Capacity Requirements

The IOUs provide analysis regarding Once-Through Cooling (OTC) retirements and their impacts on local capacity requirements (LCR). Under the CPUC standardized planning assumptions, SDG&E shows a surplus of 393 megawatts (MWs) in 2020. SDG&E shows a need of 41 MW beginning in 2017, increasing to 180 MW in 2020. While SDG&E's need, based on the IOU Joint Analysis, is 180 MW, SDG&E seeks authorization of 415 MW of new generation.

DRA opposes authorization for any new resources in the SDG&E service area. With a projected surplus of 393 MW in 2020 under the Commission's standardized planning assumptions, SDG&E has not presented a compelling position for new resources. Even if one accepts the alternative assumptions used

by SDG&E, only a very small need of 41 MW is needed beginning in the year 2017. There is no need for new resource authorization at this time.

B. Track III Issues

1. Procurement Rules Related to Once-Through Cooling (OTC)

The Commission requested that parties provide specific policy recommendations on OTC issues. DRA provides the following recommendations to the Commission regarding OTC:

- DRA recommends the Commission modify the Staff Proposal on OTC unit contracting to comply with the modifications suggested by the IOUs. Specifically, DRA supports SDG&E's suggestion that Staff's proposed restrictions to contracting with OTC units be limited to the final two-year period before the plant is scheduled to comply or retire. This will allow the IOUs and ratepayers to extract the most from these units while giving the IOUs time to find replacement capacity within the State Water Resources Control Board's (SWRCB) OTC compliance time frame.
- DRA also supports PG&E's recommendation that Request for Offers (RFOs) explicitly consider environmental attributes of offers, which would negatively impact an OTC unit's environmental score and consequently the overall score for OTC facility bids. As PG&E points out, this would allow for both consideration of the environmental impacts of contracting with OTC facilities while recognizing the system need for the ancillary services provided by these units.
- The Commission should continue to work collaboratively with other government agencies on the OTC issue and utilize the findings of CAISO's forthcoming report and other OTC analyses in the Commission's long-term procurement planning proceeding.

- The Commission should also support and encourage flexible procurement options for the IOUs to meet the SWRCB's compliance deadlines. This includes accounting for local renewables, transmission expansion, distributed generation, demand response, energy efficiency, self generating incentive programs (SGIP), lower projected load growth as well as the Governor's call for 12,000 megawatts (MWs) of distributed generation to provide replacement capacity or reduce demand.
- Finally, the Commission should support and encourage the retrofitting and/or repowering of existing OTC units as this may provide a more cost-effective solution for ratepayers.

2. Bid Evaluation (Utility-Owned Generation versus Power Purchase Agreements)

DRA shares the concern of other parties that the Commission's policy for consideration of UOG projects is unclear and the comparison of UOG and PPA bids is not transparent. DRA would like to see the policy framework for UOG, both fossil and renewable, be clearly articulated in this proceeding and consistently carried out in future procurement proceedings.

DRA recommends the following:

- The Commission should require that all UOG opportunities (fossil or preferred resources) be tested by a competitive solicitation in order to determine if the UOG opportunity is the best deal ratepayers can get.
- DRA also recommends that for assessment purposes, amortize the UOG project costs over the same period that reflect the term of the PPA contracts against which the UOG is being compared.
- DRA recommends that the Commission provide specific guidance to the IOUs on what input assumptions or forward cost curves are

reasonable to use for UOG valuations. This guidance will help to level the playing field for comparing UOG and PPA bids.

DRA offers the following additional recommendations to the Commission regarding its current protocol for fair and equal treatment of UOG and PPA projects bids to ensure a level playing field in the California hybrid market:

- Shareholders, not ratepayers, should shoulder the costs for IOUs to develop a bid or recover costs on failed UOG bids.
- The Commission should establish clear pay for performance mechanisms in UOG projects similar to PPAs. Specifically, PPAs are only paid on a delivery basis (e.g., $/MWh), UOG projects should be rewarded on this basis as well.
- The Commission should establish cost caps for capital costs and O&M for UOG projects so that the IOUs will not underbid these costs and then attempt to recover higher costs after the UOG project has been approved.

3. Greenhouse Gas Procurement Plans

The California Investor-Owned Utilities (IOUs) will be compliance entities under the California Air Resources Board's (ARB) Cap-and-Trade Regulation starting in 2013, and as such will require Commission authority to procure greenhouse gas (GHG) compliance products with the necessary management framework and upfront standards. Each IOU has proposed a different GHG procurement strategy, and at this time, DRA does not see a reason for the Commission to require that the IOUs have the same GHG procurement authority. Generally, DRA supports Pacific Gas and Electric Company's (PG&E's) and SDG&E's proposed GHG Procurement Plans, and makes the following recommendations:

- DRA is concerned that Southern California Edison Company's (SCE's) proposed GHG Procurement Plan seeks forward

procurement authority that does not strike an appropriate balance between long-term risks and flexible authority. To address this concern, DRA proposes revisions to SCE's plan regarding its forward procurement authority.

- DRA also recommends that no GHG procurement is authorized prior to the adoption of the final ARB Cap-and-Trade Regulation.
- DRA also proposes that the Commission adopt reporting requirements as part of the GHG Procurement Plans as well as specify a process for Commission review after one year of GHG procurement activity
- DRA proposes that a few additional issues that are lacking from the IOU's GHG Procurement Plans be addressed in supplemental testimony by the IOUs. These issues include (1) allocation of GHG risks and responsibilities in electricity contracts, and (2) bid evaluation for electricity procurement contracts, including out-of-state renewable contracts with replacement power that could require a compliance obligation under the ARB's Cap-and-Trade Regulation.
- Additionally, DRA requests that SCE be directed to prepare supplemental testimony regarding specific issues identified in relation to SCE's GHG Procurement Plan and risk assessment proposal.

4. Procurement Oversight Rules (Independent Evaluator Reporting Requirements)

DRA has two specific recommendations regarding Independent Evaluators (IEs).

- First, Energy Division should contract with IEs directly rather than the IOUs. Under the current IE process, the IOUs contract with the IEs, which can cause a potential conflict of interest for the IE and

interferes with the independence of the IE, who is compensated by the IOU. DRA proposes that Energy Division contract with the IEs directly.

- DRA's second recommendation is for Energy Division, or alternatively, the IOU's Procurement Review Group (PRG) to determine IE assignments rather than the IOUs. Under the current IE process, the IOU chooses which IE from their IE pool will be assigned to a specific task or procurement solicitation, causing similar conflict of interest issues.

II. INTRODUCTION

A. Background

The passage of Assembly Bill (AB) 57 in 2002 permitted the State's three major IOUs of PG&E, SCE, and SDG&E) to return to the business of procuring electricity to serve the needs of their customers. The Commission, as the State's regulatory body for the IOUs, began implementing AB 57 though a series of key decisions starting in the fall of 2002 which directed the IOUs to resume procurement beginning in 2003. In April 2004, the Commission opened Rulemaking 04-04-003 to continue the implementation of AB 57 which would serve as the umbrella proceeding to address electricity procurement policies in a coordinated and integrated manner. The Commission determined in R.04-04-003 that a long-term procurement planning process should be conducted on a biennial basis to review California's procurement and resource needs on a ten-year forward looking basis.

In the most recent Long Term Procurement Plan (LTPP) decision issued, D.07-12-052, the Commission focused its review on assessing whether the IOUs were procuring resources per the State's Loading Order (in order of preference: energy efficiency, demand response, renewables, distributed generation, and lastly clean fossil fuel) set forth in the Energy Action Plan (EAP). While the decision

approved the IOUs' plans with modifications, the Commission found that their plans were deficient in meeting their net short position with preferred resources, accounting for greenhouse gas emissions reductions and did not reflect the State's preferred resource goals.

In February of 2008 the Commission opened Rulemaking 08-02-007 to integrate and refine the procurement policies underlying the long-term procurement plans filed by the three IOUs. The focus on this rulemaking proceeding was to lay the groundwork to evaluate—side-by-side—the cost effectiveness of different resource portfolios. R.08-02-007 effectively developed the foundational starting point for the 2010 LTPP cycle.

B. 2010 LONG-TERM PROCUREMENT PLANNING CYCLE

On May 6, 2010 the Commission opened rulemaking R.10-05-006, *Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans*. This rulemaking commenced the 2010 long-term procurement plan (LTPP) cycle, effectively bifurcating the issues in the proceeding into three tracks to be addressed concurrently. The three tracks include:

- Track I: Focuses on system planning and local reliability needs. This includes a review of renewable integration needs for operating flexibility.
- Track II: Considers the three IOUs Assembly Bill (AB) 57 "bundled" procurement plans and determines need for their bundled customers.
- Track III: Focuses on rules and policy issues related to procurement and includes the impacts of Once-Through Cooling policies, the State's Green-house Gas (GHG) emissions reduction goals on procurement, among other issues.

The Scoping memo that followed on December 3, 2010, set forth four required scenarios in Track I for the IOUs to model their system planning needs on, assuming a 33% Renewables Portfolio Standard (RPS) future in 2020. In

modeling a 33% future with these four scenarios (trajectory, cost constrained, time constrained, and environmental constrained) the IOUs were directed to use a set of standardized planning assumptions (load and resource tables on supply and demand-side resources), evaluation criteria (cost, risk, and greenhouse gas emissions) and sensitivities (natural gas prices, carbon dioxide prices, need levels, and technology costs). The Scoping Memo also clarified the issues to be addressed in Track III of the LTPP under a two-phase process. Phase 1, which has been resolved, addressed procurement rules to comply with Senate Bill (SB) 695 and the California Independent System Operator‘s (CAISO) market-related procurement implementation issues also known as convergence bidding. Phase 2 of Track III set forth the procurement issues to be addressed at a later time; those issues are described below.

In April 2011, the three IOUs each filed testimony on Track II, detailing their bundled resource procurement plans. Parties to the proceeding, including DRA, filed testimony in response. No hearings were held on the Track II issues and a proposed decision is due out in fall of 2011.

On June 13, 2011, the Commission issued a ruling, the *Administrative Law Judge's Ruling Denying Motion for Reconsideration and Motion Regarding Track I Schedule and Addressing Rules Track III Issues*, which identified the four procurement issues per the December 2010 Scoping Memo's directive to be addressed in Phase 2 of Track III:

1) Procurement rules relating to Once-Through Cooling Issues;

2) Refinements to the bid evaluation process (utility-owned generation versus power purchase agreements);

3) Refinements to the existing timeline associated with the IOUs' request for offer for resource adequacy products;

4) Utility procurement of greenhouse gas related products.

The Commission's June 13, 2011 Ruling also contained a number of Staff Proposals on procurement rules and issues related to: Once-Through Cooling

policies, the *AB 57 Procurement Plan Implementation Manual* aka the "Rulebook", Independent Evaluator rules and oversight, the Procurement Review Group (PRG), Quarterly Compliance Reports (QCR), the Cost Allocation Mechanism (CAM), and Standards of Conduct for the IOUs and parties to address.

On July 1, 2011 the IOUs filed testimony on the Track I and III issues as well as a joint IOU System Resource Plan which included a modeling analysis and results for three alternative (IOU) scenarios for a 33% RPS in 2020. On the same day the California Independent System Operator (CAISO) also filed testimony on the results of its renewable integration study.

C. ORGANIZATION OF DRA'S TESTIMONY

DRA submits its testimony in three volumes; Volume 1 the public version, Volume 2 the *Modeling Renewable Resource Integration in California* report by Synapse Energy Economics for DRA, and Volume 3 the SCE confidential version. The structure of DRA's Testimony covers the following issues:

A. Track I Issues:

1) SDG&E's Local Capacity Requirements

B. Track III Issues:

1) Procurement Rules Related to Once-Through Cooling (OTC)

2) Bid Evaluation (Utility-Owned Generation vs. Power Purchase Agreements)

3) Greenhouse Gas Procurement Plans

4) Procurement Oversight Rules (Independent Evaluator Reporting Requirements)

DRA has not submitted a position on every issue in each of the IOUs' and CAISO's Testimony.

III. TRACK I ISSUES

A. SDG&E's Local Capacity Requirements

The Assigned Commissioner and Administrative Law Judge's Joint Scoping Memo (Scoping Memo) requested that the IOUs conduct a needs analysis for locally constrained areas. In this section, DRA addresses once-through cooling (OTC) retirements and their impacts on local capacity requirements (LCR). These issues are discussed in the IOU Joint Supporting Testimony and in the IOU individual testimony. SDG&E's testimony projects a potential need of 180 MW to meet local needs in the year 2020.

A "local area" is generally defined as a transmission constrained area where generation may be needed within the local load pocket to meet reliability needs. In D.06-06-064, the Commission created local area resource adequacy capacity obligations, requiring specific amounts of generation capacity to be located within these constrained areas. OTC units are significant providers of generation capacity in some of the locally constrained areas. Many of these units are subject to a compliance schedule for retirements and/or retrofits pursuant to a policy adopted by the State Water Resource Control Board. The retirements are scheduled to be phased in over the next several years. Many of the retirements are scheduled for late in the LTPP timeframe, with retirements completed by December 31, 2020.

Determination of the LCR for constrained areas is based on an annual study performed by the California Independent System Operator (CAISO) called the Local Capacity Technical Study. The technical study is a stakeholder process which provides a one year ahead forecast that creates LCR capacity obligations for Load Serving Entities (LSEs) reviewed and enforced through the Commission's RA program.

B. OTC Retirement and LCR in SDG&E's Service Area

There are two significant gas fired steam generation plants that have served SDG&E customers for many years. These two OTC plants are Encina (5 units) at 960 MW and the recently retired South Bay Plant at 311 MW. The Encina units must retire or comply with the SWRCB OTC requirements by the end of 2017. In addition to these two plants, there are several old combustion turbines at very high heat rates with a total capacity of 188 MW that will also be retired by the end of 2013. So the total retirements due to OTC Policies and high heat rates could be as high as 1,459 MW.

New resources added since the 2006 LTPP include two combined cycles: Palomar 565 MW and Otay Mesa 562 (which tests show an increased MW rating to 603.6 MW). New combustion turbines include Miramar II 47.9 MW, Orange Grove 100 MW, Wellhead El Cajon 48 MW, Larkspur 92 MW. The total capacity of these new resources is 1,456.5 MW. This means that new resources in the San Diego service area will have a capacity approximating the capacity that could retire.

Facility Name	New	Retired	Date of Action
Encina		960MW	end of 2017
South Bay		311MW	2011
Combustion Turbines		188MW	end of 2013
Palomar	565MW		since 2006
Otay Mesa	603.3MW		since 2006
Miramar II	47.9 MW		new
Orange Grove	100 MW		new
Wellhead El Cajon	48 MW		new
Larkspur	92 MW		new
TOTAL	1456 MW	1459MW	

In addition, new capacities from new RPS in the service area, additional supply of CHP, uncommitted EE and Demand Response will become available. Furthermore, the Sunrise Transmission line should be able to reduce the LCR by 1,000 MW by 2013 based on the CAISO's G-1/N-1 reliability criteria.

In the SDG&E Track I Testimony, two tables are presented. Table 1 shows the CPUC trajectory case and indicates a surplus of 393 MW in 2020. From the IOU Common Scenarios, SDGE shows in Table 2 a need of 41 MW beginning in 2017 and increasing to 180 MW in 2020. The need for new resources first appears in 2017, when the Encina units (960 MW) are retired at the end of 2016. While SDG&E's need, according to their analysis, is 180 MW, it calls for adding 300 MW to "add a slight cushion." Later in its testimony, SDG&E seeks authorization of 415 MW of new generation stating it "believes it prudent to plan for a bit more of a cushion above the minimum requirements." This "cushion" on a "cushion" more than doubles the 180 MW LCR need SDG&E has calculated. There is an 800 MW range in the calculations of LCR need: a surplus of 393 MW in the trajectory case, a 180 MW deficit in SDG&E calculations, a 300 MW request, and a 415 MW request. Authorization for procurement in the LTPP process should be based on projected need without added cushions creating unnecessary ratepayer costs. The LTPP planning process already accounts for a prudent margin with its 17% planning reserve.

SDG&E notes that its local needs will be more than adequately met if the Commission adopts it Application 11-05-023 authorizing 450 MW of local capacity. Approval of the Application would result in a net gain of 415 MW due to the retirement of a 35 MW facility as part of repowering an existing facility. Any consideration of procurement authority granted in this LTPP procedure should be contingent on the outcome of that application.

SDG&E opines that the 1.1% load growth assumptions used in the CPUC Required Scenarios is overly conservative. SDG&E references historical ten year time periods between 2000 and 2010 to support using a larger load growth

assumption. The current financial period is unprecedented in recent history and demands more than the consideration of recent historical time periods to properly assess future load growth. SDG&E has not presented an adequately thorough analysis to refute the 1.1% load growth assumption in this LTPP.

A unique situation exists in the SDG&E service area when the entire area is treated as a single load pocket for LCR analysis by the CAISO. LCRs for RA purposes are calculated using a 1 in 10 assumption which considers the hottest summer day that is expected once every ten years. System resource forecasts are based on a 1 in 2 assumption which is approximately 10% less than 1 in 10 assumptions. SDG&E's total service area incorporates the higher 1 in 10 assumption for the LTPP rather than the 1 in 2 utilized for the system-wide analysis of SCE and PG&E service areas. A thorough analysis of LCR need has not been performed for long-term forecasts. It is not clear if SDG&E's use of 1 in 10 forecasting in the LTPP is appropriate. Therefore, DRA recommends a stakeholder process including the CAISO and CPUC be initiated to determine an appropriate methodology for calculation of long-term LCR needs.

DRA opposes authorization for new resources in the SDG&E service area. With a projected surplus of 393 MW in the trajectory case, and considering the factors noted above, a compelling position for new resources has not been presented. Even if one accepts the alternative assumptions from the Joint IOU Analysis, only a very small need of 41 MW is needed beginning in the year 2017. There is no need for new resource authorization at this time.

C. SDG&E's Reliance Upon Joint IOU Common Scenarios

In general, the IOU alternative assumptions make significant changes to the core Standardized Planning Assumptions in a direction leading to greater need for additional resources. Since SDG&E has relied upon the Joint IOU assumptions for Demand Response to justify its request for procurement authority, DRA's concerns over this issue are discussed here.

1. Assumptions regarding Demand Response

IOU-1 discusses the Joint Utilities' assumptions regarding forecasted megawatts of demand response.[1] Table 2 below shows the IOUs' forecast of Demand Response resources available in 2020 under 1-in-2 weather conditions.[2] Both PG&E and SDG&E state that these forecasts were developed using the 2011 Load Impact reports, which were filed in R.07-01-041 on April 1, 2001.[3]

Table 1: Demand Response Forecast in System Plan (in 2020)

Total DR (MW)	IOU Common Scenarios	CPUC-required	Increase (Decrease) in DR Program Results
SCE Service Area	2,842	2,842	0
PG&E Service Area	1,429	2,001	(572)
SDG&E Service Area	219	302	(83)

Notes: The table above is nearly identical to Table 5-2 in IOU-1. Also, Total Demand Response in the table above is grossed-up for losses.

The use of 2011 Load Impact reports is contrary to the Commission's directive in the December 10, 2010 Assigned Commissioner and Administrative Law Judge's Joint Scoping Memo and Ruling, at page 20, which states, "the estimated ex-ante load impact forecast filed in this proceeding shall be based on the April 1, 2010 Load Impact Report Compliance Filing pursuant to Ordering Paragraph (OP) 4, D.08-04-050. The utilities should report DR portfolio load impact forecast (2011-2020) for the 2010 LTPP using the August Monthly System Peak Load Day under a 1-in-2 Weather Condition."

As Table 2 indicates, the use of the demand response forecast in the 2011 Load Impact report results in substantially lower Demand Response resources compared to the demand response forecast in the CPUC-required scenarios which uses the 2010 Load Impact report.

---

[1] Ex. IOU-1 (Joint IOU Supporting Testimony), 5-6 – 5-8.

[2] Ex. IOU-1 (Joint IOU Supporting Testimony), p. 5-7, Table 5-2.

[3] *Id.*, p.5-8.

Because SDG&E's demand response forecast in its Bundled Plan is based on the 2010 Load Impact report, and the demand response forecast in its System Plan is based the 2011 Load Impact report, the Commission has been presented with two very different demand response forecasts for the same year. The difference is shown in Table 3 below.

Table 3: IOUs' Demand Response Forecasts in Bundled and System Plan (in 2020)

Total DR (MW)	IOU proposed Bundled Plan	IOU proposed System Plan	Difference
SCE	2,077	2,842	765
PG&E	2,001	1,429	(572)
SDG&E	302	219	(83)

Since SDG&E's Bundled Plan is based on their 2010 Load Impact reports, DRA recommends the Commission require SDG&E to use the demand response forecast for its LTPP System Plans based on its 2010 Load Impact report. This will provide consistency between the demand response forecasts in the two plans, avoid forecasts being too heavily influenced by the current economic conditions which could turn out to be temporary, and also preserve the integrity of all of the interdependent assumptions in the Commission's December 10, 2010, Joint Scoping Memo and Ruling.

2. Other OTC/LCR Considerations

The State Water Resources Control Board (SWRCB) continues to consider amendments to its Resolution No. 2010-0020 which sets forth the OTC regulations for retiring or retrofitting facilities to come into compliance with standards regarding the state's coastal power plant cooling system and discharges into coastal water. An amendment currently under consideration at the SWRCB attempts to prevent disruption in the State's electrical power supply when the policy is implemented by convening a Statewide Advisory Committee to review implementation plans and schedules. The amendment's goal is to ensure that the implementation schedule takes into account local area and grid reliability,

including permitting constraints. The State Water Board recognizes the compliance dates may require an amendment based on, among other factors, the need to maintain reliability of the electric system as determined by the energy agencies. The amendment would also remove the LA Basin retirement dates from the 2010 LTP and move those to the 2012 LTPP due to the challenging issues in that area.[4]

The long-term LCR needs are also evolving as the CAISO continues to perform a more detailed analysis of LCR deficiency. It should also be noted that California Governor Brown has proposed 12,000 MW of distributed generation by 2020.[5] This additional generation could have a significant impact in reducing LCR needs.

In sum, the LCR needs are assessed using different methodologies by each IOU in this LTPP. LCRs are typically analyzed for year ahead planning; thus DRA questions the appropriateness and accuracy of applying this methodology to a 10-year look ahead used in the LTPP. While the CAISO looks ahead a few years in its analysis, there is not standardized method for examining LCRs ten years into the future as the IOUs are doing to support their position. DRA recommends a uniform policy be created for analyzing long-term LCR needs. This policy should be created in a public stakeholder process involving the CAISO, the CPUC, and all interested parties.

D. Recommendations and Conclusions

DRA recommends that no authorization for new resources be granted for SDG&E in the 2010 LTPP based on OTC retirements and LCR needs. SDG&E states a need for 180 MW yet requests 415 MW. For the reasons noted above,

---

[4] State Water Resources Control Board, Proposed Amendment to the Statewide Water Quality Control Policy on the use of Coastal and Estuarine Waters for Power Plant Cooling, p. 3

[5] California's Path to 12,000 Megawatts of Local Renewables, Governor's Local Renewable Power Working Conference Segmenting the Governor's Localized Energy Goal Panel, Discussion Paper # 1

DRA recommends that no authorization for new resources be granted for SDG&E in the 2010 LTPP. DRA also recommends the Commission develop a uniform policy for analyzing long-term LCR needs. This policy should be created through a public stakeholder process involving the CAISO, the CPUC, and all interested parties.

With both OTC and LCR issues continuing to evolve, DRA recommends that the 2012 revisit the OTC-LCR issues when the policies and needs are better defined.

IV. TRACK III ISSUES

A. Procurement Rules Related to Once-Through Cooling

1. Introduction

The *Administrative Law Judge's Ruling Addressing Motion for Reconsideration, Motion Regarding Track I Schedule and Rules Track III Issues (Ruling),* issued on June 13, 2011, details five issues to be addressed by the Commission in Track III of this LTPP cycle, concurrently with the Track I schedule. One of the five issues is procurement rules relating to Once-Through Cooling units.

The Commission requested that parties provide specific policy recommendations on these issues including a timeframe for implementation and whether the issue should be addressed now or in future Commission processes. This portion of DRA's testimony responds to these directives. DRA provides its recommendations to the Commission on the Once-Through Cooling procurement rules and includes a discussion of Energy Division's (ED) Staff Proposal on the IOUs' Once-Through Cooling contracts.

a) Staff Proposal on Once-Through Cooling

Appendix A to the Ruling contains a Staff Proposal on Once-Through Cooling (OTC) unit contracts. The Staff Proposal states that "Utilities may not

enter into a contract for longer than one year with any facility identified in the State Water Resources Control Board's Statewide Water Control Policy on the Use of Coastal and Estuarine Waters Used for Power Plan Cooling (Once-Through Cooling or OTC facilities)..."[6] There are three exceptions to this one-year contracting limit:

1. The utility is found to be in full compliance with Section 316(b) of the Clean Water Act.
2. The Commission authorizes the procurement of new capacity in the LTPP proceeding.
3. The OTC facility elects to reduce water intake by 93% to comply with the State Water Resources Control Board's OTC policy.[7]

b) The IOU's Positions on the Staff Proposal

In their testimonies, all three IOUs express their concerns with the Staff Proposal. PG&E states that considering procurement policies related to OTC in this phase of the LTPP is appropriate and timely but does not support the Staff Proposal limiting IOU contracts with OTC units to one year or less.[8] In PG&E's opinion this could lead to "uneconomic and duplicative procurement."[9] SCE argues that the proposed one-year limit, if adopted, could result in more uncertainty and higher risk for IOU procurement and customers.[10] SCE also argues that the proposed limit could hinder the integration of renewable generation

---

[6] *Administrative Law Judge's Ruling Addressing Motion for Reconsideration, Motion Regarding Track I Schedule and Rules Track III Issues*, issued on June 13, 2011, Appendix A.

[7] *Ibid*.

[8] Ex. PG&E-__ (Pacific Gas and Electric Company - Procurement Rules Testimony), p.1-2 and 1-3.

[9] *Ibid,* 1-3.

[10] Ex. SCE-3 (Testimony of Southern California Edison Company on Track III Issues – Rules Track III Procurement Policy), p.9.

and grid reliability.[11] SDG&E states that this policy does not advance the State's OTC policy and will only increase transaction costs for customers.[12]

c) DRA's Position

2. The Commission Should Address OTC Issues as Part of this LTPP Cycle

DRA believes it is appropriate for the Commission to address the issue of OTC unit retirement and contracting in this LTPP cycle to give the IOUs adequate time to locate replacement capacity and plan ahead. Establishing upfront standards now on the OTC issue should also help avoid "just in time" procurement that the Commission discouraged in D.07-12-052.[13] The Commission's rules should however; (1) complement the State Water Resources Control Board's (SWRCB) phased approach to OTC retirement and (2) be guided by the results of the CAISO's OTC study, which should be completed within a few months.[14]

3. The Commission Should Modify the Staff Proposal that Limits OTC Contracts to One-Year in Duration

The Staff Proposal to limit the IOUs' OTC contracts to one-year in duration does not advance the OTC compliance targets and is not consistent with the objectives of the SWRCB OTC Policy Statement which provides an exception for units to meet their compliance deadline if grid reliability is an issue. The Staff

---

[11] *Ibid*, p.10.

[12] Ex. SCE-2 (Testimony of Southern California Edison Company on Track III Issues – GHG Procurement Plan), p. 18.

[13] Decision 07-12-052 (D.07-12-052): *The Opinion Adopting Pacific Gas and Electric Company's, Southern California Edison Company's, and San Diego Gas and Electric Company's Long-term Procurement Plans,* p. 21.

[14] *CAISO 2011/2012 Transmission Planning Process, Unified Planning Assumptions and Study Plan, Final, May 20, 2011(CAISO TPP)*, Section 4.6 Once Through Cooling and Section 4.7 AB 1318. The CAISO intends to complete an analysis of local area needs driven by the OTC schedule for resource retirements or repowerings. See http://www.caiso.com/2b84/2b84c4a0ec90.pdf

Proposal also conflicts with the Commission's discouragement of "just in time" capacity procurement. Further, DRA agrees with the IOUs that the Staff Proposal has failed to identify how the IOUs and ratepayers will benefit from this restriction.

From DRA's perspective, the Staff Proposal to limit OTC contracts to one year imposes restrictions on the IOUs without advancing the OTC compliance targets. As a result, the Staff Proposal unnecessarily restricts the IOUs' options for procuring capacity and adds additional risk to their short-to- mid-term procurement efforts. Furthermore, since the proposed one-year contracting limitation would only apply to the investor-owned utilities, this policy would not be applied equally to all Load Serving Entities (LSEs) in California. This puts the IOUs at a competitive disadvantage. LSEs not affected by this policy could sign lower priced, longer-term contracts with OTC units and this in turn would give the OTC facility the upper hand in pricing future contracts with the IOUs. Each of the IOUs raised these concerns in their testimonies and DRA finds these concerns to be well founded.[15] If adopted, the Staff Proposal could result in higher priced, short-term contracts for IOU customers that would need to be renegotiated each year.

In their Track I testimony, both SDG&E and SCE identified a potential local capacity requirement (LCR) need in their respective areas that they state is entirely the result of OTC unit retirements (based on the current retirement schedule for the OTC units). Implementing the Staff Proposal could lead to a potential increase in LCR need for these IOUs in the years leading up to 2020 and trigger the need for "just in time" capacity procurement, which the Commission stated "threatens reliability, drives up the costs of delivering power, and typically

[15] Ex. PG&E Track III Procurement Rules Testimony (PG&E Track III), p. 1-3; SCE-3, pp. 9-12; SDG&E-2, pp. 18-19.

1 does not result in additional preferred/renewable resources."[16] This potential
2 outcome also contradicts many of the goals and intentions of the SWRCB's OTC
3 policy:

4 H. "…The energy agencies' approach seeks to address
5 the replacement, repowering, or retirement of power
6 plants currently using OTC that (1) maintains
7 reliability of the electric system; (2) meets California's
8 environmental policy goals; and (3) achieves these
9 goals through effective long-term planning for
10 transmission, generation and demand resources."[17]

11

12 The IOUs have shown that they are on their way to meeting the SWRCB's
13 compliance requirements for OTC units. Humboldt Bay, Potrero, and South Bay
14 OTC power plants all closed in 2011.[18] Three of PG&E's other OTC units;
15 Contra Costa, Pittsburg, and Moss Landing, are all scheduled to retire in 2017.
16 SCE has also identified the OTC plants in its service area that will be retiring prior
17 to 2020. Since the IOUs have made efforts to comply with the SWRCB's OTC
18 policy, Commission staff should put forth proposals that make this transition for
19 the IOUs more manageable. DRA provides some recommendations to the
20 Commission below. The one-year restriction in the Staff Proposal does not seem
21 necessary or helpful.
22 DRA recommends the Commission modify the Staff Proposal on OTC unit
23 contracting to comply with the modifications suggested by SDG&E and PG&E.
24 Specifically, DRA supports SDG&E's suggestion that Staff's proposed restrictions
25 to contracting with OTC units be limited to the final two-year period before the

---

[16] Decision 07-12-052: *The Opinion Adopting Pacific Gas and Electric Company's, Southern California Edison Company's, and San Diego Gas and Electric Company's Long-term Procurement Plans*, p.21.

[17] Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (OTC Policy Statement), October 1, 2010, p. 2. See http://www.swrcb.ca.gov/water_issues/programs/ocean/cwa316/docs/policy100110.pdf

[18] Exhibit PG&E-1, p.11; SDG&E-1, pp. 5-8.

plant is scheduled to comply or retire.[19] This will allow the IOUs and ratepayers to extract the most from these units while giving the IOUs time to find replacement capacity within the SWRCB's OTC compliance time frame.

DRA also supports PG&E's recommendation that Request for Offers (RFOs) explicitly consider environmental attributes of offers, which would negatively impact an OTC unit's environmental score and consequently the overall score for OTC facility bids.[20] As PG&E points out, this would allow for both consideration of the environmental impacts of contracting with OTC facilities while recognizing the system need for the ancillary services provided by these units.

4. DRA's General OTC Policy Recommendations

Based on the compliance deadlines set forth in the SWRCB's OTC Policy Statement, DRA finds that it is important to continue the inter-agency collaborative process under way, to ensure the smoothest transition towards an OTC-free future for California. DRA therefore offers the following recommendations to the Commission:

- **The Commission should continue to work collaboratively with other government agencies on the OTC issue and utilize the findings of CAISO's forthcoming report and other OTC analyses in the LTPP proceeding.**

The SWRCB's OTC Policy Statement sets forth compliance deadlines for each of the State's 19 OTC units and outlines the collaborative processes underway between the State's government agencies and the CAISO (jointly known as the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS)) to ensure continued local area and grid reliability during the OTC transition period. DRA supports this collaborative effort.

---

[19] Ex. SDG&E-2, p.19.

[20] Ex. PG&E-_, p. 1-3.

There are several working groups and studies underway to assess the impact of OTC unit retirements on grid reliability and local area needs:

- On April 1 2011, all OTC facility owners submitted their OTC Implementation Plans to the SWRCB.[21]
- CAISO is analyzing local area needs driven by the OTC Compliance Schedule for resource retirements or repowerings.[22]
- Assembly Bill (AB) 1318 requires the California Air Resources Board (ARB) in consultation with the California Energy Commission (CEC), CPUC, CAISO, and SWRCB to prepare a report for the Governor and Legislature that evaluates the electrical system reliability needs of the South Coast Air Basin (SCAB). This report will provide recommendations on the most effective and efficient means of meeting those reliability needs while ensuring compliance with State OTC laws and federal law.[23]
- Starting March 3, 2012, the SACCWIS will annually report to the SWRCB on the status and recommendations regarding the implementation of the OTC Policy Statement.

DRA recommends that the Commission consider the results of these analyses and, to the extent it deems appropriate, integrate the findings and results from these reports and working groups into the assumptions and inputs used in the next LTPP cycle. This level of coordination will minimize duplication of effort, facilitate orderly implementation of the State's OTC goals, and help minimize the cost to ratepayers.

- **The Commission should support and encourage flexible procurement options for the IOUs to meet the SWRCB's compliance deadlines.**

In their Track I testimony, the IOUs describe their plans for meeting the SWRCB's compliance targets for OTC units in their service territories. PG&E

[21] SWRCB OTC Facilities and OTC Facility Implementation Plans; See http://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/powerplants/

[22] CAISO TPP, Section 4.6.

[23] See http://www.arb.ca.gov/energy/esr-sc/Presentation_AB_1318-11-10-10-public-meeting.pdf ; Also CAISO TPP, Section 4.7.

1 describes how both the Humboldt Bay and Potrero power plants were shut down
2 in 2011 but these areas were not negatively impacted due to repowering of the
3 Humboldt Bay unit and the use of replacement power from south and east San
4 Francisco for Potrero.[24] PG&E states that local area capacity in future years will
5 not be affected by the Contra Costa and Pittsburg OTC unit shutdowns due to
6 long-term procurement planning that will bring four projects online over the next
7 five years to provide replacement capacity.[25] SCE and SDG&E however,
8 describe a future need (or potential need) for local area capacity that is due in part
9 to OTC unit shutdowns and that is dependent upon whether these units will be
10 repowered or retired.

11 Although all three IOUs are on track to comply with the SWRCB's OTC
12 Policy Statement, the Commission should propose and support flexible
13 procurement options to facilitate IOU compliance with the State's OTC policy and
14 to minimize the cost impact to ratepayers. The Commission should ensure that
15 while environmental protections are achieved through the OTC unit repowering or
16 retirements, ratepayer protections are not compromised. The SWRCB's OTC
17 Policy Statement recognizes the importance of flexibility to meet these compliance
18 targets by allowing CAISO to temporarily suspend compliance targets if grid
19 reliability is threatened.[26] DRA believes that the Commission's role in this

---

[24] Ex. PG&E-1, p.11.

[25] Ex. PG&E-1, p.12. The four projects are Russell City (online date 2013), Marsh Landing (online date 2013), Mariposa (online date 2012), and Oakley (online date 2016).

[26] Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling, May 4, 2010, P.6:

B.(2) Based on the need for continued operation of an existing power plant to maintain the reliability of the electric system, a final compliance date may be suspended under the following circumstances:

(a) If CAISO determines that continued operation of an existing power plant is necessary to maintain the reliability of the electric system in the short-term CAISO shall provide written notification to the State Water Board, the Regional Water Board with jurisdiction over the existing power plant and the SACCWIS to suspend the final compliance date for less than 90 days.

(continued on next page)

process is to consider how previously authorized procurement will contribute to flexibility and to authorize procurement of resources needed as a result of OTC retirements in the most cost-effective manner possible.

Proper planning and analysis of the entire spectrum of potential solutions is essential so that ratepayers are not overburdened in pursuit of the State's OTC goals. To support the SWRCB's Policy Statement, the Commission should call upon all tools that can be used to alleviate the OTC retirement issue. These tools include local renewables, transmission expansion, distributed generation, demand response, energy efficiency, the Self Generation Incentive Program (SGIP), lower projected load growth as well as the Governor's call for 12,000 megawatts (MWs) of distributed generation. All of these factors can help reduce the need for new capacity in local areas. In addition, according to the report, *Electric Grid Reliability Impacts from Regulation of Once-Through Cooling in California* by ICF Jones & Stokes, transmission system upgrades have been identified "as the least-cost alternative for replacing OTC retirements" and OTC retirements could be addressed with "as little as $135 million in in-state transmission upgrades.."[27] DRA supports consideration of all of these options to meet the State's OTC compliance deadlines while ensuring minimal impact to ratepayers.

- **The Commission should support and encourage the retrofitting and/or repowering of existing OTC units.**

Consistent with the previous recommendation to support flexible procurement options for the IOUs related to OTC shutdowns, the Commission should encourage those OTC plants in local reliability areas to pursue retrofitting

---

(continued from previous page)

(b) If CAISO determines that continued operation of an existing power plant is necessary to maintain the reliability of the electric system, CAISO shall provide written notification to the State Water Board, the Regional Water Board with jurisdiction over the existing power plant and the SACCWIS to suspend the final compliance date for 90 days and can be extended if necessary

[27] ICF Jones & Stokes, Global Energy Decisions, *Electric Grid Reliability Impacts from Regulation of Once-Through Cooling in California,* April 2008 (Jones & Stokes Report), pp. 3, 5. See: http://www.swrcb.ca.gov/water_issues/programs/ocean/cwa316/docs/reliability_study.pdf

or repowering. The ICF Jones & Stokes report on grid reliability and OTC units points out the benefits of repowering present OTC sites:

- Advantages for OTC units in securing contracts for the output of their repowered plants;
- Ready availability of natural gas supply and transmission interconnection;
- AB 1576 gives repowered OTC plants preferential treatment over other plants. It allows utilities to contract directly with repowered units at existing OTC sites and automatically recover the costs of these contracts in their rates.[28]

The benefits of using existing brown field sites also weighs in favor of repowering. In Decision (D.) 04-01-050, the *Interim Opinion on the Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development*, the Commission strongly supported retrofitting:

> "To the extent that new generation resources are required, the utilities should first consider the overall advantages of repowering at existing plants or of development of brown field sites located close to load rather than development of new green field sites remote from load and requiring substantial transmission and other upgrades to the system."[29]

In many instances it may be more cost effective and timely from a ratepayer perspective to retrofit an existing OTC plant rather than site, permit, and build a new power plant.

5. Conclusion

To summarize, DRA provides the following recommendations to the Commission regarding OTC:

---

[28] ICF Jones & Stokes, Global Energy Decisions, *Electric Grid Reliability Impacts from Regulation of Once-Through Cooling in California,* April 2008 (Jones & Stokes Report), pp. 13, 27.

[29] D.04-01-050, *Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development,* p. 54.

1. The Commission should modify the staff proposal that limits IOU OTC contracts to one-year in duration as it puts the IOUs at a competitive disadvantage against other LSEs and provides no benefits to ratepayers. DRA supports SDG&E's suggestion that any contracting restrictions with OTC units be limited to the final two-year period before the plant is scheduled to comply or retire. DRA also supports PG&E's recommendation that Request for Offers (RFOs) explicitly consider the environmental attributes of offers, which would negatively impact an OTC unit's environmental score and consequently the overall score for OTC facility bids.

2. To the extent possible, the Commission should continue to work collaboratively with other government agencies on the OTC issue and utilize the findings of CAISO's forthcoming report and other OTC analyses in the Commission's LTPP proceeding. This level of coordination will minimize duplication of effort, facilitate orderly implementation of the State's OTC goals, and help minimize the cost to ratepayers.

3. The Commission should support and encourage flexible procurement options for the IOUs to meet the SWRCB's compliance deadlines. This includes accounting for local renewables, transmission expansion, distributed generation, demand response, energy efficiency, Self Generation Incentive Program (SGIP), as well as the Governor's call for 12,000 MWs of distributed generation to provide replacement capacity or reduce demand.

4. The Commission should support and encourage the retrofitting and/or repowering of existing OTC units as this may provide a more cost-effective solution for ratepayers.

B. Bid Evaluation (Utility-Owned Generation vs. Power Purchase Agreements)

1. Introduction

In the Assigned Commissioner and ALJ's Joint Scoping Memo and Ruling from December 3, 2010, the Commission identified refinements to bid evaluations in competitive solicitations with both utility-owned generation (UOG) and power purchase agreements (PPA) from independent power producers (IPPs) as an issue to be addressed in Track III of this LTPP proceeding. The Commission listed several outstanding concerns from the last LTPP decision, D.07-012-052, seeking party input as to how to make the IOUs' bid evaluation process "fair, just and reasonable" and improve bid evaluations that include both UOG and PPA offers.[30] These concerns include:

- How IOU bid development costs would be addressed ("at-risk" or ratepayer-guaranteed);
- The extent to which penalty and reward components are or should be added to UOG bids to make them consistent with IPP bids;
- What measures should be taken to prevent sharing of sensitive information between utility staff involved in developing utility bids and staff who create bid evaluation criteria and that select the winning bids;
- How failed contracts should be handled within the IOU RFO/procurement process; and
- Whether parties might agree on a common set of risk factors better managed by IOUs as compared to IPPs, to simplify the standard terms and conditions in the IOUs' pro forma contracts and subsequent counterparty contract negotiations.[31]

[30] Assigned Commissioner and Administrative Law Judge's Joint Scoping Memo and Ruling, R.10-05-006, December 3, 2010, p.44.

[31] Ibid, p.44.

DRA provides its recommendations to the Commission on this issue below.

2. Party Positions

As relayed through their Track III testimonies, the IOUs are clearly divided in their support for the Commission's policy on UOG vs. PPA and on the concerns brought forth. In its Track III testimony PG&E argues that its current RFO evaluation structure, process and methodology is effective and robust in comparing UOG and PPA offers.[32] Contrary to PG&E, SCE states that UOG and PPAs are fundamentally different products and that the process of trying to compare the two in competitive solicitations is "conceptually unworkable."[33] SDG&E does not see a need to alter the existing approach for evaluating UOG vs. PPA bids because it argues that the Commission has demonstrated that it is fully capable of weighing the record (of UOG vs. PPA offers) to determine what is in the ratepayers' best interest. SDG&E goes on to state that the IOUs have developed an evaluation process to differentiate between UOG and PPA that includes checks to ensure fairness among all participants. Therefore it is unnecessary in SDG&E's opinion, for the Commission to refine this process.

3. DRA's Position and Recommendations

DRA believes that it would be timely to address, in this LTPP, refinements to bid evaluations in competitive solicitations with both UOG and PPAs. The Commission is frequently confronted with the issue of comparing UOG opportunities to competitive bids.[34] DRA shares the concern of other parties that the Commission's policy for consideration of UOG projects is unclear and the

---

[32] Ex. PG&E-_, p. 2-1.

[33] Ex. SCE-3, p.13.

[34] *See, e.g.* A07-08-006 SDG&E El Dorado, A08-03-015 SCE Solar PV Program, A08-07-017 SDG&E Solar Energy Program, A08-07-018 PG&E Tesla, A09-02-013 PG&E Fuel Cell Project, A09-02-019 PG&E PV Program, A.09-04-018 SCE Fuel Cell Program, A09-09-021 PG&E Oakley, A09-12-002 PG&E Manzana, A11-01-004 SDG&E Calpeak.

comparison of UOG and PPA bids is not transparent.[35] The Commission has recognized this, especially as it relates to renewable UOG.[36] DRA would like to see the policy framework for UOG, both fossil and renewable, be clearly articulated in this proceeding and consistently carried out in future procurement proceedings. The existing problems surrounding UOG and PPA bids need to be resolved if there is any hope of sustaining a fair and competitive hybrid market.

a) Most UOG Applications Are Introduced Outside of an RFO

The Commission has approved most UOG applications recently brought forth by the IOUs.[37] And nearly all of these applications were introduced outside of the competitive solicitation process.[38] DRA finds this pattern runs contradictory to many of the Commission's guidelines on UOG vs. PPA as set forth in D.07-12-052. Specifically,

> We want to make it clear that we continue to believe in a "competitive market first" approach. As such we believe that all long-term procurement should occur via competitive procurements, rather than through preemptive actions by the IOU, <u>except in truly extraordinary circumstances</u>.
>
> (D.07-12-052, p. 208)

In addition, Ordering Paragraph 31 of D.07-12-052 states that:

---

[35] R10-05-006 Motion of the Independent Energy Producers Association for Reconsideration of the Schedule for this Proceeding, January 26, 2011, p. 7.

[36] See, D09-06-049 on SCE Solar PV Program, June 22, 2009, p. 15, "Therefore, we find that the applicability of the policy framework for UOG articulated in D.07-12-052 to renewable resources is unclear."

[37] *See, e.g.* A07-08-006 SDG&E El Dorado, A08-03-015 SCE Solar PV Program, A08-07-017 SDG&E Solar Energy Program, A09-02-013 PG&E Fuel Cell Project, A09-02-019 PG&E PV Program, A.09-04-018 SCE Fuel Cell Program, A09-09-021 PG&E Oakley, A09-12-002.

[38] Only A07-08-006 SDG&E El Dorado and PG&E Oakley, A09-12-002 were tested through an RFO.

> UOG applications by the IOUs outside of an RFO must fit into a unique circumstance, which are limited to market power mitigation, reliability, preferred resources, expansion of existing facilities, or be a unique opportunity, as described in the decision, and each application will be considered on a case- by-case basis. The IOU is required to make a showing that holding a competitive RFO is infeasible.[39]

As stated, the Commission recognizes the need, in "unique circumstances", for UOG procured outside of the competitive solicitation process.[40] Nevertheless, the Commission still requires that "in all cases, if an IOU proposes a UOG outside of a competitive RFO, the IOU must make a showing that holding a competitive RFO is infeasible."[41] (Emphasis added.) In general, the IOUs disregard these UOG requirements and procure UOG opportunities outside of an RFO. DRA recommends that the Commission provide a clearer message in this LTPP regarding requirements surrounding UOG opportunities and hold the IOUs accountable to the rules going forward.

DRA recommends that the Commission simply require that all UOG opportunities (fossil or preferred resources) be tested by a competitive solicitation. This is the only way that the Commission can truly determine if the UOG opportunity is the best deal ratepayers can get. Putting the UOG opportunity in a competitive solicitation would test the attractiveness of its price against all other bidders. This can be done and this is exactly how SDG&E proved their El Dorado Power Plant was the best deal for ratepayers. Decision 07-11-046 found that SDG&E sufficiently demonstrated that the El Dorado Power Plant was the least

---

[39] D.07-12-052, Ordering Paragraph 31, p. 306.

[40] D.07-12-052, p. 209.

[41] *Ibid.*.

cost, best fit alternative as it was tested by a competitive solicitation.[42] As in the case of SDG&E and the El Dorado Power Plant, the Commission should require that all UOG opportunities (fossil or preferred resources) be tested by a competitive solicitation.

b) The Process of Comparing UOG and PPA Bids Requires Refinements

In the previous LTPP, the Commission found that collectively we have insufficient experience on how to evaluate the different qualitative and quantitative attributes associated with UOG opportunities and IPP bids.[43] But that is no longer the case. As mentioned earlier, the Commission has considered many UOG opportunities. One of the most difficult determinations has been in making an apples-to-apples comparison of UOG opportunities to IPP bids. This is partially due to the fact that the Commission has not provided much guidance in this regard. One issue that the Commission is commonly confronted with is comparing the uncertain life time of a UOG facility as compared to a 10-20 year PPA.[44] As D.11-03-036 Denying PG&E's Manzana Purchase and Sale Agreement (PSA) found, increasing the length of time over which the costs of a UOG project are amortized can have the immediate effect of making a UOG project appear substantially more cost competitive than a PPA.[45] DRA recommends that the Commission take the approach suggested in D.11-03-036 when comparing a UOG bid to a PPA. Specifically, for assessment purposes, amortize the UOG project costs over the same period that reflect the term of the PPA contracts against which the UOG is being compared.

---

[42] D. 07-11-046, p. 17.

[43] D.07-12-052, p. 206.

[44] D.10-07-045, p. 37; D.11-03-036, pp. 28-32.

[45] D.11-03-036, pp. 27.

Another issue that confronts the Commission when comparing UOGs against PPAs is that valuating a UOG project over a long time horizon (20-30 years) creates more uncertainty because the uncertainties about input assumptions grow over time. Two examples are the value of capacity and estimates of land lease costs. Both of these examples were contentious issues in recent UOG Decisions.[46] DRA recommends that the Commission provide specific guidance to the IOUs on what input assumptions or forward cost curves are reasonable to use for UOG valuations. This guidance should be developed and vetted through a public stakeholder process held at the Commission. This guidance will help to level the playing field for comparing UOG and PPA bids.

c) SCE's UOG Proposal

As mentioned earlier, SCE states that UOG and PPAs are fundamentally different products and that the process of trying to compare the two in competitive solicitations is "conceptually unworkable."[47] Given that unworkable nature, and purportedly consistent with California's hybrid market structure, SCE proposes that UOG projects should be proposed only when competitive processes cannot deliver the products that the utility needs to serve its customers in a cost-effective manner. SCE's position appears similar to the position they took in the previous LTPP where D. 07-12-052 states:

> SCE, on the other hand, does not believe that IOU and IPP bids can be compared in a meaningful, quantitative manner. SCE instead takes the position that generally it will offer bids in instances in which the market does not provide the product it seeks. If circumstances arise in which SCE does perceive the need to propose a utility product for which it has received market bids, SCE will provide a separate treatment of the UOG version and articulate, qualitatively, its rationale for

[46] D.10-07-045; D.11-03-036.

[47] Ex. SCE-3, p.13.

> recommending its project over the market-derived product. (D.07-12-052, pp. 201-202)

DRA points out that since SCE took that position in the previous LTPP, they have brought forward a Solar PV UOG program and a Fuel Cell UOG program. Clearly, in both cases (Solar PV and Fuel Cells) there is a healthy market serving those products, so SCE's stated position rings hollow. As such, DRA recommends the Commission reject SCE's proposal as it is subject to the IOUs determination or rationalization on whether or not there is a market to support their UOG proposal.

In terms of SCE's claim that the process of trying to compare the UOG and PPA bids in competitive solicitations is "conceptually unworkable", to DRA this determination seems to suggest there should be a moratorium on UOG bids. Specifically, if SCE is correct and there is no way to economically compare UOG and PPA bids, then the Commission cannot make a determination on whether the UOG bid is in the ratepayers best interest as compared to other market alternatives. Alternatively, if the Commission is going to consider UOG opportunities (and it seems that this is a likely outcome), then it is imperative that there be a transparent and fair economic comparison of both the UOG opportunity and other market bids. So again, DRA recommends the Commission reject SCE's claim that the process of trying to compare the UOG and PPA bids in competitive solicitations is "conceptually unworkable."

d) Fair and Equal Treatment of UOG and PPA Projects

DRA offers the following additional recommendations to the Commission regarding its current protocol for fair and equal treatment of UOG and PPA bids to ensure a level playing field in the California hybrid market:

1. <u>Shareholders, not ratepayers, should shoulder the costs for IOUs to develop a bid or recover costs on failed UOG bids.</u> PG&E Requests that the Commission allow IOUs to recoup from ratepayers

reasonable and prudent bid development costs for losing and winning UOG offers. Ratepayers do not cover IPP costs in this regard so likewise ratepayers should not cover these costs for UOG bids.

2. The Commission should establish clear pay for performance mechanisms in UOG projects similar to PPAs. Specifically, PPAs are only paid on a delivery basis (e.g., $/MWh), UOG projects should be rewarded on this basis as well.
3. The Commission should establish cost caps for capital costs and O&M for UOG projects so that the IOUs will not underbid these costs and subsequently attempt to recover higher costs after the UOG project has been approved.

C. Greenhouse Gas Procurement Plans

1. Summary

The California Investor-Owned Utilities (IOUs) will be compliance entities under the California Air Resources Board's (ARB) Cap-and-Trade Regulation starting in 2013, and as such will require Commission authority to procure greenhouse gas (GHG) compliance products with the necessary management framework and upfront standards. Each IOU has proposed a different GHG procurement strategy, and at this time, DRA does not see a reason for the Commission to require that the IOUs have the same GHG procurement authority. Generally, DRA supports PG&E's and SDG&E's proposed GHG Procurement Plans. DRA is concerned that SCE's proposed GHG Procurement Plan seeks forward procurement authority that does not strike an appropriate balance between long-term risks and flexible authority. To address this concern, DRA proposes revisions to SCE's plan regarding its forward procurement authority. DRA also recommends that no GHG procurement is authorized prior to the adoption of the final ARB Cap-and-Trade Regulation. DRA also proposes that the Commission adopt reporting requirements as part of the GHG Procurement Plans as well as specify a process for Commission review after one year of GHG procurement activity

There are a few issues that are lacking from the IOU's GHG Procurement Plans that DRA proposes are addressed in supplemental testimony by the IOUs. These issues include (1) allocation of GHG risks and responsibilities in electricity contracts, and (2) bid evaluation for electricity procurement contracts, including out-of-state renewable contracts with replacement power that could require a compliance obligation under the ARB's Cap-and-Trade Regulation. Additionally, DRA requests that SCE be directed to prepare supplemental testimony regarding specific issues identified in relation to SCE's GHG Procurement Plan and risk assessment proposal.

2. Background

The California Air Resources Board (ARB) plans to implement a cap-and-trade program in 2013[48] as part of the statewide efforts to reduce greenhouse gas (GHG) emissions under the Global Warming Solutions Act of 2006, or AB 32.[49] The cap-and-trade program is a market-based mechanism intended to achieve the remaining emission reductions necessary to bring California to 1990 levels of GHG emissions by 2020, after accounting for emissions reductions from specified measures such as the Renewables Portfolio Standard, Energy Efficiency, and Combined Heat and Power. The ARB determined that the cap-and-trade program will afford covered entities flexibility to seek out and implement the most cost-effective options to reduce emissions, while establishing the price signal needed to drive long-term investment in cleaner and more efficient types of energy sources.[50]

The electricity sector is covered by the cap-and-trade program beginning in 2013, and each Investor-Owned Utility (IOU) is a compliance entity that must

---

[48] The updated ARB Cap-and-Trade Discussion Draft released on July 8, 2011 indicates that enforcement of the cap-and-trade regulation will be delayed until 2013.

[49] Codified at Cal. Health & Safety Code Sec. 38500 et seq.

[50] ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.I-4.

1 submit the number of GHG compliance instruments (GHG Allowances and GHG
2 Offsets[51]) to the ARB that equals their verified emissions over each compliance
3 period.[52] Each IOU has compliance requirements for its utility-owned generation,
4 selected tolling agreements, and electricity imports. Although the IOUs are freely
5 allocated GHG allowances (allowances) under the program,[53] those allowances
6 cannot be used directly to satisfy compliance obligations. Instead, the IOUs are
7 required to consign and sell those allowances in the quarterly ARB auctions and to
8 use that revenue exclusively for the benefit of retail ratepayers, consistent with the
9 goals of AB 32. The Commission in Rulemaking (R.) 11-03-012 is considering
10 "the possible use of revenues that electric utilities may generate from the
11 auctioning of allowances allocated to them by the ARB…"[54] Since each IOU
12 must procure enough allowances to meet its compliance obligations (i.e. annual
13 and compliance period) in accordance with the schedule set forth by the ARB's
14 cap-and-trade regulation,[55] each IOU must update its authorized procurement plan
15 to include provisions and upfront standards for obtaining GHG compliance
16 products.

---

[51] ARB rules allow for 8% of a compliance entity's compliance obligation to be met with approved offsets, per ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.II-24.

[52] The compliance periods are 2013-2014, 2015-2017, and 2018-2020, per ARB July 2011 Cap-and-Trade Discussion Draft, p.A-73. Additionally, compliance entities have an annual compliance requirement of 30% of that current year's verified emissions, per ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.II-23.

[53] The exact recommended allocation to each utility is provided in Appendix A: Staff Proposal for Allocating Allowances to Electricity Distribution Utilities, p. 8.

[54] Rulemaking (R.) 11-03-012 Order Instituting Rulemaking to Address Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions, March 24, 2011, p.2.

[55] If a compliance entity does not comply with the ARB's cap-and-trade program on schedule, it is subject to a penalty of four GHG compliance instruments for each one GHG compliance instrument it is short, per ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.1X-50.

3. General Policy Recommendations

In this section, DRA offers policy recommendations for Commission determinations on GHG procurement issues, not only for purposes of this LTPP cycle, but on an ongoing basis. Given the uncertain nature of many aspects of the developing carbon market, these recommendations may change as actual market information becomes available and more regulatory certainty develops. The Commission should recognize these uncertainties, and allow for changes and updates to the GHG Procurement Plans over time.

a) Timing of Commission Authorization of IOU GHG Procurement Plans

On June 29, 2011, the Chairman of the ARB, Mary Nichols, testified before the Senate Select Committee on Environment, Economy & Climate Change that the ARB is proposing to initiate the cap-and-trade program in 2012, but make compliance requirements effective the following year (in 2013 rather than 2012).[56] This proposed change to the regulation was discussed at a July 15, 2011 ARB Public Meeting. There will be no 2012 GHG Allowances in the cap-and-trade program, and the first auction for 2013 GHG Allowances will be held on August 15, 2012.[57] This will result in a one-year delay in enforcement of the compliance requirements under the cap-and-trade program, and a six-month delay in implementation of the program (i.e. the first ARB auction for allowances).

Based on this proposed change, the perceived urgency to have Commission-approved GHG Procurement Plans in place for the IOUs appears less critical.[58] While it would be prudent for the Commission to consider the proposed GHG Procurement Plans expeditiously, and establish a framework to guide the

---

[56] Testimony of Mary D. Nichols, Chairman of the California Air Resources Board, to the Senate Select Committee on Environment, Economy & Climate Change, June 29, 2011.

[57] ARB July 2011 Cap-and-Trade Discussion Draft, p.A-128.

[58] The IOUs served their testimony prior to the release of complete information regarding the delay in ARB's Cap-and-Trade Program. As a result, each GHG Procurement Plan will require updates to reflect this new information.

IOUs GHG procurement, the Commission essentially has an additional six months to decide these issues. Therefore, DRA does not believe it is necessary to approve the GHG Procurement Plans by the end of this calendar year. Furthermore, DRA recommends that the Commission not authorize the IOUs to procure GHG products until the final Cap-and-Trade Regulation is adopted by ARB. The ARB Cap-and-Trade Regulation must be finalized by October 28, 2011.

Parties have had less than five weeks, in an already time- and resource-constrained LTPP Proceeding, to read, understand, and perform discovery on each IOU's GHG Procurement Plan. There are some procurement practices associated with the IOU's management of GHG cost exposure, specifically in regards to contractual allocation of risks and responsibilities associated with GHG compliance in the IOUs' electricity contracts and the related bid evaluations, that should be addressed in the procurement plans. Additionally, DRA has some concerns with SCE's GHG compliance risk assessment proposal, and requests further clarification from SCE. DRA recommends that the Assigned ALJ direct each IOU to prepare and serve supplemental testimony on its GHG Procurement Plan in regards to the GHG arrangements and bid evaluation for electricity contracts. SCE should be directed to address also in its supplemental testimony the specific issues identified in the section of DRA's testimony that addresses SCE's plan. [DRA is submitting this portion of its testimony under seal].

b) Forward Procurement of GHG Compliance Products

The ability to procure allowances for future years, or to bank current allowances for future years or compliance periods, is an important cost containment mechanism that DRA recommended during the ARB process to develop the cap-and-trade program. Sources of GHG emissions in California, including the IOUs, are subject to year to year variations in GHG emissions (i.e. during a low hydro year there will be more natural gas generation and higher emissions), and are therefore potentially exposed to changes in GHG allowance

1 prices impacted by short term demand. The ARB designed the program to have
2 three-year compliance periods in order to smooth out the annual variations in
3 emissions, and to provide sources with greater flexibility to reduce emissions.[59] It
4 is important that the IOUs be able to mitigate the risk of having to procure a large
5 portion of their compliance requirement towards the end of each compliance
6 period. This risk management ability can be made available to the IOUs by
7 authorizing a specified level of forward procurement, which will allow an IOU to
8 spread its GHG position over time.

