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June 30, 2008

ADVICE LETTER 1998-E-A
(U902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: REQUEST FOR APPROVAL OF AN AMENDED QUALIFYING FACILITY
POWER PURCHASE AGREEMENT BETWEEN SDG&E AND CP KELCO U.S.,
INC.**

PURPOSE

This Supplemental Advice Letter is being filed at the direction of Energy Division staff in order to provide additional details on the original Qualifying Facility (QF) Power Purchase Agreement (PPA) and the proposed PPA amendment. San Diego Gas & Electric Company (SDG&E) hereby submits for approval by the California Public Utilities Commission (Commission) an amendment to the Master Power Purchase and Sale Agreement executed on October 7, 2002 between SDG&E and CP Kelco U.S., Inc. (Kelco), originally approved in Decision (D.) 03-06-026. The executed PPA amendment is included herein as Appendix C. **This Supplemental Advice Letter replaces AL 1998-E in its entirety.**

DISCUSSION

D.03-06-026 dated June 5, 2003 approved a five-year QF bilaterally negotiated PPA between SDG&E and Kelco for excess energy generated at Kelco's Cogeneration QF facility located in SDG&E's service territory. From June 30, 2004 (the commencement date of the existing PPA) through January 2008, Kelco operated its three generation units (total nameplate rating of 25 MW) to meet internal demand and steam loads, and sold excess energy to SDG&E on an as-available non-firm basis. Kelco has historically sold between 6 MW and 15 MW of excess output to SDG&E. However, in late 2007, Kelco informed SDG&E of planned changes to its operations and indicated that they would no longer be able to sell excess generation output to SDG&E on a regular basis. Kelco has since significantly reduced its generation output and, as of February, 2008, operates only one generating unit on a regular basis, operates its second unit intermittently and rarely operates its third generating unit.

In order to maintain the capacity and RA benefits offered by Kelco's generating units and to avoid this otherwise available generation from sitting idle, the parties began discussions in early 2008 and agreed to amend the existing PPA to provide SDG&E with dispatch rights to Kelco's second and third generation units. SDG&E and Kelco executed an Amendment to the existing PPA effective June 1, 2008, so that the contract, associated Resource Adequacy capacity and physical capacity will be available to SDG&E in time for the summer of 2008.

A summary of the terms of the both the existing and amended PPA terms are provided in Confidential Appendix B attached. An abbreviated summary is provided below.

Key Components of Existing PPA:

- Term equal to 5 years. The term of the 5-year PPA commenced on the date when SDG&E and Kelco agreed to lock in a fixed all-in price (no separate capacity payment), based on the date when SDG&E chose to lock in the natural gas price and Kelco procured natural gas for the 5 year term of the PPA. The term of the PPA commenced on June 30, 2004.
- The PPA is an as-available contract under which Kelco agreed to sell and SDG&E agreed to purchase non-firm energy up to the net generating capacity available from Kelco's cogeneration facility. The Net Generating Capacity is defined as nameplate capacity less station use and any other use by Seller as allowed under Public Utilities Code Section 218 (b)(2).
- The existing PPA is scheduled to terminate June 29, 2009.
- The existing all-in price was determined based upon a formula in the contract, is fixed for the entire 5 year term, and is time differentiated for On-Peak and Off-Peak deliveries on a 6 X 16 basis.
- Seller's Cogeneration facility is interconnected to the SDG&E distribution system at 12 KV.

Key components of the proposed amendment:

- Does not affect Kelco's status as a QF and the PPA will remain a QF bilateral agreement.
- Extends the term of the existing agreement by slightly over 6 months, from June 29, 2009 through December 31, 2009.
- Provides SDG&E dispatch rights for 300 hours per year for 14 Megawatts (MW) of dispatch capacity, including both Local and System RA Capacity.
- Provides Kelco a capacity payment based on an annual capacity amount, adjusted and paid monthly, for the balance of 2008 and all of 2009 for the firm dispatch capacity totaling 14 MW.
- For all energy generated from these 14 MW of firm capacity during the hours when SDG&E dispatches the facility, Kelco will be paid the CPUC-approved SRAC as-available energy only price, updated periodically , on a time differentiated basis.
- The all-in fixed price paid for all as-available non-firm energy from remaining surplus capacity from Kelco's cogeneration facility that is sold by Kelco and purchased by SDG&E will remain unchanged for the duration of the term of the existing agreement (through June 29, 2009). For the contract extension period from June 30 through December 31, 2009, Kelco will receive the CPUC approved Short Run Avoided Costs (SRAC) as-available energy and capacity prices on a time-differentiated basis for all non-firm energy purchased by SDG&E.

- Kelco will manage its operations to comply with QF efficiency standards and air emission limits.