9 Additionally, the cap-and-trade program allows for banking of allowances
10 across compliance periods. A GHG allowance from any given year can be used
11 for compliance in a future year.[60] Therefore, if an IOU has a long GHG position
12 at the end of a compliance period (i.e. has more allowances than needed for its
13 compliance requirement), it can bank those allowances for future compliance.
14 Allowing the IOUs to procure in excess of their expected compliance requirements
15 in a given compliance period may provide cost-saving benefits if the price of
16 allowances increases from one compliance period to the next (e.g., due to a
17 reduced supply of allowances or an increased demand for those allowances). An
18 increased demand for allowances could occur towards the second compliance
19 period, as fuel distributors (e.g. gasoline and natural gas) are phased into the cap-
20 and-trade program starting in 2015. It would be prudent to allow the IOUs some
21 level of flexibility to procure allowances in excess of current compliance period
22 requirements and utilize the banking provisions of the program. The ARB will
23 also hold auctions for future compliance period allowances,[61] and the Commission
24 should authorize the IOUs to participate in these auctions to a limited extent.

---

[59] ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.II-4.

[60] ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.IX-111.

[61] For instance, ARB will hold an Advanced Auction for 2015 GHG Allowances in 2012, per

(continued on next page)

The amount of forward procurement must be balanced with the risks and uncertainties associated with the program, and with the risk of allowances dropping in value due to a variety of factors. The uncertainties surrounding the cap-and-trade market that could impact future GHG prices include:

- *Development of a regional cap-and-trade market*. ARB staff are active in policy discussions to develop a regional cap-and-trade market, called the Western Climate Initiative (WCI),[62] which would include California. British Columbia and Quebec are expected to implement cap-and-trade programs as part of the WCI in 2013.[63] It is possible that if more WCI member states implement cap-and-trade markets that link with California's market, the price of GHG Allowances will go down. Prices could fall because GHG emissions reductions could be less costly in other states where the marginal cost of reducing emissions is less than in California.
- *Preemption of California's cap-and-trade program at the federal level*. If a cap-and-trade program is adopted at the federal level, it is possible that it will pre-empt California's cap-and-trade program. While the ARB has indicated that it will work with federal regulators to gain credit for California entities complying with the California cap-and-trade program, the exact implications of federal preemption is uncertain. One possibility, as SDG&E points out, is that California GHG Allowances could be worthless.[64]
- *Uncertainty about whether ARB's Cap-and-Trade regulations will survive legal challenges and political opposition*. A legal challenge to the ARB Cap-and-Trade Regulation[65] is pending in the California Court of Appeals. Although the Court has

---

(continued from previous page)
ARB July 2011 Cap-and-Trade Discussion Draft, p.A-128 and A-129.

[62] The Western Climate Initiative Provincial and State Partners are Arizona, British Columbia, California, Manitoba, Montana, New Mexico, Ontario, Oregon, Quebec, Utah and Washington. *Information available at* http://www.westernclimateinitiative.org/wci-partners

[63] WCI Status Update *available at* http://www.westernclimateinitiative.org/news-and-updates/129-wci-status-update

[64] Ex. SDG&E-2 (Prepared Track III Testimony of San Diego Gas & Electric Company (U 902 E) **Confidential Version**), p.16.

[65] Association of Irritated Residents vs. California Air Resources Board, CPF-09-509562.

> permitted ARB to continue to develop and implement the cap-and-trade program pending resolution of the case, the outcome of this legal challenge is unknown. Additionally, there is strong political opposition to cap-and-trade, which could impact the future of the regulation.

Given the uncertainties, it is prudent for the IOUs to develop GHG procurement strategies that balance the potential for minimizing the cost of compliance by forward procurement against the risk of uncertainties associated with California's cap-and-trade program. DRA therefore recommends that the Commission authorize a specified window for future GHG procurement. This window should be no further out in time than the subsequent compliance period (i.e. the compliance period following the current compliance period), and should entail lower volume limits for years farther out in time. DRA discusses this recommendation in more detail in confidential Appendices A, B and C, in relation to each IOU's GHG Procurement Plan.

c) Forward Price Curve for GHG Prices

A forward price curve for GHG prices in California is uncertain at this time. There are expert market analyses of a forward GHG price for California, based on the marginal cost of reducing emissions in California, after accounting for emissions reductions from other mandated regulations and programs, and the ability of offsets to meet compliance obligations. The Commission currently uses a forecast developed by Synapse to develop a GHG adder for the Market Price Referent.[66] As contracts for GHG products are developed and traded, and the prices at which market participants are willing to buy and sell GHG products

[66] The IOUs were directed to utilize the Synapse Mid-Case price forecast developed for the 2009 MPR for GHG in their AB 57 Bundled Procurement Plans, per Rulemaking (R.) 10-05-006, Assigned Commissioner's And Administrative Law Judge's Scoping Memo for Track II Bundled Procurement Plans, January 13, 2011, pp.3-4.

1 become known and transparent, a forward price curve for GHG prices in
2 California will be based on actual market information.[67]
3 Each IOU's GHG procurement decisions will depend on the forward price
4 curve it uses. Clearly there are benefits to procuring more GHG products when
5 prices are low (i.e. below expected GHG prices), and fewer when prices are high
6 (i.e. above expected GHG prices). The Commission must decide whether it
7 should require the IOUs to provide price structures, or price definitions (i.e. price
8 ranges), of "low" and "high" prices for GHG procurement. Since the IOUs are
9 proposing that all GHG products are procured with ratepayer money, recoverable
10 in ERRA accounts, ratepayers need some protection to ensure that the IOUs are
11 not overpaying for GHG products. DRA recommends that the IOUs be required to
12 provide the Commission with the forward price curves they are using in each ARB
13 auction. This will enable the Commission to review and compare the forward
14 price curves among IOUs, to ensure that no one IOU is significantly overbidding.
15 DRA also recommends that the Commission consider and reevaluate the forward
16 price curve for GHG prices on an ongoing basis, as the carbon market develops
17 and more market experience is gained.

18 **d) Physical GHG Products versus**
19 **Financial GHG Products**

20 In addition to the ARB auctions for GHG Allowances there will likely be
21 secondary markets for GHG products, including physical GHG Allowances and
22 Offsets, forward contracts for GHG Allowances, and financial GHG products such
23 as options. DRA expects that GHG products will be offered on existing

[67] Market prices should be mostly contained within the regulatory parameters set by the GHG price collar, which is defined by the price floor and the Allowance Price Containment Reserve, per ARB Proposed Regulation to Implement the California Cap-and-Trade Program, October 28, 2010, p.II-5. The auction price floor is set at $10/ton in 2012 and increases by 5% a year, plus inflation. The Allowance Price Containment Reserve has three tiers of Allowances available at $40, $45, and $50 in 2012, increasing by 5% a year, plus inflation.

commodity exchanges as well as newly developed carbon exchanges,[68] which will provide transparent price information and protect counterparties from transaction credit risks. SDG&E states that exchanges are important because they increase SDG&E's options in the execution of its GHG procurement strategy.[69] DRA agrees that secondary markets, and the increased liquidity they may provide for GHG products, will be an important aspect of an IOU's GHG Procurement Plan. If an IOU is not able to procure its targeted amount of GHG Allowances at an ARB auction, or if secondary market prices are lower than auction clearing prices, an IOU should have the authority to transact on the secondary markets for GHG products. Secondary market transactions for GHG products can also provide opportunities for an IOU to hedge its exposure to GHG price risks, and as the market develops such hedging could protect ratepayers from potentially volatile GHG prices.

e) Management of GHG Compliance Costs Associated with Electricity Procurement

The proposed GHG Procurement Plans lack information that DRA expected regarding the evaluation of GHG risks associated with electricity procurement contracts. This was one of the issues in R.11.03-012 that was presumably deferred to the LTPP. This issue has to do with which of the contracting parties will assume the GHG compliance responsibility in electricity contracts, and what assumptions the IOUs will have to make regarding the price of future GHG allowances, in order to choose among competing procurement bids. The establishment of rules and guidelines to govern the IOUs' evaluations of competing options is necessary to ensure that ratepayers do not over-compensate

[68] The Green Exchange (GreenX) is currently offering California carbon allowance (CCA) futures contracts for 2013.

[69] Ex. SDG&E-2 (Prepared Track III Testimony of San Diego Gas & Electric Company (U 902 E) **Confidential Version**), p.11.

generators that take on the GHG compliance risk.[70] Given that the forward curve for California GHG prices is uncertain at this time, it is unclear what rules or guidelines govern the IOUs' evaluations of the prices offered for different GHG exposures among competing procurement bids. DRA recommends that each IOU be directed to prepare supplemental testimony to its GHG Procurement Plan in regards to the GHG arrangements and bid evaluation for electricity contracts. Specifically, the supplemental testimony should address the rules, guidelines, and GHG price assumptions that will govern the IOUs' evaluations of competing procurement bids.

Additionally, there is updated information in the ARB's July 2011 Discussion Draft regarding replacement electricity that substitutes for electricity from a variable renewable resource. This updated information needs to be incorporated into the evaluation of out-of-state renewable contracts that aren't physically delivering the variable renewable resource into California. Per Section 95852 of the ARB July 2011 Discussion Draft, "replacement electricity that substitutes for electricity from a variable renewable resource qualifies for the specific emission factor of the variable renewable resource… [if f]irst deliverers of replacement electricity have a contract, or ownership, with the supplier of the replacement electricity, in addition to a contract with the variable renewable electricity source…"[71] It is necessary to evaluate such contracts in the context of this requirement. Ratepayers need assurance that they are not overpaying for renewable contracts that place on the buyer a GHG compliance obligation for the associated replacement power.

In response to questions DRA posed on this issue, SDG&E states that it has two contracts for variable renewable resources that have replacement electricity,

---

[70] Rulemaking (R.) 11-03-012 Order Instituting Rulemaking to Address Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions, March 24, 2011, p.20.

[71] ARB July 2011Cap-and-Trade Discussion Draft, p.A-81.

and that in both contracts, the replacement power does not meet the requirement set forth in the ARB July 2011 Discussion Draft requirements of being the same Balancing Authority. Accordingly, the variable renewable resources do not count as zero GHG resources.[72] These are examples of contracts in which ratepayers will pay for the renewable resource *and* for the GHG obligation of the replacement power. SCE indicates that it is currently evaluating ARB's July 2011 Discussion Draft and plans to seek clarification from ARB on what types of contracts qualify or may qualify for treatment as "replacement energy."[73] PG&E indicates that ARB's July 2011 Discussion Draft is unclear on how to treat unspecified replacement electricity sources, and that it is working with ARB to resolve the issue.[74] Given the uncertainty, ratepayers are not protected from IOUs overpaying for renewable contracts that also include a GHG compliance obligation for the associated replacement power.

DRA recommends that each IOU be directed to prepare supplemental testimony on its GHG Procurement Plan that discusses how it will incorporate this aspect of the ARB's Cap-and-Trade Regulation into its evaluation of out-of-state renewable contracts, so that ratepayers are not overpaying for renewable contracts that include a GHG compliance obligation for the associated replacement power.

4. Discussion of Specific IOU GHG Procurement Plan Proposals

DRA's discussion of each IOU's confidential GHG Procurement Plan, as proposed in its Track III testimony, is contained in confidential Appendices A, B and C to this testimony. Each IOU has proposed a different GHG procurement strategy. At this time, DRA does not see a reason for the Commission to require that the IOUs have the same GHG procurement authority. DRA's position

---

[72] LTPP Track III Data Response DRA-SDG&E-003, Q.4b.

[73] LTPP Track III Data Response DRA-SCE-001, Q.2.

[74] LTPP Track III Data Response DRA-PGE-008-02, Q.2.b. (**Confidential**)

regarding consistency in GHG procurement authority may change over time, as each procurement strategy is utilized and assessed. Generally, DRA supports PG&E's and SDG&E's proposed GHG Procurement Plans.[75] DRA is concerned that SCE's proposed GHG Procurement Plan seeks forward procurement authority that does not strike an appropriate balance between long-term risks and flexible authority. To address this concern, DRA proposes revisions to SCE's plan regarding its forward procurement authority.

5. Proposals for Future Commission Processes

a) Commission Evaluation of the Proposed GHG Procurement Plans

Each IOU's GHG Procurement Plan has potential merits, and should be the starting point for consideration by the Commission. Each IOU presumably has the most complete, real-time information about its electricity portfolio and resulting emissions, and hence are in the best position to manage GHG exposure and procure GHG products accordingly. DRA agrees with SCE that, "it is critical that SCE's procurement is not unnecessarily constrained in the event that GHG prices are much lower or much higher than expected."[76] However, there is a level of constraint necessary to protect ratepayers from certain risks, such as over-procurement or speculative market activity. Currently, SCE's GHG Procurement Plan does not reflect this level of constraint. DRA addresses this issue in confidential Appendix B in relation to SCE's GHG Procurement Plan.

Also as discussed above, the Commission should direct the IOUs to provide more information on some important issues associated with the GHG Procurement Plans. Specifically, the Commission should have more information on the following issues:

---

[75] Although DRA supports both PG&E's and SDG&E's proposed GHG procurement plans, they should both be updated with the supplemental testimony requested by DRA herein.

[76] Ex. SCE-2 (Testimony of Southern California Edison Company on Track III Issues – GHG Procurement Plan), p.18.

- How electricity procurement contracts will allocate GHG risks and obligations and how the IOUs will evaluate bids that allocate these risks and obligations differently. Additionally, how will the IOUs evaluate bids for out-of-state renewable contracts with replacement power that could incur a compliance obligation under the ARB's Cap-and-Trade Regulation;
- XXXX

reporting and Commission review are presented in the next two sections.

b) Reporting Requirements

DRA recommends that the Commission require each IOU to report all GHG market activity, for at least the first year of GHG procurement. This would include any transaction (e.g. ARB auction, secondary markets) authorized under an IOU's GHG Procurement Plan. This reporting requirement would be in addition to the review processes in the Quarterly Compliance Report (QCR) Advice Letter Filings and the ERRA Compliance Review proceedings. The reporting requirement is imperative in the early years of the program so the Commission can review and assess the GHG procurement activity of each IOU. DRA is willing to work with the Energy Division, the IOUs, and any other party to develop a sufficient reporting template. DRA recommends that the Commission order a process to develop the template.

c) Commission Review After One Year of GHG Procurement

The Commission should establish a process in the LTPP final decision to review the IOU GHG Procurement Plans one year after the first ARB auction (i.e. August 2013). The review process would be based on the information gathered from the GHG reporting recommended above. This information will enable the Commission to compare GHG procurement costs among IOUs (i.e. average price per ton of GHG), and to assess whether an IOU is paying significantly more per ton of GHG than another. DRA recommends that based on this assessment, the Commission could require an IOU to adjust its GHG procurement strategies accordingly.

There are numerous reasons to review GHG procurement activity after the first year. The California carbon market is a developing market, and there is currently a lack of market information to develop robust GHG procurement strategies. Additionally, it will be important to revisit the regulatory certainty of

cap-and-trade when developments warrant. There is currently a legal challenge to ARB's Cap-and-Trade Regulation,[78] and the potential that momentum could build for a regional or federal cap-and-trade program. There is also the possibility that the cap-and-trade regulation will be re-evaluated and modified by regulators depending on changing conditions. These situations pose certain risks for the IOUs' GHG Procurement Plans. The Commission should therefore plan to review, assess and update the GHG Procurement Plans.

6. Conclusion

DRA recommends that the Commission direct the IOUs to prepare supplemental testimony addressing the questions identified above about (1) allocation of GHG risks and responsibilities in electricity procurement contracts, and (2) bid evaluation for electricity procurement contracts, including out-of-state renewable contracts with replacement power that could require a compliance obligation under the ARB's Cap-and-Trade Regulation. DRA also requests that SCE be directed to prepare supplemental testimony regarding the specific GHG procurement issues identified in relation to SCE's GHG Procurement Plan and risk assessment proposal. Because ARB has proposed to delay the implementation of its GHG cap-and-trade program, there is sufficient time to fill these specific gaps in the record.

If the Commission decides it is necessary to approve GHG Procurement Plans before the end of 2011, DRA respectfully requests that the Commission require that the following adjustments be made to the proposed GHG plans:

- DRA's recommended adjustments to SCE's plan concerning forward procurement authority;
- no GHG procurement is authorized prior to the adoption of the final ARB Cap-and-Trade Regulation;
- incorporate the proposed GHG reporting requirements; and

[78] Association of Irritated Residents v. California Air Resources Board, CPF-09-509562.

- specify a process for Commission review of GHG procurement activity after one year.

D. Procurement Oversight Rules (Independent Evaluator Reporting Requirements)

Attachment 1, Section 1 to the June 13, 2011, Administrative Law Judge's Ruling Denying Motion for Reconsideration and Motion Regarding Track I Schedule and Addressing Rules Track III Issues, includes a proposal by the Commission's Energy Division Staff on the Independent Evaluator (IE) oversight rules and requirements. This proposal contains a number of changes and clarifications regarding the IE's current reporting practices, qualifications, and communications with IOU and non-IOU staff.

DRA has two specific recommendations regarding IEs. First, Energy Division should contract with IEs directly rather than the IOUs. Second, Energy Division, or alternatively, the IOU's Procurement Review Group (PRG) should determine IE assignments rather than the IOUs. Under the current IE process, the IOUs contract with and directly compensate the IEs. This can cause a conflict of interest as the IE, may feel beholden to the IOU, and could be reluctant to produce an IE report that could call into question the IOUs procurement decision or handling of a solicitation. A solution to this potential conflict is for Energy Division to contract with the IEs directly. Under this arrangement the IE would have more independence than when tasked with critically analyzing the party that provides his/her paycheck. The IOUs were first directed to use IEs in D.04-12-048. That Decision provided for the alternative of Energy Division contracting with IEs directly, but stopped short of requiring this arrangement.[79] Since this arrangement was contemplated when the IE function was first initiated, it would be reasonable for the Commission to revisit this option, which in DRA's view, would increase the value of services that an IE provides.

[79] D.04-12-048, Ordering Paragraph (O.P.) # 28.

DRA's second recommendation is for Energy Division, or alternatively, the IOU's PRG, to determine IE assignments rather than the IOUs. This recommendation is related to the same conflict of interest issue stated above. Specifically, under the current IE process, the IOU chooses which IE from their IE pool will be assigned to a specific task or procurement solicitation. Again, this leads to a potential conflict of interest noted above, as the IE may be reluctant to provide a report that questions the IOUs' procurement decision, as this could lead to the IOU not selecting the IE for future assignments. Likewise, the IOU may tend to select an IE who will write a favorable report on the IOU's procurement decision. As SCE discusses in Testimony, the IE is paid on a "time and materials" basis,[80] so the more assignments the IE receives from an IOU, the more it earns.

Both of the changes DRA recommends would help to strengthen the independence of the IE and allow the IE to critique procurement proposals without conflicts of interest or potential repercussions that may result from issuing an unfavorable IE report.

[80] Ex. SCE-3 (Testimony of Southern California Edison Company on Track III Issues – Rules Track III Procurement Policy), p. 23.

APPENDIX D

QUALIFICATIONS OF WITNESSES

QUALIFICATIONS AND PREPARED TESTIMONY
OF
SUDHEER GOKHALE, P.E.

Q.1 Please state your name and address.

A.1 My name is Sudheer K. Gokhale. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission as a Senior Utilities Engineer in the Division of Ratepayer Advocates (DRA) in the Electricity Pricing and Customer Program Branch.

Q.3 Briefly describe your educational background and work experience.

A.3 I have Bachelor of Science Degrees in Mechanical and Electrical Engineering from India and a Master of Science Degree in Mechanical Engineering from the University of California at Berkeley.

From November 1987 to June 2005, I was employed by Pacific Gas and Electric Company (PG&E) in various capacities. I have testified or offered testimony before the Commission as an expert witness for PG&E in several CPUC proceedings in the following areas: Nuclear and Fossil Plant Decommissioning, Public Purpose Programs, Depreciation Expense and Reserve, and Rate Base. I have been employed by the California Public Utilities Commission since July 2005. Since joining the CPUC, I have prepared protests and comments for DRA in numerous Demand Response proceedings before the Commission.

Q.4 Are you a registered professional engineer?

A.4 Yes, I am a registered Professional Engineer in Mechanical Engineering and Electrical Engineering in the State of California.

Q.5 What is your area of responsibility in this proceeding?

A.5 I am sponsoring the following sections of DRA's testimony: Section III. B (1), *Assumptions Regarding Demand Response.*

Q.6 Does that complete your prepared testimony?

A.6 Yes, it does.

QUALIFICATONS AND PREPARED TESTIMONY
OF
JORDAN PARRILLO

Q.1 Please state your name and business address.

A.1 My name is Jordan Parrillo. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission's (CPUC) Division of Ratepayer Advocates as a Public Utilities Regulatory Analyst.

Q.3 Please describe your education and professional experience.

A.3 I received a B.A. in Economics and a Minor in Natural Resource Management from The Colorado College in 2004. I worked as an Economist for the National Oceanic and Atmospheric Administration's National Marine Sanctuary Program, in Washington, DC, from January 2005 to December 2007. I worked as the Vice President of Policy and Market Research for a start up clean energy marketing company, Village Green Energy, in San Francisco, CA, from April 2008 to May 2009. I worked as a Carbon Analyst for Point Carbon, in Washington, DC, from June 2009 to April 2010. I became employed with the California Public Utilities Commission, Division of Ratepayer Advocates, in June 2010.

Q.4. What is the purpose of your testimony?

A.4 I am sponsoring the following sections of DRA's testimony: Section IV. C. *Greenhouse Gas Procurement Plans*.

Q.5 Does that conclude your statement of qualifications?

A.5 Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
DAVID PECK

Q.1 Please state your name and address.

A.1 My name is David Peck. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst V.

Q.3 Briefly describe your educational background and work experience.

A.3 I have Bachelor of Science Degree with a double major in Industrial Engineering and Computer Science from the University of Wisconsin, Madison. I have also earned a Master of Science Degree in Industrial Engineering and Management Sciences from Arizona State University as part of a Motorola-ASU Industrial Fellowship award. I also have a NABCEP Entry Level Solar PV Certificate.

From 1993 to 2007, I have been employed in the Semiconductor and Semiconductor Equipment industries where I have managed engineering development programs and performed systems design research and analysis. I have been employed by the California Public Utilities Commission since October 2007. I have testified as an expert witness in eight cases on topics including demand response, distributed solar PV, conventional generation, and LTPP. I also prepare protests, comments, discovery, analysis, and advocate for DRA in demand response, Renewable Portfolio Standard (RPS), distributed generation, conventional generation, and the LTPP proceedings before the Commission.

Q.4. What is the purpose of your testimony?

A.4 I am DRA's project coordinator for the 2010 LTPP proceeding. I am also sponsoring the following sections of DRA's Testimony: Section IV. B. *Bid Evaluation (Utility-owned Generation versus Power Purchase Agreements),* and Section IV. D. *Procurement Oversight Rules (Independent Evaluator Reporting Requirements).*

Q.5 Does that conclude your statement of qualifications?

A.5 Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
NIKA ROGERS

Q.1 Please state your name and address.

A.1 My name is Nika Rogers. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst.

Q.3 Briefly describe your educational background and work experience.

A.3 I received a Master in Arts in International Relations from the University of Chicago in 2005 with an emphasis in security studies, environment and international law. I received a B.A. in International Relations from the University of California, Santa Barbara in 2002. From 2005 through 2006 I worked as an instructor at MTI College teaching US history, politics and government. From 2006 through 2007 I worked at Partners for Democratic Change in San Francisco on environmental issues and resource allocation in South East Asia and Central/South American countries. In this time I also served as a temporary employee at the Center for Resource Solutions assisting staff with the Green-e certificate program. From 2007 through 2008 I worked as a business consultant for Meltwater News for tech and renewable energy companies in Silicon Valley. I became employed with the California Public Utilities Commission, Division of Ratepayer Advocates in September 2008. I was the witness for the Operation of Ratemaking Accounts chapter of Southern California Edison's 2008 and 2009 ERRA compliance applications and the witness for the Miscellaneous

Accounts chapter of San Diego Gas & Electric's 2009 ERRA compliance application. I was also the witness for the following sections of DRA's Testimony on the 2010 Long-Term Procurement Planning Track II Bundled Plans: PG&E's Least Cost Dispatch and Nuclear Fuel Procurement Plan and SCE's Short-Term Renewable Energy, Renewable Integration Products, REC-Only Products, and QF Fixed for SRAC Floating Swap.

Q.4. What is the purpose of your testimony?

A.4 I am sponsoring the following sections of DRA's testimony: Section I. *Executive Summary*, Section II. *Introduction*, and Section IV. A. *Procurement Rules Related to Once-Through Cooling*.

Q.5 Does that conclude your statement of qualifications?

A.5 Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PETER SPENCER

Q.1 Please state your name and address.

A.1 My name is Peter Spencer. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst.

Q.3 Briefly describe your educational background and work experience.

A.3 I received the following degrees: B.A. in Biology from California State University- Sacramento in 1973; Doctorate of Chiropractic from Cleveland Chiropractic College in 1982; B.A. in Environmental Studies with an emphasis on energy management from Sonoma State University in 2005.

My work experience prior to working at the Commission includes providing forensic medical reports and testimony, working as a disability examiner and qualified medical examiner for the State of California, and preparing reports and testifying before governmental bodies on the chiropractic profession. I worked as an energy analyst for the County of Sonoma, performed energy audits and energy modeling for RLW Analytics.

I joined the Commission as a Public Utilities Regulatory Analyst in May of 2007 working for the Consumer Protection and Safety Division on energy enforcement issues. This work included being the lead analyst on two OIIs

involving Resource Adequacy and the issuance of numerous citations. I have provided written and oral testimony in support of my enforcement cases. In November of 2010, I began working for DRA where I am the lead analyst on Resource Adequacy, Congestion Revenue Rights and Energy Hedging and serve on the Long Term Planning Team.

Q.4. What is the purpose of your testimony?

A.4 I am sponsoring the following sections of DRA's Testimony: Section III. SDG&E's *Local Capacity Requirements*.

Q.5 Does that conclude your statement of qualifications?

A.5 Yes.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of "**TESTIMONY ON THE 2010 LONG-TERM PROCUREMENT PLANNING TRACK I SYSTEM PLAN OF SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) AND TRACK III PROCUREMENT RULES (PUBLIC VERSION)"** to the official service list in **R.10-05-006** by using the following service:

[**X**] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **August 5, 2011** at San Francisco, California.

REBECCA ROJO

Rebecca Rojo

SERVICE LIST
R.10-05-006

achang@efficiencycouncil.org
douglass@energyattorney.com
liddell@energyattorney.com
josh@BrightLineDefense.org
aes_ltpp@aes.com
sahm@fitcoalition.com
janreid@coastecon.com
smartinez@nrdc.org
tam.hunt@gmail.com
lwisland@ucsusa.org
martinhomec@gmail.com
nrader@calwea.org
jessica.evans@glacialenergy.com
abraham.silverman@nrgenergy.com
mpieniazek@drenergyconsulting.com
kerry.hughes@directenergy.com
rick_noger@praxair.com
mdorn@mwe.com
jim_p_white@transcanada.com
asantiago@libertypowercorp.com
Lnalley@Tigernaturalgas.com
cpacc@calpine.com
BRIANF@VEA.COOP
b.buchynsky@dgc-us.com
jbloom@winston.com
mmazur@3PhasesRenewables.com
info@3PhasesRenewables.com
igoodman@commerceenergy.com
akbar.jazayeri@sce.com
carol.schmidfrazee@sce.com
rkmoore@gswater.com
mary@solutionsforutilities.com
amsmith@semprautilities.com
DAKing@SempraGeneration.com
DWelch@NobleSolutions.com
marcie.milner@shell.com
tdarton@pilotpowergroup.com
SRahon@SempraUtilities.com
Gloria@anzaelectric.org
andrea.morrison@directenergy.com
mtierney-lloyd@enernoc.com
dorth@krcd.org
ek@a-klaw.com
sue.mara@RTOadvisors.com
mdjoseph@adamsbroadwell.com
nao@cpuc.ca.gov

mcampbell@sfwater.org
mang@turn.org
tjl@a-klaw.com
whb@a-klaw.com
dbehles@ggu.edu
bcragg@goodinmacbride.com
vidhyaprabhakaran@dwt.com
jeffreygray@dwt.com
stevegreenwald@dwt.com
lcottle@winston.com
CRMd@pge.com
ssmyers@att.net
bkc7@pge.com
service@spurr.org
JChamberlin@LSPower.com
jwiedman@keyesandfox.com
pcort@earthjustice.org
slazerow@cbecal.org
wrostov@earthjustice.org
gmorris@emf.net
jansar@ucsusa.org
agerterlinda@gmail.com
tomb@crossborderenergy.com
michaelboyd@sbcglobal.net
jsanders@caiso.com
kelly@votesolar.org
burtt@macnexus.org
jdalessi@navigantconsulting.com
cmkehrein@ems-ca.com
blumberg@texas.net
abb@eslawfirm.com
abb@eslawfirm.com
kristin@consciousventuresgroup.com
kmills@cfbf.com
dansvec@hdo.net
bmarshall@psrec.coop
jack@casaraquel.com
deb@a-klaw.com
californiadockets@PacifiCorp.com
dwelch@semprasolutions.com
DWelch@SempraSolutions.com
amber@ethree.com
apligavko@firstsolar.com
andres.pacheco@recurrentenergy.com
beth@beth411.com
DbP0@pge.com
GxZ5@pge.com
jbaird@earthjustice.org
jleslie@luce.com
lakshmi@ethree.com

mainspan@ecsgrid.com
matthew@turn.org
nlong@nrdc.org
steven@iepa.com
e-recipient@caiso.com
DWTCPUCDOCKETS@dwt.com
mrw@mrwassoc.com
CKebler@SempraGeneration.com
cynthia.brady@constellation.com
dgilligan@naesco.org
imcgowan@3DegreesInc.com
jna@speakeasy.org
Melissa.Schary@sce.com
mokeefe@efficiencycouncil.org
michelle.d.grant@dynegy.com
Harry.Singh@gs.com
steven.huhman@morganstanley.com
michael.yuffee@hoganlovells.com
steve.weiler@leonard.com
kjsimonsen@ems-ca.com
ccollins@energystrat.com
jfarr@Energystrat.com
Cynthiakmitchell@gmail.com
hanslaetz@gmail.com
fmobasheri@aol.com
amber.wyatt@sce.com
case.admin@sce.com
Melissa.Hovsepian@sce.com
rich.mettling@sce.com
gbass@noblesolutions.com
JPacheco@SempraUtilities.com
rpsantos@semprautilities.com
WKeilani@SempraUtilities.com
CentralFiles@SempraUtilities.com
rcox@pacificenvironment.org
chh@cpuc.ca.gov
kpp@cpuc.ca.gov
marcel@turn.org
AxL3@pge.com
RegRelCPUCCases@pge.com
C4MU@pge.com
ejhouse@live.com
Gloria.Smith@sierraclub.org
kt@a-klaw.com
KXHY@pge.com
Kcj5@pge.com
lwilliams@ggu.edu
mrgg@pge.com
mpa@a-klaw.com
will.mitchell@cpv.com

abrowning@votesolar.org
swang@pacificenvironment.org
devin.mcdonell@bingham.com
jsqueri@goodinmacbride.com
jfilippi@nextlight.com
rafi.hassan@sig.com
robertgex@dwt.com
sdhilton@stoel.com
todd.edmister@bingham.com
Diane.Fellman@nrgenergy.com
cem@newsdata.com
mrh2@pge.com
CPUCCases@pge.com
ryan.heidari@endimensions.com
wetstone@alamedamp.com
gopal@recolteenergy.com
Sean.Beatty@mirant.com
kowalewskia@calpine.com
barmackm@calpine.com
Ren@ethree.com
cpucdockets@keyesandfox.com
sstanfield@keyesandfox.com
dmarcus2@sbcglobal.net
rschmidt@bartlewells.com
patrickm@crossborderenergy.com
erasmussen@marinenergyauthority.org
philm@scdenergy.com
bperlste@pacbell.net
wem@igc.org
pushkarwagle@flynnrci.com
dwang@nrdc.org
bmcc@mccarthylaw.com
brbarkovich@earthlink.net
jweil@aglet.org
bill@jbsenergy.com
bburns@caiso.com
brian.theaker@nrgenergy.com
mary.lynch@constellation.com
grosenblum@caiso.com
mrothleder@caiso.com
Ray_Pingle@msn.com
daniel.h.kim@me.com
cbarry@iwpnews.com
Danielle@ceert.org
david@ceert.org
ddavie@wellhead.com
gohara@calplg.com
jim.metropulos@sierraclub.org
kdw@woodruff-expert-services.com
mcox@calplg.com

blaising@braunlegal.com
eddyconsulting@gmail.com
aspalding@aspeneg.com
clinvill@aspeneg.com
atrowbridge@daycartermurphy.com
cpuc@liberty-energy.com
sas@a-klaw.com
dws@r-c-s-inc.com
john_dunn@transcanada.com
meredith_lamey@transcanada.com
djurijew@capitalpower.com
spillott@capitalpower.com
gifford.jung@powerex.com
AEG@cpuc.ca.gov
CNL@cpuc.ca.gov
lily.chow@cpuc.ca.gov
cleni@energy.state.ca.us
michael.cohen@cpuc.ca.gov
jimross@r-c-s-inc.com
sap@cpuc.ca.gov
bbc@cpuc.ca.gov
clu@cpuc.ca.gov
dbp@cpuc.ca.gov
dil@cpuc.ca.gov
jls@cpuc.ca.gov
jp6@cpuc.ca.gov
kho@cpuc.ca.gov
mla@cpuc.ca.gov
nws@cpuc.ca.gov
nlr@cpuc.ca.gov
psd@cpuc.ca.gov
phs@cpuc.ca.gov
pva@cpuc.ca.gov
wtr@cpuc.ca.gov
rls@cpuc.ca.gov
sbs@cpuc.ca.gov
svn@cpuc.ca.gov
dietrichlaw2@earthlink.net
ys2@cpuc.ca.gov
claufenb@energy.state.ca.us
jwoodwar@energy.state.ca.us
ldecarlo@energy.state.ca.us
mjaske@energy.state.ca.us
Mnyberg@energy.state.ca.us
irhyne@energy.state.ca.us

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 E) for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power.	Application 11-05-____ (Filed May 19, 2011)

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER

PAUL A. SZYMANSKI
101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5078
Facsimile: (619) 699-5027
E-mail: pszymanski@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

May 19, 2011

TABLE OF CONTENTS

I. INTRODUCTION 1

II. BACKGROUND AND SUMMARY OF REQUEST 2

A. Approval of the Three PPTAs is Consistent with SDG&E's LTPP 4

B. Approval of the Three PPTAs is Consistent with the Commission's Energy Action Plan and the Greenhouse Gas Emissions Performance Standard. 5

III. RELIEF REQUESTED 8

IV. RFO TEMPLATE/IE TEMPLATE (TESTIMONY/ATTACHMENTS SERVED WITH THE APPLICATION) 9

V. STATUTORY AND PROCEDURAL REQUIREMENTS 9

A. Rule 2.1 (a) – (c) 9

1. Rule 2.1 (a) - Legal Name 9
2. Rule 2.1 (b) - Correspondence 10
3. Rule 2.1 (c) 10

B. Rule 2.2 – Articles of Incorporation 12

C. Rule 3.2 (a) – (d) – Authority to Increase Rates 13

1. Rule 3.2 (a) (1) – balance sheet 13
2. Rule 3.2 (a) (2) – statement of effective rates 13
3. Rule 3.2 (a) (3) – statement of proposed increases 13
4. Rule 3.2 (a) (4) – description of property and equipment 13
5. Rule 3.2 (a) (5) and (6) – summary of earnings 13
6. Rule 3.2 (a) (7) – statement re tax depreciation 14
7. Rule 3.2 (a) (8) – proxy statement 14
8. Rule 3.2 (a) (10) – statement re pass through to customers 14
9. Rule 3.2 (b) – notice to state, cities and counties 14
10. Rule 3.2 (c) – newspaper publication 15
11. Rule 3.2 (d) – bill insert notice 15

VI. CONFIDENTIAL INFORMATION 15

VII. SERVICE 16

VIII. CONCLUSION 16

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 E) for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power.	Application 11-05-____ (Filed May 19, 2011)

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER

I.
INTRODUCTION

Pursuant to California Public Utilities Code ("P.U. Code") Sections 365.1(c), 454.5 and 701, the California Public Utilities Commission's ("CPUC" or "Commission") Rules of Practice and Procedure, and Commission Decision (D.) 07-12-052, as amended, as well as D.07-11-151, San Diego Gas & Electric Company ("SDG&E") hereby files this application ("Application") for the Commission's approval of three long-term Power Purchase Tolling Agreements ("PPTAs") that would add a total of approximately 450 MW of needed local capacity to SDG&E's service area.

As discussed in this Application, SDG&E executed PPTAs with the following non-utility entities: Pio Pico Energy Center ("Pio Pico"), 305 MW; Wellhead's Escondido Energy Center ("EEC"), 45 MW; and Quail Brush Generation Project ("Quail Brush"), 100 MW (collectively, the "PPTAs" or "Agreements"). SDG&E also seeks authority to allocate the cost of these new resources in accordance with P.U. Code Section 365.1(c). Further, SDG&E seeks the Commission's confirmation that SDG&E may pursue the cost recovery of its costs associated with these Agreements and the rebalancing of SDG&E's capital structure in accordance with

Financial Accounts Standards Board ("FASB") Interpretation No. 46(R) ("FIN 46(R)") in its next Cost of Capital proceeding.

These PPTAs will provide approximately 450 MW of additional capacity from three new, efficient, natural gas generating facilities that are slated to be on-line in SDG&E's service territory. As is discussed in greater detail below as well as in SDG&E's accompanying prepared direct testimony ("Testimony"), these resources are being procured pursuant to the Commission's directives in SDG&E's 2006 Commission-approved long-term procurement plan ("LTPP").[1] These projects are therefore necessary generation resources to meet both system and local resource adequacy ("RA") requirements.

SDG&E respectfully requests approval of these three contracts no later than February 9, 2012 (or the first Commission meeting date following February 9, 2012) to meet various contractual obligations discussed herein and to ensure that SDG&E will have adequate resources on-line to be able to serve the current and anticipated electricity needs for all of the customers in SDG&E's service area.

II.
BACKGROUND AND SUMMARY OF REQUEST

The three PPTAs presented for approval in this Application arose from SDG&E's LTPP decisions and the ensuing 2009 Request For Offers ("RFO"), the design and outcome of which is discussed in testimony accompanying this Application. Of the 530 MW of new capacity the LTPP decisions authorize SDG&E to procure, the PPTAs that are proposed for approval in this Application would add approximately 450 MW of new capacity. The key aspects of the three PPTAs are described briefly as follows:

[1] D.07-12-052 at 114-115, as amended by D.08-11-008 at 25-26.

Escondido Energy Center ("EEC")

The EEC is a gas-fired 45 MW repowering of an existing facility and includes the installation of a new single unit simple-cycle peaking generation facility powered by a new General Electric LM-6000 combustion turbine unit which replaces a vintage gas turbine-generator. This facility will be located in SDG&E's service territory, in Escondido, on the same location as Wellhead's existing generation facility. The Expected Initial Delivery Date is July 1, 2012, except that this date is extended on a day-for-day basis for each day that the Commission's approval occurs after July 1, 2011. The PPTA has a duration of 25 years. There are no incremental transmission impacts associated with the power delivered under this PPTA.

Pio Pico Energy Center ("Pio Pico")

The Pio Pico PPTA is for approximately 305 MW of fast-start, highly efficient, simple cycle, gas-fired generation. This facility is located in SDG&E's service territory on previously disturbed land adjacent to the Otay Mesa combined cycle power plant. The Expected Initial Delivery Date is May 27, 2014 and is expected to provide power for 20 years. The transmission impacts are unknown at this time but are expected to be known in August 2011, at which time the California Independent System Operator's ("CAISO's") Phase 2 cluster study will be released.

Quail Brush Energy Project ("Quail Brush")

The Quail Brush PPTA will provide approximately 100 MW of gas-fired generation that will be located in SDG&E's service territory near the Sycamore Canyon Landfill. The Expected Initial Delivery Date is June 1, 2014 and is expected to provide power for 20 years. The transmission impacts are unknown at this time but are expected to be known in August 2011, at which time the CAISO's Phase 2 cluster study will be released.

These three PPTAs are needed to ensure there is adequate capacity in SDG&E's service area for all customers, both bundled and direct access,[2] to meet their local RA needs. Additionally, the new, locally sourced, long-term generation will help to mitigate the effects of intermittency, facilitate the retirement of aging and Once Through Cooling ("OTC") generation resources, and will comply with Greenhouse Gas ("GHG") requirements specified in D.07-01-039.

A. Approval of the Three PPTAs is Consistent with SDG&E's LTPP

As discussed more fully in the accompanying Testimony, approval of the three PPTAs represented in this Application are fully consistent with and responsive to the portfolio needs outlined in SDG&E's Commission-approved 2006 LTPP.[3] The 2006 LTPP identified a need for SDG&E to procure up to 530 MW of new, local generation (also known as "Product 2" resources) by 2015 to meet local and system RA requirements, factoring in other resource issues that are fully explained in SDG&E's Testimony.[4] The Commission's directives as well as SDG&E's demonstrated resource need warrant the Commission's approval of the three PPTAs that comprise this Application.

The Commission also emphasized to SDG&E its obligation to undertake advanced planning to meet the Commission-approved RA objectives in the necessary time frame. In D.09-01-008, the Commission stated:

> We carefully reviewed and considered IEP and WPTF's comments and although we are approving MEF II, we are also admonishing SDG&E to have adequate procedures in place to ensure that they do not again find

---

[2] There are no Community Choice Aggregation ("CCA") customers in SDG&E's service territory at this time.

[3] SDG&E's LTPP was approved with modification in D.07-12-052. SDG&E filed its Conformed 2006 LTPP on April 18, 2008 (Advice Letter 1983-E).

[4] D.08-11-008 at Ordering Paragraph 1.d ("We authorize SDG&E to procure a total of up to 530 MW of new local capacity that was conditionally authorized in D.07-12-052 and require that applications for this procurement be supported by updates of the status and projected on-line date of the Sunrise Powerlink project.")

> themselves in a reliability crisis without sufficient time to follow the procurement protocols in D.07-12-052.[5]

Mindful of these comments specific to SDG&E's procurement activities, SDG&E has executed the three subject PPTAs and submits them with sufficient lead time to allow for Commission review and for unforeseen yet possible adjustments to SDG&E's resource portfolio.

B. Approval of the Three PPTAs is Consistent with the Commission's Energy Action Plan and the Greenhouse Gas Emissions Performance Standard.

As described in more detail in the accompanying Testimony, SDG&E's energy planning focuses first on energy efficiency, demand response and renewable generation. These options are considered prior to adding any new, local generation projects. This approach is reflected in SDG&E's Commission-approved 2006 LTPP. Even after planning for these resources, however, SDG&E has determined that there will be a need for additional capacity to meet customers' needs. The Commission's approval of the three PPTAs will allow SDG&E to maintain existing local capacity required in order to meet peak energy needs.

In addition, SDG&E's LTPP identifies a need for quick start units that can be used to support intermittent renewable resources and to provide reliable capacity at times of peak load. In D.07-12-052, the Commission expressly directed SDG&E to procure such resources to further the State's goals of reducing GHG emissions:

> To support the types and needs we anticipate in a GHG constrained portfolio, we require SDG&E to procure dispatchable ramping resources that can be used to adjust for the morning and evening ramps created by the intermittent types of renewable resources.[6]

Each of the three subject contracts represents environmentally friendly, quick start generation units utilizing the most advanced and efficient gas-fired technologies. They also provide the starting and/or ramping capabilities required by the Commission to accommodate

---

[5] D.09-01-008 at 18.
[6] D.07-12-052 at 111-112.

sudden changes in resources or load. Further, these generation facilities will help to mitigate the effects of intermittency associated with the increased deployment of renewable generation. In addition, each of these facilities will provide reliable capacity during periods of peak load.

C. Cost Allocation Issues

After the issuance of SDG&E's June 2009 RFO, the California Legislature passed Senate Bill ("SB") 695 in October 2009.[7] Among other things, SB 695 requires that the costs and benefits of new generation resources, such as the PPTAs that are at issue in this proceeding, must be allocated to all benefiting customers in the electric corporation distribution service area on a non-bypassable basis. The Commission opened Rulemaking (R.) 10-05-006 to establish whether the Commission's existing Cost Allocation Mechanism ("CAM")[8] is consistent with the provisions of SB 695, and in particular, "to ensure that the customers to whom the net costs and benefits of capacity are allocated are not required to pay for the costs of electricity they do not consume."[9]

On May 5, 2011, the Commission issued D.11-05-005 in R.10-05-006 which affirmed, without modification, the Commission's prior determinations that "benefiting customers subject to the CAM consist of all bundled service customers, direct access customers, and community aggregation customers."[10] The Decision further makes clear, as the statute requires, that "the allocation of the net capacity costs of contracts with third parties shall be allowed for the terms of those contracts."[11] As noted immediately below, while the Decision does not resolve all issues related to the CAM,[12] under P.U. Code § 365.1(c)(2)(A), the Commission shall "ensure

---

[7] SB 695 added P.U. Code § 365.1(c).
[8] The Commission adopted a CAM policy in D.06-07-029, and later modified it in D.07-11-051 and D.11-05-005.
[9] P.U. Code § 365.1(c)(2)(C).
[10] D.11-05-005 at 7.
[11] Id. at 14.
[12] CAM-related questions reserved for a further proceeding appear at D.11-05-005 at 16-17. The Decision makes other determinations that are not directly applicable to the instant Application.

that … in the situation of a contract with a third party," such as with the subject PPTAs, "the net capacity costs of those generation resources are allocated on a fully nonbypassable basis…" to the categories of customers noted above.

This Application is consistent with SB 695, existing Commission precedent on the treatment of other new resources, and the newly adopted Decision. SDG&E believes the costs associated with PPTAs comprising this Application must utilize a CAM for the duration of those PPTAs. SDG&E's CAM proposal is fully described in SDG&E's Testimony, at Section VII.B, and calls for the adoption of a non-bypassable Local Generation Charge ("LGC") to implement the CAM requirements. Therefore, along with the Commission's approval of the three PPTAs, SDG&E also is seeking at this time the Commission approval of SDG&E's proposal to use a non-bypassable CAM with these contracts, for the duration of the contracts, as part of SDG&E's cost recovery and ratemaking proposal.

Of particular note, D.11-05-005 identified a number of issues regarding the full implementation of SB 695 that will be resolved in additional phases of that proceeding or in other proceedings. SDG&E supports the use a separate proceeding to resolve those issues, including the method or methods that will be allowed to be used to determine the net capacity costs associated with the PPTAs. In general, the net capacity costs of this additional generating capacity equal the total contract costs less market revenues. Thus, although SDG&E is seeking as part of this Application the Commission's determination that the PPTAs are subject to the CAM, SDG&E is not proposing at this time a specific method to determine the net capacity costs, but will wait for the anticipated, next proceeding to make a final determination for the process SDG&E must follow to calculate the net capacity costs. Once the methodology for

calculating the net capacity costs is established, SDG&E will then apply it to these PPTAs to arrive at the LGC that will implement the CAM.

III.
RELIEF REQUESTED

SDG&E respectfully requests that, in accordance with the schedule proposed below, the Commission issue a Decision approving the Escondido Energy Center PPTA, the Pio Pico Energy Center PPTA, and the Quail Brush Generation Project PPTA. Further, SDG&E requests that the Commission make the following, additional findings:

1. SDG&E may seek full cost recovery for costs associated with FIN 46(R) consolidation and debt equivalence issues for these PPTAs in SDG&E's next Cost of Capital proceeding;
2. SDG&E may adopt a new two-way, interest-bearing balancing account mechanism, the Local Generation Balancing Account ("LGBA"), upon approval of the earlier of this Application or one or more of the PPTAs; and
3. SDG&E shall allocate on a non-bypassable basis the costs of these PPTAs among all utility and non-utility electricity customers in its service territory through the adoption of a LGC.
4. The Commission shall grant such other relief as is necessary and proper.

IV.
RFO TEMPLATE/IE TEMPLATE
(TESTIMONY/ATTACHMENTS SERVED WITH THE APPLICATION)

As noted above, this Application is supported by the Testimony contained within the RFO Template, which is being served, but not filed, in conjunction with this Application.[13] Each section of the RFO Template is sponsored by one of the following six SDG&E witnesses: Robert Anderson, Tom Saile, Maureen Bishop, Brad Mantz, Cynthia Fang, and Greg Shimansky. Various documents and tables supporting such Testimony are attached to the RFO Template as Appendices 1 through 9. Where appropriate, confidential information is redacted, as described in the witnesses' confidentiality declarations attached to the Testimony. With respect to the Independent Evaluator ("IE") report, it is contained in the IE Template (both confidential and public versions, Appendix 9) that is being served, but not filed, in conjunction with this Application.[14]

V.
STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1 (a) – (c)

In accordance with Rule 2.1 (a) – (c) of the Commission's Rules of Practice and Procedure, SDG&E provides the following information.

1. Rule 2.1 (a) - Legal Name

SDG&E is a corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County

[13] In D.07-12-052 (at 150-151) the Commission directed the Energy Division to develop a "project application template through a public process." The RFO Template is the product of this process and, according the direction in D.07-12-052, SDG&E used the RFO Template as a means to present the testimony of its witnesses in support of this Application.

[14] In D.07-12-052 (at 141-142) the Commission directed the Energy Division to "develop a template for IEs to use when developing their reports." The IE Template is the product of this process and, according to the direction in D.07-12-052, SDG&E's IE used the IE Template in creating an IE report for this Application.

and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123.

2. Rule 2.1 (b) - Correspondence

Correspondence or communications regarding this Application should be addressed to:

Kari Kloberdanz
Regulatory Case Manager
San Diego Gas & Electric Company
8330 Century Park Court, CP32D
San Diego, California 92123
Telephone: (858) 637-7960
Facsimile: (858) 654-1788
KKloberdanz@semprautilities.com

with a copy to:

Paul A. Szymanski
Attorney for:
San Diego Gas & Electric Company
101 Ash Street, HQ-12
San Diego, CA 92101-3017
Telephone: (619) 699-5078
Facsimile: (619) 699-5027
PSzymanski@semprautilities.com

3. Rule 2.1 (c)

a. Proposed Category of Proceeding

In accordance with Rule 7.1, SDG&E requests that this Application be categorized as ratesetting. Because SDG&E proposes to recover its costs associated with the three PPTAs from its ratepayers, the costs will result in an increase of SDG&E's rates.

b. Need for Hearings

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provide the Commission with a sufficient record upon which to grant the relief requested. SDG&E, nevertheless, sets forth below a schedule that includes hearings, in the event hearings are deemed to be necessary.

c. Issues to be Considered

The issues to be considered are described in this Application and the accompanying testimony and exhibits.

d. Proposed Schedule

As noted above, SDG&E does not believe hearings will be necessary, but proposes alternate schedules to address either scenario:

PROPOSED SCHEDULE - NO HEARINGS	
ACTION	**DATE**
Application filed	May 19, 2011
Responses/Protests	June 20, 2011
Reply to Responses/Protests	July 8, 2011
Prehearing Conference (if necessary)	July 19, 2011
Scoping Memo Issued	July 28, 2011
Intervenor Testimony	August 29, 2011
Rebuttal Testimony	September 29, 2011
Concurrent Opening Briefs	October 21, 2011
Concurrent Reply Briefs	November 11, 2011
Proposed Decision	January 6, 2012
Comments on Proposed Decision	January 26, 2012
Reply Comments on Proposed Decision	January 31, 2012
Commission Decision Adopted	February 9, 2012 (or first meeting scheduled after February 9)

PROPOSED SCHEDULE – HEARINGS REQUIRED	
ACTION	**DATE**
Application filed	May 19, 2011
Responses/Protests	June 20, 2011
Reply to Responses/Protests	July 8, 2011
Prehearing Conference (if necessary)	July 19, 2011
Scoping Memo Issued	July 28, 2011
Intervenor Testimony	August 29, 2011
Rebuttal Testimony	September 29, 2011
Evidentiary Hearings	October 12-13, 2011
Concurrent Opening Briefs	November 4, 2011
Concurrent Reply Briefs	November 30, 2011
Proposed Decision	January 6, 2012
Comments on Proposed Decision	January 26, 2012
Reply Comments on Proposed Decision	January 31, 2012
Commission Decision Adopted	February 9, 2012 (or first meeting scheduled after February 9)

B. Rule 2.2 – Articles of Incorporation

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on August 31, 2009 in connection with SDG&E's Application No. 09-08-019, and is incorporated herein by reference.

C. Rule 3.2 (a) – (d) – Authority to Increase Rates[15/]

In accordance with Rule 3.2 (a) – (d) of the Commission's Rules of Practice and Procedure, SDG&E provides the following information.

1. Rule 3.2 (a) (1) – balance sheet

SDG&E's financial statement, balance sheet and income statement are included with this Application as Attachment A.

2. Rule 3.2 (a) (2) – statement of effective rates

A statement of all of SDG&E's presently effective electric rates can be viewed electronically by accessing www.sdge.com/regulatory/tariff/current_tariffs.shtml. Attachment B to this Application provides the table of contents from SDG&E's electric tariffs on file with the Commission.

3. Rule 3.2 (a) (3) – statement of proposed increases

Attached as Attachment C.

4. Rule 3.2 (a) (4) – description of property and equipment

A general description of SDG&E's property and equipment was filed with the Commission on October 5, 2001, in connection with Application 01-10-005, and is incorporated herein by reference. A statement of Original Cost and Depreciation Reserve is attached as Attachment D.

5. Rule 3.2 (a) (5) and (6) – summary of earnings

A summary of SDG&E's earnings (for the total utility operations for the company) for the twelve month period ending December 31, 2010, is included as Attachment E to this Application.

---

[15] Rule 3.2(a) (9) is not applicable to this Application.

6. Rule 3.2 (a) (7) – statement re tax depreciation

For financial statement purposes, depreciation of utility plant has been computed on a straight-line remaining life basis, at rates based on the estimated useful lives of plan properties. For federal income tax accrual purposes, SDG&E generally computes depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SDG&E has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, SDG&E has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, has normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

7. Rule 3.2 (a) (8) – proxy statement

A copy of SDG&E's most recent proxy statement, dated April 27, 2011, as sent to all shareholders of SDG&E's parent company, Sempra Energy, was provided to the Commission on May 4, 2011, and is incorporated herein by reference.

8. Rule 3.2 (a) (10) – statement re pass through to customers

Any increase in rates that may eventually be caused by approval of this Application will be a result of the passing through to customers of increased procurement costs incurred by SDG&E to provide electric service to customers as authorized by SDG&E's Energy Resource Recovery Account ("ERRA") tariff.

9. Rule 3.2 (b) – notice to state, cities and counties

In compliance with Rule 3.2 (b) of the Commission's Rules of Practice and Procedure, SDG&E will, within ten days after the filing this Application, mail a notice to the State of

California and to the cites and counties in its service territory and to all those persons listed in Attachment F to this Application.

10. Rule 3.2 (c) – newspaper publication

In compliance with Rule 3.2 (c) of the Commission's Rules of Practice and Procedure, SDG&E, within ten days after the filing of this Application, will post in its offices and publish in newspapers of general circulation in each county in its service territory notice of this Application.

11. Rule 3.2 (d) – bill insert notice

In compliance with Rule 3.2 (d) of the Commission's Rules of Practice and Procedure, SDG&E, within 45 days of the filing of this Application, will provide notice of this Application to all of its customers along with the regular bills sent to those customers that will generally describe the proposed revenue requirement changes addressed in this Application.

VI.
CONFIDENTIAL INFORMATION

SDG&E is submitting the Testimony supporting this Application in both public (redacted) and non-public (unredacted and confidential) form, consistent with SDG&E's declarations of confidential treatment attached to the Testimony of each witness and submitted in conformance with D.06-06-066 and D.08-04-023. In short, confidential treatment and redaction of such information is necessary in this proceeding to prevent improper disclosure of confidential, commercially-sensitive information (pertaining to SDG&E's electric procurement resources and strategies) that SDG&E witnesses must provide in support of this Application.

VII.
SERVICE

This is a new application. No service list has been established. Accordingly, SDG&E will serve the public versions of this Application, Testimony and related exhibits on parties to the service list for R.10-05-006 (Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans). Hard copies will be sent by overnight mail to the Assigned Commissioner and Assigned Administrative Law Judge ("ALJ") in R.10-05-006 and Chief ALJ Karen Clopton.

VIII.
CONCLUSION

WHEREFORE, SDG&E requests that the Commission grant SDG&E's Application as described herein.

Respectfully submitted this 19th day of May 2011.

Paul A. Szymanski
101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5078
Facsimile: (619) 699-5027
pszymanski@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

Matt Burkhart
Vice President – Electric & Fuel Procurement
SAN DIEGO GAS & ELECTRIC COMPANY

OFFICER VERIFICATION

I, Matt Burkhart, declare the following:

I am an officer of San Diego Gas & Electric Company and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER** are true to my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

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 19th day of May 2011, at San Diego, California.

Matt Burkhart
Vice President – Electric & Fuel Procurement
SAN DIEGO GAS & ELECTRIC COMPANY

ATTACHMENT A

SDG&E Balance Sheet, Income Statement & Financial Statement

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
DECEMBER 31, 2010

	1. UTILITY PLANT	2010
101	UTILITY PLANT IN SERVICE	$10,655,577,794
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	58,142,642
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	954,497,580
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(4,357,204,766)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(302,241,006)
118	OTHER UTILITY PLANT	729,265,545
119	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF OTHER UTILITY PLANT	(166,009,908)
120	NUCLEAR FUEL - NET	61,281,629
	TOTAL NET UTILITY PLANT	7,633,309,510

	2. OTHER PROPERTY AND INVESTMENTS	
121	NONUTILITY PROPERTY	5,165,500
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(558,109)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	-
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	768,933,513
	TOTAL OTHER PROPERTY AND INVESTMENTS	773,540,904

Data from SPL as of February 24, 2011

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
DECEMBER 31, 2010

3. CURRENT AND ACCRUED ASSETS

		2010
131	CASH	2,212,871
132	INTEREST SPECIAL DEPOSITS	-
134	OTHER SPECIAL DEPOSITS	110,425,637
135	WORKING FUNDS	500
136	TEMPORARY CASH INVESTMENTS	114,300,000
141	NOTES RECEIVABLE	-
142	CUSTOMER ACCOUNTS RECEIVABLE	191,566,866
143	OTHER ACCOUNTS RECEIVABLE	59,609,416
144	ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(3,110,760)
145	NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	2,131,144
146	ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	11,877,251
151	FUEL STOCK	5,406,334
152	FUEL STOCK EXPENSE UNDISTRIBUTED	-
154	PLANT MATERIALS AND OPERATING SUPPLIES	63,649,793
156	OTHER MATERIALS AND SUPPLIES	-
163	STORES EXPENSE UNDISTRIBUTED	-
164	GAS STORED	297,942
165	PREPAYMENTS	86,723,946
171	INTEREST AND DIVIDENDS RECEIVABLE	4,949,423
173	ACCRUED UTILITY REVENUES	59,227,000
174	MISCELLANEOUS CURRENT AND ACCRUED ASSETS	303,045,320
175	DERIVATIVE INSTRUMENT ASSETS	28,282,134
	TOTAL CURRENT AND ACCRUED ASSETS	1,040,594,817

4. DEFERRED DEBITS

181	UNAMORTIZED DEBT EXPENSE	29,788,406
182	UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	1,986,053,325
183	PRELIMINARY SURVEY & INVESTIGATION CHARGES	4,499,163
184	CLEARING ACCOUNTS	34,291
185	TEMPORARY FACILITIES	-
186	MISCELLANEOUS DEFERRED DEBITS	4,289,295
188	RESEARCH AND DEVELOPMENT	-
189	UNAMORTIZED LOSS ON REACQUIRED DEBT	23,015,183
190	ACCUMULATED DEFERRED INCOME TAXES	220,164,867
	TOTAL DEFERRED DEBITS	2,267,844,530
	TOTAL ASSETS AND OTHER DEBITS	11,715,289,761

Data from SPL as of February 24, 2011

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
DECEMBER 31, 2010

5. PROPRIETARY CAPITAL

		2010
201	COMMON STOCK ISSUED	($291,458,395)
204	PREFERRED STOCK ISSUED	(78,475,400)
207	PREMIUM ON CAPITAL STOCK	(592,222,753)
210	GAIN ON RETIRED CAPITAL STOCK	-
211	MISCELLANEOUS PAID-IN CAPITAL	(279,665,368)
214	CAPITAL STOCK EXPENSE	25,688,571
216	UNAPPROPRIATED RETAINED EARNINGS	(1,981,155,383)
219	ACCUMULATED OTHER COMPREHENSIVE INCOME	10,205,470
	TOTAL PROPRIETARY CAPITAL	(3,187,083,258)

6. LONG-TERM DEBT

221	BONDS	(2,686,905,000)
223	ADVANCES FROM ASSOCIATED COMPANIES	-
224	OTHER LONG-TERM DEBT	(253,720,000)
225	UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226	UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	9,377,433
	TOTAL LONG-TERM DEBT	(2,931,247,567)

7. OTHER NONCURRENT LIABILITIES

227	OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	(737,137,833)
228.2	ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	(47,751,904)
228.3	ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	(317,947,271)
228.4	ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230	ASSET RETIREMENT OBLIGATIONS	(621,510,132)
	TOTAL OTHER NONCURRENT LIABILITIES	(1,724,347,140)

Data from SPL as of February 24, 2011

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
DECEMBER 31, 2010

8. CURRENT AND ACCRUED LIABILITES

		2010
231	NOTES PAYABLE	-
232	ACCOUNTS PAYABLE	(327,706,374)
233	NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	(17,892,515)
235	CUSTOMER DEPOSITS	(54,158,079)
236	TAXES ACCRUED	(659,786)
237	INTEREST ACCRUED	(32,471,388)
238	DIVIDENDS DECLARED	(1,204,917)
241	TAX COLLECTIONS PAYABLE	(4,604,025)
242	MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	(802,100,589)
243	OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	(33,119,088)
244	DERIVATIVE INSTRUMENT LIABILITIES	(241,201,045)
245	DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
	TOTAL CURRENT AND ACCRUED LIABILITIES	(1,515,117,806)

9. DEFERRED CREDITS

252	CUSTOMER ADVANCES FOR CONSTRUCTION	(15,635,263)
253	OTHER DEFERRED CREDITS	(247,811,223)
254	OTHER REGULATORY LIABILITIES	(988,180,186)
255	ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	(25,025,645)
257	UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281	ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	(5,201,256)
282	ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	(947,283,887)
283	ACCUMULATED DEFERRED INCOME TAXES - OTHER	(128,356,530)
	TOTAL DEFERRED CREDITS	(2,357,493,990)
	TOTAL LIABILITIES AND OTHER CREDITS	($11,715,289,761)

Data from SPL as of February 24, 2011

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
TWELEVE MONTHS ENDED DECEMBER 31, 2010

1. UTILITY OPERATING INCOME

400	OPERATING REVENUES		$3,188,273,473
401	OPERATING EXPENSES	$1,970,494,792	
402	MAINTENANCE EXPENSES	161,415,514	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	355,535,413	
408.1	TAXES OTHER THAN INCOME TAXES	76,235,960	
409.1	INCOME TAXES	131,238,723	
410.1	PROVISION FOR DEFERRED INCOME TAXES	340,584,109	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(294,415,622)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(1,239,882)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT		
	TOTAL OPERATING REVENUE DEDUCTIONS		2,739,849,007
	NET OPERATING INCOME		448,424,466

2. OTHER INCOME AND DEDUCTIONS

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(63,472)	
418	NONOPERATING RENTAL INCOME	444,725	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	3,623,576	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	43,230,379	
421	MISCELLANEOUS NONOPERATING INCOME	867,654	
421.1	GAIN ON DISPOSITION OF PROPERTY	-	
	TOTAL OTHER INCOME	48,102,862	
421.2	LOSS ON DISPOSITION OF PROPERTY	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	411,748	
	TOTAL OTHER INCOME DEDUCTIONS	411,748	
408.2	TAXES OTHER THAN INCOME TAXES	434,014	
409.2	INCOME TAXES	(9,594,282)	
410.2	PROVISION FOR DEFERRED INCOME TAXES	8,070,975	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(669,017)	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	(1,758,310)	
	TOTAL OTHER INCOME AND DEDUCTIONS		49,449,424
	INCOME BEFORE INTEREST CHARGES		497,873,890
	NET INTEREST CHARGES*		123,729,105
	NET INCOME		$374,144,785

**NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION, (10,071,740)*

Data from SPL as of February 24, 2011

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
TWELEVE MONTHS ENDED DECEMBER 31, 2010

3. RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	$1,611,830,266
NET INCOME (FROM PRECEDING PAGE)	374,144,785
DIVIDEND TO PARENT COMPANY	-
DIVIDENDS DECLARED - PREFERRED STOCK	(4,819,668)
OTHER RETAINED EARNINGS ADJUSTMENTS	
RETAINED EARNINGS AT END OF PERIOD	$1,981,155,383

SAN DIEGO GAS & ELECTRIC COMPANY
FINANCIAL STATEMENT
DECEMBER 31, 2010

(a) Amounts and Kinds of Stock Authorized:

Preferred Stock	1,375,000	shares	Par Value $27,500,000
Preferred Stock	10,000,000	shares	Without Par Value
Preferred Stock	Amount of shares not specified		$80,000,000
Common Stock	255,000,000	shares	Without Par Value

Amounts and Kinds of Stock Outstanding:

PREFERRED STOCK			
5.0%	375,000	shares	$7,500,000
4.50%	300,000	shares	6,000,000
4.40%	325,000	shares	6,500,000
4.60%	373,770	shares	7,475,400
$1.70	1,400,000	shares	35,000,000
$1.82	640,000	shares	16,000,000
COMMON STOCK	116,583,358	shares	291,458,395

(b) Terms of Preferred Stock:
Full information as to this item is given in connection with Application Nos. 93-09-069, 04-01-009, 06-05-015 and 10-10-023 to which references are hereby made.

(c) Brief Description of Mortgage:
Full information as to this item is given in Application Nos. 08-07-029 and 10-10-023 to which references are hereby made.

(d) Number and Amount of Bonds Authorized and Issued:

First Mortgage Bonds:	Nominal Date of Issue	Par Value Authorized and Issued	Outstanding	Interest Paid in 2010
6.8% Series KK, due 2015	12-01-91	14,400,000	14,400,000	979,200
Var% Series OO, due 2027	12-01-92	250,000,000	150,000,000	7,612,500
5.85% Series RR, due 2021	06-29-93	60,000,000	60,000,000	3,510,000
2.539% Series VV, due 2034	06-17-04	43,615,000	43,615,000	2,562,368
2.539% Series WW, due 2034	06-17-04	40,000,000	40,000,000	2,349,987
2.516% Series XX, due 2034	06-17-04	35,000,000	35,000,000	2,056,239
2.832% Series YY, due 2034	06-17-04	24,000,000	24,000,000	1,409,993
2.832% Series ZZ, due 2034	06-17-04	33,650,000	33,650,000	1,976,927
2.8275% Series AAA, due 2039	06-17-04	75,000,000	75,000,000	179,199
5.35% Series BBB, due 2035	05-19-05	250,000,000	250,000,000	13,375,000
5.30% Series CCC, due 2015	11-17-05	250,000,000	250,000,000	13,250,000
6.00% Series DDD. due 2026	06-08-06	250,000,000	250,000,000	15,000,000
Var Series EEE, due 2018	09-21-06	161,240,000	161,240,000	382,603
6.125% Series FFF, due 2037	09-20-07	250,000,000	250,000,000	15,312,500
6.00% Series GGG, due 2039	05-14-09	300,000,000	300,000,000	18,000,000
5.35% Series HHH, due 2040	05-13-10	250,000,000	250,000,000	6,761,806
4.50% Series III, due 2040	08-15-10	500,000,000	500,000,000	0
Unsecured Bonds:				
5.9% CPCFA96A, due 2014	06-01-96	129,820,000	129,820,000	7,659,380
5.3% CV96A, due 2021	08-02-96	38,900,000	38,900,000	2,061,700
5.5% CV96B, due 2021	11-21-96	60,000,000	60,000,000	3,300,000
4.9% CV97A, due 2023	10-31-97	25,000,000	25,000,000	1,225,000

SAN DIEGO GAS & ELECTRIC COMPANY
FINANCIAL STATEMENT
DECTEMBER 31, 2010

Other Indebtedness:	Date of Issue	Date of Maturity	Interest Rate	Outstanding
Commercial Paper & ST Bank Loans	Various	Various	Various	0

Amounts and Rates of Dividends Declared:
The amounts and rates of dividends during the past five fiscal years are as follows:

Preferred Stock	Shares Outstanding 12-31-10	Dividends Declared 2006	2007	2008	2009	2010
5.0%	375,000	$375,000	$375,000	$375,000	$375,000	$375,000
4.50%	300,000	270,000	270,000	270,000	270,000	270,000
4.40%	325,000	286,000	286,000	286,000	286,000	286,000
4.60%	373,770	343,868	343,868	343,868	343,868	343,868
$ 1.7625	0	1,145,625	969,375	242,344	0	0
$ 1.70	1,400,000	2,380,000	2,380,000	2,380,000	2,380,000	2,380,000
$ 1.82	640,000	1,164,800	1,164,800	1,164,800	1,164,800	1,164,800
	3,413,770	$5,965,293	$5,789,043	$5,062,012 [2]	$4,819,668	$4,819,668
Common Stock						
Amount		$0	$0	$0	$150,000,000 [1]	$0

A balance sheet and a statement of income and retained earnings of Applicant for the twelve months ended December 31, 2010, are attached hereto.

[1] San Diego Gas & Electric Company dividend to parent.
[2] Includes $242,344 of interest expense related to redeemable preferred stock.

ATTACHMENT B

SDG&E Statement of Currently Effective Rates

TABLE OF CONTENTS

The following sheets contain all the effective rates and rules affecting rates, service and information relating thereto, in effect on the date indicated herein.

	Cal. P.U.C. Sheet No	
TITLE PAGE.....	16015-E	
TABLE OF CONTENTS.....	22226, 21847, 22058, 22207, 22208, 22009, 22134-E	T
	21940, 22227, 21884, 21855, 21527, 19529-E	T
PRELIMINARY STATEMENT:		
I. General Information….....	8274, 18225, 22140-E	
II. Balancing Accounts		
Description/Listing of Accounts	19402, 20706-E	
California Alternate Rates for Energy (CARE) Balancing Account……	21639, 21640-E	
Rewards and Penalties Balancing Account (RPBA)…….	21643, 21857-E	
Transition Cost Balancing Account (TCBA)……...	19410, 19411, 19412, 19413, 19414-E	
Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA)……	19415, 19416-E	
Research, Development and Demonstration (RD&D) Balancing Account……..	19417, 19418-E	
Renewables Balancing Account (RBA)……	19419, 19420-E	
Tree Trimming Balancing Account (TTBA)……..	19421, 19422-E	
Baseline Balancing Account (BBA)……	21377, 19424-E	
El Paso Turned-Back Capacity Balancing Account (EPTCBA)……	19425-E	
Energy Resource Recovery Account (ERRA)……	21606, 21932, 21933, 19429, 19430-E	
Low-Income Energy Efficiency Balancing Account (LIEEBA)……	19431, 19432-E	
Non-Fuel Generation Balancing Account (NGBA)……	21484, 22081, 22082, 21487-E	
Electric Procurement Energy Efficiency Balancing Account (EPEEBA)…….	19438-E	
Common Area Balancing Account (CABA)……	19439-E	
Nuclear Decommissioning Adjustment Mechanism (NDAM)……	19440-E	
Pension Balancing Account (PBA)……..	19441, 19442-E	
Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)……	19443, 19444-E	
Community Choice Aggregation Implementation Balancing Account (CCAIBA)……...	19445-E	

(Continued)

TABLE OF CONTENTS

II. Balancing Accounts (Continued)

Electric Distribution Fixed Cost Account (EDFCA)…….	20731, 21115, 2116-E
Rate Design Settlement Component Account (RDSCA)	19448-E
California Solar Initiative Balancing Account (CSIBA)……	21843, 21844, 21845-E
SONGS O&M Balancing Account (SONGSBA)……..……	21130-E
Solar Energy Project Balancing Account (SEPBA)	22078-E N

III. Memorandum Accounts

Description/Listing of Accounts	19451, 21399-E
Catastrophic Event Memorandum Account (CEMA)…….	19453, 19454, 19455-E
Generation Divestiture Transaction Costs Memorandum Account (GDTCMA)……	19458-E
Streamlining Residual Account (SRA)……	20137, 20138-E
Nuclear Claims Memorandum Account (NCMA)…….....	19465-E
Electric Meter Pilot Memorandum Account (EMPMA)……..	19467-E
Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA)……...	19469, 19470, 19471-E
Real-Time Energy Metering Memorandum Account (RTEMMA)..	19472-E
Net Energy Metering Memorandum Account (NEMMA)…….	19473-E
Residential Demand Responsiveness Program Memorandum Account (RDRPMA)……..	19475, 19476-E
Self-Generation Program Memorandum Account (SGPMA)……	19530, 19531-E
Bond Payment Memorandum Account (BPMA)…….	19481-E
Direct Access Cost Responsibility Surcharge Memorandum Account (DACRSMA)……..	19576, 19577, 19578-E
Electric Energy Transaction Administration Memorandum Account (EETAMA)…….	19484-E
Advanced Metering and Demand Response Memorandum Account (AMDRMA)……	19673, 20873, 20874, 21256, 20875-E
Distributed Generation Implementation Cost Memorandum Account (DGICMA)…….	19490-E
Annual Earnings Assessment Proceeding Memorandum Account (AEAPMA)……	19491-E
Procurement Transaction Auditing Memorandum Account (PTAMA)…….....	19492-E
Reliability Costs Memorandum Account (RCMA)……...	19493-E

(Continued)

TABLE OF CONTENTS

III. Memorandum Accounts (Continued)

Litigation Cost Memorandum Account (LCMA)……. 19494-E

Community Choice Aggregation Surcharge Memorandum Account (CCASMA)…….. 19988-E

Advanced Metering Infrastructure Memorandum Account (AMIMA)…… 19496-E

Interim Call Center Memorandum Account (ICCMA)…... 19497-E

Independent Evaluator Memorandum Account (IEMA)…….. 19498-E

Renewables Portfolio Standard Memorandum Account (RPSMA)…… 19686-E

Market Redesign Technology Upgrade Memorandum…….. Account (MRTUMA)…… 19972-E

Gain/Loss On Sale Memorandum Account (GLOSMA)…… 20157-E

Non-Residential Submetering Memorandum Account (NRSMA) 20474-E

Long Term Procurement Plan Technical Assistance Memorandum Account (LTAMA)……. 20640-E

Fire Hazard Prevention Memorandum Account (FHPMA)…… 21344, 21345-E

Wildfire Expense Memorandum Account (WEMA)…… 21959-E

Dynamic Pricing Memorandum Account (DPMA) …… 22248-E T

Smart Grid Memorandum Account (SGMA)…….. 21478-E

Disconnect Memorandum Account (DMA)…… 22210-E

IV. Electric Distribution and Gas Performance 20736, 21378, 20738, 20739, 20740, 20741, 20742-E
Based Ratemaking (PBR) Mechanism…….. 20743, 20744, 20745, 20746-E

V. SONGS 2&3 Procedures..... 17006, 17007-E

VI. Miscellaneous

Listing of Accounts 20158-E

Income Tax Component of Contributions and Advances Provision (ITCCAP)…… 22136, 19501, 19502-E

Hazardous Substance Cleanup Cost Account (HSCCA) 19503, 19504, 21291, 19506, 19507, 19508-E
19509, 19510, 19511, 19512, 19513-E

Competition Transition Charge Responsibility (CTCR) 19514-E

Public Purpose Programs Adjustment Mechanism (PPPAM) 20610, 19516-E

Gain/Loss On Sale Mechanism (GLOSM) 20159, 20160, 20161,20162, 20163-E

VII. Cost of Capital Mechanism (CCM)…..... 20697-E

INDEX OF RATE AREA MAPS

Map 1 - Territory Served.....…. 15228-E

Map 1-A - Territory Served.....… 4916-E

Map 1-B - Territory Served.....… 7295-E

Map 1-C - Territory Served.....… 9135-E

Map 1-D - Territory Served.....… 9136-E

(Continued)

TABLE OF CONTENTS

SCHEDULE OF RATES

SCHEDULE NUMBER	SERVICE	CAL. P.U.C. SHEET NO.	
	Residential Rates		
DR	Domestic Service	22251, 22142, 19944, 21402-E	T
DR-TOU	Domestic Time-of-Use Service	22252, 22253, 21535, 21536, 21537-E	T
DR-SES	Domestic Households with a Solar Energy System	22254, 22146, 21539, 20482-E	T
E-CARE	California Alternate Rates for Energy	22147, 21859, 19372, 19373, 19374-E	T
DM	Multi-Family Service	22255, 22062, 21409, 21410, 19706-E	T
DS	Submetered Multi-Family Service	22256, 22150, 13674, 21412, 21413-E 18237, 19707-E	T
DT	Submetered Multi-Family Service Mobilehome Park	22257, 22152, 14020, 21415, 18312-E 21416, 18239, 14897-E	T
DT-RV	Submetered Service – Recreational Vehicle Parks and Residential Marinas	22258, 22154, 13686, 21418, 21419-E 19708, 14900-E	T
DR-TOU-DER	Domestic Time-of Use Service – Distributed Energy	22259, 22260, 21551, 21552, 21553-E	T
EV-TOU	Domestic Time-of-Use for Electric Vehicle Charging	22261, 19929, 21424-E	T
EV-TOU-2	Domestic Time-of-Use for Households With Electric Vehicles	22262, 19930, 18242, 21426-E	T
EV-TOU-3	Domestic Time-of-Use for Electric Vehicle Charging with a Dual Meter Adapter	22263, 19931, 12545, 21428-E	T
DE	Domestic Service to Utility Employee	10777.1-E	
FERA	Family Electric Rate Assistance	21860, 19713-E	
EPEV-L	Experimental Electric Plug-In Vehicle Rate – Low Ratio	22264, 22116, 22117-E	T
EPEV-M	Experimental Electric Plug-In Vehicle Rate – Med Ratio	22267, 22119, 22120-E	T
EPEV-H	Experimental Electric Plug-In Vehicle Rate – High Ratio	22269, 22122, 22123-E	T
	Commercial/Industrial Rates		
A	General Service	22265, 20496, 21429, 19985-E	T
A-TC	Traffic Control Service	22266, 20498, 21430-E	T
AD	General Service - Demand Metered	22268, 20500, 21431-E	T
A-TOU	General Service - Small - Time Metered	22270, 20502, 20503, 21433-E	T
AL-TOU	General Service - Time Metered	20825, 22271, 22272, 20507, 20508-E 21434, 20509-E	T
AL-TOU-DER	General Service – Time Metered Distributed Energy Resources	21800, 22273, 22274, 20513, 20514-E 21435, 16974, 18937-E	T
AY-TOU	General Service – Time Metered – Optional	22275, 22276, 20518, 21436-E	T
A6-TOU	General Service - Time Metered	22277, 22278, 19936, 20521, 21437-E	T
DG-R	Distributed Generation Renewable – Time Metered	21438, 22279, 22280, 20525, 20977, 20978-E, 20979-E	T

(Continued)

TABLE OF CONTENTS

SCHEDULE NO.	SERVICE	CAL. P.U.C. SHEET NO.	
	Lighting Rates		
LS-1	Lighting - Street and Highway – Utility-Owned Installations	22281, 22282, 22283, 12626, 12627, 12628-E 21439-E	T
LS-2	Lighting - Street and Highway – Customer-Owned Installations	22284, 22285, 22286, 21253, 12634, 21440-E	T
LS-3	Lighting - Street and Highway - Customer-Owned Installations	22287, 14943, 21441-E	T
OL-1	Outdoor Area Lighting Service	22288, 20280, 21442-E	T
OL-2	Outdoor Area Lighting Service Metered – Customer-Owned Installation	22289, 21444, 21445-E	T
OL-TOU	Outdoor Lighting – Time Metered	22290, 21447, 21448, 21449-E	T
DWL	Residential Walkway Lighting	22291, 21450-E	T
	Miscellaneous		
PA	Power – Agricultural	22292, 20539, 21451-E	T
PA-T-1	Power – Agricultural – Optional Time-of-Use	22189, 22293, 20542, 20543, 21385, 21452-E	T
S	Standby Service	22294, 18256, 21453-E	T
S-I	Standby Service – Interruptible	17678, 6085, 6317-E	
SE	Service Establishment Charge	18651, 11594-E	
DA	Transportation of Electric Power for Direct Access Customers	17679, 14953, 14954, 21894, 15111, 16976-E 21454, 21895-E	
NDA	UDC Meter Services for Non-Direct Access Customers	17892, 11850, 11851, 21455, 16427-E	
E-Depart	Departing Load Nonbypassable ND & PPP Charges.	18385-E, 18386-E	
BIP	Base Interruptible Program	21944, 21945, 20315, 20545-E	
OBMC	Optional Binding Mandatory Curtailment Plan	14625, 15198, 14627, 21948, 21949 21950-E 21951-E	
SLRP	Scheduled Load Reduction Program	14584, 14675, 15203, 14587, 18367-E	
RBRP	Rolling Blackout Reduction Program	18259, 18260, 20546, 18262-E	
DBP	Demand Bidding Program	19833, 19834, 19835, 19836, 19162-E	
NEM	Net Energy Metering	21362, 21363, 21364, 21613, 21366, 21614-E 21615, 21616, 21617-E	
NEM-BIO	Net Energy Metering Service for Biogas Customer-Generators	20448, 20449, 20450, 20451, 20452, 20453E	
NEM-FC	Net Energy Metering for Fuel Cell Customer-Generators	21610,20455,20456,20457, 20458-E	
E-PUC	Surcharge to Fund Public Utilities Commission Reimbursement Fee	15214-E	
DWR-BC	Department of Water Resources Bond Charge	22110-E	
DA-CRS	Direct Access Cost Responsibility Surcharge	21812, 21813, 21814, 21815-E	
CGDL-CRS	Customer Generation Departing Load Cost Responsibility Surcharge	19581, 19582, 18583, 18584, 18391-E	
CCA	Transportation of Electric Power, For Community Choice Aggregation Customers	17894, 17895, 17896, 17897-E	
CCA-CRS	Community Choice Aggregation Cost Responsibility Surcharge	21816, 21817-E	
CCA-INFO	Information Release to Community Choice Providers	17857, 17858, 17859, 17860-E	
CBP	Capacity Bidding Program	21952, 21178, 21953, 19649, 21954, 21955-E 21179, 21180,21181, 21956, 19656,19657-E	
UM	Unmetered Electric Service	22295,19337,19338-E	T

(Continued)

TABLE OF CONTENTS

SCHEDULE OF RATES

SCHEDULE NUMBER	SERVICE	CAL. P.U.C. SHEET NO
	Miscellaneous	
WATER	Water Agency Tariff for Eligible Renewables……..	20287,19337,19338-E 20429,20430-E
PTR	Peak Time Rebate ……..	20550, 20551, 20552, 20553-E
CRE	Customer Renewable Energy……	20882, 20883-E
VNM-A	Virtual Net Metering for Multi-Family Affordable Housing……..	21143, 21144, 21618, 21619-E
PLP	Participating Load Pilot……	21257, 21258, 21259, 21260, 21261-E 21262, 21263, 21264-E
ECO	Energy Credit Option……	21280, 21281, 21282, 21283-E
SPSS	Station Power Self Supply……	21625, 21626, 21627, 21628-E
DRWMP	Demand Response Wholesale Market Pilot……	22031, 22032, 22033, 22034, 22035-E 22036, 22037, 22038, 22039, 22040-E
CHP	Combined Heat and Power……	21934, 21935-E
	Commodity Rates	
EECC	Electric Energy Commodity Cost	22193, 22296,22195 22196, 22197-E 22198, 22199, 22200, 22201, 20563-E 20564,20565-E T
EECC-TBS	Electric Energy Commodity Cost – Transitional Bundled Service……	19748, 19749, 16432, 19750-E
EECC-CPP-E	Electric Energy Commodity Cost – Critical Peak Pricing Emergency……	22202, 22203, 21007, 20575, 20576-E
EECC-CPP-D	Electric Energy Commodity Cost – Critical Peak Pricing Default	22204, 22205, 20579, 20580, 20581-E 20582, 20583-E
LIST OF CONTRACTS AND DEVIATIONS.....		14296, 5488, 5489, 6205, 6206, 5492-E 16311, 6439, 5495, 6208, 6209, 8845-E 6109, 5902, 5750, 8808, 8809, 6011-E 8001, 8891, 22019, 22216-E

(Continued)

TABLE OF CONTENTS

RULES

RULE NO.	SERVICE	CAL. P.U.C. SHEET NO.
1	Definitions	19043, 19044, 21386, 20288, 18867, 17687, 14852, 15188-E 14854, 18972, 21239, 18268, 20289, 18270-E
2	Description of Service	15591, 15592, 15593, 15594, 15595, 15596, 15597, 15598-E 15599, 15600, 15601, 15602, 15603,20415-E
3	Applications for Service	15484, 15485-E
4	Contracts	15488, 15489, 15490-E
5	Special Information Available for Customers	14157, 11452, 5925, 8797, 6499-E
6	Establishment & Re-establishment of Credit	15481, 22128-E
7	Deposits	22211, 6652-E
8	Notices	17405-E
9	Rendering and Payment of Bills	15695, 9112, 16598, 13231, 16599, 16094, 18981, 19975, 19047-E
10	Disputed Bills	19048-E
11	Discontinuance of Service	22212, 19691, 19692, 19693, 19694, 19695, 19696, 19697-E
12	Rates and Optional Rates	15765-E
13	Temporary Service	19049-E
14	Shortage of Electric Supply/Interruption of Delivery	4794-E
15	Distribution Line Extensions	19050, 11221, 11222, 22237, 13202, 13203, 20417, 12777-E T 17074, 17075, 17076, 22238, 22239, 20420-E T
16	Service Extensions	11233, 13237, 10501, 11235, 11236, 13238-E 11238, 11239, 11240, 19051, 11242, 11243-E, 11244, 11245-E
18	Meter Tests and Adjustment of Bills	16585, 22130, 22131-E
19	Supply to Separate Premises and Resale	18457, 18458,, 20925, 20926-E
20	Replacement of Overhead With Underground Electric Facilities	15504, 15505, 15506, 15507, 15508-E
21	Interconnection Standards for Non-Utility Owned Generation	17275, 17276, 17277, 17278, 19597, 19598, 19599, 17282-E 17283, 17284, 17285, 17286, 17287, 17288, 19108, 19109-E 17291, 19600, 19111, 19112, 19113, 19114, 19115, 19116-E 17299, 17300, 17301, 19601, 17303, 17304, 17305, 17306-E 17307, 18699, 17309, 17310, 17311, 17312, 17313, 17314-E 17315, 17316, 17317, 17318, 17319, 17320, 17321, 17322 & 23-E
21.1	Final Standard Offer 4 Qualifying Facilities	7966 to 7986, 7989-E
22	Special Service Charges	8713, 8714-E
23	Competition Transition Charge Responsibility	19052, 15189, 15190, 15191, 15192, 15123, 10623, 10624-E 10625, 12720, 12721, 12722, 12723, 12724-E
25	Direct Access Rules	10526, 21668, 21669, 21670-21675, 21676, 21677, 21678-E 21679, 21680, 21681, 21682-21693,10915, 20294, 20295-E 10918-10920, 20296, 10922-10924, 20297, 20298, 10927-11930-E
25.1	Switching Exemptions	21694, 21695, 21696, 21697, 21698, 21699, 21700, 21701-E 21702, 21703, 21704-E
25.2	Direct Access Service for Qualified Nonprofit Charitable Organizations	19818-E
27	Community Choice Aggregation	19763-19770, 20299, 21898, 19773-76, 21899, 21900, 21901 19780-91, 20300, 19793-98-E
27.2	Community Choice Aggregation Open Season	19091, 19092, 20466, 20467-E
28	Provision of Utility Right-of-Way Information.	14167, 14168, 14169, 14170, 14171-E
29	Third-Party Marketers for BIP	19190, 19191, 19192, 19848, 19194, 19195, 19196, 19197-E
31	Participating Load Pilot	21265, 21266, 21267, 21268, 21269, 21270-E
31.1	Demand Response Wholesale Market Pilot	22041, 22042, 22043, 22044, 22045, 22046-E
40	On-Bill Financing Program	20937-E
41	Demand Response Multiple Program Participation	21501,21502, 21503, 21504, 21505, 21506-E

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date	Applications, Agreements & Contracts	Cal. P.U.C. Sheet No.
101-663A	10-68	Agreement - Bills/Deposits	2497-E
101-4152G	6-69	Sign Up Notice for Service	1768-E
106-1202	6-96	Contract for Special Facilities	9118-E
106-1502C	5-71	Contract for Agricultural Power Service	1919-E
106-1959A	5-71	Absolving Service Agreement,_____ Service from Temporary Facilities	1921-E
106-2759L	4-91	Agreement for Replacement of Overhead with Underground Facilities	7063-E
106-3559	- - -	Assessment District Agreement	6162-E
106-3559/1	- - -	Assessment District Agreement	6202-E
106-3859	01-01	Request for Service at Secondary/Primary Substation Level Rates	14102-E
106-3959	6-96	Contract for Special Facilities Refund	9120-E
106-4059	6-96	Contract for Buyout Special Facilities	9121-E
106-5140A	10-72	Agreement for _____ Service	2573-E
106-15140	5-71	Agreement for Temporary Service	1920-E
106-36140	11-73	Agreement for Street Lighting - Schedule LS-1	2575-E
106-37140	11-73	Agreement for Street Lighting - Schedule LS2-A	2576-E
106-38140	11-73	Agreement for Street Lighting - Schedule LS2-B	2577-E
106-13140	6-95	General Street Lighting Contract	8785-E
106-14140A	1-79	Street Lighting Contract, Supplement	3593-E
106-2059A	6-69	Contract for Outdoor Area Lighting Service	1773-E
106-23140	9-72	Contract for Residential Walkway Lighting Service	2581-E
106-35140E	11-85	Underground Electric General Conditions	5547-E
106-43140	11-85	Overhead Line Extension General Conditions	5548-E
106-44140	1-08	Agreement for Extension and Construction of _____	20421-E T T
65502	5-04	Statement Of Applicant's Contract Anticipated Cost For Applicant Installation Project	17139-E
107-00559	3-98	Proposal to Purchase and Agreement for Transfer of Ownership of Distribution Systems	11076-E
117-2159B	- - -	Standard Offer for Power Purchase and Interconnection - Qualifying Facilities Under 100 Kw	5113-E
117-2160	8-06	Generating Facility Interconnection Agreement (NEM/Non-NEM Generating Facility Export)	19602-E
117-2259	8-95	Electronic Data Interchange (EDI) and Funds Transfer Agreement	8802-E
118-159	7-91	Group Load Curtailment Demonstration Program - Curtailment Agreement	7153-E
118-00228	7-98	Agreement for Illuminated Transit Shelters	11455-E

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date	Applications, Agreements & Contracts	Sheet No.	
118-459	07-91	Group Load Curtailment Demonstration Program - Peak Capacity Agreement	7154-E	
118-228	01-11	Operating Entity Agreement for Illuminated Transit Shelters	22224-E	T
118-1228	01-11	Agreement for Illuminated Transit Shelters	22225-E	T
124-363	- - -	Declaration of Eligibility for Lifeline Rates	2857-E	
124-463	07-07	Continuity of Service Agreement	20126-E	
124-463/1	07-07	Continuity of Service Agreement Change Request	20127-E	
124-1000	09-07	Community Choice Aggregator (CCA) Service Agreement	20301-E	
124-1010	11-06	Community Choice Aggregator Non-Disclosure Agreement	19804-E	
124-1020	02-05	Declaration by Mayor or Chief County Administrator Regarding Investigation, Pursuit or Implementation of Community Choice Aggregation	17862-E	
124-5152F	08-73	Application for Gas/Electric Service	2496-E	
132-150	07-02	Medical Baseline Allowance Application	15554-E	
132-150/1	07-02	Medical Baseline Allowance Self-Certification	15555-E	
132-01199	02-99	Historical Energy Usage Information Release (English)	11886-E	
132-01199/1	02-99	Historical Energy Usage Information Release (Spanish)	11887-E	
132-1259C	06-74	Contract for Special Electric Facilities	2580-E	
- - - - - - - -		Contract for Electric Service - Agua Caliente – Canebrake	1233-E	
132-2059C		Resident's Air Conditioner Cycling Agreement	4677-E	
132-6263	06-07	On-Bill Financing Loan Agreement	21100-E	
132-6263/1	06-07	On-Bill Financing Loan Agreement for Self Installers	21101-E	
132-20101	12-10	Affidavit for Small Business Customer	22132-E	
135-00061	12-00	Voluntary Rate Stabilization Program Contract for Fixed Price Electric Energy with True-up	14001-E	
135-559	07-87	Power Line Analysis and/or Engineering Study Agreement	5978-E	
135-659	10-92	Annual Certification Form - Master Metered Accounts	7542-E	
139-0001	02-07	Energy Payment Deferral Plan for Citrus & Agricultural Growers	19981-E	
142-00012	02-03	Scheduled Load Reduction Program Contract	16102-E	
142-140	08-93	Request for Service on Schedule LR	7912-E	
142-259	07-87	Contract for Service, Schedule S-I (Standby Service - Interruptible)	5975-E	
142-359A	07-87	Contract for Service, Schedule S (Standby Service)	5974-E	
142-459		Agreement for Standby Service	6507-E	
142-732	05-08	Application and Statement of Eligibility for the California Alternate Rates for Energy (CARE) Program	21861-E	
142-732/1	05-08	Residential Rate Assistance Application (IVR/System-Gen)	21862-E	
142-732/2	05-08	Sub-metered Household Application and Statement of Eligibility for California Alternate Rates for Energy (CARE) Program	21863-E	
142-732/3	05-08	CARE Program Recertification Application & Statement of Eligibility	21864-E	
142-732/4	05-08	CARE/FERA Program Renewal – Application & Statement of Eligibility for Sub-metered Customers	21865-E	
142-732/5	05-08	CARE Post Enrollment Verification	21866-E	
142-732/6	05-08	Residential Rate Assistance Application (Vietnamese)	21867-E	
142-732/8	05-08	Residential Rate Assistance Application (Direct Mail)	21868-E	
142-732/10	05-08	Residential Rate Assistance Application (Mandarin Chinese)	21869-E	
142-732/11	05-08	Residential Rate Assistance Application (Arabic)	21870-E	
142-732/12	05-08	Residential Rate Assistance Application (Armenian)	21871-E	
142-732/13	05-08	Residential Rate Assistance Application (Farsi)	21872-E	
142-732/14	05-08	Residential Rate Assistance Application (Hmong)	21873-E	
142-732/15	05-08	Residential Rate Assistance Application (Khmer)	21874-E	
142-00832	05-08	Application for CARE Program for Qualified Nonprofit Group Living Facilities	21879-E	

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date	Applications, Agreements & Contracts	Cal. P.U.C. Sheet No.
142-732/16	08-08	Residential Rate Assistance Application (Korean)……	21875-E
142-732/17	08-08	Residential Rate Assistance Application (Russian)……	21876-E
142-732/18	08-08	Residential Rate Assistance Application (Tagalog)……	21877-E
142-732/19	08-08	Residential Rate Assistance Application (Thai)……..	21878-E
142-859	03-94	Request for Service on Schedule NJ - New Job Incentive Rate Service…….	8100-E
142-959	06-96	Standard Form Contract for Service New Job Incentive Rate Service……	9129-E
142-1059	06-96	Standard Form Contract for Service New Job Connection Credit……	9130-E
142-1159	03-94	Standard Form Contract - Use of Rule 20A Conversion Funds to Fund New Job Connection Credit.....	8103-E
142-1359	05-95	Request for Contract Minimum Demand.....	8716-E
142-1459	05-95	Agreement for Contact Closure Service.....	8717-E
142-1559	05-95	Request for Conjunctive Billing.....	8718-E
142-1659	05-95	Standard Form Contract - Credits for Reductions in Overhead to Underground Conversion Funding Levels.....	8719-E
142-01959	01-01	Consent Agreement……	14172-E
142-02559	01-98	Contract to Permit the Billing of a Customer on Schedule AV-1 Prior to Installation of all Metering and Equipment Required to Provide a Contract Closure in Compliance With Special Condition 12 of Schedule AV-1.....	11023-E
142-02760	09-09	Interconnection Agreement for Net Energy Metering Solar or Wind Electric Generating Facilities for Other than Residential or Small Commercial of 10 Kilowatts or Less…..	21371-E
142-02760.5	02-09	Interconnection Agreement for Virtual Net Metering (VNM) Photovoltaic Electric Generating Facilities……	21147-E
142-02761	10-03	Biogas Digester Generating Facility Net Energy Metering and Interconnection Agreement……..	16697-E
142-02762	11-05	Fuel Cell Generating Facility Net Energy Metering and Interconnection Agreement…….	18679-E
142-02763	12-10	NEM/VNM-A Inspection Report……	22105-E N
142-02765	09-09	NEM Application & Interconnection Agreement for Customers with Solar and/or Wind Electric Generating Facilities of 30 kW or Less……	21372-E
142-02768	02-09	Photovoltaic Generation Allocation Request Form……	21148-E
142-3201	- - -	Residential Hotel Application for Residential Rates.....	5380-E
142-3242		Agreement for Exemption from Income Tax Component on Contributions and Refundable Advances.....	6041-E
142-4032	05-08	Application for California Alternate Rates for Energy (CARE) Program for Qualified Agricultural Employee Housing Facilities.....	21880-E
142-4035	06-05	Application for California Alternate Rates for Energy (CARE) Program for Migrant Farm Worker Housing Centers…….	18415-E
142-05202	01-01	Generating Facility Interconnection Application Agreement….	14152-E
142-05203	09-09	Generating Facility Interconnection Application……	21373-E
142-05205	07-02	Optional Binding Mandatory Curtailment Plan Contract……..	17729-E
142-05207	04-06	Base Interruptible Program Contract……	19198-E
142-05209	04-01	No Insurance Declaration…….	15476-E
142-05210	06-04	Rolling Blackout Reduction Program Contract…….	18273-E
142-05211	06-04	Bill Protection Application……	18273-E
142-05212	07-03	Demand Bidding Program Non-Disclosure Agreement……	17152-E
142-05215	04-06	Third Party Marketer Agreement for BIP…….	19199-E

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date	Applications, Agreements and Contracts	Cal. P.U.C. Sheet No.	
142-05216	04-06	Notice to Add, Change or Terminate Third Party Marketer for BIP	19200-E	
142-05300	10-06	Capacity Bidding Program Customer Contract…….	19664-E	
142-05301	10-06	Aggregator Agreement for Capacity Bidding Program (CBP)……	19665-E	
142-05302	10-06	Notice to Add, Change, or Terminate Aggregator for Capacity Bidding Program……..	19666-E	
142-05303	10-06	Notice by Aggregator to Add or Delete Customer……	19667-E	
142-05213	07-03	Technical Assistance Incentive Application……	16568-E	
142-0541	06-02	Customer Generation Agreement…….	15384-E	
142-0542	06-02	Generating Facility Interconnection Agreement……. (3rd Party Inadvertent Export)	15385-E	
142-0543	06-02	Generating Facility Interconnection Agreement……. (3rd Party Non-Exporting)	15386-E	
142-0544	06-02	Generating Facility Interconnection Agreement……. (Inadvertent Export)	15387-E	
142-0546	05-10	Generation Bill Credit Transfer Allocation Request Form…….	21852-E	T
143-359		Resident's Agreement for Water Heater Switch Credit.....	3542-E	
143-00212		Service Agreement between the Customer and SDG&E for Optional UDC Meter Services……	11854-E	
143-359		Resident's Agreement for Water Heater Switch Credit……	3542-E	
143-459		Resident's Agreement for Air Conditioner or Water Heater Switch.....	3543-E	
143-559		Owner's Agreement for Air Conditioner or Water Heater Switch Payment.....	3544-E	
143-659		Owner's Agreement for Air Conditioner or Water Heater Switch.....	3545-E	
143-759	12-97	Owner's Agreement for Air Conditioner Switch Payment.....	3699-E	
143-859	1-99	Occupant's Agreement for Air Conditioner Switch Payment….	3700-E	
143-01212		Letter of Understanding between the Customer's Authorized Meter Supplier and SDG&E for Optional UDC Meter Services…….	11855-E	
143-1459B	12-97	Thermal Energy Storage Agreement.....	5505-E	
143-01759	12-97	Meter Data and Communications Request.....	11004-E	
143-01859	2-99	Energy Service Provider Service Agreement.....	10572-E	
143-01959	8-98	Request for the Hourly PX Rate Option Service Agreement….	11005-E	
143-01959/1	2-99	Request for the Hourly PX Rate Option (Spanish)……..	11888-E	
143-02059	12-99	Direct Access Service Request (DASR).....…	13196-E	
143-02159	12-97	Termination of Direct Access (English).....….	11889-E	
143-02159/1	12-97	Termination of Direct Access (Spanish)……	11890-E	
143-2259	12-97	Departing Load Competition Transition Charge Agreement……..	10629-E	
143-02359	12-97	Customer Request for SDG&E to Perform Telecommunication Service.....	11007-E	
143-02459	12-97	ESP Request for SDG&E to Perform ESP Meter Services.....	11008-E	
143-02659	3-98	ESP Request to Receive Meter Installation and Maintenance Charges.....……	11175-E	
143-02759	04-10	Direct Access Customer Relocation/Replacement Declaration……..	21705-E	
143-02760	04-10	Six Month Notice to Return to Direct Access Service……	21706-E	
143-02761	04-10	Six Month Notice to Return to Bundled Portfolio Service….	21707-E	
143-02762	04-10	Direct Access Customer Assignment Affidavit……..	21708-E	
143-02763	04-10	Notice of Intent to Transfer to DA During OEW…….	21709-E	
144-0810	03-08	Critical Peak Pricing (CPP) Opt-Out Form……	20594-E	
144-0811	03-09	Capacity Reservation Election & Event Notification Form…….	21133-E	

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date	Applications, Agreements and Contracts	Cal. P.U.C. Sheet No.	
165-1000	06-09	Participating Load Pilot Customer Contract	21271-E	
165-1000/1	06-10	Demand Response Wholesale Market Pilot Customer Contract	22047-E	T
165-1001	06-09	Aggregator Agreement for Participating Load Pilot	21272-E	
165-1001/1	06-10	Aggregator Agreement for Demand Response Wholesale Market Pilot	22048-E	T
165-1002	06-09	Notice to Add, Change or Terminate Aggregator for PLP	21273-E	
165-1002/1	06-10	Notice to Add, Change or Terminate Aggregator for DRWMP	22049-E	T
165-1003	06-09	Notice by Aggregator to Add or Delete Customers for PLP	21274-E	
165-1003/1	06-10	Notice by Aggregator to Add or Delete Customers for DRWMP	22050-E	T
175-1000	07-09	Customer Energy Network – Terms and Conditions	21298-E	
		Deposits, Receipts and Guarantees		
144-0812	03-09	Critical Peak Pricing - Event Notification Information Form …….	21134-E	
144-0813	03-09	Critical Peak Pricing - Future Communications Contact Information Form	21135-E	
155-100	03-06	Application and Contract for Unmetered Service……	19128-E	
160-1000	12-09	Public Agency and Wastewater Agency Agreement……	21524-E	
160-2000	12-09	Customer Renewable Energy Agreement……	21525-E	
101-00197	09-08	Payment Receipt for Meter Deposit	11197-E	
101-363	04-98	Guarantor's Statement	20604-E	
101-1652B	04-08	Receipt of Payment.....	2501-E	
103-1750-E	03-68	Return of Customer Deposit.....	2500-E	
		Bills and Statements		
108-01214		Residential Meter Re-Read Verification	14280-E	
110-00432	02-01	Form of Bill - General, Domestic, Power, and Lighting Service - Opening, Closing, and Regular Monthly Statements.....	20302-E	
	09-07	Form of Bill - Pink Past Due Format.....	20120-E	
110-00432/2	06-07			
		Collection Notices		
101-00751	03-07	Final Notice Before Disconnect (MDTs)……	20000-E	
101-00752	03-07	Final Notice Before Disconnect (delivered)	20001-E	
101-00753	02-04	Back of Urgent Notice Applicable to Forms 101-00753/1 through 101-00753/11	16943-E	
101-00753/1	04-08	Urgent Notice Payment Request Security Deposit to Establish Credit.....	20605-E	
101-00753/2	03-05	Urgent Notice Payment Request Security Deposit to Re-Establish Credit.	18084-E	
101-00753/3	02-04	Urgent Notice Payment Request for Past Due Security Deposit.....	16946-E	
101-00753/4	02-04	Urgent Notice Payment Request for Past Due Bill	16947-E	
101-00753/5	02-04	Urgent Notice Payment Request for Returned Payment.....	16948-E	
101-00753/6	02-04	Urgent Notice Payment Request for Final Bill.	16949-E	
101-00753/7	02-04	Urgent - Sign Up Notice for Service	16950-E	
101-00753/8	02-04	Reminder Notice – Payment Request for Past Due Bill	16951-E	
101-00753/9	02-04	Closing Bill Transfer Notification	16952-E	
101-00753/10	02-04	Payment Agreement Confirmation	16953-E	
101-00753/11	02-04	ESP Reminder Notice – Payment Request for Past Due Bill	16954-E	
101-00754	03-05	Final Notice Before Disconnection (mailed), Notice of Past Due Closing Bill, and Notice of Past Due Closing Bill Final Notice	18085-E	
101-01071	03-07	Notice of Disconnect (delivered)……	20002-E	
101-01072	02-04			

L

(Continued)

TABLE OF CONTENTS

SAMPLE FORMS

Form No.	Date		Cal. P.U.C. Sheet No.	
		Collection Notices (Continued)		L
101-02171	05-10	Notice to Landlord - Termination of Tenant's Gas/Electric Service (two or more units.....	21885-E	
101-02172	03-09	Notice of Disconnect (MDTs).....	21139-E	
101-2452G	02-04	Notice to Tenants - Request for Termination of Gas and Electric Service Customer Payment Notification	16959-E	L
		Operation Notices		
101-2371	11-95	No Access Notice.....	8826-E	
101-3052B	3-69	Temporary "After Hour" Turn On Notice.....	2512-E	
101-15152B		Door Knob Meter Reading Card.....	2515-E	
107-04212	4-99	Notice of Temporary Electric Service Interruption (English & Spanish).....	12055-E	
115-00363/2	9-00	Sorry We Missed You.....	13905-E	
115-002363	9-00	Electric Meter Test.....	13906-E	
115-7152A		Access Problem Notice.....	3694-E	
124-70A		No Service Tag.....	2514-E	

ATTACHMENT C

SDG&E Statement of Proposed Increases

SAN DIEGO GAS & ELECTRIC COMPANY – ELECTRIC DEPARTMENT
ILLUSTRATIVE ELECTRIC RATE IMPACT

	4/01/11 Class Average Rates (¢/kWh)	Class Average Rates Reflecting Proposed Revenue Changes in 2015 (¢/kWh)	Total Rate Change (¢/kWh)	Percentage Rate Change %
Residential	18.336	18.818	0.482	2.63%
Small Commercial	17.609	18.127	0.518	2.95%
Medium and Large C&I	13.913	14.424	0.511	3.68%
Agricultural	17.161	17.657	0.496	2.89%
Lighting	15.379	15.736	0.357	2.32%
System Total	15.931	16.429	0.498	3.13%

ATTACHMENT D

SDG&E Statement of Original Cost and Depreciation Reserve

SAN DIEGO GAS & ELECTRIC COMPANY

COST OF PROPERTY AND
DEPRECIATION RESERVE APPLICABLE THERETO
AS OF DECEMBER 31, 2010

No.	Account	Original Cost	Reserve for Depreciation and Amortization
ELECTRIC DEPARTMENT			
302	Franchises and Consents	$ 222,841	$ 202,900
303	Misc. Intangible Plant	27,754,034	26,366,969
	TOTAL INTANGIBLE PLANT	27,976,875	26,569,869
310.1	Land	14,526,518	46,518
310.2	Land Rights	0	0
311	Structures and Improvements	48,255,763	13,772,595
312	Boiler Plant Equipment	116,849,359	24,206,931
314	Turbogenerator Units	101,193,042	22,614,181
315	Accessory Electric Equipment	34,200,678	7,226,370
316	Miscellaneous Power Plant Equipment	19,527,597	3,260,914
	Steam Production Decommissioning	0	0
	TOTAL STEAM PRODUCTION	334,552,956	71,127,509
320.1	Land	0	0
320.2	Land Rights	283,677	283,677
321	Structures and Improvements	275,011,351	269,748,583
322	Boiler Plant Equipment	471,560,894	397,266,755
323	Turbogenerator Units	142,291,290	136,235,647
324	Accessory Electric Equipment	170,457,634	166,781,063
325	Miscellaneous Power Plant Equipment	302,610,836	226,151,641
107	ICIP CWIP	0	0
	TOTAL NUCLEAR PRODUCTION	1,362,215,682	1,196,467,367
340.1	Land	143,476	0
340.2	Land Rights	2,428	2,428
341	Structures and Improvements	16,799,554	1,798,993
342	Fuel Holders, Producers & Accessories	19,170,415	2,724,055
343	Prime Movers	51,569,644	6,211,336
344	Generators	204,250,391	25,132,748
345	Accessory Electric Equipment	18,163,152	1,829,553
346	Miscellaneous Power Plant Equipment	401,807	79,734
	TOTAL OTHER PRODUCTION	310,500,867	37,778,848
	TOTAL ELECTRIC PRODUCTION	2,007,269,505	1,305,373,723

No.	Account	Original Cost	Reserve for Depreciation and Amortization
350.1	Land	$ 39,702,274	$ 0
350.2	Land Rights	63,036,096	11,224,116
352	Structures and Improvements	100,004,027	31,547,648
353	Station Equipment	670,265,694	143,428,652
354	Towers and Fixtures	109,042,382	82,332,924
355	Poles and Fixtures	197,528,816	43,074,908
356	Overhead Conductors and Devices	270,040,865	162,033,098
357	Underground Conduit	133,036,220	18,792,023
358	Underground Conductors and Devices	116,916,117	21,117,635
359	Roads and Trails	27,786,988	6,018,053
	TOTAL TRANSMISSION	1,727,359,481	519,569,056
360.1	Land	16,176,228	0
360.2	Land Rights	71,992,793	30,541,450
361	Structures and Improvements	3,313,347	1,384,313
362	Station Equipment	360,111,583	72,600,304
364	Poles, Towers and Fixtures	470,820,684	204,371,526
365	Overhead Conductors and Devices	369,746,705	134,519,735
366	Underground Conduit	893,510,305	339,334,520
367	Underground Conductors and Devices	1,184,388,980	669,988,254
368.1	Line Transformers	455,633,760	76,364,339
368.2	Protective Devices and Capacitors	16,310,256	(7,069,138)
369.1	Services Overhead	113,443,012	121,280,834
369.2	Services Underground	293,712,000	193,191,286
370.1	Meters	177,118,226	(9,737,319)
370.2	Meter Installations	43,686,845	(18,747,346)
371	Installations on Customers' Premises	6,316,268	10,545,724
373.1	St. Lighting & Signal Sys.-Transformers	0	0
373.2	Street Lighting & Signal Systems	24,118,491	16,941,508
	TOTAL DISTRIBUTION PLANT	4,500,399,481	1,835,509,991
389.1	Land	7,511,040	0
389.2	Land Rights	0	0
390	Structures and Improvements	29,776,375	15,853,229
392.1	Transportation Equipment - Autos	0	49,884
392.2	Transportation Equipment - Trailers	58,146	(1,984)
393	Stores Equipment	19,150	16,352
394.1	Portable Tools	17,590,137	5,349,718
394.2	Shop Equipment	350,581	182,564
395	Laboratory Equipment	320,845	21,344
396	Power Operated Equipment	92,162	149,134
397	Communication Equipment	131,053,004	58,250,811
398	Miscellaneous Equipment	462,560	86,136
	TOTAL GENERAL PLANT	187,233,998	79,957,188
101	TOTAL ELECTRIC PLANT	8,450,239,340	3,766,979,827

No.	Account	Original Cost	Reserve for Depreciation and Amortization
GAS PLANT			
302	Franchises and Consents	$ 86,104	$ 86,104
303	Miscellaneous Intangible Plant	713,559	574,758
	TOTAL INTANGIBLE PLANT	799,663	660,862
360.1	Land	0	0
361	Structures and Improvements	43,992	43,992
362.1	Gas Holders	0	0
362.2	Liquefied Natural Gas Holders	0	0
363	Purification Equipment	0	0
363.1	Liquefaction Equipment	0	0
363.2	Vaporizing Equipment	0	0
363.3	Compressor Equipment	0	0
363.4	Measuring and Regulating Equipment	0	0
363.5	Other Equipment	0	0
363.6	LNG Distribution Storage Equipment	1,843,078	512,449
	TOTAL STORAGE PLANT	1,887,070	556,441
365.1	Land	4,649,144	0
365.2	Land Rights	2,217,185	1,143,664
366	Structures and Improvements	11,523,041	8,763,978
367	Mains	125,717,135	56,024,903
368	Compressor Station Equipment	72,932,622	49,690,820
369	Measuring and Regulating Equipment	17,649,429	13,173,348
371	Other Equipment	0	0
	TOTAL TRANSMISSION PLANT	234,688,556	128,796,712
374.1	Land	102,187	0
374.2	Land Rights	8,058,285	5,656,895
375	Structures and Improvements	43,447	61,253
376	Mains	532,267,602	301,501,369
378	Measuring & Regulating Station Equipment	12,422,117	6,246,101
380	Distribution Services	237,092,252	270,641,316
381	Meters and Regulators	120,860,681	30,772,749
382	Meter and Regulator Installations	79,539,523	22,750,223
385	Ind. Measuring & Regulating Station Equipm	1,516,811	928,601
386	Other Property On Customers' Premises	0	0
387	Other Equipment	5,274,409	4,627,641
	TOTAL DISTRIBUTION PLANT	997,177,314	643,186,148

No.	Account	Original Cost	Reserve for Depreciation and Amortization
392.1	Transportation Equipment - Autos	$ 0	$ 25,503
392.2	Transportation Equipment - Trailers	74,501	74,501
394.1	Portable Tools	6,931,162	2,745,271
394.2	Shop Equipment	84,181	24,490
395	Laboratory Equipment	283,094	168,887
396	Power Operated Equipment	162,284	57,154
397	Communication Equipment	1,751,741	1,070,685
398	Miscellaneous Equipment	269,875	105,427
	TOTAL GENERAL PLANT	9,556,837	4,271,916
101	TOTAL GAS PLANT	1,244,109,440	777,472,080
COMMON PLANT			
303	Miscellaneous Intangible Plant	274,140,180	191,707,052
350.1	Land	0	0
360.1	Land	0	0
389.1	Land	5,612,511	0
389.2	Land Rights	1,385,339	27,275
390	Structures and Improvements	196,234,342	82,038,701
391.1	Office Furniture and Equipment - Other	26,309,764	14,839,198
391.2	Office Furniture and Equipment - Computer E	50,753,710	19,386,241
392.1	Transportation Equipment - Autos	33,942	(338,930)
392.2	Transportation Equipment - Trailers	33,369	(31,681)
393	Stores Equipment	133,501	12,342
394.1	Portable Tools	1,188,219	64,485
394.2	Shop Equipment	287,325	154,353
394.3	Garage Equipment	1,558,794	313,896
395	Laboratory Equipment	2,408,787	870,176
396	Power Operated Equipment	0	(192,979)
397	Communication Equipment	88,877,749	47,785,635
398	Miscellaneous Equipment	2,259,218	592,304
118.1	TOTAL COMMON PLANT	651,216,752	357,228,069
	TOTAL ELECTRIC PLANT	8,450,239,340	3,766,979,827
	TOTAL GAS PLANT	1,244,109,440	777,472,080
	TOTAL COMMON PLANT	651,216,752	357,228,069
101 & 118.1	TOTAL	10,345,565,532	4,901,679,976
101	PLANT IN SERV-SONGS FULLY RECOVER	$ (1,164,131,236)	$ (1,164,131,236)
101	PLANT IN SERV-ELECTRIC NON-RECON Common	$ 0	$ 0
118	PLANT IN SERV-COMMON NON-RECON Common - Transferred Asset Adjustment	$ (17,525,963)	$ (17,525,963)

No.	Account	Original Cost	Reserve for Depreciation and Amortization
101	Accrual for Retirements		
	Electric	$ (10,240,837)	$ (10,240,837)
	Gas	(131,827)	(131,827)
	TOTAL PLANT IN SERV-NON RECON ACCT	(10,372,664)	(10,372,664)
	Electric	0	0
	Gas	0	0
	TOTAL PLANT PURCHASED OR SOLD	0	0
105	Plant Held for Future Use		
	Electric	58,142,642	0
	Gas	0	0
	TOTAL PLANT HELD FOR FUTURE USE	58,142,642	0
107	Construction Work in Progress		
	Electric	983,345,634	
	Gas	8,278,929	
	Common	77,268,341	
	TOTAL CONSTRUCTION WORK IN PROGRESS	1,068,892,904	0
108	Accum. Depr SONGS Mitigation/Spent Fuel Disallowance		
	Electric	0	221,468
108	Accum. Depr SONGS SGRP Removal		
	Electric	0	2,317,957
108.5	Accumulated Nuclear Decommissioning		
	Electric	0	684,960,883
	TOTAL ACCUMULATED NUCLEAR DECOMMISSIONING	0	684,960,883
101.1	ELECTRIC CAPITAL LEASES	778,390,265	28,357,012
118.1	COMMON CAPITAL LEASE	26,243,856	6,020,187
		804,634,121	34,377,199
120	NUCLEAR FUEL FABRICATION	45,479,270	21,324,624
143	FAS 143 ASSETS - Legal Obligation	114,954,310	(574,179,622)
	FIN 47 ASSETS - Legal Obligation	42,421,035	17,388,248
143	FAS 143 ASSETS - Non-legal Obligation	0	(1,208,350,570)
	TOTAL FAS 143	157,375,345	(1,765,141,945)
	UTILITY PLANT TOTAL	$ 11,288,059,951	$ 2,687,710,300

ATTACHMENT E

SDG&E Summary of Earnings

SAN DIEGO GAS & ELECTRIC COMPANY
SUMMARY OF EARNINGS
TWELEVE MONTHS ENDED DECEMBER 31, 2010
(DOLLARS IN MILLIONS)

Line No.	Item	Amount
1	Operating Revenue	$3,188
2	Operating Expenses	2,740
3	Net Operating Income	$448
4	Weighted Average Rate Base	$4,697
5	Rate of Return*	8.40%

*Authorized Cost of Capital

ATTACHMENT F

SDG&E City/County/State Service List

State of California
Attorney General's Office
P.O. Box 944255
Sacramento, CA 94244-2550

State of California
Attn. Director Dept of General Services
PO Box 989052
West Sacramento, CA 95798-9052

United States Government
General Services Administration
300 N. Los Angeles
Los Angeles, CA 90012

Naval Facilities Engineering Command
Navy Rate Intervention
1314 Harwood Street SE
Washing Navy Yard, DC 20374

Alpine County
Attn. County Clerk
99 Water Street, P.O. Box 158
Markleeville, CA 96120

Borrego Springs Chamber of Commerce Attn. City Clerk
786 Palm Canyon Dr
PO Box 420
Borrego Springs CA 92004-0420

City of Carlsbad
Attn. City Attorney
1200 Carlsbad Village Drive
Carlsbad, CA 92008-19589

City of Carlsbad
Attn. Office of the County Clerk
1200 Carlsbad Village Drive
Carlsbad, CA 92008-19589

City of Chula Vista
Attn: Office of the City Clerk
276 Fourth Avenue
Chula Vista, California 91910-2631

City of Chula Vista
Attn. City Attorney
276 Fourth Ave
Chula Vista, Ca 91910-2631

City of Coronado
Attn. Office of the City Clerk
1825 Strand Way
Coronado, CA 92118

City of Coronado
Attn. City Attorney
1825 Strand Way
Coronado, CA 92118

City of Dana Point
Attn. City Attorney
33282 Golden Lantern
Dana Point, CA 92629

City of Dana Point
Attn. City Clerk
33282 Golden Lantern
Dana Point, CA 92629

City of Del Mar
Attn. City Attorney
1050 Camino Del Mar
Del Mar, CA 92014

City of Del Mar
Attn. City Clerk
1050 Camino Del Mar
Del Mar, CA 92014

City of El Cajon
Attn. City Clerk
200 Civic Way
El Cajon, CA 92020

City of El Cajon
Attn. City Attorney
200 Civic Way
El Cajon, CA 92020

City of Encinitas
Attn. City Attorney
505 S. Vulcan Ave.
Encinitas, CA 92024

City of Encinitas
Attn. City Clerk
505 S. Vulcan Ave.
Encinitas, CA 92024

City of Escondido
Attn. City Clerk
201 N. Broadway
Escondido, CA 92025

City of Escondido
Attn. City Attorney
201 N. Broadway
Escondido, CA 92025

City of Fallbrook
Attn. City Clerk
233 E. Mission Road
Fallbrook, CA 92028

City of Fallbrook
Attn. City Attorney
233 E. Mission Road
Fallbrook, CA 92028

City of Imperial Beach
Attn. City Clerk
825 Imperial Beach Blvd
Imperial Beach, CA 92032

City of Imperial Beach
Attn. City Attorney
825 Imperial Beach Blvd
Imperial Beach, CA 92032

City of Julian
Attn. City Clerk
P.O. Box 1866
2129 Main Street
Julian, CA

City of Laguna Beach
Attn. City Clerk
505 Forest Ave
Laguna Beach, CA 92651

City of Laguna Beech
Attn. City Attorney
505 Forest Ave
Laguna Beach, CA 92651

City of Laguna Niguel
Attn. City Attorney
22781 La Paz Ste. B
Laguna Niguel, CA 92656

City of Laguna Niguel
Attn. City Clerk
22781 La Paz Ste. B
Laguna Niguel, CA 92656

City of Lakeside
Attn. City Clerk
9924 Vine Street
Lakeside CA 92040

City of La Mesa
Attn. City Attorney
8130 Allison Avenue
La Mesa, CA 91941

City of La Mesa
Attn. City Clerk
8130 Allison Avenue
La Mesa, CA 91941

City of Lemon Grove
Attn. City Clerk
3232 Main St.
Lemon Grove, CA 92045

City of Lemon Grove
Attn. City Attorney
3232 Main St.
Lemon Grove, CA 92045

City of Mission Viejo
Attn: City Clerk
200 Civic Center
Mission Viejo, CA 92691

City of Mission Viejo
Attn: City Attorney
200 Civic Center
Mission Viejo, CA 92691

City of National City
Attn. City Clerk
1243 National City Blvd
National City, CA 92050

City of National City
Attn. City Attorney
1243 National City Blvd
National City, CA 92050

City of Oceanside
Attn. City Clerk
300 N. Coast Highway
Oceanside, CA 92054-2885

City of Oceanside
Attn. City Attorney
300 N. Coast Highway
Oceanside, CA 92054-2885

County of Orange
Attn. County Counsel
P.O. Box 1379
Santa Ana, CA 92702

County of Orange
Attn. County Clerk
12 Civic Center Plaza, Room 101
Santa Ana, CA 92701

City of Poway
Attn. City Clerk
P.O. Box 789
Poway, CA 92064

City of Poway
Attn. City Attorney
P.O. Box 789
Poway, CA 92064

City of Ramona
Attn. City Clerk
960 Main Street
Ramona, CA 92065

City of Ramona
Attn. City Attorney
960 Main Street
Ramona, CA 92065

City of Rancho San Diego - Jamul
Attn. City Clerk
3855 Avocado Blvd.
Suite 230
La Mesa, CA 91941

City of San Clemente
Attn. City Clerk
100 Avenida Presidio
San Clemente, CA 92672

City of San Clemente
Attn. City Attorney
100 Avenida Presidio
San Clemente, CA 92672

City of San Diego
Attn. Mayor
202 C Street
San Diego, CA 92101

County of San Diego
Attn. County Clerk
P.O. Box 121750
San Diego, CA 92101

City of San Diego
Attn. City Attorney
202 C Street.
San Diego, CA 92101

County of San Diego
Attn. County Counsel
1600 Pacific Hwy
San Diego, CA 92101

City of San Diego
Attn. City Clerk
202 C Street
San Diego, CA 92101

City of San Diego
Attn. City Manager
202 C Street
San Diego, CA 92101

City of San Marcos
Attn. City Clerk
1 Civic Center Dr.
San Marcos, CA 92069

City of San Marcos
Attn. City Attorney
1 Civic Center Dr.
San Marcos, CA 92069

City of Santee
Attn. City Clerk
10601 Magnolia Avenue
Santee, CA 92071

City of Santee
Attn. City Attorney
10601 Magnolia Avenue
Santee, CA 92071

City of Solana Beach
Attn. City Attorney
635 S. Highway 101
Solana Beach, CA 92075

Spring Valley Chamber of Commerce
Attn. City Clerk
3322 Sweetwater Springs Blvd, Ste. 202
Spring Valley, CA 91977-3142

Valley Center Chamber of Commerce
Attn. City Clerk
P.O. Box 8
Valley Center, CA 92082

City of Vista
Attn. City Clerk
200 Civic Center Drive
Vista, CA 92084

City of Vista
Attn. City Attorney
200 Civic Center Drive, Bldg. K
Vista, CA 92084

CERTIFICATE OF SERVICE

I hereby certify that a copy of **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER** on each party named in the official service list for proceeding R.10-05-006 by electronic service, and by U.S. Mail to those parties who have not provided an electronic address.

Copies were also sent via Federal Express to the assigned Administrative Law Judges and Commissioner.

Dated at San Diego, California, this 19th day of May 2011.

/s/ Jenny Norin
Jenny Norin

Application No: A.11-05-xxx
Exhibit No.: _____

Application of San Diego Gas & Electric Company (U 902 E) for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power.	Application 11-05-____ (Filed May 19, 2011)

PREPARED DIRECT TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
IN SUPPORT OF APPLICATION FOR AUTHORITY
TO ENTER INTO PURCHASE POWER AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER

PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

May 19, 2011

TABLE OF CONTENTS

PART ONE
SUMMARY OF APPROVAL REQUEST

I. INTRODUCTION 1

II. BACKGROUND 1

III. CONSISTENCY WITH APPROVED RESOURCE NEED 3

IV. COST ALLOCATION DISCUSSION 5

PART TWO
RFO SOLICITATION CONTRACT APPROVAL REQUEST
(RFO TEMPLATE)

I. BACKGROUND 8

A. Commission Decision/Directive Under Which the RFO Is Being Performed (Witness: Robert Anderson) 8

B. Reference the New Generation Authorization in the IOU's Current LTPP and Provide a Summary (Witness: Robert Anderson) 8

1. List all procurement already completed under that authorization (if any) (Witness: Robert Anderson) 11

2. Demonstrates that the total authorization will not be exceeded with the contracts included in the request (Witness: Robert Anderson) 11

C. Describe Any Changes in the Assumptions Used to Support the LTPP Authorization and Their Impact on the Need for These Contracts (e.g., are Significantly More Demand-Side or Renewable Resources Coming On-Line than Forecast, Resulting in a Lower Need for Conventional Generation than was Calculated in the LTPP?) (Witness: Robert Anderson) 12

D. Other Information Not Requested Above, But Relevant to the Origin of the RFO (Witness: Robert Anderson) 13

II. RFO DESIGN PROCESS (WITNESS: ROBERT ANDERSON) 17

A. Describe the Factors and Considerations that Contributed to the Structure of the RFO (Witness: Robert Anderson) 17

B. List the Specific Product Requirements Identified in the LTPP and/or Bid Documents, and Explain the Need for the Selected Resource(s) – Particularly With Respect to How the Selected Resources Are Consistent with the Renewable and/or GHG-Reduction Goals of the Utility (or of the Service Area-Wide Resource Mix) (Witness: Robert Anderson) 17

C. Describe How the PRG, IE, and ED Were Included in the RFO Design Process (Witness: Robert Anderson) 23

D. Describe the Original Solicitation Documents and Any Subsequent Revisions that Were Communicated to All Potential Bidders (Witness: Robert Anderson) 24

E. Summarize the solicitation outreach effort (Witness: Robert Anderson) 25

III. DETAILED DESCRIPTION OF BID SELECTION PROCESS 25

A. List and Briefly Describe All Bids Received in a matrix that Ranks Bids and Clearly Demonstrates Who "Winners" are (Witness: Robert Anderson) 25

B. Categorize Rejected or Withdrawn Bids, and Describe Efforts Made to Rectify Non-Conforming Bids (Witness: Robert Anderson) 25

C. Describe Quantitative and Qualitative Criteria Used to Evaluate Bids (Witnesses: Robert Anderson) 26

D. Describe the Bid Evaluation Methodology, Including Least-Cost Best-Fit Evaluation (Witnesses: Robert Anderson) 26

E. Summarize the Selected Offer(s), Including the Following: 27

Selected Offer #1: Escondido Energy Center (Witness: Tom Saile) 28

1. Name (identify unit or project) 28
2. Counterparty 28
3. Description of technology 28
4. MW and MWh 28
5. Location 28
6. On-line date 29
7. Contract Term 29

8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.) 29
9. Cost info (e.g., capacity payments, total cost, NPV, etc.) 29
10. Environmental costs / attributes 29
11. Greenhouse gas profile 30
12. Assignment of regulatory risk 30
13. Terms for contract termination 30
14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents) 31

Selected Offer #2: Pio Pico Energy Center (Witness: Maurene Bishop) 32

1. Name (identify unit or project) 32
2. Counterparty 32
3. Description of technology 32
4. MW and MWh 32
5. Location 33
6. On-line date 33
7. Contract Term 33
8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.) 33
9. Cost info (e.g., capacity payments, total cost, NPV, etc.) 34
10. Environmental costs / attributes 34
11. Greenhouse gas profile 34
12. Assignment of regulatory risk 35
13. Terms for contract termination 35
14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents) 35

Selected Offer #3: Quail Brush Generation Project (Witness: Brad Mantz) 36

1. Name (identify unit or project) 36
2. Counterparty 36

3. Description of technology 37
4. MW and MWh 37
5. Location 37
6. On-line date 37
7. Contract Term 37
8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.) 37
9. Cost info (e.g., capacity payments, total cost, NPV, etc.) 38
10. Environmental costs / attributes 38
11. Greenhouse gas profile 38
12. Assignment of regulatory risk 39
13. Terms for contract termination 39
14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents) 40

F. Provide Other Information Relevant to the Bidding and Selection Process (e.g., Mutually Exclusive Bids) (Witness: Robert Anderson) 40

IV. CONSISTENCY WITH COMMISSION DECISIONS 40

A. Whether the Solicitation and Bid Selection were Consistent with the IOU's LTPP and Solicitation Protocol: 40

1. Identify the Commission decision that approved the IOU's LTPP and explain with specific citations how the IOU adhered to Commission guidelines for conducting RFOs (Witness: Robert Anderson) 40
2. Evaluate how the bid evaluation process was consistent with the approved IOU LTPP (Witness: Robert Anderson) 41
3. Explain how the Selected Offer(s) conform to the IOU's portfolio needs, including least-cost/best-fit evaluation (Witness: Robert Anderson) 41
4. Discuss/explain any discrepancies/ambiguities between the LTPP requirements and this RFO (Witness: Robert Anderson) 42

B. Robustness of RFO Solicitation (Witness: Robert Anderson) 42

C. Confirm Consistency with EAP Loading Order. Specifically, Reference the IOU's Process for Ensuring that Renewables, EE, DR, and/or DG Did Not Exist at Cost Effective Prices and/or Could Not Perform as Needed for the Specific Product Requested. Identify Any Significant Changes in the Cost or Functionality of Higher Loading Order Resources that have Reduced the Need for Conventional Resources that was Calculated in the LTPP (Witness: Robert Anderson) 42

D. Selected Offer(s)' Compliance with the Commission's GHG Emission Performance Standard and Consistency with the IOU's Overall GHG Reduction Objectives (Witness: Robert Anderson) 43

E. Selected Offer(s)' Impact on Transmission 43

F. Affiliate Bids and UOG Ownership Proposals (if Applicable) 44

1. Describe the design and implementation of any Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids, including any violation(s) of that code (Witness: Robert Anderson) 44

2. Describe other safeguards and methodologies implemented by the IOU, including those stipulated in Commission decisions D.04-12-048 and D.07-12-052 for head-to-head competition between utility ownership and independent ownership bids, to ensure that affiliate and UOG bids were analyzed and considered on as comparable a basis as possible to other bids, that any negotiations with such bids' proponents were conducted as comparably as possible to negotiations with other proponents, and that the utility's final selections in such cases did not favor an affiliate or UOG bid (Witness: Robert Anderson) 44

3. Describe the compliance of the RFO process with these safeguards (Witness: Robert Anderson) 44

4. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownership, explain and analyze whether the utility's selection of such bid(s) was preferable from the ratepayers' perspective (Witness: Robert Anderson) 45

G. Qualitative Factors that the IOU Considered in its Evaluation and Selection of Bid(s): 45

1. Project viability (including technology or counterparty concerns) 45

2. Resource diversity (Witness: Robert Anderson) 46

3. Greenfield versus brownfield (including repowering) environmental impacts/benefits 46

4. Environmental/economic justice (Witness: Robert Anderson) 47

5. Other qualitative factors considered (Witness: Robert Anderson) 47

H. List and Explain Any Significant Negotiated Revisions to the RFO Solicitation Package that were Agreed to By the IOU and Individual Counterparties. Include an Explanation (and supporting analysis) of Why the Negotiated Revisions Did not Sufficiently Alter the Nature of the Product to Warrant Revisions to or a Re-Issuance of the RFO Bid Documents to All Bidders (i.e., Confirm that the Changes Would Not Have Resulted in a Different Bid Selection had All Parties been Afforded the Opportunity to Bid a Similarly Nonconforming Product). (Witness: Robert Anderson) 48

V. OUTSIDE PARTICIPATION AND FEEDBACK 48

A. PRG Participation: 48

1. Describe all RFO-related information distributed to the PRG (Witness: Robert Anderson) 48

2. Summarize the PRG's participation in the RFO design, bid evaluation, and bid selection process (Witness: Robert Anderson) 48

B. IE Participation: 49

1. Cite CPUC decisions requiring the use of an IE and their applicability to this RFO (Witness: Robert Anderson) 49

2. Summarize the IE participation in the RFO development, bid solicitation, and bid selection processes (Witness: Robert Anderson) 49

3. Attach the IE's report on the solicitation (Witness: Robert Anderson) 50

4. Present and explain the IE costs for the RFO (Witness: Robert Anderson) 51

C. Provide any Other Information Relevant to Outside Participation and Feedback that is Important to Evaluation of the RFO Process (Witness: Robert Anderson) 51

VI. CONTINGENCIES AND MILESTONES 52

VII. RATE RECOVERY (WITNESS: G. SHIMANSKY) 53

VIII. WITNESS QUALIFICATIONS 57

A. QUALIFICATIONS OF ROBERT B. ANDERSON 57

B. QUALIFICATIONS OF GREG SHIMANSKY 58

C. QUALIFICATIONS OF CYNTHIA S. FANG 59

D. QUALIFICATIONS OF THOMAS C. SAILE 60

E. QUALIFICATIONS OF MAURENE BISHOP 61

F. QUALIFICATIONS OF E BRADFORD MANTZ 62

EXHIBIT A - CONFIDENTIALITY DECLARATIONS 63

DECLARATION OF ROBERT B. ANDERSON 64

DECLARATION OF THOMAS C. SAILE 67

DECLARATION OF F. MAURENE BISHOP 70

DECLARATION OF E BRADFORD MANTZ 73

APPENDICES

APPENDIX 1: RFO Package and Solicitation Documents

APPENDIX 2: Matrix of Product 2 Bids Received and Final Shortlist - **CONFIDENTIAL**

APPENDIX 3: Bid Selection Criteria - **CONFIDENTIAL**

APPENDIX 4: Power Purchase Contract Summaries

APPENDIX 5: Pio Pico Energy Center Purchase Power Contract - **CONFIDENTIAL**

APPENDIX 6: Escondido Energy Center Purchase Power Contract - **CONFIDENTIAL**

APPENDIX 7: Quail Brush Purchase Power Contract - **CONFIDENTIAL**

APPENDIX 8: SDG&E Presentations to the PRG, Including IE Reports - **CONFIDENTIAL**

APPENDIX 9: Independent Evaluator Report with **CONFIDENTIAL** Addendum

PART ONE
Summary of Approval Request

(Witness: Robert Anderson)

I. INTRODUCTION

San Diego Gas & Electric Company ("SDG&E") requests authority from the California Public Utilities Commission ("CPUC" or "Commission") to enter into three long-term Power Purchase Tolling Agreements ("PPTAs") that would add a total of approximately 450 MW of needed local capacity to SDG&E's service area. As discussed in this testimony, SDG&E executed PPTAs with the following non-utility entities: Pio Pico Energy Center ("Pio Pico"), 305 MW; Wellhead's Escondido Energy Center ("EEC"), 45 MW; and Quail Brush Generation Project ("Quail Brush"), 100 MW. These PPTAs will provide approximately 450 MW of additional capacity from three new, efficient, natural gas generating facilities that will be located in SDG&E's service territory. These resources are being procured pursuant to the Commission's directives in SDG&E's 2006 Commission-approved long-term procurement plan ("LTPP").[1]

SDG&E respectfully requests approval of these three contracts no later than February 9, 2012 (or at the first Commission meeting thereafter) to meet various contractual obligations discussed herein and to ensure that SDG&E will have adequate resources on-line to be able to serve the current and anticipated needs for electricity of all of the customers in SDG&E's service area.

II. BACKGROUND

The three PPTAs presented for approval in this Application arose from SDG&E's LTPP decisions and the ensuing 2009 Request For Offers ("RFO"), the design and outcome of which is discussed in detail below in Part Two, Sections II and III. Of the 530 MW of new capacity the

[1] D.07-12-052 at 114-115, as amended by D.08-11-008 at 25-26.

LTPP decisions authorize SDG&E to procure, the PPTAs that are proposed for approval in this Application would add approximately 450 MW of new capacity. While the three PPTAs are described more fully in Part Two, Section III.E, below, the key aspects of the three PPTAs are described briefly as follows:

Escondido Energy Center ("EEC")

The EEC is a gas-fired 45 MW repowering of an existing facility and includes the installation of a new single unit simple-cycle peaking generation facility powered by a new General Electric LM-6000 combustion turbine unit which replaces a vintage gas turbine-generator. This facility will be located in SDG&E's service territory, in Escondido, on the same location as Wellhead's existing generation facility. The Expected Initial Delivery Date is July 1, 2012, except that this date is extended on a day-for-day basis for each day that Commission approval is after July 1, 2011. The PPTA has a duration of 25 years. There are no incremental transmission impacts associated with the power delivered under this PPTA.

Pio Pico Energy Center ("Pio Pico")

The Pio Pico PPTA is for approximately 305 MW of fast-start, highly efficient, simple cycle, gas-fired generation. This facility is located in SDG&E's service territory on previously disturbed land adjacent to the Otay Mesa combined cycle power plant. The Expected Initial Delivery Date is May 27, 2014 and is expected to provide power for 20 years. The transmission impacts are unknown at this time but are expected to be known in August 2011, at which time the California Independent System Operator's ("CAISO's") Phase 2 cluster study will be released.

Quail Brush Energy Project ("Quail Brush")

The Quail Brush PPTA will provide approximately 100 MW of gas-fired generation that will be located in SDG&E's service territory near the Sycamore Canyon Landfill. The Expected Initial Delivery Date is June 1, 2014 and is expected to provide power for 20 years. The transmission impacts are unknown at this time but are expected to be known in August 2011, at which time the CAISO's Phase 2 cluster study will be released.

These three PPTAs are needed to ensure there is adequate capacity in SDG&E's service area for all customers, both bundled and direct access, to meet local resource adequacy ("RA") needs. Additionally, the new, locally sourced, long-term generation will help to mitigate the effects of intermittency, facilitate the retirement of aging and Once Through Cooling ("OTC") generation resources, and will comply with Greenhouse Gas ("GHG") requirements specified in D.07-01-039.

III. CONSISTENCY WITH APPROVED RESOURCE NEED

As discussed more fully in Part Two below, the three PPTAs represented in this Application are fully consistent with and responsive to the portfolio needs outlined in SDG&E's Commission-approved 2006 LTPP.[2] The 2006 LTPP identified a need for SDG&E to procure up to 530 MW of new, local generation (also known as "Product 2" resources) by 2015 to meet local and system RA requirements.[3] The Commission directed SDG&E to take into account the implementation of the Sunrise Powerlink transmission project and to increase the stated resource need to account for the retirement of any generation resources that were not already factored in

[2] SDG&E's LTPP was approved with modification in D.07-12-052. SDG&E filed its Conformed 2006 LTPP on April 18, 2008 (Advice Letter 1983-E).

[3] D.08-11-008 at 38, Ordering Paragraph 1.d ("We authorize SDG&E to procure a total of up to 530 MW of new local capacity that was conditionally authorized in D.07-12-052 and require that applications for this procurement be supported by updates of the status and projected on-line date of the Sunrise Powerlink project.").

that determination.[4] SDG&E also considered the need for these units based on updated information including the California Energy Commission's ("CEC's") most recent demand forecast as well as the CAISO's current Net Qualified Capacity ("NQC") resource ratings. Based on SDG&E's comprehensive analysis, SDG&E's resource need, as adjusted for the Sunrise Powerlink, additional retirements, and complete procurement activities, appears in detail in Section I.B.2, below. SDG&E's demonstrated resource need warrants the Commission's approval of the three PPTAs that comprise this Application.

The Commission also emphasized to SDG&E its obligation to undertake advanced planning to meet the Commission-approved RA objectives in the necessary time frame. In D.09-01-008, the Commission stated:

> We carefully reviewed and considered IEP and WPTF's comments and although we are approving MEF II, we are also admonishing SDG&E to have adequate procedures in place to ensure that they do not again find themselves in a reliability crisis without sufficient time to follow the procurement protocols in D.07-12-052.[5]

Mindful of these comments specific to SDG&E's procurement activities, SDG&E has executed the three subject PPTAs and submits them with sufficient lead time to allow for Commission review and for unforeseen yet possible adjustments to SDG&E's resource portfolio. SDG&E finds it imperative that the Commission act promptly, to allow ample time for construction of the facilities, and to avoid a circumstance where SDG&E has to explore yet further options to manage the uncertainties regarding whether and when the PPTAs proposed in the instant Application will be approved.

The EEC, Pio Pico, and Quail Brush PPTAs are each local, new generation facilities that meet the Commission's previously stated requirements. The deployment of these new units will

[4] D.07-12-052 at 278, Finding of Fact 50.
[5] D.09-01-008 at 18.

enable the retirement of OTC and other vintage generation. Thus, these PPTAs are needed to provide adequate resources to meet the long-term electricity needs of the San Diego service territory. The approval of the capacity represented by these PPTAs does not exceed the Commission's authorization for SDG&E to procure new generation resources.

In addition, SDG&E's LTPP identifies a need for quick start units that can be used to support intermittent renewable resources and to provide reliable capacity at times of peak load. In D.07-12-052, the Commission expressly directed SDG&E to procure such resources to further the State's goals of reducing GHG emissions:

> To support the types and needs we anticipate in a GHG constrained portfolio, we require SDG&E to procure dispatchable ramping resources that can be used to adjust for the morning and evening ramps created by the intermittent types of renewable resources.[6]

Each of the three subject contracts are for environmentally friendly, quick start generation units utilizing the most advanced and efficient gas-fired technologies. They also provide the starting and/or ramping capabilities required by the Commission to accommodate sudden changes in resources or load. Further, these generation facilities provide flexibility that will help to mitigate the effects of intermittency associated with the increased deployment of renewable generation. In addition, each of these facilities will provide reliable capacity during periods of peak load.

IV. COST ALLOCATION DISCUSSION

After the issuance of SDG&E's June 2009 RFO, the California Legislature passed Senate Bill ("SB") 695 in October 2009.[7] Among other things, SB 695 requires that the costs and benefits of new generation resources, such as the PPTAs that are at issue in this proceeding, must be allocated to all benefiting customers in the electric corporation distribution service area on a

[6] D.07-12-052 at 111-112.
[7] SB 695 added P.U. Code § 365.1(c).

non-bypassable basis. The Commission opened Rulemaking (R.) 10-05-006 to establish whether the Commission's existing Cost Allocation Mechanism ("CAM")[8] is consistent with the provisions of SB 695, and in particular, "to ensure that the customers to whom the net costs and benefits of capacity are allocated are not required to pay for the costs of electricity they do not consume."[9]

On May 5, 2011, the Commission issued D.11-05-005 in R.10-05-006 which affirmed, without modification, the Commission's prior determinations that "benefiting customers subject to the CAM consist of all bundled service customers, direct access customers, and community aggregation customers."[10] The Decision further makes clear, as the statute requires, that "the allocation of the net capacity costs of contracts with third parties shall be allowed for the terms of those contracts."[11] As noted immediately below, while the Decision does not resolve all issues related to the CAM,[12] under Public Utilities Code ("P.U. Code") § 365.1(c)(2)(A), the Commission shall "ensure that…in the situation of a contract with a third party," such as with the subject PPTAs, "the net capacity costs of those generation resources are allocated on a fully nonbypassable basis…" to the categories of customers noted above.

This Application is consistent with SB 695, existing Commission precedent on the treatment of other new resources, and the newly adopted Decision. SDG&E believes the costs associated with PPTAs comprising this Application must utilize a CAM for the duration of those PPTAs. SDG&E's CAM proposal is fully described in Section VII.B, below, and calls for the adoption of a non-bypassable Local Generation Charge ("LGC") to implement the CAM

---

[8] The Commission adopted a CAM policy in D.06-07-029, and later modified it in D.07-11-051 and D.11-05-005.
[9] P.U. Code § 365.1(c)(2)(C).
[10] D.11-05-005 at 7.
[11] *Id*. at 14.
[12] CAM-related questions reserved for a further proceeding appear at D.11-05-005 at 16-17. The Decision makes other determinations that are not directly applicable to the instant Application.

requirements. Therefore, along with the Commission's approval of the three PPTAs, SDG&E also is seeking at this time the Commission approval of SDG&E's proposal to use a non-bypassable CAM with these contracts, for the duration of the contracts, as part of SDG&E's cost recovery and ratemaking proposal.

Of particular note, D.11-05-005 identified a number of issues regarding the full implementation of SB 695 that will be resolved in additional phases of that proceeding or in other proceedings. SDG&E supports the use of a separate proceeding to resolve those issues, including the method or methods that will be allowed to be used to determine the net capacity costs associated with the PPTAs. In general, the net capacity costs of this additional generating capacity equal the total contract costs less market revenues. Thus, although SDG&E is seeking as part of this Application the Commission's determination that the PPTAs are subject to the CAM, SDG&E is not proposing at this time a specific method to determine the net capacity costs, but will wait for the anticipated, next proceeding to make a final determination for the process SDG&E must follow to calculate the net capacity costs. Once the methodology for calculating the net capacity costs is established, SDG&E will then apply it to these PPTAs to arrive at the LGC that will implement the CAM.

In Part Two, below, this Testimony follows the format of the Commission-approved "RFO Solicitation Contract Approval Request" template.

PART TWO
RFO Solicitation Contract Approval Request
(RFO Template)

I. BACKGROUND

A. Commission Decision/Directive Under Which the RFO Is Being Performed (Witness: Robert Anderson)

SDG&E's 2009 RFO arose from (1) the forecasted need for new local resources approved in SDG&E's 2006 LTPP that was approved by the Commission in D.07-12-052 and amended in D.08-11-008; (2) SDG&E's bundled customers' local RA need; and (3) SDG&E's bundled customers' system RA need. The three PPTAs submitted in this Application were executed to fulfill the need for new local resources.

B. Reference the New Generation Authorization in the IOU's Current LTPP and Provide a Summary (Witness: Robert Anderson)

The Commission approved SDG&E's current LTPP in D.07-12-052, which was affirmed and updated in D.08-11-008. Those Orders authorized SDG&E to procure up to 530 MW of new, local generation by 2015. The need for new local generation is driven by whether or not there will be enough resources physically located in the San Diego load pocket for all load serving entities to meet the local RA requirement in SDG&E's distribution service area. In determining this need, the Commission required SDG&E to update the Commission on the status of the Sunrise Powerlink transmission project (*see* Section (a) below). The Commission also noted in approving the need that such need can be increased to account for additional retiring resources that were not included in the retirement assumptions leading to the approved need (*see* Section (b) below).[13] A summary of the need, adjustments to the need based on the Sunrise

[13] D.07-12-052 at 278, Finding of Fact 50.

Powerlink, expected plant retirements, and completed resource procurement projects are included in Section I.B.2.

(a) Addition of the Sunrise Powerlink

Regarding the update on the Sunrise Powerlink as requested in the LTPP decisions, the Sunrise Powerlink was approved by the Commission in D.08-12-058, as revised in D.09-07-024. In July 2010, the U.S. Forest Service ("USFS") issued its decision approving the Sunrise Powerlink on USFS land.[14] In October 2010, the USFS issued a subsequent decision upholding its July 2010 decision in its entirety and rejecting all appeals.[15] Construction of non-transmission line activities, including substation upgrades and construction preparation areas, began in September 2010. Construction of the Sunrise Powerlink transmission line began in the fourth quarter of 2010, and the transmission line is expected to be in service in the Summer of 2012. For planning purposes, SDG&E expects that the Sunrise Powerlink's capacity will reduce the need for local resources by 1000 MW in 2013.

(b) Expected Unit Retirements

In determining the need for this Application, SDG&E considered the expected retirement of certain generation resources in addition to those that were included in the 2006 LTPP need assessment. First, SDG&E has assumed that the Cabrillo II combustion turbines, with a total capacity of 188 MW, will be retired when their current land leases expire on December 31, 2013. These units, which were built between 1968 and 1972, have heat rates of about 15,000 Btu/kWh

[14] USFS Record of Decision issued July 9, 2010: http://www fs fed.us/r5/cleveland/projects/sunrise-powerlink/fs-rod-july-09-2010.pdf . For further information please see: http://www.fs.fed.us/r5/cleveland/projects/sunrise-powerlink/index.shtml.

[15] USFS News Release Upholding Sunrise Decision issued October 15, 2010: http://www.sdge.com/sunrisepowerlink/docs/usfs_sunrise_pressrelease.pdf . Additionally, the Bureau of Land Management approved the project on January 20, 2009: http://www.blm.gov/pgdata/etc/medialib/blm/ca/pdf/elcentro/nepa/2007/eis.Par.9361.File.dat/ROD-SunrisePowerlinkJan2009.pdf.

and have very limited operating hours (less than 877 hours per year). The San Diego Air Pollution Control District ("APCD") recently imposed additional restrictions on the use of these units. For example, in 2010, the APCD passed a new regulation that limits the operation of these units on forecasted high ozone days. Thus, it is prudent for SDG&E to factor in the retirement of these older units in conjunction with the deployment of the new units.

Secondly, given the equipment's 1970s vintage, Wellhead (the new owner) has decided to continue with the previous owner's plans to repower the former 35.5 MW[16] MMC Energy/RAMCO-Escondido generating facility. The new EEC referenced in this Application is intended to replace this older existing unit, and thus for planning purposes, SDG&E has added the existing plant capacity to the local resource retirement list.

Third, subsequent to the Commission's resource need determination for SDG&E, the State Water Resources Control Board adopted an OTC policy that is intended to phase out or greatly reduce the use of coastal and estuarine waters for power plant cooling.[17] This regulation policy dictated that the Encina Power Plant (960 MW) must meet this new obligation by December 31, 2017. Accordingly, SDG&E believes it is prudent, if not necessary, to plan for Encina's existing capacity to be retired in anticipation of this date. For this Application, SDG&E recommends that the Commission assess not only SDG&E's need in 2015 but also through 2018 on the reasonable assumption that the Encina Power Plant will be retired in full at the end of 2017. SDG&E assumes the retirement of Encina units 1, 2 and 3, representing a total of 320 MW by 2013, with the remaining capacity to be retired in 2017.

---

[16] 2011 CAISO NQC.

[17] State Water Resources Control Board Resolution No. 2010-0020 adopted on May 4, 2010: http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2010/rs2010_0020.pdf. Specifically, Attachment 1 for OTC Policy: http://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/docs/cwa316may2010/otcpolicy_final050410.pdf.

A summary of SDG&E's resource need as adjusted for the Sunrise Powerlink, additional retirements, and completed procurement is shown in Section I.B.2, below.

1. List all procurement already completed under that authorization (if any) (Witness: Robert Anderson)

Subsequent to the Commission's approval in D.08-11-008 of SDG&E's resource need, SDG&E has added 246 MW of new generation in its service area towards that need. Specifically, SDG&E has added the combustion turbine peaking facilities of J-Power Orange Grove (99 MW), Wellhead El Cajon (48 MW), and SDG&E's Miramar II (48 MW).

2. Demonstrates that the total authorization will not be exceeded with the contracts included in the request (Witness: Robert Anderson)

The table below summarizes SDG&E's resource need based on D.07-12-052 and D.08-11-008 and adjusted as indicated in that decision for subsequent developments addressed in those decisions.

	Break-down of 2006 LTPP Remaining Need by 2015	Megawatts	
	Approved Need (2015)	530	
(+)	New retirements not assumed in need:		
	Wellhead Escondido	35	
	Cabrillo II Peakers (2013)	188	
	Encina (2013-2017)	320	960
(=)	**Adjusted Need**	**1,073**	**1,713**
(-)	Completed procurement & transmission:		
	Orange Grove (2010)	(100)	
	Wellhead El Cajon (2010)	(48)	
	Miramar II (2009)	(48)	
	Sunrise Powerlink (2013)	(1,000)	
(=)	Remaining Need	(123)	517

In this Application, consistent with the Commission's authorization, SDG&E is seeking to add approximately 450 MW of new capacity.

C. Describe Any Changes in the Assumptions Used to Support the LTPP Authorization and Their Impact on the Need for These Contracts (e.g., are Significantly More Demand-Side or Renewable Resources Coming On-Line than Forecast, Resulting in a Lower Need for Conventional Generation than was Calculated in the LTPP?) (Witness: Robert Anderson)

Following the Commission's approval of SDG&E's resource need in its 2006 LTPP, a number of the assumptions used to determine that need have changed. Thus, to fully support these additions SDG&E looked at the local grid need based on updated data. Once again, this is the need for the total amount of resources to be located in SDG&E's service area that would be available for the benefit of all customers, not just SDG&E's bundled customers.

In reassessing the need for system resources, SDG&E updated the need based on revised assumptions for both load and resources. SDG&E considered the CEC's latest forecast, produced in late 2009,[18] as well as updates to all resources including using the CAISO current NQC resource ratings.[19] The grid reliability need is the amount of resources needed to meet a summer peak day load that is expected to occur once every 10 years after the largest generating unit and the largest transmission line is out of service. The table below assumes that the proposed resources in this filing will not count towards the Local Capacity Reliability requirement until the year after those resources are in service.[20]

As Table 2 (below) shows, with the resources additions that are proposed in this Application, the SDG&E load pocket will have sufficient resources to meet total local RA needs

[18] California Energy Demand 2010-2020 Commission-Adopted Forecast adopted on December 16, 2009: http://www.energy.ca.gov/2009publications/CEC-200-2009-012/CEC-200-2009-012-CMF.PDF.

[19] 2011 Final NQC Report as posted on the CAISO web site at: http://www.caiso.com/276a/276a8c14493a0.xls. It should be noted that the NQC ratings for some resources change annually and thus a units NQC rating in future years may be higher or lower than the ones used in this analysis.

[20] This assumption takes into account the timing of the resource adequacy showing. The local resource adequacy requirement is the same for all months of the year. Thus a unit that does not come on-line until May or June of a given year would not meet the requirement in the previous month of the year.

for all customers. It also shows that sufficient resources would exist to allow for the full retirement of the Encina Power Plant prior to the end of 2017, the date at which it would need to meet the State's new OTC policy. Or in other words, the Encina Power Plant would not be able to fully retire without these additions.

Table 2

	2012	2013	2014	2015	2106	2017	2018	2019	2020
Minimum Grid Reliability Need	2,989	2,062	2,121	2,182	2,224	2,262	2,304	2,357	2,416
Existing Local Resources	3064	3064	3064	3064	3064	3064	3064	3064	3064
Demand Response	158	196	205	208	210	212	214	217	219
Retirements	35	35	543	543	543	543	1183	1183	1183
New Generation Additions (current Application)		45	45	450	450	450	450	450	450
Total Net Local Resources	3,184	3,268	2,769	3,176	3,178	3,181	2,543	2,545	2,548
Resource Over Minimum Need	195	1,206	648	994	954	918	238	188	132

As shown in Table 2, moving ahead with these additions will result in SDG&E's service area having sufficient resources for all load serving entities, both those that serve bundled customers and those that serve direct access customers, to access the capacity necessary to meet their local RA requirements.

D. Other Information Not Requested Above, But Relevant to the Origin of the RFO (Witness: Robert Anderson)

In considering this Application, SDG&E believes it is prudent for the Commission to consider a number of factors in addition to the pure resource need calculation shown above.

One of these factors is past Commission direction on the need to plan in advance for these resources. In D.07-12-052, the Commission noted that "recent experience suggests that the

time required to develop and carry out competitive long-term RFOs, then finance, permit and construct new generation resources – including a cushion to account for unanticipated delays – requires that these procurement decisions be made up to seven years in advance of when the resources are needed."[21] The Commission provided further direction in D.09-01-008. In that Decision the Commission stated:

> We carefully reviewed and considered IEP and WPTF's comments and although we are approving MEF II, we are also admonishing SDG&E to have adequate procedures in place to ensure that they do not again find themselves in a reliability crisis without sufficient time to follow the procurement protocols set forth in D.07-12-052.[22]

To address the Commission's clear directive to avoid "just in time" resource additions, SDG&E's submits for approval the subject PPTAs with enough of a lead time to manage possible delays. Additionally, with forward planning, should any one or more of these units not reach commercial operation, SDG&E then would have greater opportunity to identify and explore options that follow the preferred Commission methods. SDG&E believes it is not only prudent but essential to proceed with the three PPTAs in this Application even though some may argue that they are a year or two in advance of the latest possible date and in an amount above the minimum need. To the contrary, this "cushion" is necessary to safeguard against the type of "reliability crisis" the Commission seeks to avoid, which could otherwise occur in the event of delays for the new units, possible cancellation of planned new generation additions, changes in load forecast, and other unpredictable and currently unforeseeable changes in circumstances or events.

[21] D.07-12-052 at 21.
[22] D.09-01-008 at 18.

To provide additional perspective, the PPTAs presented in this Application are based on the 2006 LTPP which was ruled on at the end of 2008; the majority of the capacity is not expected to be on-line until 2014, almost an eight-year lead time (from 2006 to 2014). While some of this lead time is due to other contracting priorities, it is still reasonable to assume up to six or seven years from the approval of an LTPP that authorizes a need for new generation to the units being on-line. Thus, waiting until the current LTPP process is completed may result in no new operating units until 2018, which is later than the amount of time needed to allow for the shutdown of Encina should it be required due to the OTC regulations.

There is also no guarantee that the units being proposed in this Application will be completed in the time currently anticipated. Despite parties' best efforts, delays can and do arise in the development of new generation in California. As an example, the last new units approved for the SDG&E area, Wellhead El Cajon and J-Power Orange Grove, were forecasted to be on-line by the summer of 2008 at the time the contracts were filed with the Commission. However, both projects ran into licensing and/or siting issues and did not go on-line until summer of 2010, two years later than planned.

In addition, the need for these units is based on a peak load forecast that grows at only a 1.1% annual growth rate for the years between 2011 and 2020. This would factor in load growth after all energy efficiency and growth in behind-the-meter resources such as rooftop photovoltaics ("PV"). This assumption is very low in comparison to past peak load growth. Looking at the average growth rate for the ten-year periods ending in 2000 through 2010, the historical ten-year growth has been about 2%, or twice as high as the forecast used to calculate the need here. Moreover, there was only one ten-year period, the period ending in 2001, that load growth averaged only 1.1%, which was mainly driven by substantial load decreases due to

the energy crisis in 2000 and 2001. However, looking at ten-year periods does not present the whole story. If we look at growth over 5-year periods also for the periods ending in 2000 through 2010, the growth rate also averages 2%. But we also see that growth does not occur in a steady pattern. We have seen 5-year growth rates as high as 5.5% (for period ending in 2006) down to -0.3% (for the period ending in 2001). Given that the Commission expects reliability to be met in every year, not just on average, and we are currently escalating the loads from the low point in an economic cycle, the load growth shown here is very conservative. Therefore, given these variations in load growth, and for the other reasons noted above, planning with some cushion above the load growth would represent a prudent and necessary way to move forward.

Thus, SDG&E recommends that the Commission consider this Application, not based on a single absolute set of numbers, but rather in light of the totality and range of needs described herein. The three PPTAs associated with these new units are a unique opportunity for additional generation capacity to provide for local reliability and the addition of new capacity with lower heat rates, quicker starting capability, and greater operational flexibility that will be needed to integrate increasing levels of renewable energy into the grid.

II. RFO DESIGN PROCESS (WITNESS: ROBERT ANDERSON)

A. Describe the Factors and Considerations that Contributed to the Structure of the RFO (Witness: Robert Anderson)

SDG&E began the design of the 2009 RFO soon after approval of the 2006 LTPP filing. In the 2009 RFO, SDG&E sought both short-term (2010 and 2011) and long-term (2012 and beyond) resources to meet the new generation authorization, the bundled customer local RA obligation and the bundled customers' system RA obligations that resulted from the approved LTPP. The RFO package is attached to this Application as Appendix 1.

B. List the Specific Product Requirements Identified in the LTPP and/or Bid Documents, and Explain the Need for the Selected Resource(s) – Particularly With Respect to How the Selected Resources Are Consistent with the Renewable and/or GHG-Reduction Goals of the Utility (or of the Service Area-Wide Resource Mix) (Witness: Robert Anderson)

SDG&E's 2009 RFO contained the following description of the specific products sought:

<u>Scope of Supply</u>

San Diego Gas & Electric Company (SDG&E) is issuing this Request for Offers (RFO) for demand response and supply resources to support reliability within the SDG&E service territory, supply energy to bundled customers and/or meet other portfolio needs including Resource Adequacy (RA) requirements. All resources that can meet the obligations set forth below are welcome to bid their offers into this RFO (Offer(s)); however, all renewable resources are strongly encouraged to participate in a separate renewables-only solicitation, which SDG&E issues annually. SDG&E anticipates this RFO will produce contracts from respondents (Respondent(s)) as indicated below:

	Local Resources		Resources Outside SDG&E	
	Short Term	Long Term	Short Term	Long Term
Product 1: Demand Response	Term:			
	3 years			
	Delivery Starts:			
	2012			

Product 2:				
New Generation		Term:		
		20 years		
		Delivery Starts:		
		2010 - 2014		
Product 3:				
Existing Resources	Term:			
	1 year / 2 years			
	Delivery Starts:			
	2010 or 2011			
Product 4:				
Existing Resources			Term:	
			2 years	
			Delivery Starts:	
			2010	
Product 5:				
Existing Resources		Term:		
		10 years		
		Delivery Starts:		
		2012		
Product 6:				
New or Existing Resources				Term:
				10 years
				Delivery Starts:
				2012
Product 7a:				
Firm LD Energy	Term:			
	2 years / 4 years			
	Delivery Starts:			
	2010 or 2012			
Product 7b:				
Resource Adequacy	Term:			
	2 years / 4 years			
	Delivery Starts:			
	2010 or 2012			

General characteristics of each product are described below. SDG&E anticipated that all Offers received would provide a menu of resources from which it can select to fulfill its short- and long-term needs. The capacities listed are not a guarantee of purchase amounts for each product, but rather estimates of potential volumes. The final purchase amounts of each product will depend on factors including evolving resource planning considerations, prices offered for each product, the number of Offers received for each product type and potential overlap in product characteristics from various Offers.

Product 1 - Demand Response

SDG&E seeks Demand Response products for a three year term. Initial load reduction will commence on May 1st 2012. This product must be a means of reducing an end-use customer's demand and/or energy usage during a demand response event, must be for at least 1.0 MW in the aggregate and be within SDG&E's service territory. The demand and/or energy reduction must be measureable. The Offer must provide, in sufficient detail, the Demand Response product, the process for delivering Demand Response and the manner in which it will meet the minimum guidelines specified in Section 6 Offer Requirements of this solicitation.

Product 2 - New Local Generation Projects, online in 2010 – 2014

SDG&E seeks a minimum of 100 MW of peaking or intermediate-class resources as new construction or expansion projects within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 20 years and on-line dates of May 1 or October 1 in 2010, 2011, 2012, 2013 or 2014. The generation must be located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. Products offered in this category shall be capable of operating under all permits at annual capacity factors of a minimum of 30% with an availability of 98%. It is anticipated that heat rates will be no higher than 10,500 btu/kWh. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 3 - Existing Local Resources, delivering in 2010 and/or 2011

SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory for deliveries in 2010 and 2011. Any resulting contract will be a tolling agreement with a term of up to 2 years with a start date of January 1, 2010, or a 1 year term with a start date of January 1, 2010 or January 1, 2011. Offers for this product must be existing generation capacity that is currently recognized by the CAISO as counting towards SDG&E's service area Local Capacity Requirement. Respondents must provide Offers for deliveries in both 2010 and 2011 and pricing may differ between the years. However, SDG&E may at its discretion contract with the Respondent for either or both years. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 4 - Existing Regional Resources, delivering in 2010 and 2011

SDG&E seeks a minimum of 200 MW of existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 2 years starting on January 1, 2010. This product must deliver into CAISO's SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers.

Product 5 - Existing Local Resources, delivering in 2012-2021

SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and a start date of January 1, 2012 to qualify. Offers for this product must be existing generation located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. In consideration of California State Once through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit utilizing OTC will be offered a contract with SDG&E that consists of a 2 year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC

facilities. The decision to exercise the option will be based upon future rules governing OTC or SDG&E's sole discretion given its portfolio need. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 6 - All-Source Regional Resources, 2012-2021

SDG&E seeks minimum of 200 MW of new construction, expansion, or existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and deliveries will begin on May 1, 2012. This product must deliver into CAISO's SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and shutting down at night. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. In consideration of California State Once through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit located in California utilizing OTC will be offered a contract with SDG&E that consists of a 2-year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC facilities. The decision to exercise the option will be based upon future rules governing OTC or SDG&E's sole discretion given its portfolio need. If the CAISO expands SDG&E's Local RA area as described in the addendum, SDG&E could, at its sole discretion, evaluate Product 6 Offers that are located within the expanded area as if it were a Product 5 Offer.

Product 7 - Firm Liquidated Damages (LD) Energy and/or Resource Adequacy

SDG&E seeks a minimum of 200 MW of Firm LD Energy and/or Resource Adequacy Purchases. Resources may be within or outside of SDG&E service area.

Product 7a: Third Quarter, 6x16, on-peak Firm LD energy products conforming to Schedule C of the Western States Power Pool. Any resulting agreement will be an EEI agreement for short-term, block power purchases. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 and/or 2) deliveries in 2012 and 2013. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options. Resources outside of SDG&E must deliver to SP-15. For Product 7a, SDG&E will shortlist projects within the timeframes indicated in the schedule in Section 3 of this RFO.

> Refreshed pricing of shortlisted Offers will be allowed only once and by the date indicated in the schedule. Respondents are cautioned that if refreshed prices exceed the competitive range, the Offer may be rejected.
>
> Product 7b: Respondents shall Offer System Resource Adequacy (and local if within the SDG&E Local Area). Any resulting agreement will be a WSPP agreement for Resource Adequacy. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 [Q3 or full year] and/or 2) deliveries in 2012 and 2013 [Q3 or full year]. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options.
>
> Respondents may provide Offers for a single product and term or a combination of Offers, providing SDG&E with flexibility to match Offers and fill its required energy and capacity needs.
>
> For products seeking new or expanded generation resources, the Respondent shall be responsible for development, permitting, financing, and construction of any required facilities. The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's Tariff, applicable CPUC and/or FERC rules, orders, and/or regulations, and SDG&E's specifications.

To address concerns associated with climate change, the solicitation document states that suppliers must comply with the Commission's GHG Emissions Performance Standard as adopted in R.06-04-009. For resources that receive contracts as a result of their selection in the 2009 RFO, the contract provisions negotiated with each successful Bidder explicitly set forth the responsibilities for compliance with applicable GHG permits and regulations.

SDG&E did not specifically solicit renewable offers in this RFO since renewable resources are procured on an annual basis through a separate Commission-approved renewables-only RFO. It should be noted, however, that SDG&E's 2009 RFO did not prohibit any qualifying renewable resource from bidding to fill the identified need.

C. Describe How the PRG, IE, and ED Were Included in the RFO Design Process (Witness: Robert Anderson)

During the design stage of the 2009 RFO, SDG&E also consulted with its Procurement Review Group ("PRG"), worked with its Independent Evaluator ("IE") and exchanged multiple drafts with the Commission's Energy Division ("ED") to ensure that the solicitation was open, designed without bias and likely to garner a robust response from the market, and that it captured ED concerns regarding treatment of OTC resources. SDG&E introduced its plan to issue an RFO seeking demand response and supply resources to the PRG on March 19, 2009. During this meeting SDG&E presented its portfolio need, its procurement strategy, the scope of the solicitation and preliminary RFO schedule. A draft RFO was provided in advance of the meeting for PRG review. At a subsequent PRG meetings held on August 20, 2009, September 25, 2009, October 23, 2009, November 20, 2009, January 15, 2010, March 19, 2010, April 16, 2010, August 20, 2010, September 17, 2010, November 19, 2010, December 17, 2010, January 21, 2011, February 18, 2011, March 18, 2011, and April 15, 2011, SDG&E provided updates on the solicitation process.[23] Discussions during these meetings were wide-ranging and included matters such as SDG&E's evolving need, the selection criteria, ranking of each bid, proposed and final shortlists, negotiation status, and specific terms within power purchase agreements ("PPAs").

SDG&E enlisted the IE's assistance to design the solicitation and procurement strategy months in advance of RFO issuance. SDG&E worked with the IE to resolve issues identified by him prior to launching the RFO. The IE reported his findings regarding the overall process, fairness of the evaluation method, short listing rationale and other contractual considerations to the PRG at five PRG meetings. He continues to monitor the process, providing input during

[23] *See* Confidential Appendix 8.

contract negotiations. Finally, in the weeks prior to issuance, SDG&E exchanged drafts of the contracts with ED staff to ensure that staff's concerns were adequately addressed.

D. Describe the Original Solicitation Documents and Any Subsequent Revisions that Were Communicated to All Potential Bidders (Witness: Robert Anderson)

The solicitation document issued in this RFO and made available on the solicitation website is included in this filing as Appendix 1. The major sections in the RFO document include : (1) a description of the products sought in the RFO; (2) a timeline of the solicitation process; (3) an RFO-specific website address, as well as an email address to be used to communicate with SDG&E regarding the RFO; (4) a list of the required RFO response forms to be used to communicate offers to SDG&E (and instructions on how to obtain the forms); (5) a list of specific requirements applicable to all respondents in the RFO; (6) an outline of the evaluation criteria to be used by SDG&E to select from among the offers received; (7) a description of credit criteria; (8) a description of the confidentiality provisions applicable to responses; and (9) a list of the contingencies that would impact SDG&E's acceptance of any offer.

SDG&E posted, as part of the RFO package, draft contracts that parties could comment on and submit as part of their bid package. The drafts provided bidders with a clear view of SDG&E's requirements in any commercial arrangement that resulted from the RFO.

SDG&E issued the RFO on June 9, 2009 and offers were due August 10, 2009. Prior to the deadline for submitting offers, SDG&E had in place a process to allow potential bidders to submit clarifying questions to SDG&E to assist them in preparing bids. All of these questions were answered by SDG&E and every question, with its accompanying response, was posted on the public RFO website for the benefit of all participants. SDG&E held a pre-bid conference on

July 8, 2009. Attendance was not a prerequisite for submitting an offer. All conference materials, including a list of all questions and answers exchanged during the conference were posted on the solicitation website.[24] All answers posted on the website were reviewed by the IE prior to posting.

E. Summarize the solicitation outreach effort (Witness: Robert Anderson)

On June 9, 2009, SDG&E issued its 2009 RFO to the market. In order to achieve its goals of robust competition and maximum participation, SDG&E (i) issued a press release that was run by major trade publications; (ii) conducted a direct mailing (via e-mail to nearly 800 industry contacts) to a list of likely interested parties; (iii) placed a notice of the RFO on its website; and (iv) posted all relevant documents on that website for access by any interested party. The July 8, 2009 pre-bid conference attracted over 50 participants with interests ranging across all Products.

III. DETAILED DESCRIPTION OF BID SELECTION PROCESS

The following section describes the evaluation and selection process for Product 2 resources.

A. List and Briefly Describe All Bids Received in a matrix that Ranks Bids and Clearly Demonstrates Who "Winners" are (Witness: Robert Anderson)

Confidential Appendix 2 attached to this Application includes (1) a matrix of the Product 2 bids ranked by screening analysis results, (2) the shortlisted bids ranked by production cost modeling results, and (3) final ranking of negotiated contracts.

B. Categorize Rejected or Withdrawn Bids, and Describe Efforts Made to Rectify Non-Conforming Bids (Witness: Robert Anderson)

SDG&E did not receive any non-conforming bids for Product 2.

[24] http://www.sdge.com/rfo/supplyresource/index.shtml.

C. Describe Quantitative and Qualitative Criteria Used to Evaluate Bids (Witnesses: Robert Anderson)

The specifics surrounding the bid evaluation criteria used in the ranking and selection of offers received in this RFO are included as Confidential Appendix 3. An overview description of these criteria was included in the solicitation documents issued to the market.

D. Describe the Bid Evaluation Methodology, Including Least-Cost Best-Fit Evaluation (Witnesses: Robert Anderson)

The evaluation of bids began with screening for conformance with the RFO. Bids were screened by arranging their features and supporting information in a database. This allowed easy identification of the bids if they did not conform due to missing information or because one or more features of the bid were inconsistent with the parameters set forth in SDG&E's RFO.

The bids were evaluated by ranking then on a levelized dollars per kilowatt-year ($/kW-yr) basis. The annual capacity charges and operating and maintenance ("O&M") costs for each offer, over the contract period, were discounted using SDG&E's weighted average cost of capital to obtain a net present value ("NPV"). This total present value was levelized over a common period and the resulting value was divided by the capacity of the bid to obtain a levelized price expressed in $/kW-yr.[25] Levelized energy benefits, ancillary service revenues and transmission upgrade costs were also included to rank projects. All offers submitted for this product were for in-basin generation, which eliminated the need to calculate congestion costs since there has been very little price differential between nodes historically.

The evaluation was carried out in a number of steps. First, all Product 2 conforming bids were run through a screening model to rank the bids. The screening model accounted for capacity costs, fixed and variable O&M costs, and potential energy cost savings based on the

[25] Capacity values used in the evaluation were based on the bidders proposed capacity value which may not be equal to the CAISO NQC.

terms and conditions proposed by the bidders. The result of this analysis, which ranked the best bid from each unique project, is shown in Table 2-1 in Confidential Appendix 2. This screening analysis allowed SDG&E to rank bids and reduce the offers to a short list.

The shortlisted offers were then inputted into a production costing model which dispatched the units from their proposed on-line date through 2020. The production cost modeling refined the potential energy benefits by including all operating characteristics such as start-up costs and starting and shut down limits. In order to evaluate all contracts over the same period, energy savings after the model period were escalated through the end of the evaluation period. Ancillary service benefits were derived by calculating the potential for ancillary service sales given the energy dispatch and the unit's capabilities. Given the technologies offered, the ancillary services that were valued were non-spin reserves and regulation up and down.

Preliminary transmission upgrade costs on just the SDG&E system were estimated for each project in isolation based on SDG&E's knowledge of its system. These costs were not based on interconnection studies such as the one the CAISO will conduct.

The shortlisted offers were then re-ranked using the updated energy benefits, ancillary service benefits and preliminary transmission costs. These results are shown in Table 2-2 in Confidential Appendix 2.

The pricing comparison of the final negotiated contracts is shown in Table 2-3 in Confidential Appendix 2.

E. Summarize the Selected Offer(s), Including the Following:

There are three selected offers in this Application, 1) Escondido Energy Center, 2) Pio Pico Energy Center, and 3) Quail Brush Generation Project. Each selected offer is summarized separately.

- **<u>Selected Offer #1: Escondido Energy Center (Witness: Tom Saile)</u>**

The selected offer is a PPTA as follows:

1. Name (identify unit or project)

The project is referred to as the Escondido Energy Center (EEC).

2. Counterparty

The PPTA counterparty (Seller) is Escondido Energy Center, LLC, a Delaware limited liability company that is part of the same Wellhead organization which has been active in the California power industry for over 25-years.

3. Description of technology

The EEC is a 45 MW repowering of an existing facility and includes the installation of a new single unit simple-cycle peaking generation facility powered by a new General Electric LM-6000 combustion turbine unit which replaces a Pratt & Whitney Power Systems ("PWPS") Model FT4 gas turbine-generator.

4. MW and MWh

EEC's anticipated capacity is 45 MW when corrected to contract conditions. EEC's annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for the unit to operate up to [redacted] EEC can be dispatched from a "cold" idle state to full load within 10 minutes.

5. Location

EEC is located on the south side of Hwy 78 in Escondido just west of I-15. The site address is 1968 Don Lee Place, Escondido, CA. It is electrically located within SDG&E's service area.

6. On-line date

The contractual Expected Initial Delivery Date for EEC is July 1, 2012 except that this date is extended on a day-for-day basis for each day that Commission approval is after July 1, 2011.

7. Contract Term

The EEC PPTA delivery term expires on December 31st of the year in which the 25th anniversary of the initial delivery date occurs.

8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.)

Since the EEC is a repowering of an existing project of comparable size that currently provides full deliverability it is anticipated that full resource adequacy will be supplied from the new unit. A switchyard with 69 kV output voltage connects the facility to the SDG&E Escondido Substation via underground lines. There are no incremental transmission impacts or costs associated with the contemplated PPTA.

9. Cost info (e.g., capacity payments, total cost, NPV, etc.)

Cost Item	Contract Amount
Capacity Payment	[redacted]
Fixed O&M [redacted]	[redacted]
Variable O&M [redacted]	[redacted]
Start-up Cost [redacted]	[redacted]
Start-up Cost [redacted]	[redacted]

10. Environmental costs / attributes

The EEC is equipped with an integrated water injection system to lower NOx emissions. The facility utilizes a CO catalyst and aqueous ammonia in combination with a selective reduction catalyst ("SCR") for NOx control. Water for turbine inlet fogging is utilized for capacity augmentation. Inlet fogging mitigates power loss due to ambient temperatures. The

water is purified via portable demineralizer units on site. Rain water that impacts potentially oily surfaces such as equipment skids is collected and discharged to a below grade storage tank for disposal via truck.

11. Greenhouse gas profile

A description of the conformance of this unit to current Commission policy on GHG is included in Section IV.D. CO_2 emissions are approximately 0.55 MT CO_2/MWh.[26] Although run hours are dictated by the CAISO to meet day-ahead or hour-ahead need, typical peaking facilities of this type operate at less than 10% annual capacity factors. At a 10% capacity factor, annual CO_2-equivalent emissions would be 22,000 Metric tons which is below the 25,000 metric tons per year threshold that the California Air Resources Board ("CARB") has established for requiring GHG allowances, and thus no GHG allowances/credits are anticipated to be needed for this facility.

12. Assignment of regulatory risk

The previous owner was granted an "Authority To Construct" from the local air pollution control district on July 2, 2008 and the facility will be constructed with a selective catalytic reduction system to minimize NOx and CO emissions. Beyond that and Commission approval of the PPTA, being a repowering of an existing facility, the only remaining approvals would involve routine local permitting. *See* Section 13 of the contract for more details.

13. Terms for contract termination

The EEC contract may be terminated by either party if the following conditions precedent are not satisfied or waived [redacted]

[26] GHG emissions are calculated using 117 lbs CO_2/MMBtu of natural gas combusted and 2204.6 lbs/metric ton.

[redacted]

14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents)

The EEC PPTA has multiple delineated circumstances where renegotiation of specific contract terms may occur. The key circumstances are:

[redacted]

- **<u>Selected Offer #2: Pio Pico Energy Center (Witness: Maurene Bishop)</u>**

The selected offer is a PPTA as follows:

1. Name (identify unit or project)

The name of the project is the Pio Pico Energy Center ("Pio Pico").

2. Counterparty

The counterparty is the Pio Pico Energy Center, LLC, a Delaware limited liability company (Seller), which is owned by Energy Investors Funds ("EIF") Pio Pico, LLC, which in turn is a member of the United States Power Fund III, L.P., and for which its general partner is the EIF US Power III, LLC. All of these entities are affiliates of EIF. EIF's fund affiliates have invested in over 100 electric generation and transmission projects since being formed in 1987.

3. Description of technology

The Pio Pico project is a fast-start, highly efficient, simple cycle, 300 MW power plant consisting of three natural gas-fired GE LMS 100 combustion turbines, equipped with intercooler, selective catalytic reduction units, gas compressors, instrumentation and controls, partial dry cooling and all necessary auxiliary equipment.

4. MW and MWh

The Pio Pico Expected Contract Capacity as stated in the PPTA is 304.8 MW. The actual Contract Capacity will be demonstrated by a Commercial Operation Test and adjusted to Contract Conditions prior to the Commercial Operations Date. Pio Pico's annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for each of the three units to run up to [redacted] Pio Pico can be dispatched from "cold" to full load within 10 minutes. The units will be capable of being placed on automatic generation control with load following capability of 50% to 100% load.

5. Location

Pio Pico will be located on previously disturbed private land, adjacent to the Otay Mesa combined cycle power plant in San Diego County. Pio Pico has site control under an option to lease.

6. On-line date

Pio Pico's "Expected Initial Delivery Date" for all three units is May 27, 2014.

7. Contract Term

Pio Pico's contract term also known as the "Delivery Period" commences on the Initial Delivery Date and continues to the last day of the year in which the 20th anniversary of the Initial Delivery Date occurs.

8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.)

The point of interconnection for Pio Pico is anticipated to be at the 230 kV Otay Mesa switchyard, as to be more fully described in the Large Generator Interconnection Agreement between the parties. The transmission impacts are unknown at this time, but will be better understood at the issuance of the Phase 2 study, expected to be released in August 2011 with the actual costs based on the remaining participants in the study. As discussed in Section 13 below, it is a condition precedent that the interconnection costs that SDG&E would be required to fund as set forth in the Phase 2 interconnection study for the project not exceed [redacted]. Once interconnected, the project will provide full deliverability and thus able to supply full resource adequacy.

9. Cost info (e.g., capacity payments, total cost, NPV, etc.)

Cost Item	Contract Amount
Capacity Payment	[redacted]
Fixed O&M [redacted]	[redacted]
Variable O&M [redacted]	[redacted]
Start-up Cost [redacted]	[redacted]

10. Environmental costs / attributes

The facility will utilize a CO catalyst and aqueous ammonia in combination with a selective reduction catalyst (SCR) for NOx control. Dry low NOx is not currently available for the GE LMS100 machines. Demineralized water is utilized for direct injection to minimize NOx emissions. The water is purified via portable reverse osmosis units on site. The facility is designed to utilize recycled water from the Otay Water District. Rainwater that impacts potentially oily surfaces such as equipment skids is collected and discharged to an above-ground storage tank for disposal via truck. The sewer connection will be made to the existing sewer infrastructure located adjacent to the site. These are new units whose design and environmental impacts have been previously approved and are currently operating in the State of California.

A Phase 1 Environmental Site Assessment was completed prior to filing the Application for Certification and is part of the CEC permit approval process. Pio Pico's CEC Application for Construction 11-AFC-01 has been found to be data adequate.

11. Greenhouse gas profile

A description of the conformance of this project to current Commission policy on GHG is included in Section IV.D. CO_2 emissions are approximately 0.50 MT CO_2/MWh. Normal operation of the facility is unknown. Run hours are dictated by the CAISO to meet day-ahead or hour-ahead need. The proposed air permit filed with CEC has a limit of 4,000 hours annually of operations. GHG allowances/credits are anticipated to be needed for this facility.

12. Assignment of regulatory risk

The AFC was filed with the CEC on February 9, 2011 as 11-AFC-01. The main regulatory risk that Pio Pico and SDG&E face is mandates for tighter environmental compliance.

13. Terms for contract termination

Pio Pico's contract may be terminated if the following conditions precedent are not satisfied or waived: [redacted]

14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents)

The Pio Pico PPTA has delineated circumstances where renegotiation of specific contract terms may occur if needed:

[redacted]

- **<u>Selected Offer #3: Quail Brush Generation Project (Witness: Brad Mantz)</u>**

The selected offer is a PPTA as follows:

1. Name (identify unit or project)

The project is called the Quail Brush Generation Project ("Quail Brush").

2. Counterparty

The PPTA counterparty (Seller) is Quail Brush Genco LLC which is a Delaware limited liability company which is wholly owned by Cogentrix Energy LLC, which is a wholly owned subsidiary of Goldman Sachs.

Cogentrix in February 2011 bought out the ownership of the original developer ENPEX Corporation and in March 2011 officially changed the project's name.

3. Description of technology

Quail Brush is a new 100 MW peaker that will be powered by eleven 9.1 MW - Wartsila 20V34SG reciprocating natural gas-fired engines.

4. MW and MWh

The facility's anticipated capacity is 99.8 MW when corrected to contract conditions. Annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for the project to operate up to [redacted]. Quail Brush can be dispatched from "cold" to full load within 10 minutes. Each unit will be capable of being placed on automatic generation control with load following capability of 50% to 100% load.

5. Location

Quail Brush is located on previously disturbed private land adjacent to and south of the existing Sycamore Canyon Landfill. The project is just North of Hwy 52, several miles east of Interstate 15. The project is located within the San Diego City limits and electrically it is located within SDG&E's local area.

6. On-line date

The contractual Expected Initial Delivery Date for the unit is June 1, 2014.

7. Contract Term

The Quail Brush PPTA delivery term expires on December 31 of the year in which the 20th anniversary of the initial delivery date occurs.

8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.)

The point of interconnection for Quail Brush is anticipated to be a new switchyard on the 230 kV Sycamore Mission transmission line, as will be more fully described in the Large Generator Interconnection Agreement between the parties. The transmission impacts are

unknown at this time, but will be better understood at the issuance of the CAISO's Phase 2 study, expected to be released in August 2011 with the actual costs based on the remaining participants in the study. As discussed in Section 13 below, there is a condition precedent that the interconnection costs which SDG&E would be required to fund as set forth in the Phase 2 interconnection study for the project do not exceed [redacted]. Once interconnected, the project will provide full deliverability and thus able to supply full resource adequacy.

9. Cost info (e.g., capacity payments, total cost, NPV, etc.)

Cost Item	Contract Amount
Capacity Payment	[redacted]
Fixed O&M [redacted]	[redacted]
Variable O&M [redacted]	[redacted]
Start-up Cost	[redacted]

10. Environmental costs / attributes

The facility will utilize a CO catalyst and aqueous ammonia in combination with a selective reduction catalyst (SCR) for NOx control. The Wartsila engines that are being used on the project employ a closed loop cooling system and do not consume process water for cooling. The generation equipment will be contained inside a building and outside contamination by oils will be almost nonexistent. These are new units whose design and environmental impacts have been previously approved. Similar units are operating in the State of California.

11. Greenhouse gas profile

A description of the conformance of this unit to current Commission policy on GHG is included in Section IV.D. CO2 emissions are approximately .50 MT of CO2/MWh. Normal operation of the facility is unknown. Run hours are dictated by the CAISO to meet day-ahead or hour-ahead need. GHG allowances/credits are anticipated to be needed for this facility.

12. Assignment of regulatory risk

The main regulatory risk that Quail Brush faces is new mandates for tighter environmental compliance. *See* Section 13 of the contract for more details.

13. Terms for contract termination

The Quail Brush contract may be terminated by either party if the following conditions precedent are not satisfied or waived: [redacted]

14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents)

The Quail Brush PPTA has several delineated circumstances where renegotiation of specific contract terms may occur:

[redacted]

F. Provide Other Information Relevant to the Bidding and Selection Process (e.g., Mutually Exclusive Bids) (Witness: Robert Anderson)

None.

IV. CONSISTENCY WITH COMMISSION DECISIONS

The purpose of this section is to identify how the RFO process complies with procurement-related Commission decisions. Where applicable, specific citations to Commission decisions should be provided. At a minimum, this section should describe:

A. Whether the Solicitation and Bid Selection were Consistent with the IOU's LTPP and Solicitation Protocol:

1. Identify the Commission decision that approved the IOU's LTPP and explain with specific citations how the IOU adhered to Commission guidelines for conducting RFOs (Witness: Robert Anderson)

SDG&E's 2006 LTPP was approved with modifications in D.07-12-052 and further updated in D.08-11-008. SDG&E filed its Conformed 2006 LTPP on April 18, 2008.[27] A

[27] Advice Letter 1983-E.

description of the process utilized by SDG&E in conducting competitive solicitations is contained in its Commission-approved 2006 LTPP (at Section II.A). SDG&E's 2009 RFO was compliant with the process set forth in its Commission-approved Plan.

The subsequent adoption of SB 695 and the Commission proposed decision on its implementation has required SDG&E to vary from its 2006 LTPP. A key element of SB 695 has removed the utilities' election as to whether certain resources will or will not be subject to a CAM. Under the approved 2006 LTPP, the utility could make that election. Given this change in law, which occurred after SDG&E issued the RFO, SDG&E is seeking a Commission finding that these resources are being added for the benefit of all customers and thus are subject to CAM treatment.

2. Evaluate how the bid evaluation process was consistent with the approved IOU LTPP (Witness: Robert Anderson)

SDG&E's 2006 LTPP included bid evaluation guidelines that were approved as part of those plans. SDG&E's conduct and consistency with its procurement plans are subject to review by its PRG and IE. Both have been kept informed regarding the RFO and with the progress of SDG&E's negotiations.[28]

3. Explain how the Selected Offer(s) conform to the IOU's portfolio needs, including least-cost/best-fit evaluation (Witness: Robert Anderson)

SDG&E's approved 2006 LTPP outlines the new resources needs. The plan identified the need for quick start natural gas-fired resources to back up renewable resources. D.07-12-052, in fact, directed SDG&E to procure such resources:

> To support the types of needs we anticipate in a GHG constrained portfolio, we require SDG&E to procure dispatchable ramping

[28] *See* Confidential Appendix 8.

> resources that can be used to adjust for the morning and evening ramps created by the intermittent types of renewable resources.[29]

EEC, Pio Pico, and Quail Brush all meet this requirement. These units are quick start and thus can be used to meet sudden changes in loads or resources and to provide reliable capacity at time of peak loads.

4. Discuss/explain any discrepancies/ambiguities between the LTPP requirements and this RFO (Witness: Robert Anderson)

The selected contracts are fully consistent with the resource need in SDG&E's LTPP.

B. Robustness of RFO Solicitation (Witness: Robert Anderson)

The 2009 Supply Resources RFO solicitation received 244 bids from 30 different counterparties. 37 of these bids from 10 different counterparties were for New Local Generation ("Product 2").

The total capacity of conforming unique project bids received for Product 2 was well in excess of anticipated need for new local generation. This was deemed sufficiently robust to proceed with further evaluation of Product 2 offers.

C. Confirm Consistency with EAP Loading Order. Specifically, Reference the IOU's Process for Ensuring that Renewables, EE, DR, and/or DG Did Not Exist at Cost Effective Prices and/or Could Not Perform as Needed for the Specific Product Requested. Identify Any Significant Changes in the Cost or Functionality of Higher Loading Order Resources that have Reduced the Need for Conventional Resources that was Calculated in the LTPP (Witness: Robert Anderson)

SDG&E's energy planning focuses first on energy efficiency, demand response and renewable power prior to adding any gas-fired generation. One area of focus in the Commission's review of SDG&E's 2006 LTPP was on ensuring that the planned actions are consistent with State policies and that SDG&E's plan recognizes the Energy Action Plan ("EAP") loading order and maximizes preferred resources, while optimizing least cost/best fit

[29] D. 07-12-057 at 115.

and maintaining reliability. Even after planning for these resources, SDG&E has determined that there will be a need for additional capacity to meet all customers' needs.

While SDG&E did not specifically solicit renewable resources in this RFO, as explained above, SDG&E's 2009 RFO did not prohibit any qualifying renewable resource from bidding to fill the identified need.

D. Selected Offer(s)' Compliance with the Commission's GHG Emission Performance Standard and Consistency with the IOU's Overall GHG Reduction Objectives (Witness: Robert Anderson)

In D.07-01-039, the Commission adopted standards that set limits on the GHG emissions profiles of long-term contracts entered into by investor owned utilities ("IOUs"). Under these standards, a long-term commitment by a load-serving entity to take power from a power plant must demonstrate compliance with the Emissions Performance Standard ("EPS") if the power plant is a baseload facility (with an estimated annual capacity factor greater than 60%) or if the power plant is designed to augment the output or extend the operating life of an existing baseload or non-baseload plant.[30] The PPTAs involved with this Application comply with D.07-01-039. The facilities are all peaking power projects (with estimated annual capacity factors far less than 60%), and this Application is not designed or intended to augment the output or extend the operating life of an existing baseload power plant.

E. Selected Offer(s)' Impact on Transmission

- **<u>Selected Offer #1: Escondido Energy Center (EEC) (Witness: Tom Saile)</u>**

Since the EEC is a repowering of an existing facility with an existing interconnection agreement, no incremental interconnection facilities or upgrades are required for this project.

[30] D.07-01-039 at 7.

- **<u>Selected Offer #2: Pio Pico Center (Witness: Maurene Bishop) & Selected Offer #3: Quail Brush Power Project (Witness: Brad Mantz)</u>**

The transmission impacts for both of these projects are unknown at this time, but will be better understood at the issuance of the CAISO's Phase 2 study, expected to be released in August 2011. As was discussed in the description of each contact, there is a condition precedent in each contract that the interconnection costs which SDG&E would be required to fund as set forth in the Phase 2 interconnection study for the projects do not exceed specific limits.

F. Affiliate Bids and UOG Ownership Proposals (if Applicable)

1. Describe the design and implementation of any Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids, including any violation(s) of that code (Witness: Robert Anderson)

The RFO did not request, nor did SDG&E receive any utility owned generation ("UOG") bids for Product 2.

2. Describe other safeguards and methodologies implemented by the IOU, including those stipulated in Commission decisions D.04-12-048 and D.07-12-052 for head-to-head competition between utility ownership and independent ownership bids, to ensure that affiliate and UOG bids were analyzed and considered on as comparable a basis as possible to other bids, that any negotiations with such bids' proponents were conducted as comparably as possible to negotiations with other proponents, and that the utility's final selections in such cases did not favor an affiliate or UOG bid (Witness: Robert Anderson)

There were no UOG or affiliate bids placed in the RFO for Product 2.

3. Describe the compliance of the RFO process with these safeguards (Witness: Robert Anderson)

See response IV.F.1 above.

4. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownership, explain and analyze whether the utility's selection of such bid(s) was preferable from the ratepayers' perspective (Witness: Robert Anderson)

There were no UOG or affiliate bids placed in the RFO for Product 2.

G. Qualitative Factors that the IOU Considered in its Evaluation and Selection of Bid(s):

1. Project viability (including technology or counterparty concerns)

- **<u>Selected Offer #1: Escondido Energy Center (EEC) (Witness: Tom Saile)</u>**

A PPTA with the EEC is particularly attractive because (i) the developer, Wellhead, has been actively involved in the California independent power industry for over 25 years and has several successful power plants to its credit, (ii) it utilizes a combustion turbine that is well known and trusted in the utility industry – the GE LM6000, and (iii) the developer has current experience operating power plants based on this same technology. Additionally, the project already received its "Authority To Construct" back in 2008, since the previous owners had begun the repowering process for this site. At this point, Wellhead is waiting only for Commission approval of the PPTA before proceeding with construction.

- **<u>Selected Offer #2: Pio Pico Center (Witness: Maurene Bishop)</u>**

The Pio Pico project is highly viable based upon the experience of the owner and operator. Having completed the development, permitting and construction of the Panoche 400 MW power plant located in Fresno County, utilizing the same technology, APEX and EIF have unique insights into the costs and requirements for such an endeavor.

- **<u>Selected Offer #3: Quail Brush Power Project (Witness: Brad Mantz)</u>**

The Quail Brush Generation Project is highly viable based upon the experience of the owners and operators. Cogentrix Energy is a subsidiary of Goldman Sachs and owns and operates more than 17 projects in the United States, including SEGS I & II in California.

2. Resource diversity (Witness: Robert Anderson)

SDG&E's LTPP describes a portfolio of resources, each of which meets one or more specific requirements. There is no single resource that, by itself, is suited to meet all portfolio needs. Therefore, SDG&E procures a variety of capacity resources. The EEC project replaces a smaller existing unit which has a higher heat rate and an uncertain operating future being a 40-year old unit. Both the Pio Pico and Quail Brush projects add new technologies which provide both the quick start attribute of the smaller peakers and the ability to regulate output. In the case of Pio Pico each unit can operate from approximately 50% to 100% capacity; and in the case of Quail Brush, with its eleven separate units, the project can operate between approximately 5% to 100% of the total output capability. Thus, they will add flexibility to the overall fleet of resources. Also, given Pio Pico and Quail Brush's units' lower than average heat rate of about 9,000 Btu/kWh, between the two projects they are more efficient than the existing peaker fleet.

3. Greenfield versus brownfield (including repowering) environmental impacts/benefits

- **<u>Selected Offer #1: Escondido Energy Center (EEC) (Witness: Tom Saile)</u>**

There are several key benefits associated with the Escondido Energy Center repowering at an existing site (i) requisite power plant infrastructure, such as the natural gas connection and transmission interconnection, is already in place, (ii) the operation of a power plant has been integrated into the community over the last ten years, and (iii) the new combustion turbine will have significantly lower emissions than its predecessor.

- **<u>Selected Offer #2: Pio Pico Center (Witness: Maurene Bishop)</u>**

Pio Pico will be located on previously disturbed private land, adjacent to the Otay Mesa combined cycle power plant in San Diego County near the United States and Mexico border. Pio Pico has site control under an option to lease. Access to natural gas and an existing 230 kV transmission line is adjacent to the property. The new units are state-of-the-art peakers with up-to-date air emissions controls.

- **<u>Selected Offer #3: Quail Brush Power Project (Witness: Brad Mantz)</u>**

The Quail Brush project has several benefits: (1) it is located on previously disturbed private land, and (2) it does not utilize water for cooling. Also, the Wartsila generator package allows great flexibility (5 % to 100% load) and utilizes state-of-the-art engine and emissions technology that has been previously permitted and is operating in California.

4. Environmental/economic justice (Witness: Robert Anderson)

As discussed in Section IV.D, these facilities will meet the Commission's current rules regarding the mitigation of GHG. The quick start capability of these facilities is consistent with the type of unit characteristics which the Commission has found to be desirable to facilitate the addition of progressively increasing amounts of intermittent resources, which must be integrated into the power grid.

5. Other qualitative factors considered (Witness: Robert Anderson)

No other qualitative factors were considered.

H. List and Explain Any Significant Negotiated Revisions to the RFO Solicitation Package that were Agreed to By the IOU and Individual Counterparties. Include an Explanation (and supporting analysis) of Why the Negotiated Revisions Did not Sufficiently Alter the Nature of the Product to Warrant Revisions to or a Re-Issuance of the RFO Bid Documents to All Bidders (i.e., Confirm that the Changes Would Not Have Resulted in a Different Bid Selection had All Parties been Afforded the Opportunity to Bid a Similarly Nonconforming Product). (Witness: Robert Anderson)

There were no significant revisions that altered the nature of the product or would require rebidding. SDG&E worked closely with its IE during contract negotiations to ensure that any negotiated changes were being fairly applied.

V. OUTSIDE PARTICIPATION AND FEEDBACK

A. PRG Participation:

1. Describe all RFO-related information distributed to the PRG (Witness: Robert Anderson)

Meeting dates are provided in Section V.A.2. The material from each meeting, including SDG&E presentations and IE reports, is included as Confidential Appendix 8.

2. Summarize the PRG's participation in the RFO design, bid evaluation, and bid selection process (Witness: Robert Anderson)

SDG&E met with its PRG on seventeen occasions during which the subject of the solicitation was discussed. At the March 19, 2009 meeting, SDG&E discussed the upcoming 2009 RFO. At the August 20, 2009 and October 23, 2009 meetings, SDG&E presented raw bid data from the RFO. At the August 20, 2009, September 25, 2009 and October 23, 2009 meetings, SDG&E presented analysis of the offers received. At the October 23, 2009, November 20, 2009 and January 15, 2010 meetings, SDG&E presented preliminary and final shortlists, and discussed its reasoning for selection of the shortlisted projects. At the March 19, 2010, April 16, 2010 and November 19, 2010 meetings, SDG&E discussed the status of negotiations with the shortlisted projects. On November 19, 2010, SDG&E presented the final cost values to the PRG.

Updates to the status of the selected projects were presented at the December 17, 2010, January 21, 2011, February 18, 2011, March 18, 2011, and April 15, 2011 meetings. Additionally, SDG&E convened a CAM PRG meeting on March 18, 2011 to brief the newly formed CAM PRG that SDG&E believed these projects meet the requirements of the Commission[31] for projects needed to meet local reliability needs. Thus, SDG&E would be seeking cost recovery from all benefiting customers consistent with the requirements of SB 695.

B. IE Participation:

1. Cite CPUC decisions requiring the use of an IE and their applicability to this RFO (Witness: Robert Anderson)

The Commission's decisions requiring the use of an IE and their applicability to this RFO are set forth in D.04-12-048 and D.07-12-052. In D.04-12-048, the Commission eliminated its prior ban on affiliate transactions, but imposed a requirement that any solicitation that involved a bid from an IOU affiliate must employ an IE to monitor the solicitation, bids and evaluation process, in order to ensure the fairness of the process. In D.07-12-052, the Commission confirmed its requirement regarding the use of IEs and further refined the IE selection process by, for example, requiring the development of a pool of qualified IEs and creating a pro forma IE retention agreement. The Commission also confirmed that IE costs, as part of the procurement process, are recoverable through Energy Resource Recovery Account ("ERRA").

2. Summarize the IE participation in the RFO development, bid solicitation, and bid selection processes (Witness: Robert Anderson)

Prior to SDG&E launching its 2009 RFO solicitation, SDG&E consulted with its IE, Dr. Andy Van Horn, concerning the need for capacity resources and the overall design of the RFO and procurement process. Dr. Van Horn was informed about and consulted on scheduling and milestones and reviewed the RFO drafts. He discussed the steps of the bid processing and

[31] D.07-12-052 at 280, Finding of Fact 58; *Id*. at 294, Conclusion of Law 23; *Id*. at 301, Ordering Paragraph 8.

evaluation protocol and the evaluation spreadsheet template itself. Regular consultations between the IE and SDG&E's staff occurred, during which the IE offered feedback and recommendations throughout the design and implementation stages. He offered revisions to the template, which SDG&E implemented. He was on-site in San Diego for the bidders' conference and, later, for the receipt of the offers. The IE reviewed SDG&E's responses to questions from potential bidders. He also reviewed SDG&E's bid processing and met with processing team members on the day bids were received.

The IE and his associates reviewed SDG&E's bid evaluation spreadsheet models, as well as other information, and commented on the evaluation methods and procedures throughout the process. Dr. Van Horn reviewed the initial short list selection of offers and potential contract terms. He selectively participated in numerous conference calls with bidders after the short list was announced. He also prepared summary briefings for discussions with the PRG and answered questions from PRG members during meetings which covered this RFO. More complete details of the IE's participation and oversight of this RFO and his recommendations are contained in the attached IE report.

3. Attach the IE's report on the solicitation (Witness: Robert Anderson)

The Public Report of the Independent Evaluator: Product 2 -- SDG&E's June 9, 2009 RFO for Demand Response and Supply Resources and its Confidential Addendum, dated May 18, 2011, provide the IE's review and monitoring of the Product 2 solicitation, evaluations, negotiations and contracts, as well as the status of other 2009 RFO products. These reports are attached as Appendix 9.

4. Present and explain the IE costs for the RFO (Witness: Robert Anderson)

The invoiced total to date for time spent by the IE on the Product 2 RFO design, review and monitoring of evaluations, shortlisting, negotiations, contracts and reporting is approximately [redacted]

C. Provide any Other Information Relevant to Outside Participation and Feedback that is Important to Evaluation of the RFO Process (Witness: Robert Anderson)

During the period between issuance of the 2009 RFO and the deadline for submittal of offers to SDG&E, an e-mail box was provided to potential bidders to allow them to ask questions and to seek clarification regarding the RFO documents, products sought, requirements for offers or any other area where clarification or assistance was required. SDG&E provided responses to all questions and posted all responses on the RFO website, so that all participants would benefit from the response, thus ensuring that all participants had equal knowledge of the requirements of the RFO. The IE reviewed each of the questions and responses before posting.

VI. CONTINGENCIES AND MILESTONES

Identify any contractual obligations that will impact the schedule for Commission approval (termination clauses, transmission upgrades, etc.). Also describe any milestones and uncertainties regarding technology, regulatory permitting, and on-line date risk.

- **Escondido Energy Center (Witness: Tom Saile)**

- **EEC Critical Milestones[32]**

	Target Date
[redacted]	[redacted]
Achievement of Initial Delivery Date	7/1/2012

- **Pio Pico Energy Center (Witness: Maurene Bishop)**

Pio Pico Critical Milestones	Target Date
[redacted]	[redacted]
Achievement of Initial Delivery Date	5/27/ 2014

//

//

[32] The EEC PPTA has an in-service date that is two years sooner (2012) than the other two PPTAs in this Application. However, there is a provision in the EEC contract that extends the Expected Initial Delivery Date on a day-for-day basis for each day that the Commission's non-appealable approval occurs after July 1, 2011. The milestones shown identify key project milestones leading to the planned July 1, 2012 in-service date.

- **Quail Brush Power Project (Witness: Brad Mantz)**

Quail Brush Critical Milestone	Target Date
[redacted]	[redacted]
Achievement of Initial Delivery Date	6/1/2014

VII. RATE RECOVERY (WITNESS: G. SHIMANSKY)

In this section, SDG&E proposes mechanism for recovering in rates the costs associated with the three PPTAs for local generation. Further, this section proposes a new two-way Balancing Account to record the benefits and costs of these contracts for new generation, proposes a new rate component that implements the statutory requirements of SB 695,[33] and summarizes the effects that the Commission's guidance related to debt equivalence and Financial Accounts Standards Board ("FASB") Interpretation No. 46(R) ("FIN 46(R)") would have on these PPTAs.

A. Request for new "Local Generation Balancing Account" (LGBA)

SDG&E is requesting a new, two-way, interest-bearing balancing account mechanism (Local Generation Balancing Account, or "LGBA"), effective upon approval of the earlier of this Application or one or more of the PPTAs. The establishment of this balancing account is needed to record the benefits and costs of PPTAs, including those proposed in this Application as well as

[33] P.U. Code § 365.1(c)(2)(A).

SDG&E-owned peaker power generation units associated with new generation resources. SDG&E proposes to create a new sub-account in the LGBA corresponding to each new generation resource.

Disposition of the LGBA balance will be addressed in SDG&E's ERRA proceeding or in a separate application. SDG&E proposes that the LGBA be applied to all benefitting customers in SDG&E's distribution service area–-- on an equal kilowatt per hour basis by customer class.

B. Request for new rate component (Witness: Cynthia Fang)

Pursuant to D.08-09-012 and D.11-05-005, SDG&E proposes implementation of the Local Generation Charge ("LGC") for recovery of new generation costs pursuant to D.06-07-029. As discussed above in Part One, Section IV, D.06-07-029 adopted a CAM that allows for the costs and benefits of new generation to be shared by all benefiting customers, and SB 695 requires that the net capacity costs of resources, such as subject PPTAs, that are needed to meet the system or local are reliability needs, are to be allocated to all benefiting customers on a non-bypassable basis. Consistent with this guidance, SDG&E proposes the LGC as a non-bypassable charge applicable to benefiting customers defined as all bundled service, Direct Access ("DA") and Community Choice Aggregation ("CCA") customers.

Consistent with D.06-07-029, SDG&E proposes that the LGC be recovered as a per kilowatt hour charge developed by allocating the applicable annual revenue requirement, the total annual contract costs net of the market revenues,[34] among all customer classes based on the 12-month coincident peak ("12 CP") demand methodology, including bundled, DA and CCA customers, and then dividing the resulting customer class revenue by current authorized sales by customer class. SDG&E proposes to include the LGC in tariffs as a component of the Utility

[34] The market revenues will be determined by whatever method the Commission establishes in its implementation of SB 695.

Distribution Company ("UDC") charge, which is applicable to bundled service, DA and CCA customers. The applicable revenue requirement is based on the net cost of capacity, determined as a net of the total cost of the contract minus the energy revenues associated with dispatch of the total contract. Pursuant to D.08-09-012, the LGC is identified separately and is not included as a component of the Cost Responsibility Surcharge ("CRS"). Accordingly, in the Commission's Order regarding this Application, SDG&E also requests the Commission's approval of the LGC for the three PPTAs.

C. Impacts on financial ratios and Rating Agency analysis (Witness: Greg Shimansky)

Background on Rating Agency analysis - Rating agencies include long-term fixed financial obligations, such as PPTAs, in their credit risk analysis. These obligations are considered to be equivalent to debt and treated as additional debt during their financial ratio assessment. Standard & Poors ("S&P") views the following three ratios, Funds From Operation ("FFO") to Debt, FFO to Interest Expense, and Debt to Capitalization, as the critical components of a utility's credit profile. Debt equivalence negatively impacts all three ratios. Unless mitigated, a PPTA would negatively impact SDG&E's credit profile, as it would degrade credit ratios.

Commission rulings on debt equivalence - In D.04-12-048, the Commission adopted a modified version of the S&P approach for calculating debt equivalence, and ordered that the impacts of debt equivalence should be addressed in the utilities' Cost of Capital Proceedings. SDG&E was granted an equity rebalancing revenue requirement, subject to cost caps, for the Otay Mesa Energy Center ("OMEC") as per a settlement agreement with the Division of Ratepayer Advocates ("DRA"), The Utility Reform Network ("TURN"), and Utility Consumers Action Network ("UCAN"). However, in the subsequent SDG&E Cost of Capital decision

(D.07-12-049), the Commission denied an automatic equity rebalancing mechanism for future PPTAs but instead "will consider this on a prospective basis."[35]

In accordance with that direction, SDG&E intends to seek relief from costs associated with FIN 46 (R) consolidation and debt equivalence issues, as applicable to these PPTAs in this filing, through its next Cost of Capital proceeding. Therefore, while SDG&E does not seek to recover these costs in this application, SDG&E seeks the Commission's confirmation that these costs can be fully considered in SDG&E's next Cost of Capital proceeding.

//

//

//

[35] D.07-12-049 at 39.

VIII. WITNESS QUALIFICATIONS

A. QUALIFICATIONS OF ROBERT B. ANDERSON

My name is Robert B. Anderson. My business address is 8330 Century Park Court, San Diego, California, 92123.

I am employed by San Diego Gas & Electric Company as Director - Resource Planning. My responsibilities mainly include electric resource planning. I have been employed by SDG&E since 1980, and have held a variety of positions in resource planning, corporate planning, power plant management, and gas planning and operations.

I have a BS in Mechanical Engineering and a MBA - Finance. I am a registered professional engineer in Mechanical Engineering in California.

I have previously testified before this Commission.

B. QUALIFICATIONS OF GREG SHIMANSKY

My name is Greg Shimansky. I am employed by San Diego Gas & Electric Company (SDG&E), as the Regulatory Accounts Manager in the Financial Analysis Department. My business address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include managing the process for the development, implementation, and analysis of regulatory balancing and memorandum accounts. I assumed my current position in July 2010.

I have been employed with SDG&E and Sempra Energy since June 30, 2003. In addition to my current position in Regulatory Affairs, I served as Financial Planning Manager for Sempra Energy and was responsible for the completion of the 5-year financial plan and accompanying analysis. I held that role from June 2009 through April 2010. From August 2008 to June 2009, I was the Regulatory Reporting Manager in charge of the monthly close and reporting of revenues, cost of goods sold and balancing accounts. Further, I was responsible for the filing of financial data as required to the CPUC and FERC – such as FERC form 1 reports. From June 2003 through August 2008, I worked for SDG&E in the Utility planning department working my way up to Financial Planning Manager in charge of yearly outlooks, the 5-year forecast, monthly actual variance reporting, and ad hoc analysis.

I received a Bachelor of Science degree in Economics from the University of California, Los Angeles in June 1993. I also received a Master of Science in Management, with concentrations in Finance and Marketing, from Purdue University in May 1998.

I have not previously testified before this Commission.

C. QUALIFICATIONS OF CYNTHIA S. FANG

My name is Cynthia Fang and my business address is 8330 Century Park Court, San Diego, California 92123. I am the Electric Rates Manager in the Strategic Analysis and Pricing Department of San Diego Gas & Electric (SDG&E). My primary responsibilities include the development of cost-of-service studies, determination of revenue allocation and electric rate design methods, analysis of ratemaking theories, and preparation of various regulatory filings. I began work at SDG&E in May 2006 as a Regulatory Economic Advisor and have held positions of increasing responsibility in the Electric Rate Design group. Prior to joining SDG&E, I was employed by the Minnesota Department of Commerce, Energy Division, as a Public Utilities Rates Analyst from 2003 through May 2006.

In 1993, I graduated from the University of California at Berkeley with a Bachelor of Science in Political Economics of Natural Resources. I also attended the University of Minnesota, where I completed all coursework required for a Ph.D. in Applied Economics.

I have previously submitted testimony before the CPUC and the Federal Energy Regulatory Commission ("FERC") regarding SDG&E's electric rate design and other regulatory proceedings. In addition, I have previously submitted testimony and testified before the Minnesota Public Utilities Commission on numerous rate and policy issues applicable to electric and natural gas utilities.

I have previously testified before this Commission.

D. QUALIFICATIONS OF THOMAS C. SAILE

My name is Thomas C. Saile. My business address is 8315 Century Park Court, San Diego, California, 92123.

Since 2008, I have been employed by San Diego Gas & Electric Company in my current position of Energy Contracts Originator. My responsibilities mainly include negotiating power purchase agreements with counterparties for both conventional & renewable resources.

For over 25-years I have been involved in the utility/energy industry, early-on in technical roles involving power generation and then moving into customer-facing business development positions. At one point I was NERC-Certified as a System Reliability Coordinator. During my career I have also held positions with Delmarva Power, Southern Company, and Progress Energy.

My Bachelor's Degree is in Electrical Engineering from Villanova University, and I also hold a Master in Business Administration from the University of Delaware. Formerly, I was a registered Professional Engineer in Electrical Engineering with the State of Delaware.

While I have not previously testified before this Commission, I have testified before public utility commissions in other states.

E. QUALIFICATIONS OF MAURENE BISHOP

My name is F. Maurene Bishop. I am employed by San Diego Gas & Electric Company (SDG&E), as an Energy Contract Originator in the Electric & Gas Procurement Contracts department. My business address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include negotiating power purchase agreements for the acquisition of new conventional and renewable resources for SDG&E.

I assumed my current position in March 2008 when I accepted a position with SDG&E. In addition to my current position for SDG&E, I previously held the title of Power Purchase Contracts Administrator for Hawaiian Electric Company, from which I retired in January 2008, and PacifiCorp, (previously known as Pacific Power & Light Co.) as Manager of Wholesale Sales, Manager of Resource Acquisition, and Manager of Land. My entire career has been in the electric utility industry. I have front office as well as back office experience in the negotiation and administration of power purchase and sales contracts, including conventional generation from gas, oil, and coal fired plants, and renewable resources, and for contract administration of those agreements. Since joining SDG&E, I personally negotiated several new renewable Power Purchase Agreements, drafted the Advice Letters, which were later approved, and negotiated one amendment to a conventional Power Purchase Tolling Agreement which was later approved by Application.

I have a Juris Doctor (Law Degree) from Golden Gate University School of Law, located in San Francisco, and a Bachelors of Arts degree in Psychology, from the University of California, Los Angeles. I am an inactive member of the State Bar of California.

I have not previously testified before this Commission.

F. QUALIFICATIONS OF E BRADFORD MANTZ

My name is Brad Mantz. I am employed by San Diego Gas & Electric Company (SDG&E), as an Energy Contracts Originator in the Electric and Fuels Procurement Department. My business address is 8315 Century Park Court, San Diego, California 92123.

I have been employed with SDG&E since September 20, 2010. And hold the position of Energy Contracts Originator. My responsibilities mainly include negotiating power purchase agreements with counterparties for both conventional & renewable resources.

I have been involved in the utility/energy industry for over 30 years in various levels of including production, operations, trading, risk management, origination, development, management and contract negotiations. I have previously worked for several companies in various roles of increased responsibility; the most notable are British Petroleum, The Williams Companies, Sempra Energy Solutions, Sumitomo and now SDG&E. My background includes oil, gas, electricity, renewables and LNG.

I received a Bachelors of Arts in Business with emphasis in Petroleum Land Management and Marketing, with a minor in Geology from the University of Texas at Austin, Austin, Texas in August 1980.

While I have not previously testified before this Commission, I have testified before utility Commissions in other states.

EXHIBIT A

CONFIDENTIALITY DECLARATIONS

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF ROBERT B. ANDERSON
REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Robert B. Anderson, do declare as follows:

1. I am Director – Resource Planning for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the Prepared Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power submitted concurrently herewith ("Testimony"). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, *et seq.*, to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below), associated with the Request for Offers ("RFO") design and selection process, falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[36/]

[36/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm*. 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[37]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . *or consists of information from which that information may be easily derived*."[38] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
2) Which category or categories in the Matrix the data correspond to,
3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
4) That the information is not already public, and
5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[39]

[37] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.
[38] *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).
[39] D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

5. The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	Matrix Category	Period of Confidentiality
Invoiced Total for IE Services related to RFO (Part Two, Section V.B.4)	VII.B	3 years
Specific quantitative analysis involved in scoring and evaluation of participating bids (Appendix 2, Appendix 3)	VIII.B	3 years
PRG Presentations; Portions of IE Report (Appendix 8,9)	VII.G; VIII.A VIII.B	3 years

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Commission.

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 18th day of May, 2011, at San Diego, California.

ROBERT B. ANDERSON
DIRECTOR - RESOURCE PLANNING

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF THOMAS C. SAILE
REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Thomas C. Saile, do declare as follows:

1. I am an Energy Contracts Originator in the Procurement and Portfolio Design Department for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the Prepared Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power submitted concurrently herewith ("Testimony"). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, *et seq.*, to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below), associated with Selected Offer #1, Escondido Energy Center, falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[40/]

[40/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[41/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . *or consists of information from which that information may be easily derived*."[42/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
2) Which category or categories in the Matrix the data correspond to,
3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
4) That the information is not already public, and
5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[43/]

[41/] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.
[42/] *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).
[43/] D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

CONFIDENTIAL PURSUANT TO P.U. CODE SECTIONS 583, 454.5(g), GO 66-C, D.06-06-066 and D.08-04-023

5. The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	Matrix Category	Period of Confidentiality
EEC Power Purchase Tolling Agreement Terms & Conditions Regarding: Operating Hours- III E, Selected Offer 1, Section 4 Pricing- III E, Selected Offer 1, Section 9 Termination- III E, Selected Offer 1, Section 13 Renegotiation- III E, Selected Offer 1, Section 14 Milestones- VI, EEC Critical Milestones Contract- Appendix 6	VII.B	3 years

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Commission.

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 18th day of May, 2011, at San Diego, California.

THOMAS C. SAILE
ENERGY CONTRACTS ORIGINATOR

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF F. MAURENE BISHOP
REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, F. Maurene Bishop, do declare as follows:

1. I am an Energy Contracts Originator in the Procurement and Portfolio Design Department for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the Prepared Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power submitted concurrently herewith ("Testimony"). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, *et seq.*, to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below), associated with Selected Offer #2, Pio Pico Energy Center, falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[44/]

[44/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[45/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . *or consists of information from which that information may be easily derived*."[46/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
2) Which category or categories in the Matrix the data correspond to,
3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
4) That the information is not already public, and
5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[47/]

[45/] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.
[46/] *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).
[47/] D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

5. The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	Matrix Category	Period of Confidentiality
Pio Pico Power Purchase Tolling Agreement Terms & Conditions Regarding: Operating Hours- III E, Selected Offer 2, Section 4 Transmission- III E, Selected Offer 2, Section 8 Pricing- III E, Selected Offer 2, Section 9 Termination- III E, Selected Offer 2, Section 13 Renegotiation- III E, Selected Offer 2, Section 14 Milestones- VI, Pio Pico Critical Milestones Contract- Appendix 5	VII.B	3 years

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Commission.

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 18th day of May, 2011, at San Diego, California.

F. MAURENE BISHOP
ENERGY CONTRACTS ORIGINATOR

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF E BRADFORD MANTZ
REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, E Bradford Mantz, do declare as follows:

1. I am an Energy Contracts Originator in the Procurement and Portfolio Design Department for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the Prepared Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power submitted concurrently herewith ("Testimony"). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, *et seq.*, to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below), associated with Selected Offer #3, Quail Brush Power, falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[48/]

[48/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[49/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . *or consists of information from which that information may be easily derived*."[50/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
2) Which category or categories in the Matrix the data correspond to,
3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
4) That the information is not already public, and
5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[51/]

[49/] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.
[50/] *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).
[51/] D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

5. The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	Matrix Category	Period of Confidentiality
Quail Brush Power Purchase Tolling Agreement Terms & Conditions Regarding: Operating Hours- III E, Selected Offer 3, Section 4 Transmission- III E, Selected Offer 3, Section 8 Pricing- III E, Selected Offer 3, Section 9 Termination- III E, Selected Offer 3, Section 13 Renegotiation- III E, Selected Offer 3, Section 14 Milestones- VI, Quail Brush Critical Milestones Contract- Appendix 7	VII.B	3 years

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Commission.

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 18th day of May, 2011, at San Diego, California.

E. BRADFORD MANTZ
ENERGY CONTRACTS ORIGINATOR

APPENDIX 1

REQUEST FOR OFFERS
for
DEMAND RESPONSE
and
SUPPLY RESOURCES

June 9, 2009

San Diego Gas & Electric Company
Electric and Gas Procurement Department
8315 Century Park Court,
San Diego, CA 92123-1593

1. Scope of Supply[1]

San Diego Gas & Electric Company (SDG&E) is issuing this Request for Offers (RFO) for demand response and supply resources to support reliability within the SDG&E service territory, supply energy to bundled customers and/or meet other portfolio needs including Resource Adequacy (RA) requirements. All resources that can meet the obligations set forth below are welcome to bid their offers into this RFO (Offer(s)); however, all renewable resources are strongly encouraged to participate in a separate renewables-only solicitation, which SDG&E issues annually[2]. SDG&E anticipates this RFO will produce contracts from respondents (Respondent(s)) as indicated below:

	Local Resources		Resources Outside SDG&E	
	Short-Term	Long-Term	Short Term	Long Term
Product 1: Demand Response	Term: 3 years Delivery Starts: 2012			
Product 2: New Generation		Term: 20 years Delivery Starts: 2010 - 2014		
Product 3: Existing Resources	Term: 1 year / 2 years Delivery Starts: 2010 or 2011			
Product 4: Existing Resources			Term: 2 years Delivery Starts: 2010	
Product 5: Existing Resources		Term: 10 years Delivery Starts: 2012		
Product 6: New or Existing Resources				Term: 10 years Delivery Starts: 2012
Product 7a: Firm LD Energy	Term: 2 years / 4 years Delivery Starts: 2010 or 2012		Term: 2 years / 4 years Delivery Starts: 2010 or 2012	
Product 7b: Resource Adequacy				

[1] Amounts requested in each product category may vary based upon CAISO determinations on RMR, local zone definition, unit retirement, and the quantity selected in other product categories.

[2] To be notified of pending Renewable-only solicitations, please email contact information to RenewableRFO@semprautilities.com.

General characteristics of each product are described below. SDG&E anticipates that all Offers received will provide SDG&E with a menu of resources from which it can select to fulfill its short- and long-term needs. The capacities listed are not a guarantee of purchase amounts for each product, but rather estimates of potential volumes. The final purchase amounts will depend on factors including evolving resource planning considerations, the number of Offers received for each product type and potential overlap in product characteristics from various Offers. Offered prices for Products 1 through 6 and 7b are valid and binding upon the Respondent until contract execution; there will be no opportunities to refresh Offer prices. There will be one opportunity to refresh Offer prices for Product 7a as indicated in the schedule on Section 3 RFO Schedule. Tolling products 2-6 will include supply of all capacity attributes including Resource Adequacy and Ancillary Services if available.

Product 1 - Demand Response

SDG&E seeks Demand Response products for a three year term. Initial load reduction will commence on May 1st 2012. This product must be a means of reducing an end-use customer's demand and/or energy usage during a demand response event, must be for at least 1.0 MW in the aggregate and be within SDG&E's service territory. The demand and/or energy reduction must be measureable. The Offer must provide, in sufficient detail, the Demand Response product, the process for delivering Demand Response and the manner in which it will meet the minimum guidelines specified in Section 6 Offer Requirements of this solicitation.

Product 2 - New Local[3] Generation Projects, online in 2010 - 2014.

SDG&E seeks a minimum of 100 MW of peaking or intermediate-class resources as new construction or expansion projects within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 20 years and online dates of May 1- or October 1 in either 2010, 2011, 2012, 2013 or 2014. The generation must be located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. Products offered in this category shall be capable of operating under all permits at annual capacity factors of a minimum of 30%with an availability of -98%. It is anticipated that heat rates will be no higher than 10,500 btu/kWh. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations[4] in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 3 - Existing Local Resources, delivering in 2010 and/or 2011

SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory for deliveries in 2010 and 2011. Any resulting contract will be a tolling agreement with a term of up to 2 years with a start date of January 1, 2010, or a 1 year term with a start date of January 1, 2010 or January 1, 2011. Offers for this product must be existing generation capacity that is currently recognized by the CAISO as counting towards SDG&E's service area Local Capacity Requirement. Respondents must provide Offers for deliveries in both 2010 and 2011 and pricing may differ between the years. However, SDG&E may at its discretion contract with the Respondent for

[3] "Local" for purposes of satisfying Resource Adequacy, is defined by the CAISO and generally described in the Addendum below.

[4] Respondents will specify resource ramp-up rates and other operating characteristics within the offer forms.

either or both years. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations[5] in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 4 - Existing Regional Resources, delivering in 2010 and 2011
SDG&E seeks a minimum of 200 MW of existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 2 years starting on January 1, 2010. This product must deliver into CAISO's SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations[5] in the ranking of Offers.

Product 5 - Existing Local Resources, delivering in 2012-2021
SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and a start date of January 1, 2012 to qualify. Offers for this product must be existing generation located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. In consideration of California State Once Through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit utilizing OTC will be offered a contract with SDG&E that consists of a 2 year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC facilities. The decision to exercise the option will be based upon future rules[6] governing OTC or SDG&E's sole discretion given its portfolio need. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations[5] in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 6 - All-Source Regional Resources, 2012-2021
SDG&E seeks minimum of 200 MW of new construction, expansion, or existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and deliveries will begin on May 1, 2012. This product must deliver into CAISO's SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and shutting down at night. In addition, SDG&E will include the

[5] Respondents will specify resource ramp-up rates and other operating characteristics within the offer forms.

[6] From the California State Water Resources Control Board website: *The State Water Board staff is working on a draft statewide policy to implement section 316 (b) of the Clean Water Act that controls the harmful effects of once-through cooling water intake structures on marine and estuarine life. Since 1972, the Clean Water Act has required, in Section 316 (b), that the location, design, construction, and capacity of cooling water intake structures reflect the best technology available for minimizing adverse environmental impacts. The projected release date for a draft Substitute Environmental Document is the end of the summer.* For additional information, please visit: http://www.swrcb.ca.gov/water_issues/programs/npdes/cwa316.shtml

additional value provided from projects that can provide quick start operations[6] in the ranking of Offers. In consideration of California State Once Through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit located in California utilizing OTC will be offered a contract with SDG&E that consists of a 2 year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC facilities. The decision to exercise the option will be based upon future rules[6] governing OTC or SDG&E's sole discretion given its portfolio need. If the CAISO expands SDG&E's Local RA area as described in the addendum, SDG&E could, at its sole discretion, evaluate Product 6 Offers that are located within the expanded area as if it were a Product 5 Offer.

Product 7 Firm Liquidated Damages (LD) Energy and/or Resource Adequacy
SDG&E seeks a minimum of 200 MW of Firm LD Energy and/or Resource Adequacy Purchases. Resources may be within or outside of SDG&E service area.

Product 7a: Third Quarter, 6x16, on-peak Firm LD energy products conforming to Schedule C of the Western States Power Pool. Any resulting agreement will be an EEI agreement for short-term, block power purchases. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 and/or 2) deliveries in 2012 and 2013. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options. Resources outside of SDG&E must deliver to SP-15. For Product 7a, SDG&E will shortlist projects within the timeframes indicated in the schedule in Section 3 of this RFO. Refreshed pricing of shortlisted Offers will be allowed only once and by the date indicated in the schedule. Respondents are caution that if refreshed prices exceed the competitive range, the Offer may be rejected.

Product 7b: Respondents shall Offer System Resource Adequacy (and local if within the SDG&E Local Area). Any resulting agreement will be a WSPP agreement for Resource Adequacy. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 [Q3 or full year] and/or 2) deliveries in 2012 and 2013 [Q3 or full year]. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options.

Respondents may provide Offers for a single product and term or a combination of Offers, providing SDG&E with flexibility to match Offers and fill its required energy and capacity needs. For products seeking new or expanded generation resources, the Respondent shall be responsible for development, permitting, financing, and construction of any required facilities. The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's Tariff, applicable CPUC and/or FERC rules, orders, and/or regulations, and SDG&E's specifications.

2. RFO Website and Communication

The website for this solicitation is http://www.sdge.com/2009SupplyResourcesRFO/ . All forms and documents necessary to submit Offers are available for download at the RFO Website. Respondents will also submit Offers electronically via this website. (See RFO Section 4.0 RFO Response for additional information.) Please check the website periodically as SDG&E will post all solicitation announcements, including scheduling changes or RFO amendments at this website.

All questions or other communications regarding this RFO should be submitted via e-mail to the RFO's mailbox: rfo@semprautilities.com. All questions and answers will be posted anonymously at the RFO Website. SDG&E will not accept questions or comments in any other form, except during the bidders' conference.

3. RFO Schedule

SDG&E will host a pre-bid conference on the date and time indicated below. Participation in the pre-bid conference is NOT mandatory in order to submit an Offer. Any party interested in attending this pre-bid conference should download the Pre-Bid Conference Registration Form from the RFO Website and email the form to rfo@semprautilities.com. Details on the exact location of the pre-bid conference will be posted on the RFO Website as soon as it is available.

SDG&E reserves the right to revise this schedule at SDG&E's sole discretion and will post such changes on the RFO Website. Respondents are responsible for accessing the RFO website for updated schedules and possible amendments to the RFO or the solicitation process. Short-listed Respondents will be notified of interview date, time, and meeting room location. All interviews will be conducted at SDG&E's Century Park complex.

#	MILESTONE	DATE
1	**RFO Issued**	**June 9, 2009**
2	DEADLINE TO REGISTER for PRE-BID CONFERENCE Those intending to bid must register to receive a username/password in order to upload electronic Offers.	June 25, 2009
3	Pre-Bid Conference at 10:00am in San Diego, CA	July 8, 2009
4	DEADLINE TO SUBMIT QUESTIONS Question submittal cut-off date.	July 27, 2009
5	DEADLINE TO REGISTER Those intending to bid must register to receive a username/password in order to upload electronic Offers.	August 5, 2009
6	**CLOSING DATE: Offers uploaded and received by noon** (San Diego local prevailing time)	**August 10, 2009**
7	Hard-copies of Offers must be received at SDG&E's offices	August 12, 2009
8	Product 3 and Product 7a: Shortlisting, negotiation and contract execution	Within 3 months after closing date
9	Products 1, 2, 4, 5, 6, 7b: Shortlisted Bidders notified / Negotiation commences	3 months after closing date
10	~~Products 1, 2, 4, 5, 6, 7b:~~ Deadline to refresh Product 7a offered pricing.	No later than 2 months after shortlist notification
11	Products 1, 2, 4, 5, 6, 7b: Contracts Executed	Approx. 3 – 9 months after shortlisting
12	Products 1, 2, 4, 5, 6, 7b: Contracts filed with CPUC	Approx. 1 - 2 months after contract execution
13	Products 1, 2, 4, 5, 6, 7b: CPUC approves contracts	Typically 6 - 9 months after contract filing (but could be longer)

4. RFO Response

Any party interested in submitting an Offer must fill-out and email to rfo@semprautilities.com the RFO Registration Form (available from the RFO Website). SDG&E will process the form and provide the interested party instructions necessary to upload Offers, a username/password combination and access to the offer upload link (see below).

SDG&E **requires** that all Offers submitted pursuant to this RFO contain at a minimum, the items listed below. All forms and documents referenced below are available on the RFO Website.

a) the information requested in the Submittal Forms using the forms provided. The forms should be submitted in editable electronic form for efficient processing by SDG&E.
b) Respondents must redline comments on the pro forma agreement applicable to the Offer. In order to evaluate Offers against each other in each Product class, SDG&E urges that Respondents develop their Offers using existing Terms and Conditions of the pro forma agreements. Substantial, material mark-ups may result in an Offer being deemed non-conforming.
c) Credit. Respondent's Offer **must include** a completed credit application (available on the RFO website).
d) Respondents to products seeking new or expanded generating resources, must submit a detailed Gantt chart (or equivalent alternative) which outlines all major project milestones (including but not limited to permitting, engineering, site preparation, equipment contract and delivery and construction). The project timeline will also include milestones associated with major cost commitments (>$500,000). The workplan should also include a description of any uncertainties, where any changes would still result in not meeting the required on line date.

All Offers must be uploaded to SDG&E via the RFO Website by the date and time indicated in the schedule above. One original hardcopy Offer, identical to the electronic submittal and signed by an authorized officer of the Respondent, shall also be sent to the address shown below and must be received by SDG&E by the date indicated in the schedule. Contents of the electronic Offer submittal and the original hardcopy signed Offer shall be identical. Any conflicts between the information set forth in an electronic Offer and the signed Offer shall be resolved in favor of the signed Offer. All Offer materials and information submitted shall be subject to the confidentiality provisions of this RFO.

San Diego Gas & Electric Company
Electric and Gas Procurement Department
Attn: Supply Resource RFO
8315 Century Park Court, CP 21D
San Diego, CA 92123-1548

5. Project Timeline

Respondents must demonstrate that they have or are in process of getting all necessary permits (including air and building permits), site control, engineering designs and transmission interconnection studies. Sufficient documentation must be provided to evidence that the project can come online by the proposed date.

6. Offer Requirements

1. The Respondent shall be responsible for all costs for land, development, permitting (including emissions offsets, if applicable), engineering, procurement, and construction and for associated taxes, insurance, financing and bonding. The Respondent shall be operationally responsible for all development work and construction, including acquisition of land, permitting (including emissions offsets), engineering, procurement, and construction up to the highest industry standards and in accordance with time critical milestones and schedules.

2. The Respondent shall be responsible for all electric system and gas pipeline upgrades and / or extensions if required under and in accordance with applicable gas and electric tariffs. See http://www.sdge.com/tariff .

3. The Respondent must have all necessary water rights consistent with the generating resource needs. Resources located on leased properties may be accepted upon review of the lease terms, but must have a minimum lease term that covers the term of the PPA offered.

4. Respondent must identify all necessary emissions offsets and the associated costs which will be incorporated into their Offer. All Offers must comply with all existing air quality laws and be compliant with the CPUC Emissions Performance Standards (as adopted in R.06-04-009) on GHG.

5. For all products where the resulting contract will be tolling agreements, Respondents must provide generating facilities designed and permitted for operation for a minimum availability of 2,700 hours per year annual operations for peaking and intermediate duty.

6. SDG&E will, if requested, be responsible for the purchase and transportation cost of natural gas or other fuels to the plant site during commissioning, testing and contract term, for tolling agreements. In such instance, electric output during commissioning and testing shall be delivered at no charge to SDG&E, and SDG&E shall be entitled to receive all revenues for such energy.

7. For new development, permitting information provided by the Respondent shall include status of existing and required additional new permits, including any additional required approvals, along with a permitting and approval schedule. Such schedule must demonstrate an achievable online date of no later than that deadline dates stated in the Product descriptions.

8. For Product 1 Demand Response, the minimum criteria are indicated below.

    a. Offers must meet Resource Adequacy requirements for Demand Response as set forth by the CPUC in D.05-10-042.
    b. Offers should be for three (3) year Demand Response product Offer to provide load reduction beginning May 1, in 2012.
    c. Ability to fully respond to an event notification within 10 minutes.
    d. Load must be curtailable between 12:00 PM and 6:00 PM.

e. Offers must conform with all CAISO requirements for Demand Response Resources[7], including but not limited to Metering and Telemetry requirements, as may be updated from time to time.
f. Offers must comply with the policy guidance of the Energy Action Plan I and II and be in alignment with California's Demand Response Vision for the Future.[8]
g. Offers must be for load not yet committed to other programs.
h. Offered loads must be curtailable under a Direct Load Control (DLC) program.
i. Offered loads must have an average monthly maximum greater than 100kW for at least three (3) of the most current twelve (12) months.
j. Offers must be targeted toward nonresidential customers with a minimum demand of 100kW. Offers targeted at residential and/or small business customers with demands <100kW will not be considered.

Generation resources located on the customer side of the meter, such as back –up generation, will not qualify as a Demand Response product in this Offer.[9]

Alternative Offers may be submitted. At SDG&E discretion, alternative Offers may be evaluated and considered. If alternative Offers are submitted, please clearly state (identify) the alternative Offers.

Please note that any resultant contract will include provisions for:

a. A Non-Performance penalty for capacity load reduction shall be applied. For example, a non-performance calculation may be similar as SDG&E's Capacity Bidding Program CBP. Refer to SDG&E' Schedule CBP - Capacity Bidding Program, Special Condition 6 in http://www.sdge.com/regulatory/elec_misc.shtml
b. A Non-Performance penalty for load reduction during an event shall be applied. Energy load reduction shortfall during an event shall be considered non-performance and an adjustment will be required in order to compensate for any failure of the contractor to deliver committed load reductions. For example, a non-performance calculation may be similar as SDG&E's Capacity Bidding Program CBP Schedule.

At the request of SDG&E, the selected Respondent will be required to provide the following documents during contract negotiations:

a. Audited financial statements, including balance sheet, statement of cash flows, and income, for 2007 and 2008; OR
b. Complete income tax returns for 2007 and 2008.

7. Binding Offer Evaluation

SDG&E anticipates evaluating Offers for different Products on different timelines. In general, supply offers for 2010-2011 delivery dates will be evaluated first. Supply Offers for 2012 – on delivery dates will be evaluated second. Offers that are determined to meet the threshold requirements will be evaluated on the basis of an expected cost analysis covering both quantitative and qualitative information. In general, Offers that meet RFO requirements will be evaluated on the basis of a least cost/best fit (LCBF) analysis. The quantitative analysis will look at the total expected cost to SDG&E's bundled customers when the Offer is added to SDG&E's resource portfolio. The quantitative components of this analysis include the items listed below.

[7] http://www.caiso.com/1893/1893e350393b0.html
[8] California Demand Response: A Vision for the Future. D. 03-06-032, Appendix A.
[9] D.06-11-049 (mimeo at pp.57-58) discusses the Commission's policy regarding back-up generation options.

SDG&E reserve the right to evaluate non-conforming Offers and may request additional data from Respondents to bring non-conforming Offers into conformance.

1. Binding Offer prices for both capacity and energy (Offers deemed by SDG&E to contain unreasonably low or high prices will be rejected).

2. Transmission system upgrade costs necessary for the new generation resource to satisfy grid reliability and deliverability requirements for new capacity.

3. Congestion costs - Potential for SDG&E incurred congestion costs will be assessed, as well as SDG&E's ability to hedge these costs.

4. Impacts on existing SDG&E financial structure, such as debt equivalence and/or the effect of FIN 46, may be considered in the evaluation process.

5. Changes to SDG&E bundled customer's total GHG Emissions will also be valued. SDG&E will determine the forecasted change in total GHG emissions from adding the Offer to SDG&E's portfolio. Portfolio GHG increases or reductions will be valued based on previous CPUC direction.

In accordance with CPUC D.07-12-052 preference will be given to procurement that will encourage the retirement of aging plants, particularly inefficient facilities with once-through cooling, by providing, at minimum, qualitative preference to Offers involving repowering of these units or Offers for new facilities at locations in or near the load pockets in which these units are located." (p.113) and further "IOUs are to consider repowered or replacement options presented in a RFO….. before they choose options developed on Greenfield sites, or make a showing that justifies their decision not to do so (p.229).

Qualitative factors used to differentiate Offers include the following:

1. Brownfield vs. greenfield – the proposed location will be assessed to determine if the project is located at a brownfield or greenfield site.

2. Environmental stewardship – SDG&E will assess the project team's history and any special benefits of the specific Offer.

3. Financing plan – the Offer will be assessed as to the plan and likelihood of the project securing the necessary financing.

4. Technology, major equipment manufacturers and operational flexibility. The evaluation will include an assessment of the proposed technology's commercial operating history, and the manufacturer's U.S. presence and experience.

5. The proposed facility will be evaluated from the perspective of maximizing the operational flexibility of generating assets available to SDG&E. This incorporates unit capabilities that include size, start-up time, load response, minimum up and down times.

6. Development risk – consideration will be given to regulatory and other risks as appropriate that could diminish the viability of the project.

7. Corporate capabilities and proven experience

8. Ability to meet schedule

9. Project team (environmental, engineering, equipment procurement, construction) – Project team will be assessed on whether the project team has demonstrated experience with the specific technology and implementation plan they are proposing.

10. Credit Risk

Portfolios of Offers that are short listed based on qualitative and quantitative criteria will be analyzed using production cost modeling. Offers for local capacity will be analyzed and ranked first until the combined capacity of the short listed Offers meets local need requirements. The remaining Offers will then be evaluated and ranked to meet the remaining system need.

SDG&E requests that Respondents who believe their Offers have any important qualitative benefits elaborate on them in their Offer.

SDG&E will utilize the information provided on the Offer Response Forms to evaluate all Offers. Respondents are responsible for the accuracy of all figures and calculations. Errors discovered during negotiations may impact Respondents' standing on the short-list.

8. Binding Offer Duration

All Offers into this RFO (with the exception of Product 7 as noted elsewhere in this document) are binding as of the submittal date and must remain binding, open and valid through SDG&E's Offer evaluation, price negotiations, contract execution between SDG&E and the selected Respondent(s), and any required CPUC and FERC approval. No Offer adjustments which increase costs shall be permitted after submission of Binding Offer.

9. Confidentiality

Except with the prior written consent of SDG&E, Respondents may not disclose (other than by attendance alone at any meeting to which more than one Respondent is invited by SDG&E) to any other Respondent or potential Respondent their participation in this RFO, and Respondents may not disclose, collaborate on, or discuss with any other Respondent, bidding strategies or the substance of Offers, including without limitation the price or any other terms or conditions of any indicative or final Offer.

SDG&E will use the higher of the same standard of care it uses with respect to its own proprietary or confidential information or a reasonable standard of care to prevent disclosure or unauthorized use of Respondent's confidential and proprietary information that is labeled as "proprietary and confidential" on the Offer page on which the proprietary information appears (confidential information). Respondent shall also summarize the elements of the Offer(s) it deems confidential. The summary must clearly identify whether or not price, project name, location, size, term of delivery, technology type (either collectively or individually) or any other term are to be considered confidential information Confidential information may be made available on a "need to know" basis to SDG&E's directors, officers, employees, an independent third-party evaluator required by the CPUC, agents and advisors (representatives) for the purpose of evaluating Respondent's Offer, but such representatives shall be required to observe the same care with respect to disclosure as SDG&E.

Notwithstanding the foregoing, SDG&E may disclose any of the confidential information to comply with any law, rule, or regulation or any order, decree, subpoena or ruling or other similar process of any court, securities exchange, control area operator, governmental agency or governmental or regulatory authority at any time even in the absence of a protective order, confidentiality agreement or non-disclosure agreement, as the case may be, without notification to the Respondent and without liability or any responsibility of SDG&E to the Respondent.

It is expressly contemplated that materials submitted by a Respondent in connection with this RFO will be provided to the CPUC, its staff, and possibly to the CEC, its staff, SDG&E's Independent Evaluator (IE) and Procurement Review Group (PRG). SDG&E will seek confidential treatment in accordance with CPUC Decision 06-06-066 and any subsequent decision by the CPUC related to confidentiality, with respect to any Respondent confidential information submitted by SDG&E to the CPUC for the purposes of obtaining regulatory approval. SDG&E will also seek confidentiality protection from the CEC for Respondent's confidential information and will seek confidentiality and/or non-disclosure agreements with the PRG. SDG&E cannot, however, ensure that the CPUC or CEC will afford confidential treatment to a Respondent's confidential information or that confidentiality agreements or orders will be obtained from and/or honored by the PRG, CEC, or CPUC.

SDG&E, its representatives, Sempra Energy, and any of their subsidiaries disclaim any and all liability to a Respondent for damages of any kind resulting from disclosure of any of Respondent's information.

10. Other Requirements

CALIFORNIA CLIMATE ACTION REGISTRY

In D.06-02-032, the CPUC directed SDG&E to include a provision in any power purchase agreement for non-renewable energy that requires the supplier to register and report its GHG emissions with the California Climate Action Registry (CCAR). More information about the CCAR is available at California Climate Action Registry.

Pursuant to D.06-02-032, SDG&E will be required to include a provision in any tolling agreement that will require the supplier to register and report its GHG emissions with the CCAR. Specific registration requirements and reporting protocols with the CCAR will be established, and a method for assigning emissions values to supplies that are unregistered with the CCAR will also be developed.

For more information, see: http://www.cpuc.ca.gov/proceedings/R0604009.htm

FIN 46 Requirements

Securities and Exchange Commission rules for reporting power purchase agreements may require SDG&E to collect and possibly consolidate financial information for the facility whose output is being purchased under long-term contractual arrangements. General guidelines include:

a) determination of allocation of risk and benefits
b) proportion of total project output being purchased by SDG&E
c) proportion of expected project life being committed to SDG&E
d) pricing provisions of contract; that is, whether the contract contains fixed long-term prices or pricing that varies over the term of the agreement based on market conditions or other factors

For any Agreements that meet the applicability criteria, SDG&E is obligated to obtain information from successful Respondents to determine whether or not consolidation is required. If SDG&E determines that consolidation is required, SDG&E shall require the following during every calendar quarter for the term of an Agreement:

a) Complete financial statements and notes to financial statements, and financial schedules underlying the financial statements, all within 15 days of the end of each quarter.
b) Access to records and personnel, so that SDG&E's independent auditor can conduct financial audits (in accordance with generally accepted auditing standards) and internal control audits (in accordance with Section 404 of the Sarbanes-Oxley Act of 2002).

Procurement Review Group and Independent Evaluator

In D.02-08-071 (p. 24), the CPUC established the Procurement Review Group (PRG), whose members, subject to an appropriate non-disclosure agreement, would have the right to consult with and review the details of each utility's procurement plan, overall procurement strategy, contracts, and related matters. Since that time, the PRG process has been endorsed and continued in a variety of subsequent decisions, as it performs a valuable consultative role in the IOUs' procurement activities, including relating to the issuance and evaluation of RFOs and their results.[10] Thus, from RFO language development to Offer evaluation to contract negotiation, SDG&E will brief the PRG on a periodic basis during the entire process.

Respondents are hereby notified that revealing Offer information to the PRG is required during PRG briefings in accordance with Section 11.0 Confidentiality. Respondents must clearly identify, as part of the Offer, what type of information it considers to be confidential.
In D.04-12-048, the Commission ordered, in certain instances, the use of Independent Evaluators (IE) in competitive solicitations. SDG&E will make use of an IE in this solicitation. All Offer material produced in this solicitation will be available, under confidentiality provisions, to the IE. SDG&E in its sole discretion may make available to its PRG each response to this RFO and may review the results of its evaluation and ranking of the proposals with the IE and PRG.

11. Credit Terms and Conditions

SDG&E has the unilateral right to evaluate and determine the ability of the Respondent to perform relative to this project. The shortlisted Respondents will be required to complete, execute, and submit a credit application. This form is available to Respondents on the RFO website. The application requests financial and other relevant information needed to demonstrate and confirm creditworthiness.

Upon execution of a mutually acceptable definitive agreement, the Respondent will be required to post collateral based on the credit requirements established by SDG&E. For new development, Respondents will be required to post development collateral until commercial operation has been met. Collateral will be required during delivery periods for new and existing projects.

The table below presents the collateral amounts (cash or letter of credit) required for each product type should a contract be executed and depending on quantity. All Offers must include the cost of collateral in the amount required below in their Offer price.

[10] See, e.g., D.02-10-062, D.03-12-062, and D.04-12-048.

Product	Collateral per 50 MW ($mm)
Product 1*	1.7
Product 2	25.6
Product 3	5.5
Product 4	5.5
Product 5	25.6
Product 6	25.6
Product 7a (delivery years)	
2010-2013*	16.2
2010-2011*	7.3
2012-2013*	8.9
Product 7b (delivery years)	
2010-2013*	1.0
2010-2011*	0.4
2012-2013*	0.5
	** Collateral per 10MW*

Credit support amounts shall not be deemed a limitation of liability. Model credit support documents will be provided to shortlisted Respondents as applicable.

Under no circumstance will SDG&E post collateral for any resultant contract.

12. Proposal Costs

SDG&E will not reimburse Respondents for any of their expenses for developing responses hereto under any circumstances, regardless of whether the RFO process proceeds to a successful conclusion or is abandoned by SDG&E in its sole discretion.

13. Contingencies

1. CPUC Review and Approval. Any agreement entered into by SDG&E and a selected Respondent for Products 1, 2, 5 and 6 will be subject to and contingent upon (at a minimum) (1) the issuance by the CPUC of a final decision acceptable to SDG&E, approving such agreements and that does not materially alter the commercial aspects of the agreements; (2) a finding by the CPUC that the payments under the agreements are reasonable; and (3) a finding that SDG&E is authorized to recover the full amount of its costs including any payments made to Respondent under any of such agreements from SDG&E's customers in rates through existing or future cost recovery mechanisms that may be developed or instituted by the CPUC.
2. FERC Approval. In addition to the approvals required elsewhere in this RFO and the applicable agreement between the parties, SDG&E, in its sole discretion, may obtain and/or require Respondent to obtain: (1) a FERC order, as may be required, accepting and/or

authorizing any agreement(s) entered into hereunder, including without limitation, on terms that do not materially alter the commercial aspects of the agreement(s); and/or (2) a finding by the FERC that the rates, terms, and conditions are just and reasonable.

14. RESERVATION OF RIGHTS

SDG&E makes no guarantee that a contract award shall result from this RFO. SDG&E reserves the right at any time, at its sole discretion, to abandon this RFO process, to change the basis for evaluation of Offers, to terminate further participation in this process by any party, to accept any Offer or to enter into any definitive agreement, to evaluate the qualifications of any Respondent or the terms and conditions of any Offer, or to reject any or all Offer, all without notice and without assigning any reasons and without liability of Sempra Energy, SDG&E, or any of their subsidiaries, affiliates, or representatives to any Respondent. SDG&E shall have no obligation to consider any Offer.

15. Supplemental Information

SDG&E reserves the right to request additional information from individual Respondents or to request all Respondents to submit supplemental materials in fulfillment of the content requirements of this RFO or to meet additional information needs of SDG&E. SDG&E also reserves the unilateral right to waive any technical or format requirements contained in the RFO.

16. WAIVER OF CLAIMS AND LIMITATION OF REMEDIES

SDG&E will not reimburse Respondents for their expenses under any circumstances, regardless of whether the RFO process proceeds to a successful conclusion or is abandoned by SDG&E at its sole discretion without any resultant contract executed for any of the products.

SDG&E reserves the right to disregard a non-conforming Offer or waive requirements for any product and shortlist a non-conforming Offer.

By submitting an Offer, Respondent knowingly, voluntarily, and completely waives any rights under statute, regulation, state or federal constitution, or common law to assert any claim, complaint, or other challenge in any regulatory, judicial, or other forum, including without limitation, the CPUC, (except as expressly provided below), the FERC, the Superior Court of the State of California ("State Court") or any U.S. District Court ("Federal Court") concerning or related in any way to the RFO or any documents in the RFO including all exhibits, attachments, and appendices thereto ("Waived Claims"). Respondent further expressly acknowledges and consents that if it asserts any Waived Claim at the CPUC, FERC, State Court, or Federal Court, or otherwise in any forum, to the extent that Respondent's Offer has not already been disqualified, SDG&E is entitled to automatically disqualify such Offer from further consideration in the RFO or otherwise, and further, SDG&E may elect to terminate the RFO.

By submitting an Offer, Respondent further agrees that the sole forum in which Respondent may assert any challenge with respect to the conduct or results of the RFO is at the CPUC. Respondent further agrees that: (1) the sole means of challenging the conduct or results of the RFO is a complaint filed under Article 3, Complaints and Commission Investigations, of Title 20, Public Utilities and Energy, of the California Code of Regulations, (2) that the sole basis for any such protest shall be that SDG&E allegedly failed in a material respect to conduct the

solicitation in accordance with the RFO; and (3) that the exclusive remedy available to Respondent in the case of such a protest shall be an order of the CPUC that SDG&E again conduct any portion of the solicitation that the CPUC determines was not previously conducted in accordance with the RFO or any RFO documents (including exhibits, attachments, and appendices). Respondent expressly waives any and all other remedies, including, without limitation, compensatory and/or exemplary damages, restitution, injunctive relief, interest, costs and/or attorneys' fees. Unless SDG&E elects to do otherwise in its sole discretion, during the pendency of such a protest the RFO and any related regulatory proceedings related to the RFO will continue as if the protest had not been filed, unless the CPUC issues an order suspending the RFO or SDG&E has elected to terminate the RFO.

Respondent further acknowledges and agrees that if Respondent asserts any Waived Claim, SDG&E shall be entitled to seek immediate dismissal of Respondent's claim, complaint, or other challenge, with prejudice, by filing a motion to dismiss (or similar procedural device) supported by the language in this Section and that Respondent will not challenge or oppose such a request for dismissal. Respondent further acknowledges and agrees that if it asserts any Waived Claim, and if SDG&E successfully has that claim dismissed or transferred to the CPUC, Respondent shall pay SDG&E's full costs and expenses incurred in seeking such dismissal or transfer, including reasonable attorneys' fees. By submitting an Offer, Respondent acknowledges and agrees that it has submitted that Offer after consultation with its own independent legal counsel.

Respondent agrees to indemnify and hold SDG&E harmless from any and all claims by any other Respondent asserted in response to the assertion of any Waived Claim by Respondent or as a result of a Respondent's protest to a filing at the CPUC resulting from the RFO.

Except as expressly provided in the RFO documents, nothing herein, including Respondent's waiver of any Waived Claims as set forth above, shall in any way limit or otherwise affect the rights and remedies of SDG&E.

17. Attachments

The following are available for download at the RFO Website:

1. The RFO

2. Technical Bid Forms (the form applicable to the product being offered is required)
   - Product 1
   - Product 2
   - Product 3
   - Product 4
   - Product 5
   - Product 6
   - Product 7a
   - Product 7b

3. Proforma Agreements – Respondents must include as part of the Offer redline comments to the applicable proforma agreement.
   - Tolling Agreement (required for Products 2, 3, 4, 5, 6)
   - EEI Firm LD Agreement (required for Product 7a)
   - WSPP RA Agreement (required for Product 7b)

4. Credit Application (required for all Products)

5. DBE Subcontracting Commitment And Reporting Requirements Form (required for Product 1)

6. Participation Summary (required for all Products except Product 1)

Respondents are encouraged to provide supplemental information to expand upon any unique capabilities to meet SDG&E's needs.

Addendum

Introduction to SDG&E: Background

San Diego Gas & Electric Company (SDG&E) provides electric service to approximately 1.3 million customers in San Diego County and the southern portion of Orange County. SDG&E also provides natural gas service to approximately 775,000 gas customers. The electric customer base comprises 89% residential and 11% commercial and industrial customers.

SDG&E's electric transmission network is comprised of 130 substations with approximately 884 miles of 69-kV, 265 miles of 138-kV, 349 miles of 230-kV, and 215 miles of 500-kV transmission lines. Major ("on system") generating resources are the Cabrillo plant (connected into SDG&E's grid at 138 kV and 230 kV), the South Bay plant (connected at 69 kV and 138 kV), the Palomar Energy Center (connected at 230 kV), the Otay Mesa plant (expected online in fall of 2009), a number of combustion turbine facilities located around the service area (connected at 69 kV), various Qualifying Facilities and renewable generation. Imported resources are received via the Miguel Substation as the delivery point for power flow on the Southwest Power Link, which is SDG&E's 500-kV transmission line that runs from Arizona to San Diego along the U.S./Mexico border, and via the SONGS 230-kV switchyard.

Figure 1 shows a simplified diagram of existing SDG&E service area and the electric transmission topology in San Diego County and the southern portion of Orange County. [11] Planned or approved transmission facilities for the future (if any) are not shown on this map. Upon completion of the Sunrise Powerlink (expected in 2012), the California ISO has proposed that it may expand their defined local area for SDG&E's transmission system. If the local area is expanded, there will be additional facilities and areas that will be considered local to the SDG&E transmission area.

Local Capacity Requirements are set by the California Independent System Operator ("CAISO") each year for the following year. Areas of Local Resource Adequacy correspond to the areas of Local Capacity Requirements as described in the 2010 Local Capacity Area Technical Study ("Technical Study" or "LCR Study"). This study is performed to identify specific areas within the CAISO Controlled Grid that have local reliability needs and to determine the minimum generation capacity (MW) that would be required to satisfy these local reliability requirements, while enforcing generation deliverability status and Maximum Import Capability for all common mode contingencies as defined by CAISO.[12]

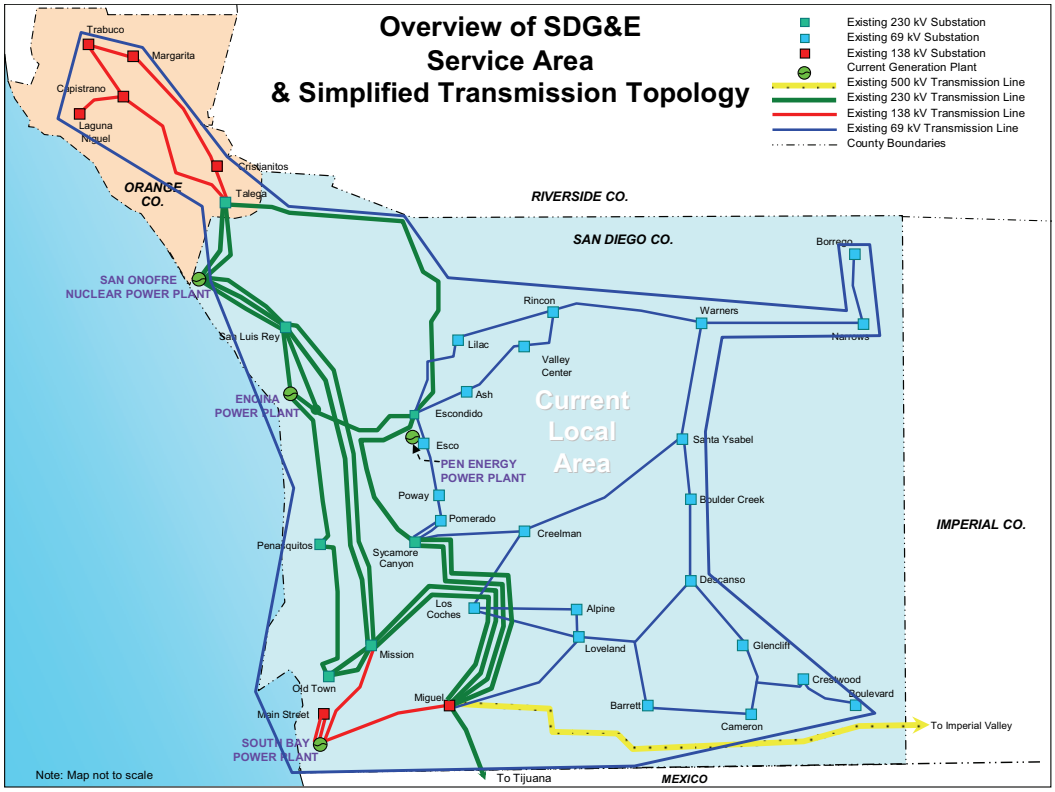
The future area of Local Resource Adequacy has been projected by SDG&E based upon the 2011-13 Local Capacity Technical Analysis Report and Study Results published by CAISO on December 29. 2008 (http://www.caiso.com/20ad/20ad77d04d70.pdf).

---

[11] SDG&E cautions that interconnection with the 500-kV Southwest Power Link or the Imperial Valley 500/230-kV Substation are not acceptable delivery points for proposals under this RFO because the reliability resource requirement is based on a contingency condition with the SWPL out of service. Similarly, direct interconnection to the San Onofre switchyard or the 230-kV lines from San Onofre to either Talega Substation or San Luis Rey Substation are not acceptable for the purpose of this RFO because these network facilities are fully utilized for the reliability condition of concern.

[12] 2010 Local Capacity Technical Analysis, Final Report and Study Results . California Independent System Operator, May 1, 2009.

Figure 1. Current SDG&E Local Area



APPENDIX 2

The Entire Appendix 2 is CONFIDENTIAL

APPENDIX 3

The Entire Appendix 3 is CONFIDENTIAL

APPENDIX 4

Appendix 4

Contract Summaries:

Escondido Energy Center
Pio Pico Energy Center
Quail Brush Genco

CONTRACT SUMMARY

Counterparty: Escondido Energy Center, LLC

Resource Type: Natural gas-fired, simple-cycle, quick start peaking turbine

Location: On the site of an existing power plant on the south side of Hwy 78 in Escondido just west of I-15.

Expected Deliveries: The expected facility capacity as stated in the Power Purchase Tolling Agreement is 45 MW. Annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for the unit to operate up to 2600 hours per year.

Delivery Point: SDG&E's adjacent Escondido Substation

Length of Contract: 25 years.

Online Date: The planned online date is July 1, 2012.

CONTRACT SUMMARY

Counterparty: Pio Pico Energy Center, LLC

Resource Type: Natural gas-fired, simple cycle, quick start peaking turbines

Location: Private land, previously disturbed, adjacent to the Otay Mesa combined cycle power plant in San Diego County.

Expected Deliveries: Expected Contract Capacity as stated in the Power Purchase Tolling Agreement is 304.8 MW. Annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for each of the three units to run up to 4,000 hours per year.

Delivery Point: Interconnection facilities at the 230 kV Otay Mesa switchyard

Length of Contract: 20 years

Online Date: The planned online date is May 27th, 2014.

CONTRACT SUMMARY

Counterparty: Quail Brush Genco LLC

Resource Type: Reciprocating natural gas-fired engines that are quick start peaking units

Location: Quail Brush is located on private land adjacent to and south of the existing Sycamore Canyon Landfill. The project is just North of Hwy 52 several miles east of Interstate 15.

Expected Deliveries: The facility's anticipated capacity as stated in the Power Purchase Tolling Agreement is100 MW. Annual energy delivery is contingent upon grid reliability needs and market price. The PPTA provides for the unit to operate up to 3800 hours per year.

Delivery Point: The project will be connected by a new 230kV switchyard into SDG&E's existing Sycamore Canyon-Mission 230kV transmission line.

Length of Contract: 20 years.

Online Date: The planned online date is June 1, 2014.

APPENDIX 5

The Entire Appendix 5 is CONFIDENTIAL

APPENDIX 6

The Entire Appendix 6 is CONFIDENTIAL

APPENDIX 7

The Entire Appendix 7 is CONFIDENTIAL

APPENDIX 8

The Entire Appendix 8 is CONFIDENTIAL

APPENDIX 9

Note that the Entire Addendum is

CONFIDENTIAL

Van Horn Consulting
Energy, Economic, Regulatory
& Environmental Consultants
Orinda, CA 94563

Public Version

Independent Evaluator's Report – Product 2: New Local Generation and SDG&E's June 9, 2009 RFO for Demand Response and Supply Resources

Van Horn Consulting
Orinda, CA 94563
consulting@vhcenergy.com

Andy Van Horn
Ed Remedios
Mike Katz

May 18, 2011

Page intentionally left blank

Table of Contents

Page

I. Introduction 1

II. Background 3

A. Products in the 2009 Supply RFO 3

B. SDG&E's Local RA Zone 5

C. SDG&E's Local and System RA Needs 5

III. Summary 8

A. RFO Results to Date 8

B. Review of Product 2 11

C. VHC Recommendations 13

IV. Responses to Questions in the Long Form Template 17

A. Role of the Independent Evaluator (IE) 17

B. How did the IOU conduct outreach to bidders and was the solicitation robust? 22

C. Was the IOU's methodology for bid evaluation and selection designed fairly? 24

D. Was the LCBF evaluation process fairly administered? 34

E. Discussion of project-specific negotiations 41

F. Code of Conduct 46

G. Affiliate Bids and UOG Ownership Proposals (if applicable) 47

H. Does (do) the contract(s) merit CPUC approval? Is the contract reasonably priced and does it reflect a functioning market? 48

I. Was the RFO acceptable? 51

Confidential Addendum: Independent Evaluator's Confidential Report

List of Figures

Page

Figure 1. SDG&E's Existing and Possibly New Local Capacity Areas 6
Figure 2. SDG&E's Peak Loads 2000 to 2010 7

List of Tables

Table 1. Products Requested in the 2009 RFO 4
Table 2. Current Status of 2009 RFO Products 9

I. INTRODUCTION

San Diego Gas & Electric Company (SDG&E) is requesting authority to enter into three long-term power purchase tolling agreements (PPTAs) that would add a total of approximately 450 MW of needed local capacity to SDG&E's existing portfolio of resources. These three PPTAs resulted from offers that were received for Product 2, new long-term local capacity, in SDG&E's Request for Offers (RFO) for Demand Response (DR) and Supply Resources, issued on June 9, 2009.[1] Three contracts have been negotiated with the following non-utility entities: EIF's Apex Pio Pico Energy Center, 305 MW; Wellhead's Escondido Energy Center, 45 MW; and Goldman Sachs/Cogentrix's Quail Brush Generation Project, 100 MW.

SDG&E's need for new local generation is determined by the need for sufficient resources that are physically located in the San Diego load pocket and are capable of meeting local Resource Adequacy (RA) requirements for all load serving entities (LSEs). This need also accommodates the additional retiring resources that were not included in SDG&E's 2006 Long Term Procurement Plan (LTPP) retirement assumptions.

In its role as the Independent Evaluator (IE) for the 2009 RFO, Van Horn Consulting (VHC) has prepared this public report, as well as a Confidential Addendum. These documents evaluate SDG&E's proposed PPTAs for Product 2 in the context of the offers for supply resources that were received in response to the 2009 Supply RFO. Hence, our report discusses the current status of all products in the RFO.

The IE review process resulted from a series of California Public Utilities Commission (CPUC or Commission) rulings and decisions affecting California's Investor-owned Utilities (IOUs). The CPUC's December 2004 decision on long-term resource procurement (D.04-12-048) stated that it would "require the use of an IE for resource

[1] Request for Offers for Demand Response and Supply Resources, June 9, 2009. SDG&E requires these resources to support reliability within its service territory, supply energy to bundled customers and meet other portfolio needs, including Resource Adequacy (RA) requirements.

procurement where there are affiliates, IOU-built or IOU-turnkey bidders" from that point forward (pp. 135f). The CPUC's intent was to ensure that a utility did not favor itself or an affiliate. Decision 07-12-052, Conclusion of Law, item 24, states "IEs are valuable to the procurement process and we direct the IOUs to utilize IEs according to the parameters established in this decision and in D.04-12-048." On page 140, the Decision also states: "Further, given that IOUs may not know with certainty whether or not it or its affiliate will bid on a particular solicitation, the Commission requires that an IE be utilized for all competitive RFOs[2] that seek products of more than three months in duration."[3] Under the decisions cited above, the role of the IE is to assist the utility in RFO design and observe the utility's procurement, evaluation and contract negotiation processes, in order to provide an opinion concerning "fairness." In addition to the CPUC's requirements, the Federal Energy Regulatory Commission (FERC) requires an IE to prevent a bias and to avoid preferences favoring the selection of affiliate offers over offers from other participants.[4]

In 2008, the CPUC ruled that: "parties are to use the attached templates for the purposes specified on the templates: The IEs are to use the IE templates, either the short form or the long form, when preparing their reports on the utilities' RFOs, and the utilities are to use the contract approval template when submitting a request to the Commission for approval of a resource contract. These templates are to be used for the purposes specified until further notice."[5]

For the Short Form and the Long Form templates, the CPUC requires that:

1. "This short form template should be used for transactions that do not require submission of an application for CPUC approval, including those transactions that are documented in the IOU's Quarterly Compliance Report (QCR) and/or are submitted to the Commission for approval via advice letter."
2. "This template should be used whenever an Independent Evaluator submits a report on the outcome of an IOU RFO bid process for review by the California Public Utilities Commission. This long form template should be used for transactions that require submission of an application for CPUC approval."

In its RFO, SDG&E requested supply offers for some products which require the Short Form template and others the Long Form. These products are described in Section II of this report.

---

[2] Competitive RFOs include those issued to satisfy service area needs and to provide specific supply-side resources not covered by the Commission's Energy Efficiency (EE) and Demand Response (DR) programs.
[3] This requirement creates uniformity between the contract length for which an IOU must consult its Procurement Review Group (PRG) and the IE process.
[4] 108 FERC ¶61,081 (2004): "Opinion and Order … Announcing New Guidelines for Evaluating Section 203 Affiliate Transactions." VHC is not aware of any additional CPUC requirements for the IE review of Demand-Side Management programs acquired via an RFO process.
[5] "Administrative Law Judge's Ruling Issuing Templates For Independent Evaluator Reports And Contract Approval Requests," Rulemaking 06-02-013, dated May 8, 2008.

SDG&E's selection of offers for some products are necessarily dependent on its selection of offers for other products. For this reason and for ease in preparing and reading this IE report, VHC has used the Long Form template for all products, rather than the Short Form template for some products and the Long Form template for other products.[6] The Long Form template addresses all the questions that are in the Short Form template but in greater detail. VHC also provides additional comments and observations regarding SDG&E's solicitation, evaluation and contracting process that may not be required by the IE Template questions, but that VHC believes are relevant.

The application for which this IE report is being submitted is for the approval of SDG&E's contracts solicited for Product 2. However, SDG&E's selection of short-listed offers in the 2009 RFO and its Least-Cost, Best-Fit (LCBF) evaluation included all the Supply Products. The LCBF evaluation considered how sequential combinations would make-up an LCBF portfolio. Therefore, although the focus of this Public IE Report is on the Product 2 contracts, this report and its Confidential Addendum address the RFO and the evaluations as an integrated whole.

This public report does not contain confidential and/or privileged materials. However, the Addendum provides confidential information, for which review and access are restricted, subject to PUC Sections 454.5(g), 583, D.06-06-066, and General Order (GO) 66-C.

II. BACKGROUND

A. Products in the 2009 Supply RFO

In its RFO, SDG&E sought short-term and long-term supply resources, local resources, as well as resources outside SDG&E's service territory. It requested both existing and new generation, as shown in Table 1 below. Information on requirements, such as the minimum capacity, capacity factors and heat rates is also included in Table 1.

During the evaluation of offers for the 2009 Supply RFO, SDG&E also evaluated two non-conforming offers, as well as several conforming bilateral offers, which SDG&E had received earlier. These bilateral offers were from existing facilities and conformed to the RFOs requirements for Product 5 offers from existing units. The Confidential Addendum provides additional detail regarding these offers.

[6] This IE Report uses the CPUC's Long Form template dated November 9, 2010.

Table 1. Products Requested in the 2009 RFO

Product #	Type	Short-term or Long-term	Local or Outside	Term, years	Minimum Offer, MW	Delivery Start	Other
1	DR	Short	Local	3	1	2012	Ability to respond within 10 minutes. Targeted toward non-residential customers with demand >100kW. Under a Direct Load Control program and be curtailable between 12:00 p.m. and 6:00 p.m.
2	New Gen (Toll)	Long	Local	20	100	2010-2014	Min C.F. 30%. Availability 98%. Anticipated HR <=10,500 Btu/kWh. Capable of regulation. Additional value for quick start. Requires Offer contain pricing & option for black start.
3	Existing Gen (Toll)	Short	Local	1 or 2	400	2010/11	Capable of regulation. Started/Shut down as needed. Additional value for quick start. Requires Offer contain pricing & option for black start.
4	Existing Gen (Toll)	Short	Outside	2	200	2010	Capable of regulation. Started/Shut down as needed. Additional value for quick start.
5	Existing Gen (Toll)	Long	Local	10	400	2012	Supply from a unit utilizing OTC will be offered a contract with SDG&E that consists of a 2-year transaction with the possibility to extend for eight 1-year options. Capable of regulation. Started/Shut down as needed. Additional value for quick start.
6	New or Existing Gen (Toll)	Long	Outside	10	200	2012	Supply from a unit utilizing OTC will be offered a contract with SDG&E that consists of a 2-year transaction with the possibility to extend for eight 1-year options. Additional value for quick start.
7A	Firm LD Energy	Short	Local & Outside	2 or 4	200	2010/12	3rd Q 6 x 16 on-peak. Refreshing prices allowed once.
7B	RA	Short	Local & Outside	2 or 4	200	2010/12	3rd Q or full year.

B. SDG&E's Local RA Zone

There is a possibility that there will be a new additional Greater San Diego/Imperial Valley local Resource Adequacy (RA) zone, after the Sunrise Powerlink goes into operation. Sunrise Powerlink is expected to begin deliveries of energy to San Diego in 2012. SDG&E's existing local RA area and the potential new local RA areas are depicted in Figure 1 below. SDG&E informed bidders that this decision will be made by the California Independent System Operator (CAISO), but as of March 2011, no changes have been made to SDG&E's local area boundaries. Since the current local RA zone would be fully incorporated into the broader local area, any RA resources located in the current zone will contribute to meeting RA requirements, whether or not an enlarged zone is created. SDG&E further informed bidders that they must perform their own market research and directed them to the CAISO's study and preliminary statements.[7]

Generation facilities in SDG&E's local RA zones are more limited than those outside the local RA zone. As a result, offer prices for supplies in SDG&E's local RA zone are generally higher than offer prices for system supplies outside the local RA zone. If the CAISO creates the new Greater San Diego /Imperial Valley local RA zone, the supplies available to SDG&E to meet RA in this new zone would increase. Furthermore, prices for offers that become local RA resources, but were not previously qualified as local RA, may increase. SDG&E is monitoring the situation to avoid the potential for stranded capacity and to ensure that the most economically attractive offers are selected, if and when the new zone is established.

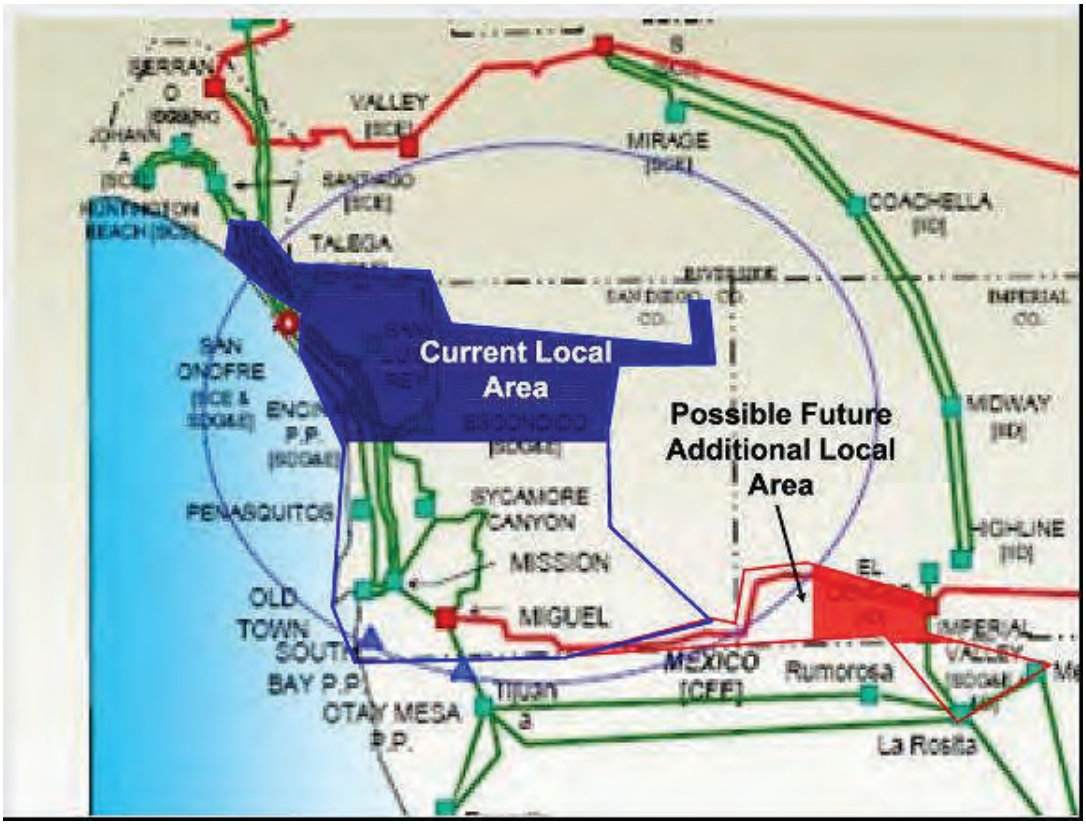
C. SDG&E's Local and System RA Needs

Since issuing its RFO in June 2009, SDG&E has updated its Need values for both local and system resources. As discussed in SDG&E's application, SDG&E's bundled customers have a need for local and system resources for all years through 2020. The local Need decreases in 2013, when the Sunrise Powerlink is forecasted to be in service and fully counted by the CAISO in reducing the Need for local resources.[8] Local Need will continue to grow in later years, as load continues to grow.

[7] These are available at http://www.caiso.com/1f42/1f42d6e628ce0.html and http://www.caiso.com/20ad/20ad77d04d70.pdf

[8] The Sunrise Powerlink is currently projected to be put into service in 2012. However, for planning purposes, SDG&E assumes that its updated local RA needs in 2012 will still be based on the Sunrise Powerlink not being in service, since local RA needs are determined by October of the prior year, and the Sunrise transmission line will still be under construction in October 2011.

Figure 1. SDG&E's Existing and Possibly New Local Capacity Areas



VHC has reviewed estimates of SDG&E's system need, as this need has changed during 2009 and 2010. Further information is presented in the Confidential Addendum.

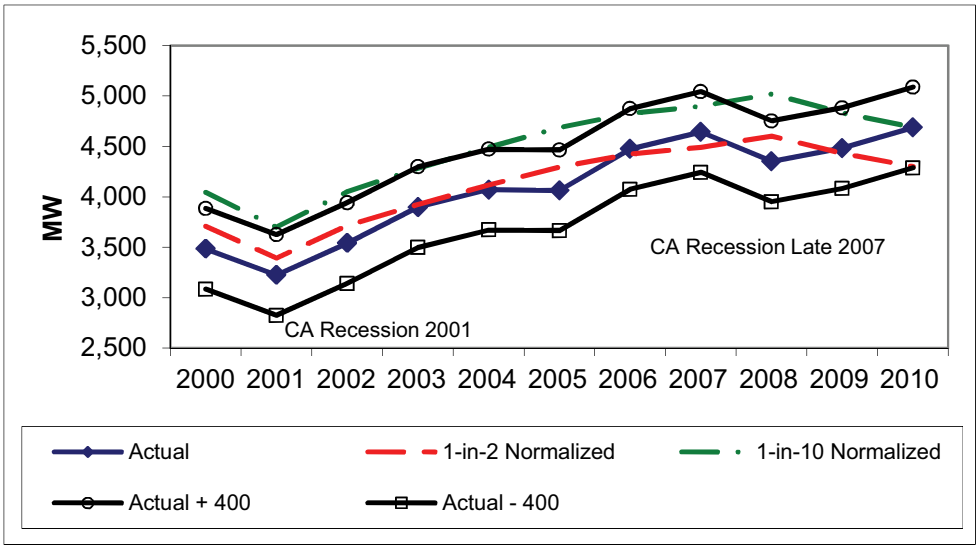
VHC also reviewed data on SDG&E's peak loads for the period 2000 to 2010. Figure 2 below shows:

- Actual Peak loads,
- Peak loads normalized for 1-in-2 and 1-in-10 weather years, and
- Actual peak loads plus 400 MW and minus 400 MW.

The results show that SDG&E's peak loads can decline or increase significantly from one year to the next. In both 2001 and in 2007, years in which California had economic recessions, the peak loads were significantly lower than the peak load for the year prior to the recession. In some other years, loads increased by much more than the average for the 11-year period. For all years, except 2010, actual peak loads are relatively close to the values for loads normalized for 1-in-2 weather years and below values normalized for 1-in-10 weather

years. In 2010, actual loads are almost 400 MW above and approximately equal to the loads normalized for 1-in-2 weather and 1-in-10 weather years, respectively.

Figure 2. SDG&E's Peak Loads 2000 to 2010



Other factors that SDG&E has accounted for in estimating its need for new capacity include:

- The Once Through Cooling (OTC) policy adopted by the state Water Resources Control Board to phase out or greatly reduce the use of coastal and estuarine waters for power plant cooling.[9] The Encina Power Plant (960 MW) must meet this relatively new obligation by December 31, 2017. Hence, to estimate need, SDG&E now assumes the retirement of Encina units 1, 2 and 3, or a total of 320 MW by 2013, with the remaining Encina capacity to be retired in 2017.
- Revised assumptions for load and resources, such as the CEC's forecast, produced in late 2010,[10] as well as updates to all resources including using the CAISO current Net Qualifying Capacity (NQC) resource ratings.[11] VHC notes that 2010 forecasts are below the CEC's 2009 Integrated Energy Policy Report's demand forecast.[12]

---

[9] The policy was issued on May 4, 2010 and is available at: http://www.wecc.biz/committees/BOD/TEPPC/TAS/08192010/Lists/Minutes/1/CA_OTCRetirement_TEPPC2020Basecase2010_08_18.pdf

[10] The report is available at http://www.energy.ca.gov/2010publications/CEC-200-2010-011/CEC-200-2010-011-SD.PDF

[11] 2011 Final Net Qualifying Capacity (NQC) Report as posted on the CAISO web site at: http://www.caiso.com/276a/276a8c14493a0.xls

[12] CEC-200-2011-002-CTF, Miguel Garcia-Cerrutti, Tom Gorin, Chris Kavalec, and Lynn Marshall. Revised Short-Term (2011-2012) Peak Demand Forecast Committee Final Report. California Energy

However, if the California economy recovers more rapidly from the recession or if demand response and distributed generation programs are not as successful as assumed, actual demand could exceed the CEC's forecasts.

- Future uncertainties and unanticipated events, including delays or cancellation of planned facilities, premature retirements or extended outages, natural disasters, such as fires and earthquakes, terrorism or sabotage. While SDG&E's planning does not accommodate all the ways that additional power plants may be needed earlier than presently anticipated, VHC believes it is prudent for SDG&E to maintain a modest surplus of capacity rather than a deficit.
- The need to provide a generation resource mix capable of integrating increasing amounts of renewable energy into the grid from intermittent generation technologies. The Product 2 resources will add new capacity with lower heat rates, quicker starting capabilities and greater operational flexibility.

Based on consideration of these factors, VHC concurs with SDG&E that the Product 2 resources being evaluated here are needed to satisfy local Resource Adequacy and prudent planning criteria. Moreover, without their addition, the retirement of the Encina OTC generating units would most likely lead to insufficient local RA capacity.

III. SUMMARY

A. RFO Results to Date

SDG&E selected for short-listing and negotiation a number of offers for the 2009 RFO products. Although this report focuses on the Product 2 contracts, it also indicates the status of all the RFO Products, as shown in Table 1. Table 2 provides a brief summary of the status of each of the products SDG&E solicited in its 2009 All-Source RFO.

Commission, Electricity Supply Analysis Division. CEC-200-2011-002-CTF. pp 13-16.

Table 2. Current Status of 2009 RFO Products

Product	Type	Status
1	Demand Response (DR)	Negotiations for three-year DR contracts with short-listed offerors have been halted, awaiting CPUC direction.
2	New Local Gen (Toll)	The local capacity from this offer is needed to meet SDG&E grid reliability needs. A portion will be allocated to SDG&E to meet its bundled customers' local and system resource adequacy (RA) needs. Long-term contracts with three short-listed bidders have been signed and are being submitted to the Commission for approval in this application. The cumulative amount of capacity selected from Product 2 offers is 450 MW.
3	Existing Local Gen 2010 - 11 (Toll)	SDG&E negotiated a one-year contract and a one-year extension with NRG Encina for 964 MW to provide local RA capacity needed in 2010 and 2011.
4	Existing System Gen 2010 - 11 (Toll)	No two-year Product 4, non-local offers were selected, because of the uncertainty with SDG&E's open system RA position.
5	Existing Local Gen 2012 – on (Toll)	SDG&E is completing its negotiations of 10-year contracts with short-listed Product 5 offerors for local RA.
6	New or Existing Gen 2012- on (Toll)	No Product 6, non-local offers were selected because changing local and system capacity needs were met by the Product 2, 3 and 5 selections.
7A	Firm LD Energy 2010 - 2012	No 2 or 4-year Product 7A offers were selected, because SDG&E opted to use its short-term hedging program instead.
7B	RA 2010 - 2012	Due to need uncertainty, SDG&E elected to fill remaining RA need closer to the time period of the identified need.

Product 1 requested 3-year contracts to provide Demand Response reductions to be made available on 10-minute notice. Although SDG&E suspended negotiations for the second time in April 2011, it plans to resume negotiations after receiving additional direction from the Commission.

Product 2 requested new, tolling generation located in SDG&E's Local System area for a 20-year contract duration.[13] In this application, SDG&E is submitting the three contracts negotiated with the short-listed Offerors for CPUC approval.

[13] Product 2 is for new, local tolling generation for 20 or more years, starting in 2010 to 2014. Units must be capable of operating at greater than a minimum of 30% annual capacity factor and be capable of regulation at a heat rate <10,500 Btu/kWh.

For Product 3, SDG&E executed a one-year tolling agreement to meet 2010 Local RA needs and agreed to an extension to cover 2011.[14] The tolling contracts executed under Product 3 give SDG&E the ability to satisfy both local and system needs.

All three of the Product 4 offers were less attractive than the Product 7B offers to which they were compared. In addition, the amount of System RA needed was uncertain, due to the uncertainty surrounding South Bay's 2010 designation as a Reliability Must-Run (RMR) unit by the CAISO. Thus, no Product 4 offers were selected. SDG&E also elected not to execute any Product 6 offers, since the short-listed Product 2 and 5 offers, which are needed to address the uncertainty of the local RA situation, would satisfy much of SDG&E's system RA needs.

Product 5 is for tolling agreements for supply from existing generators providing local Resource Adequacy for a 10-year term, starting in 2012. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. Supply offered from a unit utilizing Once Through Cooling (OTC) could be offered a contract consisting of an initial 2-year term with the possibility to extend the contract with up to eight one-year contracts. As of April 2011, final contract negotiations are being completed for Product 5 offers.

CalPeak's El Cajon combustion turbine (CT) unit is located at SDG&E's El Cajon substation within SDG&E's Eastern O&M Center and is subject to a 10-year lease with SDG&E that expires on October 31, 2011.[15] The land lease agreement grants SDG&E the option to purchase the plant at the end of the lease agreement.[16] SDG&E has chosen to exercise this option, because the ECEF purchase meets the requirements of Product 5 and will be considerably less expensive than a PPA would be. SDG&E filed its Application (U 902 E) for the Authority to Acquire the CalPeak El Cajon Energy Facility (ECEF) with the CPUC on January 5, 2011.

After the receipt of RFO offers in August 2009, SDG&E determined that it did not need to contract for Product 6 (New or Existing, Long-term, System RA) to satisfy its changing system Resource Adequacy (RA) needs. This decision was made because the short-listed

[14] The contract with NRG is referred to as Cabrillo Power I, LLC for units at the Encina plant.
[15] CalPeak's ECEF is a 52 MW Combustion Turbine (CT) peaking facility currently under contract with the DWR, expiring at the end of 2011. All its associated energy, capacity, and ancillary services products are assigned to SDG&E.
[16] The land lease with CalPeak grants SDG&E the right to buy the El Cajon unit on an "as is" basis at the "fair market value" of the gas turbine, the generator and the electrical/control unit only, less the cost to restore the site to its pre-existing condition.

Product 5 offers (Existing, Long-term, Local RA) could satisfy SDG&E's System RA requirements at a lower cost.[17]
During 2009 and 2010, SDG&E assessed the indexed power market and concluded that this market is currently deep and liquid. As a result, SDG&E decided not to accept any Product 7A offers (Firm, short-term, Liquidated Damages energy). Instead, SDG&E intends to accomplish its price hedging via other resources, such as natural gas and Renewable Portfolio Standard (RPS) resources.

Product 7B could provide a supply resource that contributes at the margin, based on SDG&E's load/generation balance. However, reductions in estimated system need and the availability of adequate RA capacity from Products 2, 3 and 5 led SDG&E not to procure any short-term RA from Product 7B offers.

The remainder of this public IE report focuses on SDG&E's Product 2 RFO offers, their evaluation, negotiation and contracts. The Confidential Addendum provides additional discussion of the specific RFO offers and confidential issues regarding this multi-product RFO.

B. Review of Product 2

The three long-term power purchase tolling agreements (PPTAs) described here resulted from 37 offers in response to the Product 2 solicitation.[18] Contracts were negotiated with the following non-utility entities: Energy Investors Funds' (EIF) Apex Pio Pico Energy Center, 305 MW; Wellhead's Escondido Energy Center, 45 MW; and Goldman Sachs/Cogentrix's Quail Brush Generation Project, 100 MW.

General characteristics of these offers are:

<u>EIF Apex Pio Pico (305 MW)</u>

- Planned COD May 2014,
- 3 General Electric LMS 100PA turbines in simple cycle configuration,
- After a site change from Chula Vista, the project will be located between the Otay Mesa and Miguel substations on 12 acres of private land adjacent to the Otay Mesa power plant,

[17] However, SDG&E recognized that if the negotiations for Product 5 contracts were not successful, it would have to determine how to satisfy any unfilled gaps in its RA needs.
[18] Product 2 is for new, local tolling generation for 20 years, starting in 2010 to 2014. Units must be capable of operating at greater than a minimum of 30% annual capacity factor and be capable of regulation at a heat rate <10,500 Btu/kWh. Additional value was considered for quick start capability with pricing and an option for black start was required, in order to satisfy Product 2 specifications.

- A new Application for Certification (AFC) was needed with a change in site. The new AFC was filed February 9, 2011 with the CEC and has been found to be data adequate.
- The contract was executed on February 2, 2011.

<u>San Diego Community Power Project/Enpex/Cogentrix/Quail Brush Power Project (100 MW)</u>

- Planned COD June 2014,
- Cogentrix (owned by Goldman Sachs) bought out ENPEX Corporation's ownership of the project on February 8, 2011,
- 11 Wartsila 20V34SG reciprocating gas-fired engines, 9.1 MW each,[19]
- Located on private land adjacent to and south of the Sycamore Canyon landfill inside the City of San Diego, accessing the Sycamore substation.
- Interconnection flexibility to either the Miguel-Sycamore line as offered or to the Sycamore-Mission line.
- Will apply for CEC AFC.

<u>Wellhead Escondido (45 MW)</u>

- This is an existing 35 MW CT that will be re-powered to 45 MW.
- Offered COD June 2011, now July 2012, in order to maintain SDG&E's near-term RA by delaying the proposed repower of the existing 35 MW plant to 2012,
- 1 GE LM 6000PC turbine in simple cycle configuration, and
- Located in Escondido on the south side of Hwy 78 just West of I-15, near Palomar. The existing unit has operated on this site for about 10 years and will replace the existing MMC equipment, a 35 MW FT4).

Wellhead Escondido's original Interconnection Agreement can be used as long as the unit's capacity does not exceed 50 MW. The original RFO offer was for the re-power to meet a Commercial Operation Date (COD) of June 2011. During negotiations this date was delayed to July 2012, in order to enable the existing 35 MW unit to remain in operation, while facilitating the shutdown of South Bay, which occurred at the end of 2010. However, meeting the July 2012 COD will require a timely decision by the CPUC to approve this contract.

A contract to cover continued July-December 2010 operation was executed June 1, 2010, and a dispatch option to enable real-time market calls on the Escondido unit was added on July 13, 2010. A contract for 2011 RA capacity and a 2011 Dispatch Option was expected to be

[19] Because SDG&E had requested a reduction in the project size to 100 MW, Cogentrix proposed changes in technology and offered to build either a GE LMS 100 (one 100 MW unit) or a GE LM 6000 (2 units at 50 MW each) or Wartsila reciprocating gas-fired engines (11 units at 9.1 MW each). The Wartsila offer was the lowest-priced and was evaluated and selected.

executed, at the same time as the 25-year Product 2 PPA for the re-powered Wellhead unit, which was executed on February 25, 2011.[20]

Other competitive Product 2 offers were received in August 2009. However, these offers were determined to be less competitive in cost, primarily because Apex had a better position in the CAISO transmission queue than these offers that were similarly located and would not need significant transmission upgrades. The additional costs of transmission upgrades rendered these otherwise competitive offers too high in price. Other Product 2 offers with higher bid-ranking costs were also judged to be non-competitive and were not shortlisted.

Throughout 2009 and most of 2010, SDG&E's procurement group and the project developers relied on their own estimates of transmission upgrade costs. However, when the CAISO released the results of its Cluster 2 Phase I Interconnection transmission study in November 2010, the parties were quite concerned, because CAISO's estimated upgrade costs were many times higher than other estimates. The CAISO's estimated costs of transmission upgrades were based on the need to provide sufficient transmission capacity for all projects in the Phase I queue and were characterized as "worst-case" maximum costs. This assumption, among others, arguably increased the CAISO's Cluster 2 Phase I estimated costs well above costs that had been reasonably expected. In addition to transmission upgrades in SDG&E's service territory, the CAISO's Phase I analysis would also require additional upgrades in SCE's service territory. As of April 2011, project developers, this IE and SDG&E continue to believe the estimated Phase I costs are unrealistically high. See section IV. F of the Confidential Addendum for additional discussion of this issue.

SDG&E also shortlisted one competitively-priced offer and continued negotiations with this counterparty for over a year. As it turned out, the offeror did not have adequate site control. After reaching agreement on many other aspects of the potential contract, SDG&E terminated negotiations when the offeror was unable to demonstrate that it had a site for the project. *Given the protracted nature of the negotiations, VHC believes that a greater degree of due diligence by both the offeror and SDG&E should have clarified the status of the offeror's lack of site control at an earlier date.*

C. VHC Recommendations

With respect to SDG&E's Application for approval of these three Product 2 contracts, VHC finds that

1. SDG&E has conducted a fair and competitive RFO process.

[20] The RFO requested a delivery period of 20 years for Product 2 offers. Wellhead extended its original 20-year offer to 25 years. The delivery period for the other Product 2 offers remains at 20 years.

2. There were no intentional or unintentional biases to unfairly select particular product types or specific offers.[21]

3. SDG&E's evaluations demonstrate that these contracts have lower bid-ranking costs than the other offers received for Product 2.

4. SDG&E used reasonable selection criteria to minimize costs and risks to its customers and to construct a Least Cost – Best Fit (LCBF) portfolio.

5. These three contracts are being entered into in order to meet the CPUC's direction to add new generation and to ensure that adequate capacity exists so that all LSE's can meet local grid reliability criteria. Applying the Cost Allocation Mechanism will be beneficial to SDG&E's bundled customers, since they will not be required to bear the entire cost of this new generation.

For the foregoing reasons, and because these contracts meet the requirements for Product 2, are competitively priced and will provide local RA, energy and ancillary services to customers, VHC recommends that the Commission approve all three contracts.

With respect to SDG&E's future supply RFOs, VHC recommends that:

1. SDG&E review whether the time taken for evaluation of offers, short-listing, contract negotiations and contract execution can be shortened. Additional documentation of procedures prior to issuing an RFO and completion of evaluation models prior to receiving offers may help to shorten the time required.

   Offers for this RFO were received in August 2009, and short-listing was finished in October and November 2009. In general, RFO short-listing and contract negotiation processes can be difficult and time-consuming, sometimes taking years to complete, because issues and contracts may have to be resolved in sequence, and because there are many uncertainties outside of SDG&E and counterparties' control.

2. SDG&E carry out post-RFO "Lessons Learned" reviews with RFO team members and the IE to consider how its RFO processes could be improved and accelerated. For example, "Lessons Learned" could discuss how to implement improvements, such as:

   - Better documentation of the evaluation processes and models. Documentation would facilitate model review, validation and transfer, when members of the evaluation team change, and
   - Enhanced communication among management and negotiators about specific objectives and particular wording of the negotiated terms and conditions in

[21] Although there were offers from affiliates, no affiliate offers were awarded contracts.

contracts for each Product, as the contracts are revised. Better communication might facilitate solutions that would be more readily agreed to by different counterparties and, thus, reduce the time needed to negotiate contracts.

3. SDG&E consider a longer time window for soliciting short-term offers in future RFOs. Nevertheless, VHC finds that the rationale to include short-term contracts for one or two years starting in 2010 or 2011 was reasonable for this RFO, because of the major uncertainties that could thereby be resolved by 2012. Short-term contracts with durations longer than two years may provide increased flexibility for later start dates of new long-term contracts. Then, again, SDG&E always has the option to have another RFO to obtain additional short-term contracts
4. SDG&E develop an approach to analyzing congestion costs to apply, when it receives more than one attractive offer at locations that would contribute to congestion.
5. SDG&E review the marginal costs for capacity from bids to its RFO for possible consideration as proxy values for years not included in the contract period for use in its economic evaluation of offers.
6. SDG&E examine its Ancillary Services (A/S) price forecasts and compare the forecasts with the A/S revenues it currently receives. VHC also suggests that SDG&E further analyze A/S prices under various scenarios that incorporate the development of resources that lack operational flexibility.
7. The CPUC and SDG&E work with the CAISO to improve the process, input assumptions and timeliness of CAISO's studies of transmission interconnection and network upgrade costs.
8. SDG&E conduct expanded LCBF analyses to further evaluate the effects of key uncertainties in facility and offer on-line dates, demand growth, fuel prices, GHG regulations and other market conditions.
9. SDG&E consider implementing a more robust optimization approach for determining the selected combination of contracts in the LCBF portfolio for RFOs with multiple products.
10. SDG&E consider soliciting fewer Products in future RFOs.
11. SDG&E consider placing a limit on the number of bids one offeror can submit for a specific product, unless SDG&E sees benefits from receiving a very large number of bids from a single entity, as was the case for Product 7B.
12. SDG&E review historical data on contract defaults to determine if such data might be useful in setting collateral requirements.
13. SDG&E consider further refinements to its determination of collateral requirements. After RFO offers were submitted, SDG&E revised its methodology for calculating the collateral needed from offerors, thereby reducing its requested RFO collateral

requirements. SDG&E should continue to refine its methodology for calculating collateral needs in future RFOs.

14. SDG&E provide additional information to bidders on collateral required, including different requirements for the three time periods that are now being applied in the negotiated contracts. (For this RFO, SDG&E specified collateral requirements that varied by product and credit rating of the Seller, but were not differentiated by the periods for development, for satisfaction of Conditions Precedent up to the delivery date, and for the delivery period.)
15. SDG&E develop a quantitative method to include a credit-risk adder in its short-list evaluation of offers. Doing so would provide a quantitative measure to distinguish offers with varying collateral amounts or offers providing lower quality collateral. The use of a credit-adder would not preclude taking into account other factors and trade-offs during the contract negotiations.
16. SDG&E confirm and re-affirm during the shortlisting and negotiation process that offerors have adequate site control to build their projects.
17. SDG&E institute the following changes for its next RFO in its outreach to potential Demand Response (DR) bidders:
    - Identify DR firms not on SDG&E's current list of 900 email addresses used for its 2009 RFO,
    - Expand coverage of the press release for the contracts resulting from this RFO and for announcing the next RFO. The 2009 press release was picked up by MW Daily and California Energy Markets,
    - Interview those DR attendees at the pre-bid conference that did not submit bids,
    - "Color code" or otherwise highlight the DR portion of SDG&E's website RFO materials, since most of the products being solicited are supply-side rather than demand-side, and
    - Provide additional descriptions of the CAISO's Proxy Demand Resource bidding program.

IV. RESPONSES TO QUESTIONS IN THE LONG FORM TEMPLATE

VHC's responses to the Commission's Long Form Template Questions are given below. Responses to some questions reference VHC's Confidential Addendum.

A. Role of the Independent Evaluator (IE)

1. Describe key IE roles – IEs provide an independent evaluation of the IOU's bid evaluation and selection process and help inform the CPUC and the Procurement Review Group (PRG) about the process by addressing the following questions:

a. Did the IOU conduct adequate outreach to potential bidders and did its outreach activities result in an adequately robust solicitation to promote competition?

VHC began its role as IE for SDG&E on March 11, 2009, by reviewing and commenting on a draft of the RFO. The RFO was posted on the SDG&E 2009 Supply RFO web site on June 9, 2009. SDG&E also issued a press release, which was picked-up by some trade publications, and contacted likely bidders using a list of 900 e-mail addresses.

SDG&E posted four sets of questions and answers on its RFO and on July 8, 2009, held a Pre-Bid Conference to which potential bidders were invited. Andy Van Horn, the IE, attended this meeting. Fifty-six attendees signed in at the Pre-Bid Conference. Some potential bidders had more than one representative present.

In response to the RFO, SDG&E received responses from a sufficient number of Offerors to indicate that the RFO was competitive. (Details are given in the Confidential Addendum.)

As expected, there were a limited number of bids for Product 1 (DR) and for Product 3 (Existing local, short-term resources) and Product 5 (Existing local, long term resources). Several additional conforming bilateral offers were submitted prior to the RFO due date and were evaluated along with the other Product 5 offers. For the other Products, several bidders submitted multiple bids and some submitted options with differing terms from an individual generating facility. Although there were several offers from an SDG&E affiliate, none of those offers resulted in a contract for any product.

Taking into consideration SDG&E's limited geographic area and the fact that there are relatively few existing local generating facilities, the number of responses is reasonable and sufficient to promote competition. VHC believes that SDG&E conducted adequate outreach for its Supply Products 2 to 7.

For additional information on outreach to potential bidders, see section III of the Confidential Addendum.

b. Were the IOU's bid evaluation methodology and selection process designed fairly?

SDG&E evaluated its Product 1 (DR) offers separately from the supply bids. VHC concurs that the evaluation of DR offers independent from the evaluation of supply options is warranted, because supply and demand-response economic analyses cannot be compared directly, and the CPUC has developed specific methods for DR. DR products have different benefits depending on the perspective used (participant, rate impact, program administrator and total resource cost). Furthermore, the capacity values used for the assessment of DR bids, as required under CPUC guidelines, may differ from the capacity values used in supply-side evaluations.

SDG&E selected its short-list of supply offers for years 2010 and 2011 (Product 2, new, local, long-term; Product 3, existing, short-term, local; Product 4, existing, outside, short-term; and Products 7A, Firm LD Energy, and 7B, RA, short-term, local and outside), separately from its evaluation of supply options for years 2012 and beyond.

SDG&E analyzed offers for the later years using the following steps:

- New local generation (Product 2, long-term),
- Existing Long-term local generation local generation (Product 5, long-term), and local and outside firm LD Energy (Product 7A, short-term) and RA (Product 7B, short-term), and
- New or existing long-term outside generation (Product 6).

VHC finds it reasonable to first determine the lowest-cost combination of offers that would meet SDG&E's local and system short-term needs and then select offers for later years. This approach allowed SDG&E to compare both short-term and long-term offers to meet its needs for years 2011 and 2012. This was also necessary in order to have agreements in place for 2010 and 2011.

At its Pre-Bid Conference, SDG&E informed bidders that it would use the following three-level evaluation process for selecting supply offers for Products 2 through 7B.

Level I: Conformance Check

SDG&E checked to ensure that each offer met minimum criteria, as specified for each Product type. The following minimum RFO criteria were checked:

- New or existing capacity resource,
- Contract term and start date,
- Black start operation,
- Local or system RA capacity, and
- 100% deliverable RA capacity.

Level II: Develop Short-List

The short-list was established by evaluation and analysis using pre-established quantitative and qualitative criteria. SDG&E ranked the offers using levelized benefit-adjusted costs. Offers were compared for each Product before offers among Products were compared.

The impacts due to differences in start dates and lengths of contracts were accounted for in the economic evaluation in order to establish the short-list. The energy benefits of offers were included as part of SDG&E's Level II analysis.

The number of offers included in the short-list for each product was sufficient to meet a multiple of SDG&E's anticipated capacity needs. As a result, potentially competitive offers were not excluded from the short-lists.

Level III: Modeling/ Detailed Analysis

Short-listed offers were modeled by applying SDG&E's production cost model to evaluate how the offers would perform as part of SDG&E's portfolio.

The results from the production cost modeling combined with spreadsheet analyses took into account both benefit and cost factors, including capacity, energy, greenhouse gas emissions, ancillary services, transmission, congestion and debt equivalence. Not all factors would be analyzed or quantified if there was no difference in that factor between the offers for that Product. Offers to meet SDG&E's needs for years 2010 and 2011 were evaluated prior to offers for later years. Then, SDG&E selected the cost-effective offers that could meet its local area RA requirements before selecting offers that could meet its system RA needs. SDG&E also used qualitative measures, such as site control, to differentiate among offers with similar quantitative values.

SDG&E's analysis sought to optimize the selection of short-term and long-term offers, taking into account the value of flexible operations (e.g., ramping and quick

start and stop). The selection of offers was also influenced by other factors, such as uncertainties resulting from the retirement of generating facilities that currently rely on once-through cooling (OTC) and from the possibility of project delays.

In its RFO SDG&E reserved "the right to evaluate non-conforming Offers and may request additional data from Respondents to bring non-conforming Offers into conformance." Prior to the RFO, SDG&E had been in negotiations regarding several power plants. Conforming offers were submitted prior to the RFO and then evaluated along with the offers submitted on the RFO due date. Non-conforming offers were also considered, but ultimately were evaluated separately and rejected.

Based on our review and detailed examination that included checking the methods and separate spreadsheet evaluations, VHC concludes that SDG&E's evaluation methodology and selection process were designed and executed fairly.

See the Confidential Addendum for additional information.

c. Were the IOU's bid evaluation and selection process, and the negotiation of specific contracts, administered fairly?

VHC reviewed SDG&E's key assumptions, economic analysis calculations, the results of its production simulation modeling, its spreadsheets for calculation of collateral and levelized costs, and the selection of its short-lists. VHC also joined in telephone calls for the negotiations of individual contracts with bidders. SDG&E regularly documented the status of negotiations in a weekly Project Status Matrix, which VHC reviewed and commented upon. In some cases, VHC requested re-analysis of offers, including Least-Cost, Best-Fit (LCBF) analysis, to determine the sensitivity of the rankings. In other cases, VHC performed its own calculations to test results. VHC also read and reviewed draft contract provisions and commented on them, as it judged necessary.

VHC believes that SDG&E's bid evaluation and selection process, and the negotiation of specific contracts were administered fairly.

For more discussion of contract negotiations, see the Confidential Addendum.

d. Did the IOU make reasonable and consistent choices regarding which bids were rejected, which were short-listed and which were brought to the CPUC for approval?

It is VHC's opinion that SDG&E made reasonable and consistent choices regarding bids which were rejected, which were short-listed and which were brought to the CPUC for approval. Key criteria, including each offer's levelized benefit-adjusted costs and the balance among negotiated contract terms and conditions, were applied consistently to determine the contracts to be brought to the CPUC for approval.

2. Describe IE oversight activities (i.e., attended negotiation meetings, reviewed Request for Proposals materials, attended pre-bid conference, evaluated proposals and/or reviewed evaluation process and results, etc.) and reporting/consultation with CPUC, PRG and others.

VHC team members reviewed and commented on a draft of the RFO in March 2009. Andy Van Horn attended the Pre-Bid Conference, held on July 8, 2009. He reviewed four sets of questions and answers to queries by potential bidders, which were initially prepared by SDG&E and then posted on SDG&E's web site. He was on-site the day of the initial receipt and processing of the bids, which were delivered electronically on August 10, 2009. He confirmed that all affiliate bids arrived before the deadline and maintained a copy of the offers for later corroboration.

During the bid evaluation period, VHC conducted interviews on-site and held phone conversations with SDG&E personnel, and participated in numerous conference calls and e-mail communications to discuss the bid processing and evaluation criteria. VHC reviewed SDG&E's economic spreadsheets, methodology, models and key assumptions. VHC also modified some of SDG&E's assumptions to test and validate the economic evaluations and cost-effectiveness results.

VHC recommended that SDG&E develop a weekly Project Status Matrix to track negotiations for each product and worked with SDG&E on its content. VHC regularly reviewed the updated Project Status Matrix. VHC reviewed all emails and participated in all calls with affiliates during the evaluation and negotiation process.

During the negotiation process VHC reviewed draft contracts, including mark-ups, and offered corrections and comments on particular sections when warranted.

In addition, VHC participated in Procurement Review Group (PRG) meetings throughout 2009, 2010 and 2011 to date. VHC made presentations at a number of these meetings, including September, October and November 2009, March, August and December 2010, and January 2011.

3. Any other relevant information not asked above but that may serve to make future RFOs more transparent to parties.

See VHC's Recommendations in section III C. of this report and also in section IX of the Confidential Addendum. It would make future RFOs more transparent to parties, if SDG&E provided additional information on the collateral required, including the different requirements for the three time periods that are now being applied in the contracts resulting from this RFO. (For this RFO, SDG&E specified collateral requirements that varied by product and credit rating of the Seller, but were not differentiated for different time periods. The three periods with different collateral requirements that apply to Product 2 are the pre-construction period, the construction period and the delivery period.

B. How did the IOU conduct outreach to bidders and was the solicitation robust?

See our answers below and our response to A.1.a. For additional information on outreach to potential bidders, see section III of the Confidential Addendum.

1. Describe the IOU outreach to potential bidders (e.g., sufficient publicity, emails to expected interested firms)

See Response to A.1.a.

2. Identify principles used to determine adequate robustness of solicitation (e.g., number of proposals submitted, number of MWhs associated with submitted proposals)

See Response to A.1.a. For each Supply Product SDG&E determined that the number of MW offered was sufficient to construct a short-list with offers that summed to a multiple of the MW needed.

3. Did the IOU do adequate outreach? If not, explain in what ways it was deficient.

See Response to A.1.a. For all the Products, except Product 1, Demand Response, the number of offers was robust. For Demand Response, partly because the number of potential offerors is limited, there was a limited number of offers. See VHC's Recommendations in section III C. of this report to improve outreach to potential DR bidders.

4. Was the solicitation adequately robust?

Yes. See Response to A.1.a.

It is VHC's judgment that the number of responses to this RFO for the requested products was reasonable and met expectations for this solicitation. The offers received have resulted in competitive prices for these Products.

5. Did the IOUs seek feedback about the bidding/bid evaluation process from bidders after the solicitation was complete?

Not to VHC's knowledge.

6. Was the outreach sufficient and materials clear such that the bids received meet the needs the solicitation was intending to fill?

SDG&E received bids for all products in its RFO. After bids were evaluated, SDG&E determined that it did not need offers for Products 6 (New or existing, long term, system) and 7A (Firm LD energy, short-term, local and system) and Product 7B (RA, short-term, local and outside). SDG&E received a sufficient number of bids to create robust short-lists and to select and negotiate competitive contracts.

7. Any other information relevant to outreach to bidders and robust solicitation not asked above but important to the IOU's process.

Because a number of bids were mutually exclusive, unless SDG&E sees benefits from receiving a very large number of bids from a single entity, for its next RFO it should consider placing a limit on the number of bids an Offeror can submit for a particular product.

It has also been suggested that holding an additional pre-bid conference outside of the San Diego area might increase the number of offers. For example, for its 2010 Renewables RFO, SDG&E hosted two pre-bid conferences. One of them was in the Imperial Valley, which has the potential for small solar, geothermal and biomass projects. However, in VHC's opinion holding two or more pre-bid conferences in different locations for an RFO for conventional supplies would probably not increase the number of bids.

C. Was the IOU's methodology for bid evaluation and selection designed fairly?

1. Identify the principles you used to evaluate the IOU's bid evaluation methodology, including the following (at a minimum):

a. Is the IOU bid evaluation based on those criteria specified in the bid documents? In cases where bid evaluation goes beyond the criteria specified in the bid documents, the IE should note the criteria and comment on the evaluation process. Do the IOU bid documents clearly define the type and characteristics of products desired and what information the bidder should provide to ensure that the utility can conduct its evaluation?

The RFO documents defined the type and characteristics of each of the products desired, as well as the criteria on which SDG&E based its evaluation. The RFO specified, by product, the type of offer (i.e., DR, new or existing generation, Firm LD energy, and RA), location within or outside SDG&E's service area, the delivery start date, the term for the offer as well as other requirements (e.g., capacity factor and regulation capability).

In its RFO, SDG&E listed the following qualitative factors to differentiate among offers with similar benefit-adjusted costs:

1. Brownfield vs. Greenfield – the proposed location will be assessed to determine if the project is located at a brownfield or greenfield site.
2. Environmental stewardship – SDG&E will assess the project team's history and any special benefits of the specific Offer.
3. Financing plan – the Offer will be assessed as to the plan and likelihood of the project securing the necessary financing.
4. Technology, major equipment manufacturers and operational flexibility. The evaluation will include an assessment of the proposed technology's commercial operating history, and the manufacturer's U.S. presence and experience.
5. Operational flexibility of generating assets available to SDG&E. This factor incorporates unit capabilities that include size, start-up time, ramping response, minimum up and down times.

6. Development risk – consideration will be given to site control, regulatory and other risks as appropriate that could diminish the viability of the project.
7. Corporate capabilities and proven experience.
8. Ability to meet schedule.
9. Project team (environmental, engineering, equipment procurement, construction) – the Project team was assessed to determine whether it had demonstrated experience with the specific technology and implementation plan they proposed.
10. Credit Risk.

VHC suggests that an eleventh item be added to this list: 11. Confirmation of Site Control, *in order to increase the awareness of various factors affecting the likelihood that the project can be built on the offered site.*

At the Pre-Bid Conference, SDG&E also informed bidders that it would reject offers which were deemed to have unreasonably low or high offers.

All forms and documents necessary to submit offers were posted on the 2009 RFO web site. Potential bidders were provided the opportunity to ask questions about the RFO. Four sets of questions and answers were prepared by SDG&E, then reviewed and modified by VHC and then posted on the website.

Potential bidders were invited to the Pre-Bid Conference at which SDG&E made presentations addressing:

- Anti-trust guidelines,
- Procurement oversight,
- Bid evaluation approach,
- Other RFO requirements (i.e., collateral, RFO milestones and schedule), and
- Communications.

Bidders were informed that SDG&E would check that the offers met the minimum criteria specified in the RFO, and that SDG&E reserved the right to consider non-conforming offers and would contact bidders for clarification to clear non-conforming conditions. SDG&E explained how it would evaluate offers to develop short-lists and its approach to conducting more detailed analysis of those bids on the short-lists.

See the response to Long Form Topic A.1.b above for further clarification of SDG&E's evaluation methodology and selection process.

VHC believes that SDG&E's communications and presentations concerning its evaluation process were consistent with the approach it used to select offers and that all potential bidders were given adequate opportunity to ask questions about SDG&E's methodologies. Overall, SDG&E's bid documents defined the type and characteristics of products desired and indicated the information the bidder needed to provide in order for SDG&E to conduct its evaluation.

As noted in the Recommendations, VHC believes that additional information regarding collateral requirements could have been supplied to bidders. Since offers were submitted in this RFO, SDG&E has changed its collateral requirements.

b. Does the methodology identify how qualitative and quantitative measures were considered and were consistent with an overall metric?

SDG&E informed bidders of its methodology, discussed in Response to Topic A.1.b above. SDG&E's explanation of its methodology identified both qualitative and quantitative measures, as well as the overall metric, levelized benefit-adjusted costs. Once offers were determined to conform to the requested Product requirements, the primary metric for short-listing was the cost metric. Quantitative measures were primarily considered during the negotiations.

c. Are there differences in the evaluation method for different technologies that cannot be explained in a technology-neutral manner (e.g. evaluation metric should be ability to ramp 10 MW/minute rather than, must be a hydro storage facility)?

Product 1 (DR) offers were evaluated separately from Products 2 through 7B, the supply offers. Because there are specific CPUC criteria for DR, DR offers were not directly compared to supply-side offers. This is partly because different perspectives and mandated cost-effectiveness tests lead to different comparisons of the attractiveness of DR offers compared to supply-side offers.

There were differences in requirements by product for the supply offers as shown in Table 1. For each of Products 2 through 7B, there was no difference in the evaluation methods applied across different technologies. Of course, certain technologies were likely to provide better capabilities for meeting each different Product's requirements, which were specified in a technology-neutral manner.

d. Was the bid evaluation methodology consistent with CPUC direction?

Yes. SDG&E used the appropriate cost-effectiveness tests for the DR offers. SDG&E also performed its selection process to find the appropriate ranking of offers within its selection for individual Products 1-7 and to construct an LCBF combination of supply offers in accord with CPUC direction.

2. Describe the IOU's Least Cost Best Fit (LCBF) methodology (or alternatively include IOU's own description).

For Product 1(DR), SDG&E used the CPUC's adopted cost-effectiveness tests, and supplemented this analysis with a matrix scoring system shown in Appendix B of the Confidential Addendum.

The steps in SDG&E's LCBF analysis for Supply Products 2 to 7 are described here and in section IV. A.1.b. SDG&E analyzed its supply options for years 2010 and 2011 (Product 2, new, local, long-term; Product 3, existing, short-term, local; Product 4, existing, outside, short-term; and Products 7A and 7B, Firm LD Energy and RA, short-term, local and outside), separately from its evaluation of supply options for years 2012 and beyond.

For the later years (2012 – on) SDG&E used the following sequence to determine its LCBF needs for:

1. New local generation (Product 2, long-term),
2. Existing local generation (Product 5, long-term),
3. Local and outside firm LD Energy (Product 7A, short-term) and RA (Product 7B, short-term), and
4. New or existing long-term outside generation (Product 6).

A sequential process was applied, based on the timing or need for each given Product. SDG&E first analyzed those Products with the most constraints, proceeding to those Products with the least constraints. All Products were then evaluated based on the costs and benefits which each offer would provide as part of SDG&E's portfolio.

The short-list evaluations were largely conducted using particular sets of assumptions and components embedded in several spreadsheet models. VHC reviewed and critiqued a number of assumptions and methods, as indicated in the Confidential

Addendum. Among the areas reviewed by VHC for the RFO product evaluations were the:

- Discount Rate,
- Collateral Requirements and SDG&E's Calculation Methodology,
- Debt Caps and debt/equity ratio caps,
- Valuation Metrics,
- Capacity Values,
- Energy Values,
- Transmission Upgrade Costs
- Ancillary Services Values and Methodology,
- GHG Price/Adder, and
- Other assumptions.

Each offer was initially ranked by Product by applying SDG&E's Level 2 Screening methodology. SDG&E used its screening process to rank the list of offers. The top-ranked offers from the screening process were then evaluated based on SDG&E's Level 3 analysis, which used a production cost model to determine the energy benefits, when the offer was added to SDG&E's bundled customers' portfolio. Level 3 analysis also included transmission interconnection costs and ancillary service benefits. Various combinations of RFO contracts were tested using the framework described in the Confidential Addendum to determine the LCBF portfolio.

VHC tested the sensitivity of potential short-listed choices to several key uncertainties, as indicated in the Confidential Addendum. Overall, SDG&E's LCBF portfolio balanced uncertainties imposed by the Sunrise Transmission Link, OTC retirements, timing of economic recovery, re-emergence of Direct Access and potential delays or cancellations of resources.

Based on our review, VHC determined that the Level 2 screening was appropriate for creating the short-list and that the Level 3 Production Cost Modeling, as part of the portfolio evaluation, has resulted in an appropriate LCBF selection of offers from this RFO.

For future RFOs, VHC recommends that SDG&E conduct expanded LCBF analyses to further evaluate the effects of key uncertainties in facility and offer on-line dates, demand growth, fuel prices, GHG regulations and other market conditions.

VHC's confidential comments on particular areas are provided in sections IV. A through IV. K. of the Confidential Addendum.

3. Did the IOU bid evaluation criteria change after the bids were received? Explain the rationale for the changes.

SDG&E's basic bid evaluation criteria remained the same during the evaluation process. The cost and benefit calculations were refined and corrected as needed, and assumptions were updated during the year following the receipt of bids, while negotiations were conducted with the short-listed parties.

4. Using the principles in #1, evaluate the strengths and weaknesses of the IOU's LCBF methodology:

a. How did the IOU methodology compare to other methodologies used in other solicitations, to the extent that the IE can make such comparisons?

For this solicitation SDG&E used an evaluation approach similar to the approach taken in its prior All Source RFO in 2007. However, the specific models used were either newer versions or replacements for models applied previously.

For the short-term offers, SDG&E optimizes its selection, in order to find the lowest levelized costs with benefits, and makes other adjustments to normalize the lifetimes for the comparison of different offers. SDG&E then examines various combinations of offers it judges to be feasible, in order to find the combination that meets its local and system needs at the lowest costs.

SDG&E negotiates the contract terms and conditions after the short-listed contracts are selected. It periodically adjusts its LCBF combinations as negotiations proceed to account for changing Need and changes to other assumptions, such as changes in contract terms and conditions and to counterparties dropped from further negotiations.

VHC believes that SDG&E's methodology has yielded an appropriate LCBF selection of offers and an LCBF portfolio.

b. Did the methodology have a bias against any technology, operating characteristic, location, etc.?

No. The analysis to rank offers the costs (including locational costs) and benefits of individual bids and the Level 3 LCBF analysis was not biased. Transmission information from CAISO system impact studies was not uniformly available nor uniformly applicable, which could affect the

ranking of some offers. The CAISO's current Cluster analysis approach, which can significantly over-estimate transmission upgrade costs, has the potential to delay or derail projects that may not, in fact, require costly upgrades. Nevertheless, the short-list selection for each Product was sufficiently broad to avoid bias in the selection of short-listed offers.

c. Discuss the role of "portfolio fit" in LCBF in this solicitation's methodology.

See Responses to A.1.b and C.2 above.

d. Discuss any issues of transmission-related cost (or benefit) impacts and estimates. What procedures did the utility have in place for acquiring all appropriate transmissions information, subject to constraints imposed by FERC's Standards of Conduct?

In its evaluation of offers, SDG&E included estimated costs for transmission interconnection and network upgrades for new resources by applying an annual charge based on the estimated capital expenditures for interconnection and network upgrades. SDG&E is aware of potential transmission constraints and lines where new generators might have to pay significantly higher upgrade costs, if and when currently available transmission capability is exceeded by other new plants that may precede the selected RFO projects in the CAISO queue.

There was no need to assess the costs of transmission upgrades for offers from operating plants, such as the Product 5 offers. However, the estimated costs of transmission upgrades were important for distinguishing among the Product 2 offers for new facilities. SDG&E applied its own estimates of transmission upgrade costs in its determination of the shortlisted offers in 2009.

Results from the CAISO Cluster 2 Phase 1 transmission interconnection study were released on November 15, 2010, more than a year after RFO shortlists were developed, but before the completion of negotiations.[22] The maximum costs of the Phase I study transmission upgrades were estimated to be very much higher for Apex Pio Pico, including network upgrades in SDG&E's service territory and in SCE's territory, and for Cogentrix/Enpex's 200 MW project before its reduction in size to 100 MW, also including upgrades in SCE's territory. (Since Wellhead Escondido is a

[22] CAISO, Cluster 2 Phase 1 Cluster Interconnection Study, Group Report for SDG&E Area. November 15, 2010.

repower of an existing project there is no upgrade or interconnection issue, if the plant's capacity remains below 50 MW.)

If imposed, these Phase I costs and the time to construct all the upgrades would render these Product 2 projects uneconomic. Based on a number of analyses commissioned by Apex Pio Pico, Apex has made public its concerns regarding the CAISO Cluster 2 Phase 1 Interconnection Study. Its concerns include the following:

- The CAISO study combines fully dispatchable local generation that is needed to provide local In-Basin reliability with Renewable Portfolio Standard ("RPS") intermittent resources outside the local area. The inclusion of Imperial Valley resources within Cluster 2 has led to excessive upgrades being allocated to reliability-needed facilities, such as the EIF Apex Pio Pico project;
- The deliverability study does not match generation to load with a realistic dispatch;
- The deliverability study's projection of substantial exports of Local Capacity out of the San Diego area to SCE creates an artificial need for large "backbone" transmission network upgrades linking San Diego and SCE, in order to accommodate the assumed exports;
- The percentage cost allocation of individual network upgrades in the Phase 1 study to Apex Pio Pico appears excessive relative to the percentage allocation to RPS-driven facilities in the Cluster study (e.g., two to four times as high). This may be driven by combining reliability-driven In-Basin generation with RPS intermittent generation in remote locations within a single Cluster, and
- The inclusion of all projects in the queue, both currently proposed along with previous serial projects, in the CAISO system impact studies has resulted in the transmission model using available transmission system capacity for projects that are not imminent. By including projects that are not making progress towards completion, but remain in the CAISO queue, unneeded network upgrades were projected. The estimated costs for these excess upgrades were then allocated to other facilities.

Neither SDG&E, the project developers nor this IE believes the Phase 1 network upgrade cost estimates are realistic. If the actual transmission upgrade costs reasonably attributable to either of these two projects are even close to the Phase 1 estimates, these projects most likely will not be cost-effective or able to be built on schedule.[23]

[23] In its August 2010 comments to the CAISO regarding possible changes to CAISO interconnection procedures, SDG&E stated: "…the Phase I study results will continue to provide misinformation to the IC [Interconnection Customer], the financial institutions working with the ICs to finance the project, and to the

The Phase 2 Cluster study is now in progress. In order to participate and retain their queue positions, EIF Apex and Cogentrix Quail Brush made deposits on February 11, 2011. The results of the Phase 2 study will be highly dependent on the assumptions, particularly the number of Cluster 2 projects that remain in the queue.

Because the upgrade costs will remain uncertain for some time, and to protect ratepayers and keep the final prices below the prices of non-shortlisted offers, SDG&E, Apex and Cogentrix negotiated Conditions Precedent that limit the maximum recoverable network transmission upgrade costs in each contract. These and the other CPs should enable the Commission to approve these contracts knowing that the transmission upgrade costs are capped. However, the CPs do not fix a CAISO study process that may significantly delay and/or contribute to the cancellation of desirable projects.

VHC recommends that both the CPUC and SDG&E work with the CAISO to improve the accuracy and timeliness of CAISO's studies of transmission interconnection and network upgrade costs.

e. How were the evaluation criteria weighted and was the weighting appropriate?

VHC believes that SDG&E used reasonable criteria to rank offers in its preliminary screening analysis. For the supply-side offers, the economic evaluations were based on the costs and benefits of the offers over the relevant time periods. Subjective parameters were not included in the ranking of offers for the short-list nor were they included in the ranking for the final selection of offers after the production cost modeling. Subjective factors were considered during the negotiations to assess the likelihood that individual developers would be successful in meeting the negotiated terms and conditions and to bargain for various improvements to the offers.

f. What future LCBF improvements would you recommend?

Supply Products

VHC believes that SDG&E's production simulation modeling provides reasonable estimates of the energy benefits from offers. However, the model does not co-optimize the dispatch of resources to maximize and energy and ancillary services values. VHC believes the SDG&E process to estimate the energy and ancillary

PTO's [Participating Transmission Owner's] procurement department. SDG&E believes this is a disservice to the developers." SDG&E stakeholder comments to the CAISO re: Small and Large Generator Interconnection Procedures Draft Final Proposal and Meeting. August 4, 2010.

benefits from new offers is uniformly applied and reasonable. Nevertheless, VHC recommends that SDG&E continue to examine the calculation of ancillary services benefits for offers in future RFOs.

In particular, SDG&E should examine more recent ancillary services settlement prices for various existing units, as well as CAISO's more recent "Market Redesign and Technology Upgrade" (MRTU) prices. This would ensure that estimates of current A/S prices match actual settlement results. VHC also recommends that SDG&E evaluate whether ancillary services prices are likely to increase in future years, as the proportion of renewable resources increases. The escalation of A/S benefits should be estimated in light of the large amount of non-dispatchable and/or intermittent renewables coming on line, which will most likely increase the need and price for A/S. It will also be useful for SDG&E to continue to review the relationships of CAISO A/S prices with market energy, capacity and fuel prices.

5. Describe how the IOU sought brownfield/repowering development opportunities.

Over all the supply products, SDG&E sought offers from both existing and new generation, located at brownfield and new sites. The Wellhead Escondido repowering project is an example.

6. Did the IOU consider contract viability?

SDG&E did not incorporate quantitative measures to assess contract viability in its initial rankings of supply offers. However, SDG&E did make judgments on the trade-offs among terms and conditions of contracts and considered the capabilities of each developer and proposed project to satisfy the Conditions Precedent and to deliver as contracted.

After more than a year of negotiations with one shortlisted offeror, it was determined that the offeror did not have site control, and the negotiations were terminated. As recommended above, VHC suggests that SDG&E confirm and re-affirm during the shortlisting and negotiation process that offerors have adequate site control to build their projects.

7. Any other information relevant to bid evaluation and selection not requested above but important in evaluation of the IOU's methodology.

VHC believes that SDG&E has significantly improved its methodologies for estimating credit and collateral risks and requirements, as discussed in the

Confidential Addendum. By adopting new elements of its methodology SDG&E has reduced its collateral requirements significantly below the amounts requested in the RFO. These reductions will not only enable prices to be lower than they otherwise would be, providing potentially significant savings to ratepayers over the life of long-term contracts, but will give developers additional flexibility and reduce their need for financing.

D. Was the LCBF evaluation process fairly administered?

1. Identify the principles you used to assess the fairness of the LCBF evaluation process, including the following (at a minimum):

a. What qualitative and quantitative factors were used to evaluate bids?

SDG&E used a levelized benefit-adjusted cost ($ per kW-year) to rank supply offers. This metric takes into account the contract price for capacity, energy benefits, ancillary services benefits, transmission costs and greenhouse gas costs. CPUC Decision 07-12-052, p 152 states: "All resources within an RFO should be compared against one another on a consistent, LCBF basis using the GHG adder to increase the costs of fossil resources…." The Commission also indicated that the methodology and assumptions used in making GHG calculations for LTPP should comport with the direction given in AB 32 and SB 1368. (Ibid, p.232.) To derive the costs and benefits for the supply products, SDG&E used its Level II and Level III quantitative analysis results. SDG&E short-listed offers using its Level II analysis. Then the Level III analysis modeled portfolios of short-listed supply offers. The final analysis also incorporated debt equivalence costs. SDG&E assessed contract terms and conditions reached through negotiations, in order to make its final selection of offers.

SDG&E did not need to use qualitative factors in the ranking and selection of supply offers for short-listing, although some qualitative factors, such as site control, were considered during contract negotiations. (The qualitative factors that SDG&E informed bidders that it might consider in the selection of offers are listed in response to question A.1.b above.) VHC concurs that the selected qualitative factors did not need to be applied for short-listing and would not have changed the ranking and initial selection of offers on the short-list.

b. If applicable, were affiliate bids treated the same as non-affiliate bids?

Yes. VHC performed a detailed review of the assumptions used and the analysis of the affiliate offers. VHC found that there was no preferential treatment or bias in the evaluation of the affiliate bids.

c. Were bidder questions answered fairly and consistently and the answers made available to all?

Four sets of questions and answers were posted on SDG&E's RFO web site. Potential bidders asked questions at the Pre-Bid Conference and via email. After review of draft answers by VHC, SDG&E posted the answers. SDG&E answered questions fairly and consistently, and the answers were available to all.

d. Did the utility ask for "clarifications" from bidders, and what was the effect, if any, of these clarifications?

During negotiations with short-listed offerors, SDG&E and bidders clarified various contract terms and conditions by exchanging draft contract mark-ups. The effects of these clarifications enabled the negotiations to resolve issues and proceed toward final contracts.

e. Were economic evaluations consistent across bids?

The economic evaluation for Product 1 (DR) was performed differently from the economic evaluation for the supply bids. SDG&E used a consistent approach to analyze its supply offers for Products 2 through 7B.

f. Was there a reasonable justification for any fixed parameters that enter into the methodology (e.g., RMR values; GHG metrics, etc.)?

Yes. There are a host assumptions and parameters used for the various evaluations done by SDG&E. These assumptions include values for avoided capacity costs, market capacity costs, ancillary services, Greenhouse Gas costs, transmission system network upgrade costs, energy losses, natural gas and electric market prices, and inflation and discount rates. Accepted information and data sources were used to calculate parameters used in the evaluation. In addition, SDG&E and VHC performed sensitivity analyses on some key variables.

Key assumptions and calculations are discussed in section IV of the Confidential Addendum.

2. Describe the IE methodology used to evaluate administration of IOU LCBF process.

VHC had numerous discussions with the SDG&E personnel responsible for the LCBF process regarding the specific methods used to estimate parameters and to calculate costs and benefits for the Level I, II and III analyses. VHC reviewed and critiqued numerous spreadsheets applied by SDG&E, developed our own calculations, made spreadsheet modifications and checks of variables of interest, and performed sensitivity analyses using different assumptions.

3. How did the IOU identify non-conforming bids? Did the utility identify the terms that deviate from the utility RFO for each bid, and was a quantitative and qualitative assessment of the cost or value of those deviations performed? Were non-conforming bids treated fairly and consistently? Was there a pre-established, consistently applied criteria to determine what issues of conformance would result in rejection and which were subject to negotiation?

All bids were treated consistently. SDG&E received one non-conforming bid for Product 5. SDG&E evaluated two other non-conforming offers, as well as several conforming bilateral offers, which had been received earlier. These bilateral offers were from existing facilities and conformed to the RFOs requirements for Product 5 offers from existing units.

4. For those parts of the process conducted by the utility, how were the parameters and inputs used and were they reasonable? What quality controls were in place?

SDG&E conducted the evaluations to short-list offers and to select offers. VHC reviewed the selection of supply offers and reviewed results of the analyses. The parameters and inputs used were reasonable and unbiased for the selection. Parameters and inputs were also consistent with those used by SDG&E for other internal studies. Quality control was conducted primarily through SDG&E's own review of modeling inputs and results with VHC checking the reasonableness of results and the spreadsheets used to calculate costs and benefits. VHC's further review provided additional checks for quality control, especially of the various spreadsheet models' logic, methods, calculations, inputs and results.

5. For those parts of the process outsourced to either the IE or a third party, what information/data did the utility communicate to that party and what controls did the utility exercise over the quality or specifics of the outsourced analysis?

For Product 5, SDG&E evaluated the purchase of existing facilities, as an alternative to power purchase agreements with one bidder. For determining the market value of the El Cajon Energy Facility (ECEF), SDG&E and CalPeak jointly agreed to outsource work to an independent engineering firm to estimate certain site-specific costs. SDG&E also out-sourced a review of one Product 2 bid to determine if the project costs, as initially bid, were reasonable.

In its review of SDG&E's short-lists and selection of final offers, VHC carried out additional calculations to investigate different assumptions and confirm the validity of the comparisons and selections.

6. Did the utility follow its transmission analysis procedures and include in its evaluation and selection process all appropriate transmission information that it could reasonably develop or acquire, subject to the constraints imposed by FERC's Standards of Conduct?

For Product 2 SDG&E performed its own estimates for each project, subject to the confidentiality of information required by FERC. Transmission analysis was not required for the evaluation of Product 5 offers. Although CAISO study results were not available for all offerors, SDG&E was able to estimate location specific costs that, in some cases, were dependent on the CAISO queue position of the offeror. Transmission upgrade costs were an important distinguishing factor between several Product 2 offers, as discussed in the Confidential Addendum.

During the course of the RFO, SDG&E's procurement group utilized the transmission information and studies made available to it.

7. Beyond any quantitative analysis, describe all additional criteria or analysis used in creating its short list. (e.g. Did the IOU take into consideration supplier concentration risk?)

See Response in section C.1. of this report and section IV of the Confidential Addendum. Supplier concentration risk was not considered to be a problem.

8. Results analysis

a. Describe the IE, PRG, Energy Division and IOU discussion regarding the LCBF evaluation process. Please note any areas of disagreement between the IE and the IOU, if applicable.

i. Discuss any problems and solutions.

Discussions among the above parties regarding the LCBF process were limited. However, VHC discussed the LCBF process with SDG&E throughout the RFO.

The following were areas that were discussed as part of the overall evaluation and comparison of RFO offers.

Demand Response Products.

The cost-effectiveness tests for DR were updated by the Commission in late 2010, and have been applied by SDG&E. Qualitative criteria for future evaluations should also consider the level of competition and potential saturation in each DR market, as well as the issues indicated below.

Companies providing DR services operate under different business models. VHC believes the following areas are most relevant to comparing future DR offers:

- Measurement of customer baseline loads,
- Calculation and validation of customer responses,
- Robustness and adaptability of hardware and data systems
    - Use of proprietary hardware vs.
    - Outsourced hardware and systems,
- Marketing approaches to capture customers –
    - In-house vs. referral partners
    - California experience and success,
- Assessment of market segments, market share and potential for market saturation,
- Interfaces between the scheduling coordinator and bidder,
- Adaptability to changes in MRTU and CAISO Proxy Demand Resource and ancillary services,
- Cost structure, split of revenues with customers and contractual arrangements between bidder, customers and venture capital,
- Payment schedules and penalties,

- Financial backing and sustainability of DR firms,

In addition to the CPUC cost-effectiveness tests and the ranking process, SDG&E sought answers to the following questions during year-long negotiations and contracting:

- What will be the FERC-approved requirements for the CAISO Proxy Demand Response program under MRTU?
- If and when SDG&E's Product 1 contracts go live, will each Offeror's Direct Load Control program from this RFO be compatible with the CAISO's Proxy Demand Resource (PDR) program?
- Will PDR program reductions be additional to reductions under other DR programs?
- Is each Offeror committed to adapting to the CAISO requirements?
- What are each Offeror's plans for maintaining compliance with CAISO programs?
- If the proposed Product 1 programs are not compatible, how should SDG&E proceed?

LCBF considerations are necessarily different for DR products than for supply products. Hence, SDG&E has from time to time sought Commission guidance regarding its DR negotiations.

Supply Products. For the supply products, VHC raised issues associated with capacity values, natural gas and electricity prices and energy credits, ancillary service prices, congestion costs, transmission upgrade costs, the greenhouse gas cost adder, collateral requirements, subordinated security, contract terms and language, including the capacity payment formula, a credit risk adder, and other issues arising during specific negotiations. Issues relevant to Product 2 are discussed in the Confidential Addendum.

ii. Identify specific bids if appropriate.

Issues applicable to Products 2 and 5 are discussed in Section E. 2. below.

iii. Did the IOU make reasonable and justifiable decisions to exclude, short-list and/or execute contracts with projects? If the IE conducted a separate bid ranking and selection process and it differed from the IOU's outcome, explain process and any differences in results.

SDG&E made reasonable and justifiable decisions. VHC also requested and

performed sensitivity analyses with different sets of assumptions and concluded that the selection of the bids was reasonable. VHC focused on marginal Offers to determine whether or not such offers should make the short-list for negotiations.

iv. What actions were taken by the IOU to rectify any deficiencies associated with rejected bids?

No actions were needed.

b. Was the overall evaluation fairly administered?

Yes.

c. Based on the IE's prior experience, how does this solicitation compare to other solicitations (to the extent the IE can describe these solicitations subject to confidentiality agreements)?

i. If applicable, how did this solicitation compare to others by the same IOU?

For Product 1 (DR), SDG&E included the ability to respond in 10 minutes in this RFO. VHC is not aware of this requirement in prior solicitations.

The supply RFO procedures and framework were similar to previous RFOs. In contrast to its 2007 All Source RFO, SDG&E abandoned attempts to disguise the identity of the Offeror in bids submitted by an affiliate, because the location and other characteristics of such bids essentially revealed the identity of the affiliate bidder to the evaluation team. VHC monitored the evaluations to assure that the affiliate bids were treated in an equivalent manner when compared to other bids for the same Product and without bias or preference.

ii. How did the process and the results compare to that of other IOUs in different jurisdictions?

No specific comparisons have been made.

9. Any other information relevant to the fair administration of the LCBF evaluation not asked above but important to the IOU's methodology.

See Response in section C. 7. VHC recommends that SDG&E conduct expanded LCBF analyses to further evaluate the effects of key uncertainties in facility and offer on-line dates, demand growth, fuel prices, GHG regulations and other market conditions. For RFOs with

multiple products, SDG&E should consider implementing a more robust optimization approach to further define the LCBF combination of contracts in the selected portfolio.

E. Discussion of project-specific negotiations

1. Identify the methodology the IE used to evaluate negotiations.

Andy Van Horn participated in all calls with affiliate bidders, as well as numerous calls between SDG&E and other counterparties. He recommended the preparation of a Project Status Matrix to track negotiations and regularly reviewed the Project Status Matrix. He also reviewed contract mark-ups as they evolved and discussed changes to contracts for individual offers during conference calls and in discussions with individual negotiators.

In its approach to evaluating negotiations, VHC's primary concern was to ensure fairness to all counterparties. Goals of VHC's oversight were to determine that counterparties understood the contract terms and conditions and were given appropriate opportunities to improve their offers. VHC monitored negotiations selectively, as needed, to determine that all counterparties were offered equivalent contracts, subject to appropriate trade-offs unique to each offer and counterparty. VHC's reviews of contract mark-ups focused on the clarity of the contract language, particularly for new areas, and on areas where counterparties or SDG&E had questions or issues.

2. Using the above principles, evaluate the project-specific negotiations. Highlight any issues of interest/concern including unique terms and conditions.

Issues related to the Product 2, 3 and Product 5 contract negotiations included:

1. **Commercial operation and retirement dates.** This was an important issue for all Product 2 offers to build new facilities.[24] In general, this is an important issue for all contracts and for the development of an LCBF portfolio.

2. **Monthly capacity payments, variable O&M and start-up charges, associated energy and ancillary services, and RA penalties/adjustments.** The workings and outcomes of the monthly capacity payment formula and the effects of different minimum equivalent availability and reliability measurement and adjustment factors that would trigger adjustments to payments or assign a penalty were negotiated, along with payments for variable O&M, start-up, associated energy and ancillary services.

[24] Since Product 5 offers are all existing operating plants, start and end dates are certain.

3. **Unit operation, capacity ratings, heat rates, number of starts and dispatch.** The measurement of unit characteristics, including capacity and guaranteed heat rates, were issues that required agreement. Dispatchability, ramp rates, quick start and black start were also requirements for some products. Contract ambient conditions and capacity pricing needed to be brought inline, so total annual capacity payments would be consistent with where they were negotiated to be.

4. **Pricing.** Prices were negotiated starting from the RFO offer prices. In addition to the capacity price, elements of some tolling contracts included escalation indices for O&M costs or pro-rata sharing of costs for station power, for example. Final prices were traded-off against other contract terms and conditions.

5. **Charges for emissions of greenhouse gases (GHG).** Given the need to comply with California's AB 32 legislation and California Air Resources Board (CARB) regulations, counterparties needed to understand the new contract language addressing GHG emissions allowance and compliance costs and liabilities. Although there were no significant deviations in the individual contract terms regarding GHG costs and compliance, counterparties expressed varying views and opinions. SDG&E modified the contract language to acknowledge that it will "reimburse Seller for newly imposed taxes, charges, or fees for Greenhouse Gas ("GHG Charges") attributable to Buyer's dispatch of the Project," while limiting its responsibility for charges and requiring that allowances, credits or revenues received by the Seller be allocated to mitigate the GHG Charges paid by SDG&E. Because this was a new area for contracts, VHC's reviews of contract mark-ups focused on the clarity of the contract language and on the methodology outlined therein. For resources that will receive contracts as a result of their selection in the 2009 RFO, the contract provisions negotiated with each successful Offeror explicitly indicate the responsibilities for compliance with applicable GHG permits and regulations.

6. **Collateral requirements.** Collateral protects ratepayers from contract under-performance and from default of counterparties. However, high collateral requirements can also lead to higher-priced offers, since counterparties take their costs for posting collateral into account in making their offers. In the RFO SDG&E requested collateral amounts that were considered by unrated offerors and their financers to be very high. By analyzing the risk of default, SDG&E was able to significantly lower its collateral requirements below the value originally requested for unrated entities. (See section IV G of the Confidential Addendum for additional discussion.)

7. **Subordinated Security and First Priority Interest requirements and the need to keep Seller's debt ratio below a maximum percent.** For additional protection, SDG&E negotiated a subordinated security and first priority interest in the generating

facility for Product 2 contracts. SDG&E insisted that the Seller's debt/equity ratio be kept below a limit or placed a debt cap on the contract, which was amortized over the delivery term. (See section IV K of the Confidential Addendum for additional discussion.)

8. **Metering requirements.** CAISO has a requirement to separately ID and meter each generating unit at a plant, in order to dispatch each unit individually. This was an issue for the Apex Pio Pico plant. This issue was resolved in a conference call with CAISO, where Apex and the CAISO agreed to install three commercial CAISO low-side meters. Calculation of transformer losses and auxiliary loads was also an issue with Apex.

9. **Gas transportation.** Since the supply contracts are primarily tolling arrangements where SDG&E buys the natural gas fuel and schedules unit generation, the primary contract concerns were about defining the responsibilities and boundaries for taking title to the natural gas.

10. **Sarbanes-Oxley (SOx) and the need to consolidate PPA obligations on the balance sheet under FIN 46.** At the beginning of the negotiation process, conflicting opinions were initially obtained by SDG&E and Sellers from accounting firms regarding the effect of high Seller debt/equity ratios on the need to consolidate PPA obligations on SDG&E's balance sheet. Maximum debt/equity ratios, as well as the specific items to be included in the Seller's debt calculations over time, were the subjects of negotiations with Apex Pio Pico and CPV North City. Debt caps amortized over the delivery period were negotiated with Wellhead Escondido and with Cogentrix Quail Brush. The expected generation under a PPA was considered to be a potential yardstick or possible bright-line test to determine whether or not SDG&E has sufficient control over the operations of the unit to require consolidation of the contract obligations on its balance sheet. Some discussion indicated that contracts with generators with annual capacity factors below about 10 percent would not be required to be consolidated, even though SDG&E controls the scheduling and dispatch of the generating units.

11. **Conditions Precedent for Network Transmission Upgrades & Other Milestones**

    As discussed on pages 28-30 and in section IV. F. of the Confidential Addendum, the costs of network upgrades are presently uncertain. In order to limit the cost-recovery, Conditions Precedent were negotiated that limit the maximum recoverable network transmission upgrade costs for the EIF Apex Pio Pico and Cogentrix Quail Brush projects.

    Other typical Conditions Precedent addressed the timing of key milestones, such as:

    a. CPUC approval of the contract

b. Electrical interconnection (including limits on network upgrade costs),
c. Execution of the Large Generator Interconnection Agreement,
d. Acquisition of all necessary permits and approvals,
e. Satisfaction of all Conditions Precedent and no pending or threatened legal proceedings.

Because Product 3 and 5 contracts are for existing units issues 6 to 11 above were not sources of major concern in those negotiations. For all the supply PPAs, final pricing was subject to adjustments to the other contract terms.

With respect to issue 1, the timing of the eventual retirement of various individual generating units will affect the need for new RA capacity between 2012 and 2018.

Offers for this RFO were received in August 2009, and short-listing was largely completed in October and November 2009. These negotiations have taken longer to bring to fruition than is ideal. Although many issues had to be resolved in sequence and negotiations were affected by external events, regulatory changes and market uncertainties, VHC recommends that contract processes be accelerated, wherever possible, by improved cross- communication of revisions to common terms and conditions and other relevant data to be provided to each contract negotiator.

The lengthy negotiations notwithstanding, given that each contract is unique and that trade-offs must be negotiated among various contract terms and conditions, VHC believes that SDG&E's negotiations with all counterparties were conducted fairly and that counterparties were given appropriate opportunities to present and improve their offers.

3. Was similar information/options made available to other bidders when appropriate, (i.e., if a bidder was told to reduce its price, was the same information made available to others?)

All bidders were offered the opportunity to offer revised prices along with updated collateral amounts that would meet SDG&E's new, lower collateral requirements, which were reduced after the receipt of RFO offers. The revised collateral amounts primarily affected Product 2 (20-year contracts for new, local generation) and have reduced the prices ultimately negotiated below what they would have been if the higher collateral amounts had been required.

4. Describe and explain any differences of opinion between the IE and utility. If resolved, describe the reasonableness of the outcome.

During the course of the evaluations, VHC reviewed and questioned the values used for various parameters and calculations. The choices made by SDG&E were reasonable, as were the results of the evaluations.

After review, VHC believed that the collateral amounts requested in the RFO were too high and raised this issue with SDG&E on a number of occasions. As described elsewhere in this report and the Confidential Addendum:

- The collateral offered by counterparties in their original RFO base offers did not meet SDG&E's requirement, as stated in the RFO for unrated entities.
- Most bidders were unrated counterparties with little or no credit history, resulting in their relatively high collateral requirements.
- Several counterparties subsequently offered higher capacity prices to meet the high collateral requirements.
- Higher capacity prices reflect the cost to secure additional collateral, because the cost of funds tends to be higher for unrated or highly-leveraged entities, in order to compensate for increased risk.
- Insufficient collateral exposes ratepayers to higher replacement costs in the event of counterparty default.

After the submission of bids, SDG&E changed its methodology for calculating risks of default and associated collateral requirements and was able to lower its requirements. SDG&E also assessed the value of holding a Subordinated Security Interest, which influenced the collateral requirement in some cases.

Because Offerors will have reduced financing needs, they can offer lower-priced contracts if they post less collateral, saving ratepayers substantial dollars over the life of the contracts in comparison to the situation where SDG&E's original RFO collateral requirement would have been posted by offerors. VHC believes this was a reasonable outcome that will lead to lower collateral requirements in future RFOs.

5. Any other information relevant to negotiations not asked above but important to understanding the IOU's process.

There are many considerations that SDG&E must balance in its negotiations. Maintaining RA, while accommodating the retirement of South Bay and uncertainties in RMR, keeping the flexibility of the Encina units, factoring in OTC retirements, Sunrise Powerlink's readiness, changes in projected demand, understanding the impacts of proposed site and on-line date changes for offered plants, keeping existing units under contract, dealing with uncertainty in network transmission upgrade costs, and keeping the negotiations moving forward were all factors affecting SDG&E's negotiation process.

F. Code of Conduct

1. Describe the design and implementation of the required Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids.

There were no Utility-owned Generation (UOG) bids submitted to the RFO. Hence, no special separation was needed.

2. Describe any violation(s) of that code.

Not Applicable.

3. Alternatively, provide an explanation of why this requirement is not applicable to this RFO.

There were no UOG bids in this RFO.

As part of an existing lease agreement with the CalPeak El Cajon Energy Facility, a power plant sited on land leased from SDG&E, SDG&E evaluated the purchase costs of the ECEF in comparison to signing a Product 5 PPA with CalPeak or with other parties. As described in SDG&E's Application to purchase the ECEF, its valuation of the facility was prescribed by the terms of the 2001 land lease to be a market price, which was determined by an independent engineering firm, not by SDG&E's evaluation team.[25] The sales price was constrained, because of the lease agreement and the independent valuation of the facilities.

[25] SDG&E filed an Application (U 902 E) for the Authority to Acquire the CalPeak El Cajon Energy Facility (ECEF) with the CPUC on January 5, 2011.

G. Affiliate Bids and UOG Ownership Proposals (if applicable)

1. Describe other safeguards and methodologies implemented by the IOU, including those stipulated in Commission decisions (e.g. D.04-12-048 and D.07-12-052) for head-to-head competition between utility ownership and independent ownership bids, to ensure that affiliate and UOG bids were analyzed and considered on as comparable a basis as possible to other bids, that any negotiations with such bids' proponents were conducted as comparably as possible to negotiations with other proponents, and that the utility's final selections in such cases did not favor an affiliate or UOG bid.

No affiliate bids were shortlisted for Product 2 and no UOG bids were received.

The ECEF purchase option was compared to PPA offers for Product 5 using the same methodology used to evaluate the Product 5 shortlisted offers. VHC reviewed these analyses, including the ECEF revenue requirements calculations, to ensure that the ECEF purchase was analyzed and considered on the same basis as Product 5 PPA offers. In addition, the market valuation of the facility components was conducted by an independent engineering firm to ensure the offer was fairly priced in accord with the terms of the 2001 land lease.

2. Describe compliance with the safeguards.

Andy Van Horn, the IE, was on-site when the electronic bids were received from offerors and received an electronic copy of the offers, including those from affiliates. Subsequently, he monitored all communications between the affiliates and SDG&E, including emails, meetings and conference calls. The evaluation criteria and models applied to the affiliate offers were the same as applied to the other bids for these products. For further discussion see section VII of the Confidential Addendum.

3. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownerships, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

SDG&E evaluated the purchase costs of the ECEF in comparison to signing a Product 5 PPA with CalPeak and with other Product 5 Offerors. The valuation of this facility was prescribed by the terms of the lease to be a market price, which was determined by an independent engineering firm, not by SDG&E's evaluation team.

H. Does (do) the contract(s) merit CPUC approval? Is the contract reasonably priced and does it reflect a functioning market?

1. Provide discussion and observation for each category and describe the project's ranking relative to other bids from the solicitation; and from an overall market perspective.

a. Contract Price, including cost adders (transmission, credit, etc.)

The contract prices for the completed Product 2 contracts are competitive and would result in savings to SDG&E customers compared to the other Product 2 offers. Conditions Precedent in the contracts offer protection to ratepayers that costs will not exceed maximum amounts. For example, Conditions Precedent limit the maximum recoverable amounts for transmission upgrades for Product 2 facilities located on new sites. See the Confidential Addendum for additional information.

b. Portfolio Fit

The Product 2 contracts will help SDG&E satisfy its near and long-term needs for resources to meet its Local Resource Adequacy requirements.

c. Project Viability

The Wellhead Escondido brownfield repowering project is viable, since it is currently operating and no factors have been identified that would prevent it from repowering with a known technology. The Apex and Cogentrix project developers have also taken the required steps to ensure that their greenfield projects proceed toward completion.

i. <u>Technology</u>

For Product 2 (new, long term, local), the Wellhead Escondido Energy Center repowering will use a General Electric LM6000PC turbine, and the Apex Pio Pico Energy Center will install three GE LMS100PS turbines. Both are well-suited turbines for this purpose. Although the LMS100 is a relatively new model, both turbines have similar characteristics and exhibit similar risks.

The Cogentrix Quail Brush Generation Project will install 11 Wartsila 20V34SG gas-fired reciprocating engines. These engines offer stable output, load following flexibility and high efficiency. Worldwide Wartsila has more than 600 gas-fired

power plants with more than 1600 generator sets. SDG&E's engineers examined the Wartsila technology, before SDG&E selected Cogentrix/Enpex offer. Because they are reciprocating engines the NOx and PM10 emission rates are higher than for conventional turbines and this technology may have a greater permitting risk. However, because the original offer for the site was for 200 MW, Cogentrix believes that the emissions will meet applicable regulations.

ii. Bidder Experience (financing, construction, operation)

Developer experience was one of the qualitative factors in SDG&E's final decision to determine which Product 2 offerors to select for contracts. However, all of the offers that ended up in final negotiations had experienced bidders. Thus, bidder experience was not a driving factor during the negotiations.

iii. Credit and Collateral

Each Product 2 offeror has satisfied SDG&E's credit and risk criteria and will provide the required collateral.

iv. Permitting, site control and other site-related matters

The Wellhead developer owns the site on which the existing plant operates. Both EIF Apex Pio Pico and Cogentrix have their sites under option. Wellhead is subject to local permitting, while Apex filed a new Application for Certification with the CEC on February 9, 2011, and has received notice that its Application is data adequate. Cogentrix is preparing its CEC AFC to be filed soon. Site changes between August 2009 and late 2010 were taken into account in deciding to pick these three offers.

v. Fuel status

Fuel status was not a distinguishing issue, since these are tolling agreements where SDG&E will purchase the natural gas for each contracted facility.

vi. Transmission upgrades

The Wellhead facility is currently operating and will not require transmission upgrades if it remains under 50 MW. As discussed previously, the costs of network transmission upgrades for EIF Apex and Cogentrix/Enpex are uncertain. The maximum recoverable costs for both projects are limited by Conditions Precedent in each contract. EIF Apex Pio Pico, located near the Otay Mesa power plant, will utilize the available transmission capacity south of the Miguel substation. This means that other offers that would rely on the same transmission line would have to pay substantially more for upgrades, rendering them uncompetitive. Transmission

upgrade costs were also important for calculating the levelized, benefit-adjusted costs and ranking the short-listed offers.

d. Any other relevant factors

VHC is not aware of any significant factors not mentioned in this report or the Confidential Addendum that would be expected to change SDG&E's decision to put forward these three Power Purchase Tolling Agreements (PPTAs) for Commission approval.

2. Based on the complete bid process:

a. Does (Do) the IOU contract(s) reflect a functioning market?

Yes. The 2009 RFO was competitive and the Product 2 offers are competitive. The offers for Product 2 reflected a range of prices and terms and technologies. Moreover, there were a robust number of bids. VHC believes that the resulting PPTAs reflect a functioning market.

b. Is (Are) the IOU contract(s) the best overall offer(s) received by the IOU?

Yes. SDG&E has selected an appropriate combination of offers from its 2009 RFO to make up a LCBF portfolio. The Product 2 contracts will be an important component of that portfolio, and the Product 2 PPTAs contracts are the best overall Product 2 offers received by SDG&E.

3. Is the contract a reasonable method of achieving the need identified in the RFO?

Yes, these contracts will provide a reasonable method to achieve the need identified in the RFO for new generation supplying local RA capacity.

4. If the contract does not directly reflect a product solicited and bid in an RFO, is the contract superior to the bids received on the products solicited in the RFO? Explain.

The purchase directly satisfies the solicitation for Product 2. Hence, this question does not apply.

5. Based on your analysis of the RFO bids and the bid process, does the contract merit Commission approval? Explain.

Yes. Based on VHC's review and analysis of the RFO bids and SDG&E's bid process, VHC finds that SDG&E has conducted a fair and unbiased RFO process, resulting in competitive Product 2 offers.

Based on the information provided to us, VHC believes that the approval of these PPTAs will contribute to SDG&E's LCBF portfolio of supply contracts.

For the foregoing reasons, and because these contracts meet the requirements for Product 2, are competitively priced and will provide local RA, energy and ancillary services to customers, VHC recommends that the Commission approve all three contracts.

I. Was the RFO acceptable?

1. Over all, was the RFO conducted in a fair and competitive process, free of real or perceived conflicts of interest?

VHC concludes that SDG&E has run a fair and competitive solicitation for 2009 RFO Products 1 through 7B, resulting in appropriate short-lists and reasonable negotiated contracts. VHC believes that the RFO was free of conflicts of interest.

2. Based on the complete bid process should some component(s) be changed to ensure future RFOs are fairer or provide a more efficient, lower cost option?

Based on the complete bid process, there are no changes related specifically to the selection of Product 2 offers or their comparison with offers for other Products. In general, SDG&E's new, revised method of calculating collateral requirements should yield a more efficient, lower cost result in future RFOs.

Several of VHC's specific recommendations, given in section III. C. of this report, are intended to enhance the efficacy of the evaluation process. Other recommendations will, perhaps, help speed up negotiations.

3. Any other relevant information.

No.

Van Horn Consulting
Energy, Economic, Regulatory
& Environmental Consultants
Orinda, CA 94563

Confidential Addendum

Independent Evaluator's
Confidential Addendum –
Product 2: New Local Generation and
SDG&E's June 9, 2009 RFO for Demand
Response and Supply Resources

THE ENTIRE ADDENDUM IS CONFIDENTIAL

Van Horn Consulting
Orinda, CA 94563
consulting@vhcenergy.com

Andy Van Horn
Ed Remedios
Mike Katz

May 18, 2011

Application of San Diego Gas & Electric Company (U 902 E) for Authority to enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power.	Application 11-05-023 (Filed May 19, 2011)

Application: A.11-05-023
Exhibit No.: _____

REBUTTAL TESTIMONY OF

ROBERT ANDERSON

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

IN SUPPORT OF APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS WITH ESCONDIDO ENERGY CENTER, PIO PICO ENERGY CENTER AND QUAIL BRUSH POWER

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 21, 2011

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SUMMARY OF SDG&E's REQUEST 2

III. RESPONSE TO VARIOUS INTERVENORS' CONTENTIONS 6

A. Contrary to DRA's Testimony, There is a Need For Local Resources After Accounting for the Contribution of the Sunrise Powerlink to the San Diego-Area Resource Adequacy Calculation. 6

B. DRA's Reliance on the 2010 LTPP Scoping Memo Assumptions is Misplaced. 7

C. Sole Reliance on the 2010 Scoping Memo Assumptions is Unjustified Due to Its Extremely Low Load Growth Projection. 8

D. Discounting of Energy Efficiency in SDG&E LTPP Filing was Reasonable. 10

E. SDG&E's Demand Response Assumption is Reasonable. 13

F. SDG&E's Request for Additional Capacity as a "Cushion" is Prudent Resource Planning. 15

G. The Need Should Not Assume Power Plants that Don't Exist. 16

H. SDG&E Once-Through Cooling (OTC) Facility Retirements are Reasonable. 17

I. SDG&E's Proposal is Consistent with its Smart Grid Implementation Plans 18

J. Costs to Ratepayers. 19

K. Greenhouse Gas (GHG) Implications of These Contracts 20

1. How Might Future GHG Regulations Affect Project Costs, Operations, or Financial Viability? 20

2. Does Each PPTA Reasonably Address Future GHG Considerations? 22

3. Who Bears the Risk of Adverse Events Relative to Future GHG Events? 22

L. Ability to Apply a Cost Allocation Methodology (CAM) to these Contracts 23

REBUTTAL TESTIMONY OF

ROBERT ANDERSON

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

I. INTRODUCTION

In its May 19, 2011 Application (Application), San Diego Gas & Electric Company (SDG&E) requested the Commission's approval of three Power Purchase Tolling Agreements (PPTAs) to ensure that there is adequate capacity available for all San Diego-area load serving entities to meet local resource adequacy requirements through 2020 under a wide range of outcomes.[1] These PPTAs are proposed at this time based primarily on SDG&E's assessment of the generation resources SDG&E will need to deploy in the near future so that the San Diego area will meet its current and anticipated grid reliability requirements.

This in-depth assessment takes into account a broad range of resource-related factors in reaching its conclusion that substantially more resources are needed in the upcoming planning horizon. It also considers past Commission decisions and direction on this topic. SDG&E's Application addresses SDG&E's obligations to procure new capacity, the need to avoid 'just-in-time" procurement of resources that historically has had substantial lead times, and the need to allow sufficient time to follow the Commission preferred methods to procure additional capacity should any of these projects fail to reach commercial operation or local capacity needs increase. SDG&E's Application specifically responds to each of these areas.

In my Prepared Direct Testimony accompanying the Application, I explained not only the regulatory basis for SDG&E's request to enter into the three PPTAs, but also the need for

[1] The resource need discussed in this rebuttal is based on the total load in the SDG&E service area and is not reflective of SDG&E's contacting requirements to meet its bundled customer's requirements.

SDG&E to plan ahead to develop and deploy those resources in sufficient time, and further, to acknowledge and factor into account various scenarios and uncertainties during the planning horizon. Thus, in assessing the need and planning for future resources, resource planning necessarily includes the identification and management of uncertainties through the use of reasonable planning assumptions. As discussed in more detail in this testimony, SDG&E's analysis of resource uncertainties does not mean, as some intervenors would contend, that SDG&E should "do nothing," or worse, assume that only a particular scenario will occur that would obviate the need to procure more resources. Instead, my analysis and its conclusions are based on a full and realistic reckoning of a wide range of scenarios for supply-side and demand-side resources. SDG&E is mindful that it – and not the parties who claim that SDG&E's Application is ill-founded or premature -- is accountable for abiding by the Commission's orders and for maintaining resource adequacy. At the same time, SDG&E is no less mindful of the potentially costly impacts on ratepayers if that objective is not achieved in a timely manner.

SDG&E has reviewed testimony submitted by Division of Ratepayer Advocates (DRA), NRG Energy (NRG), City of Carlsbad (Carlsbad),Utility Consumers Action network (UCAN), and the joint testimony of the Alliance for Retail Energy Markets (AReM), the Direct Access Customer Coalition (DACC) and the Western Power Trading Forum (WPTF) (collectively, the Protesting Parties). SDG&E's analysis remains fully supported and valid with respect to SDG&E's resource need for the three contracts presented in the Application. In this Rebuttal Testimony, SDG&E responds to various statements and issues raised by these parties.

II. SUMMARY OF SDG&E'S REQUEST

SDG&E's distribution service area is treated as a single load pocket for determining the area's resource adequacy. To determine its Local Capacity Requirement (LCR), and in turn the need for the PPTA contracts, SDG&E developed assumptions and calculated an LCR table based

upon SDG&E's current outlook regarding resources in its distribution service area, including the expected on-line date of mid-2012 for the Sunrise Powerlink, and a conservative estimate of about 1% load growth,[2] after energy efficiency, over the planning period.

Table 1 below shows that the San Diego LCR area will have a total local area need ("Local Resource Need") of 2440 MW in 2017 and 2713 MW in 2020. It estimates net local capacity – *i.e.*, the local capacity that San Diego area LSEs may rely upon to satisfy their LCR for the San Diego LCR area – of 1878 MW in 2017-2020. This produces a local capacity shortfall ("need amount") of 653 MW in 2017, growing to 839 MW in 2020. The Table shows how a portion of this capacity need amount might be met each year through "Proposed Resources" – *i.e.*, resources that are uncertain in that they do not exist today, or alternatively, that exist today, but may be eliminated in the future. Even after adding these proposed resources, however, the Table shows a local capacity shortage of 213 MW beginning in 2018, increasing to 319 MW in 2020.

///

///

///

[2] The load growth assumption of 1 percent per year is conservatively low because, as is explained below in Section III, SDG&E load growth has averaged about 2% per year over a 10-year planning horizon.

Table 1

Peak Load Calculations (MW):	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Forecast Peak-Hour 1-in-2	4438	4536	4615	4696	4772	4851	4930	5014	5099
Forecast Peak-Hour 1-in-10	4882	4990	5077	5166	5249	5336	5423	5516	5609
Transmission Capability (-)	2500	3500	3500	3500	3500	3500	3500	3500	3500
Generation Contingency (+)	604	604	604	604	604	604	604	604	604
Losses (+)	4	4	4	4	4	4	4	4	4
Local Resource Need	**2990**	**2098**	**2185**	**2274**	**2357**	**2444**	**2531**	**2624**	**2717**
Existing Local Supply Resources	1894	1894	1894	1894	1894	1894	1894	1894	1894
Existing OTC	960	960	960	960	960	960	960	960	960
Small Hydro	4	4	4	4	4	4	4	4	4
Pumped Hydro	40	40	40	40	40	40	40	40	40
Existing CHP	137	137	137	137	137	137	137	137	137
Local Renewable Energy	26	26	26	26	26	26	26	26	26
Total: Existing Capacity	**3061**	**3061**	**3061**	**3061**	**3061**	**3061**	**3061**	**3061**	**3061**
OTC Retirement	0	0	320	320	320	320	960	960	960
Other Retirements	35	35	223	223	223	223	223	223	223
Net Local Capacity	**3026**	**3026**	**2518**	**2518**	**2518**	**2518**	**1878**	**1878**	**1878**
Capacity (Need) or Surplus	**36**	**929**	**334**	**244**	**161**	**74**	**-653**	**-745**	**-839**
Proposed Resources									
Additional Demand Side CHP	0	2	3	5	7	12	14	16	17
Uncommitted EE	0	34	60	87	126	169	213	251	284
Demand Response	158	196	205	208	210	212	214	217	219
Total Assumed Additions	**158**	**232**	**268**	**300**	**342**	**394**	**440**	**483**	**520**
Capacity (Need) or Surplus	**194**	**1160**	**602**	**544**	**504**	**468**	**-213**	**-262**	**-319**

Resource planning involves inherent uncertainties regarding the future level of loads and the availability of resources, as reflected in Table 1. However, it does not follow – and would be

unduly risky – to infer from these uncertainties that the resource need in SDG&E's service area through the year 2020 is "zero," as some intervenors have stated. The difficulty inherent in accurately predicting the load and resources that will be available several years into the future reinforces the need for an adequate cushion of capacity above the "bare minimum" that would be needed in the most optimistic scenarios. Further, this cushion is necessary to allow for resources that are not ultimately realized, given the long lead-time to develop new capacity. Moreover, the presentation of PPTAs representing individual generators with capacities of 50 MW, 100 MW, and 300 MW reflects the expected "lumpiness" of resources additions, i.e., power plants tend to come in various size blocks, and the Independent Evaluator-supervised process by which SDG&E picked the lowest cost offers in its Commission-approved RFO. Indeed, it is mainly in the "Proposed Resources" category, and in particular in Energy Efficiency (EE) and Demand Response (DR), where most of the disagreements exist. SDG&E discusses these and other issues in more detail, below.

As was described in SDG&E's Prepared Direct Testimony and further discussed in this Rebuttal testimony, to ensure resource adequacy, the Commission should authorize SDG&E to enter into these three PPTAs. SDG&E acknowledges that this request would, if approved, provide somewhat more capacity than the "minimum" need calculated in the table. However, this incremental capacity is necessary for prudent resource planning and could easily be needed should load growth increase from the long term growth rate for just one or two years. Again, this request is needed and justified for resource adequacy purposes.

As noted and approved in ALJ Yackin's October 17, 2011 Ruling, DRA and SDG&E agreed to a short delay in evidentiary hearings to allow for the "efficient resolution" of issues in common both to this proceeding and the Long Term Procurement Planning Track 1 issues in

Rulemaking 10-05-006. However, SDG&E emphasizes the brevity of the delay and, to be clear, maintains that these three contracts should be approved to ensure resource adequacy through 2020 for the SDG&E area.[3]

III. RESPONSE TO VARIOUS INTERVENORS' CONTENTIONS

A. Contrary to DRA's Testimony, There is a Need For Local Resources After Accounting for the Contribution of the Sunrise Powerlink to the San Diego-Area Resource Adequacy Calculation.

DRA's testimony states[4] that having Sunrise Powerlink on-line in 2012 eliminates all resource adequacy need. However, this is not true. As can be seen, SDG&E's Table 1 takes into account Sunrise coming into service in time to reduce the need for local resources by increasing the transmission capability from 2500 MW to 3500 MW in 2013. Thus, SDG&E's need analysis fully takes into account the Sunrise Powerlink. However, even with Sunrise, SDG&E has identified a need. Without Sunrise, the need would be even higher. In addition to the Commission's directives in the 2006 LTPP case, SDG&E's current analysis indicates that at least 319 MW are needed to meet the minimum requirements.

Thus, SDG&E disagrees with both claims that SDG&E's current resource need is "zero" as well as its analysis which appears neither to have a sound analysis to support its "zero need" position as well as its treatment of the mandates from prior, applicable Commission orders as well as a considered analysis. On the latter, DRA on the one hand, relies on the 2006 LTPP case to argue that no new power is needed; on the other hand, DRA argues, as indicated below, that the 2006 LTPP case should be disregarded because the issuance of the new LTPP is imminent.

---

[3] Accordingly, SDG&E finds moot the DRA's statements from its testimony regarding DRA's "recommendation" that "SDG&E's application [should be] denied without prejudice and that SDG&E [should] be granted leave to submit an amended Application after, and in conformance with, a Commission decision in the 2010 LTPP docket…" (DRA at 1, emphasis in the original). DRA has agreed that the instant case will proceed, with evidentiary hearings, on January 31, 2012, without an amended application.

[4] DRA at 5-6.

Despite the views of intervenors that might push for a finding of "zero" need, SDG&E believes that the Commission should and must look at the facts contained in its analysis which are reflected in Table 1.

DRA's testimony also claims that "the Commission will issue a decision this year in the 2010 LTPP proceeding" (R.10-05-006) and further argues that no need exists for proposed new resources.[5] However, DRA's main source for its "no need" conclusion appears to be its own brief, not the expected decision in the case.[6] As noted above, DRA and SDG&E have agreed to a postponement in evidentiary hearings to allow for the issuance of a decision in R.10-05-006 and, at the same time, not jeopardize the viability of the PPTAs.

Additionally, DRA's conclusion in the 2010 LTPP was based on a limited set of assumptions. As is shown later in this testimony, the load forecast DRA is relying on is an extreme case and not supported by historical load growth figures or by the latest forecast of energy efficiency released by the California Energy Commission (CEC) staff.

B. DRA's Reliance on the 2010 LTPP Scoping Memo Assumptions is Misplaced.

DRA's testimony further relies extensively on the 2010 LTPP Scoping Memo Trajectory Case, which is based on assumptions provided by Energy Division, not by SDG&E or the Commission through the adjudicatory process. DRA argues that there is no need based on the assumption using the Trajectory Case in the 2010 LTPP scoping memo. However, that one single set of assumptions is not an adequate basis for making a decision on the need for these units. As DRA knows, the assumptions in the 2010 LTPP Scoping Memo are 2 to 3 years old and in many cases more recent data, as is explained below, shows them to be incorrect.

[5] DRA at 6-7.
[6] DRA at 7, footnotes 16, 17.

C. Sole Reliance on the 2010 Scoping Memo Assumptions is Unjustified Due to Its Extremely Low Load Growth Projection.

One of the key assumptions in the 2010 LTPP Scoping Memo is that there will be no load growth after accounting for committed and uncommitted energy efficiency through 2020. Zero load growth in the San Diego area is one possible scenario, but many facts exist that question whether it is likely or reasonable. A review of historical load growth clearly shows that zero growth in electric load is not a likely case. In fact, SDG&E has never seen zero load growth over a ten-year planning period. Even during the periods when the Commission has been aggressively pursuing cost-effective energy efficiency, SDG&E has experienced positive load growth. As was pointed out in my Prepared Direct Testimony, the historical load growth rate over a ten-year period, after EE and demand-side generation is taken into account, has averaged approximately 2% annually since 1990.[7]

The 2% San Diego-area growth rate is not an extreme load growth scenario but reflects the average rate. It is the actual observed average 10-year load growth for the 10-year periods ending in 2000 through 2010 (*i.e.*, the average of 10 separate 10-year periods). The single lowest growth experienced over a ten-year period during that time was 1.1%, and that relatively low rate occurred during the extraordinary event of the energy crisis. Indeed, SDG&E has observed 10-year growth rates as high as 2.9 percent. In shorter intervals, growth rates have been even higher.

In the pending LTPP proceeding, as well as the instant proceeding, SDG&E developed a new load forecast that was based a short-term CEC load forecast to capture the current down turn not captured in the 2010 LTPP scoping memo assumptions.[8] This forecast reflects a load growth

[7] SDG&E's Prepared Direct Testimony of Robert Anderson at 16.
[8] Assigned Commissioner and Administrative Law Judge's Scoping Memo and Ruling, A.10-06-006 (December 3, 2010).

rate of about 1.1 percent from 2012 to 2020 – a rate similar to the lowest 10 year load growth that the San Diego area has experience in the past 30 years.

In addition, since the 2010 LTPP was filed, the CEC staff has released its latest load forecast, the *Preliminary California Energy Demand Forecast 2012-2022*[9]. This forecast included three scenarios: a high, a middle and low forecast. As part of this report, the CEC staff's provided adjustments for potential amounts of uncommitted energy efficiency not included in the base forecasts. After subtracting the CEC scenarios for uncommitted energy efficiency, the CEC projected San Diego-area load growth rates of 0.7%, 1.1% and 1.9%, respectively, for the low, middle and high growth scenario.[10] Of note, none of the CEC Staff's forecasts shows a zero load growth, contrary to the assumptions DRA relies on. The CEC Staff's middle case forecast closely matches the SDG&E's 2010 LTPP load forecast.

Table 2, below, shows and compares the expected and adverse weather peak load expected for the year 2020 based on the 2010 LTPP Scoping Memo assumption (as is supported by DRA), the comparable assumption used by SDG&E in the 2010 LTPP proceeding, the CEC's most recent load forecast, and a forecast prepared by SDG&E reflecting the SDG&E area's historical average growth, as discussed earlier in this testimony.[11]

///

///

///

[9] The report can be found at http://www.energy.ca.gov/2011publications/CEC-200-2011-011/CEC-200-2011-011-SD.pdf

[10] The growth rates for the CEC forecasts were calculated using the same 2011 value as the SDG&E load forecast used in the 2010 LTPP and the CEC's 2020 peak loads.

[11] The "adverse peak" used for grid planning is based on a 1 in 10 weather event occurring. For all the forecasts SDG&E used the CEC's ratio of a10% increase to the expected forecast to develop the adverse weather forecast.

Table 2 – 2020 Peak Load Forecasts

	2020 Average Peak Load	Adverse Peak Load	Delta from 2010 LTPP Scoping Memo (MW)
2010 LTPP Scoping Memo	4555	5011	N/A
CEC – Low Growth	4622	5084	73
CEC - Middle Growth	4762	5238	227
SDG&E 2010 LTPP Forecast	4826	5308	298
CEC – High Growth	5120	5632	621
Historical 2% Growth	5200	5720	709

What Table 2 shows is that DRA's position is a bookend in a range of need. If the Commission were to rely on such a low load forecast, SDG&E would likely have to resort to procuring "just-in-time" resource additions or not allow older generation units subject to once through cooling to retire, or both. As compared to SDG&E's forecast which is similar to the CEC Middle Growth case. Also if either the CEC's High Demand case or SDG&E's historical load growth occurs, SDG&E's system will need additional capacity above what is being proposed in this Application. Thus, SDG&E respectfully and strongly disagrees with DRA's assessment of the electricity load growth for the San Diego area that should be factored into the resource planning assumptions.

D. Discounting of Energy Efficiency in SDG&E LTPP Filing was Reasonable.

As SDG&E points out above, the San Diego area's requirements for resources should be based on a plausible (or preferably, likely) load growth forecast after taking into account energy efficiency impacts. SDG&E's Application incorporates reasonable assumptions for both underlying growth and the impacts of energy efficiency.

However, DRA[12] and UCAN[13] both raise issues with the level of energy efficiency savings included in SDG&E's 2010 LTPP proceeding load forecast. SDG&E finds that their assumed energy efficiency figures are overstated for resource planning purposes. First, as SDG&E pointed out in the 2010 LTPP, the Commission must consider whether a utility's proposed procurement takes into account energy efficiency measures that are reasonably expected to occur.[14] Also, Public Utilities Code § 454.5 makes clear that the IOUs' procurement plans should include only those energy efficiency resources ". . . that are *cost effective, reliable and feasible*."[15] There were no facts presented in the LTPP, or in DRA or UCAN's testimony, that show that all of the assumed uncommitted EE that they believe should be relied upon is cost effective, reliable and feasible.

Second, both DRA and UCAN ignore that the CEC heavily qualifies the assumptions that were used in the LTPP Scoping memo. The Scoping Memo's uncommitted EE values were from the CEC's *Incremental Impacts Report.* [16] In a section of the Report entitled "Caveats", it states that "there is no assurance that efficiency savings from any of the three scenarios will be realized. Even the low case requires that various state and federal entities continue to pursue energy efficiency activities under their jurisdiction in what historically is considered an aggressive approach."[17] The *Incremental Impacts Report* notes that "the effort to continue

---

[12] DRA at 14.
[13] UCAN at 3-6.
[14] *See* R.10-05-006, July 1 Track 1 Testimony of Robert Anderson at 6.
[15] Pub. Util. Code § 454.5(b)(9)(C) (emphasis added).
[16] *Incremental Impact of Energy Efficiency Policy Initiatives Relative to the 2009 Integrated Energy Policy Report Adopted Demand Forecast,* CEC-200-2010-001-CTF, May 2010 http://www.energy.ca.gov/2010publications/CEC-200-2010-001/index.html
[17] *Id.* at p. 53 (emphasis added) .

increasing efficiency may grow more difficult through time as future initiatives exhaust the low-hanging fruit.'"[18]

The Report specifically addresses application of the scenarios in the context of resource planning, cautioning that "[w]hile the *Energy Action Plan* loading order emphasizes cost-effective energy efficiency as California's first choice to meet demand growth, relying solely on these resources for long-term resource adequacy is uncharted territory."[19] It notes further that "[i]f decision makers postpone decisions to invest in supply-side resources and energy efficiency fails to deliver as forecasted, then serious reliability (and cost) consequences could result, unless such shortfalls have been anticipated and contingency actions identified."[20] Thus, in accordance with the Commission's obligation to "remain cognizant of our responsibility to ensure the reliability of our system,"[21]

Third, the CEC staff itself has scaled back on the future impacts that uncommitted EE may have on its forecasts. Due to changes the CEC made between what standards were included as committed verses uncommitted between the LTPP scoping memo forecast and the *Preliminary California Energy Demand Forecast 2012-2022,* a comparison of the total uncommitted EE impacts is not easily done.[22] However, a comparison can be made between the assumed impacts in two major areas: Utility Programs and BBEES. In the Middle Case for the year 2020 in SDG&E service area, the CEC reduced the impact of utility programs by 73 MW or 27%, and reduced the impact from the BBEES from 140 MW to 60 MW or by 59%. These

---

[18] *Id*. at 54.
[19] Incremental Impacts Report, *supra*, note 42 at 55 (emphasis added).
[20] *Id*.
[21] Energy Action Plan, 2008 Update at 15.
[22] A discussion of uncommitted energy efficiency impacts is included in Chapter 8 of the CEC load forecast.

reductions may not exactly match the reductions SDG&E made, but they show that reliance should not be placed on the full amounts included in the LTPP uncommitted EE assumptions.

In addition, DRA makes the unsupported claim that failing to include high projections of EE in this proceeding will remove any incentive to achieve future energy efficiency savings.[23] DRA offers no substantiation for this spurious comment, which would conflict with years' worth of directives and actual energy saving achieved by SDG&E through energy efficiency programs. The level of energy efficiency adopted by the Commission in the EE proceedings is not impacted by whether SDG&E's local resource adequacy is long or short on capacity. DRA's suggestion that SDG&E will not pursue or achieve cost-effective energy savings if there are adequate supply-side resources available to meet local reliability obligations is simply illogical and at odds with both SDG&E's and the Commission's approach to achieving both full resource adequacy and all cost effective energy efficiency savings.

E. SDG&E's Demand Response Assumption is Reasonable.

In my Prepared Direct Testimony, I indicated in Table 2 that for the years 2012 through 2020, SDG&E forecasted that SDG&E's demand response programs would provide, each year, an increasing amount of demand response ranging from 158 MW to 219 MW. As explained herein, the demand response forecast contained in my Prepared Direct Testimony reflects the current, best forecast of SDG&E's demand response programs and is valid for this proceeding.[24] The Commission does not use the LTPP Proceeding or application for specific resources to litigate demand response values, both rather uses the values from those other proceedings as input.

[23] DRA at 14, lines 15-17.

[24] SDG&E's DR forecast in this proceeding is from SDG&E's current DR proceeding, A.11-03-002, and can be found in the May 27, 2011 Chapter V Amended Testimony of Leslie Willoughby/Kathryn Smith.

However, in referencing certain proceedings for SDG&E's AMI and other demand response programs, UCAN claims that SDG&E has used "outdated" demand projections.[25] Instead, UCAN proposes its own forecast of demand response, which is approximately three-times larger than SDG&E's forecasted amounts.[26] Based on its own forecast, UCAN concludes that SDG&E has presented a "significant underestimation of projected savings from energy efficiency and demand response resources" and that SDG&E's proposed new resources "would present an unnecessary cost to ratepayers."[27] For several reasons, UCAN's analyses and conclusions are incorrect and should be rejected.

First, Table 7 in UCAN's testimony shows an AMI demand response forecast for year 2018-2020 of 423, 431 and 440 MW, respectively, and claims that this is the forecast "that formed the basis of AMI approval." However, the forecast in Table 7 appears to be interpolated from the 2010, 2015 and 2021 demand response forecast values presented in SDG&E's AMI testimony of Steve George, filed in March 2005. Contrary to UCAN's claims, this testimony did not form the basis of AMI approval and is not part of the record of A.05-03-015. That AMI testimony was replaced in full by SDG&E's AMI testimony filed in July of 2006. The July 2006 testimony presented a 2015 forecast of 249 MW and a 2022 forecast of 292 MW.[28] But even SDG&E's lower forecast was not adopted by the Commission. The Commission's AMI Decision, D.07-04-043, adopted an even lower value.[29]

Thus in its testimony, UCAN plainly misstates the record of that proceeding and so-called "promises," as well as the Commission's conclusions related SDG&E's AMI-related

[25] UCAN at 8.
[26] UCAN at 9.
[27] UCAN at 10.
[28] *See* A.05-03-015, July 14, 2006 Testimony of Steve George at SG-13, Table 6-5.
[29] *See* D.07-04-043 at 51-52.

demand response. SDG&E factored in the most current forecast for all demand response programs for this proceeding. SDG&E's use of this forecast is reasonable and supported.

The scope of this proceeding does not, however, include a detailed, new assessment of demand response savings or individual demand response programs, including AMI[30] If UCAN wishes to challenge SDG&E's demand response values, it should do so in the Demand Response proceeding, where it is an active party.

F. SDG&E's Request for Additional Capacity as a "Cushion" is Prudent Resource Planning.

DRA states that SDG&E's request of additional new, local generation resources "far exceeds its own claim of local capacity need by 2020."[31] DRA's statement seems to be premised on a perspective that adding any capacity above the "bare minimum" amount needed to meet local grid reliability is in excess. SDG&E disagrees with this premise. As explained above, the inherent, substantial uncertainty in load growth and other important variables dictates – not a "do nothing" or "defer as long as possible" approach – but to incorporate additional tolerance for the identified uncertainties. Thus, SDG&E believes that prudent planning means adding some capacity above the minimum amount calculated.

As noted above, in my view as a Resource Planner, a better approach is to plan for enough capacity that will allow for the time need to react to changes. Doing so would mean that SDG&E would need to procure 100 to 200 MW in capacity above the load growth to deal with the potential for higher load growth. This amount of capacity can accommodate a couple of years higher load growth, such as load growth equal to the historical average, and allow for SDG&E to conduct a new request for offer under a reasonable time frame. Or in other words, given that the load growth assumption used by SDG&E in the Application reflects the lowest

[30] A.11-05-023, July 29, 2011 Scoping Memo and Ruling of Assigned Commissioner at 2-4.
[31] DRA at 2.

historical growth, an acceptable cushion will provide flexibility if higher loads, such as loads growing at the 2 percent annual average, materialize for a few years.

G. The Need Should Not Assume Power Plants that Don't Exist.

DRA's testimony asserts that SDG&E's need analysis does not address potential future renewable energy projects, new electric storage plants, and Distributed Generation.[32] In a similar argument, DRA questions SDG&E's removal of some renewable and CHP resources that were included in the LTPP modeling scenarios.[33] First, regarding the renewable resources, SDG&E did include 68 MW of net qualifying capacity from solar resources in the LTPP case. This was based on SDG&E's Renewable Auction Mechanism (RAM) Advice Letter filing, which looked to favor local projects under the Commission's RAM program. However, the Commission rejected that proposal in Resolution E-4414 and ordered SDG&E to "remove its local category since this category is not in compliance with the Decision." Thus it is no longer likely that the resources under this program will be local. While SDG&E is seeking to incorporate more renewable resources in its generation portfolio, history has shown us that lower cost projects exist outside the local area.

Regarding storage, DRA claims that SDG&E has "failed to include any contributions from energy storage" and "certain distributed generation resources."[34] But DRA's argument misses the broader point that storage and distributed generation have not been identified at this time as a matter of long-term procurement planning to meet an identified resource need. A detailed exploration of storage and "certain distributed generation resources" for that purpose is beyond the scope and objective of the instant proceeding.

---

[32] DRA at 7.
[33] DRA at 10.
[34] DRA at 7.

H. SDG&E Once-Through Cooling (OTC) Facility Retirements are Reasonable.

DRA argues that SDG&E overestimates the impact that OTC retirements will have on its local need.[35] DRA states that when the Encina power plant will retire is uncertain, and NRG is pursuing alternatives to extend some or all of its operation through repowering or alternative compliance methods. However, SDG&E found it necessary and prudent to put before the Commission the three PPTAs that will allow the State to move towards achieving its goal of reducing or eliminating reliance on OTC plants. Failure to approve these PPTAs means that there will not be enough local capacity to allow Encina to retire, so there will not be a choice but to maintain the existing plants until a new RFO can be executed and new plants built.

DRA states that "The Encina Power Plant's capacity will count towards San Diego's local capacity requirements even if Encina does not have a power purchase contract with SDG&E".[36] SDG&E is concerned that this statement could be interpreted to mean the San Diego area will get local reliability from Encina for free. It is important to understand that the only plants that the CAISO and the CPUC will recognize as meeting local reliability criteria are plants that have signed contracts that require the plants to be available to the CAISO for dispatch. If the total capacity under contract by all LSE's does not meet the grid reliability needs, the CAISO will enter into a contract with the plants it needs and charge customers in San Diego. Since SDG&E does not serve 100% of the load in the San Diego service area, SDG&E does not sign contracts with all the plants that eventually count towards local reliability. But given Encina's size of 960 MW, in an area that has a local need of about 2,700 MW, it is hard to pick a scenario that does not require Encina to have a contact for some or all of its capacity unless additional units are built.

---

[35] DRA at 10 -12.
[36] DRA at 11.

DRA claims that the estimated retirement of the Encina Power Plant is the "main driver of SDG&E's estimated local capacity need starting in 2018" and that repower would add additional capacity. [37] First, the NRG repower proposal, called the Carlsbad Energy Center, has yet to receive CEC approval of the Application for Certification (AFC) which is required before any construction activities can begin. The facility is not under construction and, so far as SDG&E knows, no contracts exist to provide the revenue stream that would be needed to move the project forward. NRG testimony in this case specifically states that the Carlsbad Energy Center "may not reach fruition, as the project does not currently have a long term contract supporting its construction."[38] The fact remains that the proposed Carlsbad Energy Center remains an uncertainty for various reasons.

I. SDG&E's Proposal is Consistent with its Smart Grid Implementation Plans.

Along lines similar to DRA's earlier arguments, DRA claims that SDG&E's Application "does not appear to consider [various Smart Grid] options or the potential for the Smart Grid to reduce the need to construct new power generation plants"[39] DRA appears to quote selectively from SDG&E's much larger Smart Grid Deployment Plan (SGDP) in support of DRA's conclusion.[40]

However, DRA has mischaracterized SDG&E's Smart Grid goals. Regarding DRA's reference to SDG&E's statement in its Smart grid plan, this statement specifically describe a large single-line item benefit estimate in the "Dynamic Voltage and VAR Control [for Transmission reliability]" project which included in its conceptual benefits estimates the avoided cost of a (roughly) Palomar-class plant. Showing such a conceptual avoided cost benefit in the

[37] DRA at 11 -12.
[38] NRG at 8.
[39] DRA at 15.
[40] DRA at 15, footnotes 39-42.

SGDP – a guidance document that is not intended to replace the GRC or special applications – does not make or reinforce any statement that we will avoid ALL new generation or that it would replace the generation needed to meet grid reliability criteria. The point about avoiding generation is made in the context of by adding new technology and tools including large synchronous condensers so that can better integrate renewables. In fact, it was not a project designed to avoid generation needed for local grid reliability.

J. Costs to Ratepayers.

DRA raises a number of issues regarding the costs of the PPTAs.[41] First, DRA questions price changes that occurred between the original bid prices and final contract prices. Of course, there were many negotiated terms, and the negotiation of these contracts was done under the review of the independent evaluator (IE). SDG&E conferred with the IE who ensured that SDG&E was not favoring one bidder over another.

Next, DRA claims that the costs "have become more uncertain" as a result of the interconnection costs. The opposite is true. The results on the Phase II studies have put a cap on the interconnection costs. It is true that the parties are working to reduce the costs, but reductions only improve the economics of the projects, it does not make them more uncertain.

DRA's testimony simply graphed the capacity cost of the contracts.[42] However noting that contracts have a specific amount of fixed costs is not a reason to deny them, nor does it provide a complete cost benefit analysis. DRA provides no facts as to the cost to meet local capacity needs in any other scenario absent these contracts. DRA provides no basis as to the costs of other resources that would need to be contracted for over the same time period to meet

[41] DRA at 16-24.
[42] DRA at 17-18

local requirements. They basically imply that the costs in all other scenarios without the contracts are zero, which is clearly not the case.

The values provided by DRA need to be further ignored because they only plotted capacity payments. DRA ignored savings to customers from getting more efficient quick start capacity than relying on existing generation. SDG&E's analysis showed that there is energy and ancillary service values to customers. However, DRA ignored these values in its analysis.

K. Greenhouse Gas (GHG) Implications of These Contracts

DRA's testimony refers to the July 29, 2011 Scoping Memo and Ruling of Assigned Commissioner in this proceeding and seeks SDG&E's positions with respect to the three GHG-related topics framed in that Ruling: (a) how might future GHG regulations affect project costs, operations, or financial viability; (b) does each PPTA reasonably address future GHG considerations; and (c) who bears the risk of adverse events (or obtains the gains from beneficial outcomes) relative to future GHG events.[43] SDG&E addresses each of these concerns below.

1. How Might Future GHG Regulations Affect Project Costs, Operations, or Financial Viability?

SDG&E considered GHG costs in its modeling, incorporating a GHG price based on the Synapse study. All electric generation will experience GHG allowances costs beginning in 2013, not just these particular plants. GHG costs were factored into the evaluation process considering the dispatch implications of GHG emissions costs. SDG&E was clear in the testimony in the LTPP proceeding that it would include GHG in bidding resources into CAISO markets:

> "GHG costs will be reflected in SDG&E bids submitted to the CAISO, so that SDG&E's plants will only generate when they are economic (including the GHG costs) compared to other resources bid into the CAISO market.[44]

[43] DRA at 24.
[44] LTPP direct testimony, witness Ryan Miller, page 14, lines 8-10.

Since SDG&E is including GHG costs in bids into CAISO markets, it will recover the GHG costs for all units, even Wellhead Escondido, even when it may not be needed in 2013 and 2014. If the units are dispatched, the market-clearing price will cover the GHG cost.

DRA's testimony suggests the Commission should consider possible additional GHG compliance costs for this facility.[45] Since SDG&E will be bidding this resource into the market with the expected GHG cost, there should be no additional GHG costs that have to be recovered from ratepayers; the GHG costs will be recovered from the electricity market. Further, DRA's Table 6 is incorrect since generation less than 25,000 MT per year are included in the cap-and-trade program in 2015 through natural gas charges.[46] Generating less than 25,000 MT is only a windfall to ratepayers in 2013 and 2014.

From a portfolio perspective, these new units will replace older, less efficient resources leading to GHG reductions for SDG&E's portfolio. The difference between a 9,000 btu/kWh heat rate of newer generation compared to 10,000 to 12,000 heat rates of existing units can lead to GHG reductions. A 2,000 Btu/kWh difference will lead to a 0.1 MT reduction for each MWh produced. For 800 hours of annual operations, the GHG reduction would be 80 MT per MW; for 4,000 hours, the GHG reduction would be 400 MT per MW. In addition, these are quick start generation units and, therefore, also generate savings as compared to long-start generation such as Encina that generates substantial GHG in the long start-up process as well as significant GHG emissions when forced to run at minimum load to stay online to be ready to serve load. The added efficiency and quick start capability will reduce ratepayer GHG costs in the portfolio.

[45] DRA at 22.
[46] DRA at 23.

2. Does Each PPTA Reasonably Address Future GHG Considerations?

Each PPTA reasonably addresses future GHG considerations by having explicit GHG contract provisions in the contract. The contract language is the same GHG language that has been recently approved by the Commission in its Wellhead Margarita (now El Cajon) and JPower Orange Grove contracts.[47] In the Air Resources Board's (ARB's) future cap-and-trade program, the GHG compliance obligation is placed on the generator. However, SDG&E is bidding the resource into the CAISO markets, so the proposed GHG language in the contracts would have SDG&E be responsible for acquiring GHG allowances, and providing those allowances to the generator for actual GHG emissions up to a limit based on actual dispatch.[48] Since SDG&E is bidding it into the market, it can include an expected GHG cost in its bids to generate revenues to acquire allowances. Paying for actual GHG costs expected based on dispatch is the more effective way for SDG&E to manage GHG costs for ratepayers.[49] Contract provisions making SDG&E responsible for GHG allowance acquisition will also allow SDG&E to control the risks and costs of its portfolio of GHG allowances and provide the Commission with oversight of GHG allowance acquisition.

3. Who Bears the Risk of Adverse Events Relative to Future GHG Events?

There is little added GHG cost risk from the proposed generation contracts since the expected GHG costs will be covered in bids into CAISO markets, so that electricity consumers should have no net added GHG obligation as a result of the PPTAs. The GHG obligation will increase the more the generation units are dispatched, but funds to purchase GHG allowances

[47] D.07-09-010, as modified by D.09-03-033 and D.09-12-026.

[48] The contract language also indicates that if the generator receives any allocation of allowances, those would be used toward the compliance obligation.

[49] The alternative is to pay the generator the market price for the power, but then ratepayers would lose profits from the market in general and from GHG costs that are less than the marginal generator. For example, ratepayers will receive any dollar benefit in 2013-2014 if Wellhead Escondido does not require GHG allowances due to being under the 25,000 metric ton limit since SDG&E will bid it into the CAISO markets with an expected GHG cost.

will increase commensurately as GHG costs are recovered in the dispatch price. And because these are new, efficient generation units, they will lower the GHG cost of the SDG&E portfolio of generation when compared to old, inefficient, long-start generation. Although DRA poses the question in a way that implies a risk with these contracts, the reality is customers will face more risk and cost if they are forced to rely on the older less efficient steam generators than have access to new more efficient quick start capacity.

Based on the current cap-and-trade regulations, future GHG price spikes would be reflected in the electricity market, so that electricity buyers will bear the risk of future GHG price spikes. As far as the PPTAs are concerned, higher GHG prices advantages efficient generation resources, so that SDG&E ratepayers would benefit from the PPTAs in circumstances where GHG prices were high. So, a PPTA for efficient generation would reduce the GHG costs ratepayers would experience as a result of higher GHG prices. On the other hand, ratepayers as electricity buyers would be disadvantaged.

L. Ability to Apply a Cost Allocation Methodology (CAM) to these Contracts

The Testimony sponsored by the Protesting Parties raises two general issues: (1) whether the contracts are needed, and (2) "under what conditions the CAM is to be applied."[50] My Prepared and Rebuttal Testimonies explained that the three PPTAs are needed for San Diego-area resource adequacy. Regarding use of the CAM, SDG&E has requested in its Application for the Commission to find that the contract costs must be allocated to all benefitting customers, including SDG&E's bundled customers and San Diego-area direct access customers. The three PPTAs are indeed "new generation" that should and must be afforded CAM treatment since they are being added to ensure that there is adequate capacity available for all San Diego-area load serving entities to meet local resource adequacy requirements through 2020 under a wide range

[50] Protesting Parties at 4-5.

of outcomes. SDG&E acknowledges that not all new generation is subject to the CAM, and in fact, is adding other new generation for which SDG&E is not applying for CAM treatment. However, these three PPTAs are being procured based on D.06-07-029 that made the utilities the entities responsible for procuring new generation through long-term power purchase agreements, and therefore they are resources that are subject to the CAM which is now in effect.[51]

Second, the Protesting Parties claim that SDG&E's request for CAM treatment is premature because D.11-05-005 says there are more CAM details to be worked out.[52] SDG&E agrees more CAM details need to be worked out, but new generation resources determined by the CPUC to be needed must be subject to the CAM, and that determination is not premature and is part and parcel of the approval of this Application. Nothing in D.11-05-005 suggests that our proposed resources should not be subject to the CAM or that the determination should be deferred.

This concludes my Rebuttal Testimony.

[51] D.06-07-029, Finding of Fact 19.
[52] Protesting Parties at 6.

Regulatory Affairs
Sempra Energy Utilities
8330 Century Park Court
San Diego, CA 92123-1550

By First Class Mail and Email

September 6, 2011

Mr. Allan J. Thompson
Special Counsel
City of Carlsbad and Carlsbad Redevelopment Agency
21 "C" Orinda Way, #314
Orinda, CA 94563

RE: SDG&E's Response to City of Carlsbad Data Requests in A.11-05-023

Dear Allan:

Please find SDG&E's response to the City of Carlsbad's Data Requests, dated July 29, 2011. SDG&E originally provided a response on August 12, 2011 and have now finalized that response, consistent with subsequent discussions with Paul Szymanski.

Thank you very much.

If you have any questions regarding this information please call Paul Szymanski at (619) 699-5078 or me at 858-637-7960.

Sincerely,

Signed/

Kari Kloberdanz
Regulatory Case Manager

cc: Ronald Ball, City of Carlsbad and Carlsbad Redevelopment Agency
Paul Szymanski, Sempra Utilities
Central Files, Sempra Utilities

A.11-05-023 SDGE 08/12/11 Response
City of Carlsbad & Carlsbad Redevelopment Agency Data Request Dated July 29, 2011
COC-CRA-SDGE-001 Question 1-5
REVISED September 6, 2011

Question 1: Selection Process.

We are interested in the selection process followed by SDG&E in the selection of the Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power Projects (hereafter three projects). To assess the process we would like the following information:

(a) With regard to the total capacity of the three projects, would you please trace the future capacity shortfall, considering retirements and additions to your system up through 2018? It would be helpful to have this information on an annual basis (e.g., for the year 2013 you might show the addition of renewable capacity delivered on the Sunrise Powerlink and the reduction in available capacity from other sources). Show system capacity deficits for each year and how the three projects meet demand in the years the three projects are to come on line.
(b) Would you please provide the number of projects that were bid into the RFO?
(c) Does your selection process incorporate and potential "slippage" in on-line dates?
(d) Although the RFO lists some of the criteria utilized by SDG&E in its selection process, would you please provide a description of the factors considered in your selection process?
(e) We note that the technologies selected are the GE LM6000, the GE LMS 100 and Wartsila 20V34SG engines. Please describe the attributes of these technologies that appealed to SDG&E.
(f) Please provide a narrative on how the three projects meet these criteria.

SDG&E Response to Q1:

(a) Please refer to Table 2 on p. 13 of SDG&E's testimony which shows the local capacity position for each year. The table takes into account the addition of Sunrise Powerlink in that it reduces the need for local capacity shown on the "Minimum Grid Reliability Need." The line "Resource Over Minimum Need" shows the annual net capacity above the minimum required to meet the CAISO grid reliability criteria for the San Diego load pocket after taking into consideration all assumed retirements, demand response impacts, and the proposed addition of these three projects for years 2012-2020. The need surplus/ (deficit) before the addition of the projects proposed in this application can be calculated by subtracting the "New Generation Additions (current Application)" line from the "Resource Over Minimum Need" line. This will show the need, by year, before the three projects are added.
(b) There were twelve different projects proposed in response to the Product 2 RFO. When we refer to "projects" in this response, we mean offers to develop at a specific location.

(c) In SDG&E's selection process, SDG&E evaluated the bids according to "Ability to meet schedule," as one of the qualitative factors considered in evaluating the offers (Appendix 1, p. 10). The dates identified in Table 2, p. 13, of SDG&E's testimony already factor in the up-front, lead time necessary to bring the resources online.

(d) The evaluation criteria that SDG&E used in its selection process, both quantitative and qualitative, are reflected in Appendix 1, pp. 8-10, of SDG&E's testimony in this proceeding. This discussion fully addresses the Binding Offer Evaluation that SDG&E utilized in its selecting the three resources in this proceeding.

(e) These technologies are highly efficient conventional resources. Among other desirable attributes, they have quick-start and fast-ramping capabilities and satisfy the need for peaking capacity as outlined in SDG&E's approved long-term procurement plan. An explanation of how these projects conform to SDG&E's portfolio needs is provided on pp. 41-42 of the filed testimony.

(f) See response to 1 (e) above.

A.11-05-023 SDGE 08/12/11 Response
City of Carlsbad & Carlsbad Redevelopment Agency Data Request Dated July 29, 2011
COC-CRA-SDGE-001 Question 1-5
REVISED September 6, 2011

Question 2: Alternatives.

We are interested in the viability of the three projects selected by SDG&E in the current RFO. From your review of the responses to your RFO, are you aware of any reasons why these three projects may not be permitted and constructed?

SDG&E Response to Q2:

In evaluating each project, SDG&E generally assesses, among other things, the viability of the projects in terms of the project's ability to meet stated objectives and criteria and, ultimately, fulfill a specified resource need. SDG&E will, as part of its due diligence, question the project developer to become comfortable that the project will likely reach fruition and does not have characteristics which would impede its viability. Ultimately, the developer has the responsibility to establish that all permitting requirements can and will be met to enable the project to be constructed. Each project has its own specific site characteristics and must conform to regulatory and legal requirements imposed by the California Energy Commission and other applicable State and local jurisdictions. The projects must still receive CPUC approval. Also as pointed out in the testimony on page 33 for Pio Pico and page 37 for Quail Brush there are condition precedents regarding interconnection costs.

A.11-05-023 SDGE 08/12/11 Response
City of Carlsbad & Carlsbad Redevelopment Agency Data Request Dated July 29, 2011
COC-CRA-SDGE-001 Question 1-5
REVISED September 6, 2011

Question 3: Need.

We are interested in the perceived need for the three projects. Would you please provide the following information on this issue?

(a) Was the CEC'S most recent demand forecast used in establishing the need for the three projects?
(b) Without the three projects, what is SDG&E's need for new in-basin capacity in 2015, 2016, 2017 and 2018?
(c) If these three projects are approved by the CPUC, what is SDG&E's need for new in-basin capacity in 2015, 2016, 2017 and 2018?
(d) If these three projects are approved will SDG&E still have a need for new fossil generation to integrate renewable resources prior to 2020?
(e) Assuming the three projects are approved, are there other requirements (e.g., voltage support) that will require additional capacity up to 2020?
(f) Does SDG&E contemplate any additional all source capacity RFOs for in-basin generation capacity up through 2018?
(g) Are you aware of any studies or findings from the CAISO that there are unique northern San Diego county system needs?
(h) With these three projects, do you need any additional generation to maintain system reliability?
(i) Can you also comment on your ability to allow the retirement of the OTC plants?

SDG&E Response to Q3:

(a) Yes. As stated on p. 12 of SDG&E's testimony, lines 13-15, "SDG&E considered the CEC's latest load forecast, produced in late 2010" in reassessing the need. Please note that the testimony currently states that the load forecast was based on a "2009" forecast. That date is incorrect, as it is the 2010 forecast. SDG&E will provide a correction to its testimony later in the CPUC proceeding.
(b) See response to 1. (a) Above.
(c) See response to 1. (a) Above.
(d) The need for resources for renewable integration is the primary subject of analysis in the CPUC's 2010 Long Term Procurement Plan proceeding. At this time, a majority of the parties in that case have agreed that the work completed to date is not definitive and additional analysis is needed. The parties are recommending that this additional analysis get completed in the next year to better define renewable integration needs. Thus, SDG&E cannot definitively state whether more resources will be needed by 2020 for

renewable integration, and if so, whether these resources would need to be located in specific areas of the CAISO grid (such as in the San Diego area).

(e) In planning SDG&E's system, there are a large number of factors that can contribute to the need for resources or other upgrades to the system. Therefore, SDG&E cannot make a definitive statement at this time as to whether or not more resources will be needed by 2020.

(f) At this time, SDG&E has not contracted for all the capacity it will need to meet the current CPUC local capacity requirements for its bundled customers for each year through 2018. Thus, SDG&E will need to do additional contracting with local units to meet this requirement. Most of this contracting will occur through RFOs. However, if these units are approved based on the current forecasts, there will be enough capacity located in the local capacity area to meet this need by contracting with the existing units.

(g) Yes. SDG&E is aware that the CAISO's December 30, 2010 document titled "*2013-2015 Local Capacity Technical Analysis, Report and Study Results*" identified a 20 MW local Encina sub-area capacity requirement in year 2015. According to the CAISO's December 30, 2010 report, the outage of the Encina 230/138 kV transformer, followed by the loss of the 138 kV Sycamore Canyon-Santee #1 line, results in the thermal overload of the 138 kV Sycamore Canyon-Chicarita line. This is an N-1-1 outage which is categorized as a Category C outage under CAISO and NERC reliability criteria. Acceptable mitigation for this Category C outage includes controlled load drop, generation that feeds into the Encina 138 kV bus and reconductoring the 138 kV Sycamore Canyon-Chicarita #1 line. SDG&E has estimated that the reconductoring the 138 kV Sycamore Canyon-Chicarita #1 line is expected to cost about $1 million. SDG&E's resource planning analyses, including its analyses submitted to the CPUC in A.11-05-23, take into account resources needed for the entire San Diego area.

(h) Given the set of assumptions that the current need analysis is based on (shown in Table 2 on p. 13 of SDG&E's testimony), no additional generation would be needed through year 2020 to meet the currently known and projected CAISO local capacity requirements for the San Diego and the Greater San Diego - Imperial Valley load pocket. Changes in loads, loss of existing generation and other factors could change the outlook in future years.

(i) It is not within SDG&E's ability to state whether any existing plants that SDG&E does not own will be retired. However, as stated on page 3 of SDG&E's testimony, one of the primary criteria in the 2009 RFO was that the selected new generation projects would "facilitate the retirement of aging and Once Through Cooling ("OTC") generation resources."

A.11-05-023 SDGE 08/12/11 Response
City of Carlsbad & Carlsbad Redevelopment Agency Data Request Dated July 29, 2011
COC-CRA-SDGE-001 Question 1-5
REVISED September 6, 2011

Question 4: Contingencies.

We anticipate that the CPUC will approve the three projects, but if one or more projects fail to materialize for any reason, can you give us an idea of your contingency planning? Specifically, please answer the following:

(a) What steps would SDG&E take to meet system requirements if the Escondido project fails?
(b) What steps would SDG&E take to meet system requirements if the Pio Pico project fails?
(c) What steps would SDG&E take to meet system requirements if the Quail Brush project fails?
(d) What steps would SDG&E take to meet system requirements if two of the three projects fail?
(e) For each of these scenarios, what would be the impacts on the integration of renewable resources into the SDG&E system?

SDG&E Response to Q4:

(a) At the time the proposed resource was determined not to proceed, SDG&E would, at that time, reassess the total overall situation by analyzing the system load, resources, and other factors that determine total system need. If the analysis shows that we are short, we would then look to issue a new RFO seeking the amount needed.
(b) See response to 4. (a) Above.
(c) See response to 4. (a) Above.
(d) See response to 4. (a) Above.
(e) See response to 3. (d).

A.11-05-023 SDGE 08/12/11 Response
City of Carlsbad & Carlsbad Redevelopment Agency Data Request Dated July 29, 2011
COC-CRA-SDGE-001 Question 1-5
REVISED September 6, 2011

Question 5: Greenhouse Gases.

In a news release issued by Cogentrix (attached) Mr. Avery of SDG&E is quoted as saying the three projects will help SDG&E reduce its GHG emissions. In reference to this statement would you please answer the following:

(a) Is the quote an accurate representation of the position of SDG&E?
(b) If so, would you please describe how the three projects will reduce SDG&E's GHG footprint?
(c) Can you quantify the amount of GHG emissions that will be reduced?

SDG&E Response to Q5:

(a) Yes.
(b) New resources that have lower heat rate and shorter start-up and shutdown times than the existing resources allow the system to meet loads by using less fuel. For natural gas fired plants, there is a direct relationship between the amount of fuel consumed and the amount of greenhouse gases produced. Thus by reducing fuel use, SDG&E is able to reduce GHG production.
(c) SDG&E cannot quantify at this time the amount of GHG emissions that will be reduced by the proposed plants. Yearly dispatch varies considerably based on loads and the availability of other resources. This determination would be made after the plants are dispatched.

EXHIBIT 7

RESOLUTION NO. 2011-230

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING A GENERAL PLAN AMENDMENT AND LOCAL COASTAL PROGRAM AMENDMENT TO REVISE LAND USE STANDARDS REGARDING THE GENERATION AND TRANSMISSION OF ELECTRICAL ENERGY AND EXPANSION OPPORTUNITIES FOR THE ENCINA POWER STATION.
CASE NAME: CHANGES TO POWER PLANT STANDARDS
CASE NO.: GPA 11-06/LCPA 11-06

The City Council of the City of Carlsbad, California, does hereby resolve as follows:

WHEREAS, pursuant to the provisions of the Municipal Code, the Planning Commission did, on September 7, 2011, hold a duly noticed public hearing as prescribed by law to consider General Plan Amendment GPA 11-06 and Local Coastal Program Amendment LCPA 11-06, as referenced in Planning Commission Resolutions No. 6803 and 6805, respectively; and

WHEREAS, the Planning Commission adopted Planning Commission Resolution No. 6803 recommending to the City Council approval of GPA 11-06 and adopted Planning Commission Resolution No. 6805 recommending to the City Council approval of LCPA 11-06; and

WHEREAS, the City Council of the City of Carlsbad, on the _____ day of _____, 2011, held a duly noticed public hearing to consider said General Plan Amendment; and

WHEREAS, at said public hearing, upon hearing and considering all testimony and arguments, if any, of all persons desiring to be heard, the City Council considered all factors relating to the General Plan Amendment and Local Coastal Program Amendment.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City of Carlsbad as follows:

1. That the above recitations are true and correct.

2. That the recommendation of the Planning Commission for the approval of General Plan Amendment GPA 11-06 is adopted and approved, and that the findings of the

Planning Commission contained in Planning Commission Resolution No. 6803 on file with the City Clerk and incorporated herein by reference are the findings of the City Council.

3. That the recommendation of the Planning Commission for the approval of Local Coastal Program Amendment LCPA 11-06 is adopted and approved, and that the findings of the Planning Commission contained in Planning Commission Resolution No. 6805 on file with the City Clerk and incorporated herein by reference are the findings of the City Council.

4. That the approval of LCPA 11-06 shall not become effective until it is approved by the California Coastal Commission and the California Coastal Commission's approval becomes effective.

5. This action is final the date this resolution is adopted by the City Council. The Provisions of Chapter 1.16 of the Carlsbad Municipal Code, "Time Limits for Judicial Review," shall apply:

"NOTICE TO INTERESTED PARTIES"

> The time within which judicial review of this decision must be sought is governed by Code of Civil Procedure, Section 1094.6, which has been made applicable in the City of Carlsbad by Carlsbad Municipal Code Chapter 1.16. Any petition or other paper seeking review must be filed in the appropriate court not later than the nineteenth day following the date on which this decision becomes final; however, if within ten days after the decision becomes final a request for the record of the deposit in an amount sufficient to cover the estimated cost or preparation of such record, the time within which such petition may be filed in court is extended to not later than the thirtieth day following the date on which the record is either personally delivered or mailed to the party, or his attorney of record, if he has one. A written request for the preparation of the record of the proceedings shall be filed with the City Clerk, City of Carlsbad, 1200 Carlsbad Village Drive, Carlsbad, CA. 92008."

///

///

///

///

///

///

///

///

///

///

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Carlsbad on the _____ day of _____ 2011, by the following vote, to wit:

AYES:

NOES:

ABSENT:

_____
MATT HALL, Mayor

ATTEST:

_____
LORRAINE M. WOOD, City Clerk

(SEAL)

EXHIBIT 4

ORDINANCE NO. CS-158

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING AN AMENDMENT TO ZONING ORDINANCE SECTION 21.36.020 TABLE "A" REGARDING GENERATION AND TRANSMISSION OF ELECTRICAL ENERGY AS PERMITTED USES IN THE PUBLIC UTILITY ZONE.
CASE NAME: CHANGES TO POWER PLANT STANDARDS
CASE NO.: ZCA 11-05

The City Council of the City of Carlsbad, California, does ordain as follows:

SECTION I: That Table A in Section 21.36.020 of the Carlsbad Municipal Code is amended to read as follows:

Table A

Permitted Uses

In the table, below, subject to all applicable permitting and development requirements of the municipal code:

"P" indicates use is permitted.
"CUP" indicates use is permitted with approval of a conditional use permit.
1 = Administrative hearing process
2 = Planning Commission hearing process
3 = City Council hearing process
"Acc" indicates use is permitted as an accessory use.

Use	P	CUP	Acc
Agricultural farm worker housing (temporary) (subject to Section 21.42.140(B)(2))		3	
Agriculture: only the following agricultural uses, and buildings accessory to such agricultural uses, are permitted in the P-U zone: (a) field and seed crops, (b) truck crops, (c) horticultural crops, (d) orchards and vineyards, (e) pasture and rangeland, (f) tree farms, (g) fallow lands, (h) greenhouses	x		
Airports		3	
Alcoholic treatment centers		2	
Any other use which the planning commission or city council may determine to be similar to the permitted uses in the zone and to fall within the intent and purposes of the zone (see note 1)	x		
Aquaculture (defined: Section 21.04.036)		2	
Aquaculture stands (display/sale) (subject to Section 21.42.140(B)(10))		2	
Biological habitat preserve (subject to Section 21.42.140(B)(30)) (defined: Section 21.04.048		2	
Campsites (overnight) (subject to Section 21.42.140(B)(40))		2	
Cemeteries		3	
Columbariums, crematories, and mausoleums (not within a cemetery)		2	
Energy transmission facilities, including rights-of-way and pressure control or booster stations for gasoline, electricity, natural gas, synthetic natural gas, oil or other forms of energy sources	x		
Fairgrounds		3	

Generation of electrical energy, primary, by a government entity or by a company authorized or approved for such use by the California Public Utilities Commission outside the City's Coastal Zone only	x		
Generation of electrical energy, accessory, by a government entity or by a company authorized or approved for such use by the California Public Utilities Commission in or outside the City's Coastal Zone and limited to a generating capacity of fewer than 50 megawatts. Generating capacity of 50 megawatts or more is prohibited in the Coastal Zone			x
Golf courses		2	
Governmental maintenance and service facilities	x		
Greenhouses >2,000 square feet (subject to Section 21.42.140(B)(70))		1	
Hazardous waste facility (subject to Section 21.42.140(B)(75)) (defined: Section 21.04.167)		3	
Hospitals (defined: Section 21.04.170)		2	
Hospitals (mental) (defined: Section 21.04.175)		2	
Mobile buildings (subject to Section 21.42.140(B)(90)) (defined: Section 21.04.265)		2	
Packing/sorting sheds >600 square feet (subject to Section 21.42.140(B)(70))		1	
Petroleum products pipeline booster stations	x		
Processing, using and storage of: (a) natural gas, (b) liquid natural gas, (c) domestic and agricultural water supplies	x		
Public utility district maintenance, storage and operating facilities	x		
Radio/television/microwave/broadcast station/tower		2	
Recreation facilities		2	
Recreational facilities (public or private, passive or active)	x		
Recycling collection facilities, large (subject to Chapter 21.105 of this title) (defined: Section 21.105.015)		2	
Recycling collection facilities, small (subject to Chapter 21.105 of this title) (defined: Section 21.105.015)		1	
Recycling process/transfer facility		2	
Satellite television antennae (subject to the provisions of Section 21.53.130 of this code)	x		
Signs subject to the provisions of Chapter 21.41	x		
Stadiums		3	
Transit passenger terminals (bus and train)		2	
Transmission of electrical energy if conducted by a government entity or by a company authorized or approved for such use by the California Public Utilities Commission	x		
Using and storage of fuel oils	x		
Wastewater treatment, disposal or reclamation facilities	x		
Windmills (exceeding height limit of zone) (subject to Section 21.42.140(B)(160))		2	
Wireless communications facilities (subject to Section 21.42.140(B)(165)) (defined: Section 21.04.379)		1/2	
Zoos (private) (subject to Section 21.42.140(B)(170)) (defined: Section 21.04.400)		2	
Note: 1. Providing there shall not be permitted any use which creates noxious gas or odor, excessive sound vibration or significant atmospheric pollution.			

SECTION II: That the findings of the Planning Commission in Planning Commission Resolution No. 6804 shall constitute the findings of the City Council.

EFFECTIVE DATE: This ordinance shall be effective thirty days after its adoption, and the City Clerk shall certify to the adoption of this ordinance and cause it to be published at least once in a publication of general circulation in the City of Carlsbad within fifteen days after its adoption. Notwithstanding the preceding, this ordinance shall not be effective until approved by the California Coastal Commission.

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

///

INTRODUCED AND FIRST READ at a regular meeting of the Carlsbad City Council on the _____ day of _____ 2011, and thereafter.

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Carlsbad on the _____ day of _____ 2011, by the following vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED AS TO FORM AND LEGALITY

_____
RONALD R. BALL, City Attorney

_____
MATT HALL, Mayor

ATTEST:

_____
LORRAINE M. WOOD, City Clerk

(SEAL)

BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION OF THE STATE OF CALIFORNIA
1516 NINTH STREET, SACRAMENTO, CA 95814
1-800-822-6228 – WWW.ENERGY.CA.GOV

APPLICATION FOR CERTIFICATION FOR THE *CARLSBAD ENERGY CENTER PROJECT*

Docket No. 07-AFC-6
PROOF OF SERVICE
(Revised 11/29/2011)

APPLICANT
Jennifer Hein
George Piantka, PE.
NRG Energy, Inc., West Region
5790 Fleet Street, Ste. 200
Carlsbad, CA 92008
jennifer.hein@nrgenergy.com
george.piantka@nrgenergy.com

APPLICANT'S CONSULTANTS
Robert Mason, Project Manager
CH2M Hill, Inc.
6 Hutton Centre Drive, Ste. 700
Santa Ana, CA 92707
Robert.Mason@ch2m.com

Megan Sebra
CH2M Hill, Inc.
2485 Natomas Park Drive, Ste. 600
Sacramento, CA 95833
Megan.Sebra@ch2m.com

COUNSEL FOR APPLICANT
John A. McKinsey
Stoel Rives, LLP
500 Capitol Mall, Suite 1600
Sacramento, CA 95814
jamckinsey@stoel.com

INTERESTED AGENCIES
California ISO
e-recipient@caiso.com

INTERVENORS
Terramar Association
Kerry Siekmann & Catherine Miller
5239 El Arbol
Carlsbad, CA 92008
siekmann1@att.net

City of Carlsbad
South Carlsbad Coastal
Redevelopment Agency
Allan J. Thompson
21 "C" Orinda Way #314
Orinda, CA 94563
allanori@comcast.net

City of Carlsbad
South Carlsbad Coastal
Redevelopment Agency
Joseph Garuba,
Municipals Project Manager
Ronald R. Ball, Esq., City Attorney
1200 Carlsbad Village Drive
Carlsbad, CA 92008
Joe.Garuba@carlsbadca.gov
ron.ball@carlsbadca.gov

California Unions for Reliable Energy (CURE)
Marc D. Joseph
Adams Broadwell Joseph & Cardozo
601 Gateway Boulevard, Suite 1000
South San Francisco, CA 94080
gsmith@adamsbroadwell.com
mdjoseph@adamsbroadwell.com

Center for Biological Diversity
c/o William B. Rostov
EARTH JUSTICE
426 17th Street, 5th Floor
Oakland, CA 94612
wrostov@earthjustice.org

Power of Vision
Julie Baker & Arnold Roe, Ph.D.
4213 Sunnyhill Drive
Carlsbad, California 92013
julbaker@pacbell.net
roe@ucla.edu

Rob Simpson
Environmental Consultant
27126 Grandview Avenue
Hayward, CA 94542
rob@redwoodrob.com

April Rose Sommer
Attorney for Rob Simpson
P.O. Box 6937
Moraga, CA 94570
aprilsommerlaw@yahoo.com

ENERGY COMMISSION – DECISIONMAKERS
JAMES D. BOYD
Vice Chair and Presiding Member
jboyd@energy.state.ca.us

KAREN DOUGLAS
Commissioner and Associate Member
kldougla@energy.state.ca.us

Galen Lemei
Adviser to Commissioner Douglas
glemei@energy.state.ca.us

Tim Olson
Adviser to Vice Chair Boyd
tolson@energy.state.ca.us

Paul Kramer
Hearing Officer
pkramer@energy.state.ca.us

ENERGY COMMISSION STAFF
Mike Monasmith
Siting Project Manager
mmonasmi@energy.state.ca.us

Dick Ratliff
Staff Counsel
dratliff@energy.state.ca.us

ENERGY COMMISSION – PUBLIC ADVISER
Jennifer Jennings
Public Adviser's Office
publicadviser@energy.state.ca.us

*indicates change

DECLARATION OF SERVICE

I, Robin Nuschy, declare that on, 12-5-11, I served and filed copies of the attached Carlsbad Supplemental Testimony, Exhibits, Witness List + Time dated 12.5.11. The original document, filed with the Docket Unit or the Chief Counsel, as required by the applicable regulation, is accompanied by a copy of the most recent Proof of Service list, located on the web page for this project at: **[www.energy.ca.gov/sitingcases/carlsbad/ index.html]**.

The document has been sent to the other parties in this proceeding (as shown on the Proof of Service list) and to the Commission's Docket Unit or Chief Counsel, as appropriate, in the following manner:

(*Check all that Apply*)

For service to all other parties:

✓ Served electronically to all e-mail addresses on the Proof of Service list;

✓ Served by delivering on this date, either personally, or for mailing with the U.S. Postal Service with first-class postage thereon fully prepaid, to the name and address of the person served, for mailing that same day in the ordinary course of business; that the envelope was sealed and placed for collection and mailing on that date to those addresses marked "hard copy required."

AND

For filing with the Docket Unit at the Energy Commission:

✓ by sending an original paper copy and one electronic copy, mailed with the U.S. Postal Service with first class postage thereon fully prepaid and e-mailed respectively, to the address below (preferred method); ***OR***

___ by depositing an original and 12 paper copies in the mail with the U.S. Postal Service with first class postage thereon fully prepaid, as follows:

CALIFORNIA ENERGY COMMISSION – DOCKET UNIT
Attn: Docket No. 07-AFC-6
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512
docket@energy.state.ca.us

OR, if filing a Petition for Reconsideration of Decision or Order pursuant to Title 20, § 1720:

✓ Served by delivering on this date one electronic copy by e-mail, and an original paper copy to the Chief Counsel at the following address, either personally, or for mailing with the U.S. Postal Service with first class postage thereon fully prepaid:

California Energy Commission
Michael J. Levy, Chief Counsel
1516 Ninth Street MS-14
Sacramento, CA 95814
mlevy@energy.state.ca.us

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, that I am employed in the county where this mailing occurred, and that I am over the age of 18 years and not a party to the proceeding.

Robin Nuschy

*indicates change