Attached Appendices B and C, contain confidential information and therefore are protected from disclosure under the statutory provisions of the IOU Matrix (Matrix) attached to D.06-06-066 (the Phase I Confidentiality decision) dated June 29, 2006. SDG&E has included a confidential declaration (Appendix A) to comply with D.06-06-066.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

EFFECTIVE DATE

SDG&E believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. As such, SDG&E respectfully requests that this filing become effective on July 18, 2008, the requested effective date of SDG&E's original filing.

PROTEST

This supplemental advice letter is only meant to clarify existing information presented in AL 1998-E and does not provide additional matters for consideration. Therefore, SDG&E respectfully requests that the Commission shorten the protest period to July 8, 2008, which is the end of the protest period for SDG&E's original filing. Should this request be denied, the normal process (outlined below) for submitting a protest will apply. Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date this Advice Letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian (inj@cpuc.ca.gov) and Maria Salinas (mas@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Todd Cahill
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1788
E-mail: tcahill@semprautilities.com

NOTICE

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties to service list A.02-10-030, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1788 or by e-mail at SDG&ETariffs@semprautilities.com.

KEN DEREMER
Director – Tariffs & Regulatory Accounts

(cc list enclosed)

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Will Fuller

Phone #: (858) 654-1885

E-mail: wfuller@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 1998-E-A

Subject of AL: Request for Approval of an Amended Qualifying Facility Power Purchase Agreement between SDG&E and CP Kelco U.S., Inc.

Keywords (choose from CPUC listing): Power Purchase Agreement, Qualifying Facility, Procurement

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: Appendices B and C
accompanying the Advice Letter are confidential per the IOU Matrix attached to D.06-06-066

Resolution Required? Yes No Tier Designation: 1 2 3

Requested effective date: _____ No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

San Diego Gas & Electric

Attention: Todd Cahill

8330 Century Park Ct, Room 32C

San Diego, CA 92123

tcahill@semprautilities.com

¹ Discuss in AL if more space is needed.

General Order No. 96-B
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

DRA

D. Appling
S. Cauchois
J. Greig
R. Pocta
W. Scott

Energy Division

P. Clanon
S. Gallagher
H. Gatchalian
D. Lafrenz
M. Salinas

CA. Energy Commission

F. DeLeon
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

N. Rader

CCSE

S. Freedman
J. Porter

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham
E. Hull

City of Poway

R. Willcox

City of San Diego

J. Cervantes
G. Lonergan
M. Valerio

Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill
J. Pau

Dept. of General Services

H. Nanjo
M. Clark

Douglass & Liddell

D. Douglass
D. Liddell
G. Klatt

Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

K. Campbell
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg
J. Heather Patrick
J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard
R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

OnGrid Solar

Andy Black

Pacific Gas & Electric Co.

J. Clark
M. Huffman
S. Lawrie
E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

School Project for Utility Rate
Reduction

M. Rochman
Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander
K. Cini
K. Gansecki
H. Romero

TransCanada

R. Hunter
D. White

TURN

M. Florio
M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi
N. Furuta
L. DeLacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing

Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

A.02-10-030

Appendix A

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

**DECLARATION
OF VINCENT D. BARTOLOMUCCI**

I, Vincent D. Bartolomucci, do declare as follows:

1. I am the Manager of Energy Supply and Dispatch for San Diego Gas & Electric Company (“SDG&E”). I have reviewed both Appendix B, Summary of Terms of Amendment, and Appendix C, the Amendment to the Power Purchase Agreement between SDG&E and CP Kelco, US, Inc. (“Kelco”), (“Amendment”). Additionally, as Manager of Energy Supply and Dispatch, I am thoroughly 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 personal knowledge.

2. I am providing this Declaration to demonstrate that the confidential information (“Protected Information”) being provided Commission Staff as part of the Advice Letter 1998-E-A, falls within the scope of data provided confidential treatment in the IOU Matrix (“Matrix”) attached to D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas (see pp. 5-6) for “Information Provided to Staff Outside of Formal Proceeding,” I am addressing each of the following five features of Ordering Paragraph 2 in D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- Which category or categories in the Matrix the data correspond to,
- That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and

- That the data cannot be aggregated, redacted, further summarized, masked or otherwise protected in a way that allows partial disclosure.

3. The confidential information contained in Appendix B and Appendix C constitute materials, market sensitive, electric procurement-related information that is within the scope of Section 454.5(g) of the Public Utilities Code. As such, the Protected Information provided by SDG&E is allowed confidential treatment in accordance with Appendix 1 – IOU Matrix in D.06-06-066.

Appendix B, Summary of Terms of Amendment, and Appendix C, the Amendment, are confidential under Matrix Category, VII B (Bilateral Contract Terms and Conditions – Electric, Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)). This Protected Information is confidential for three years.

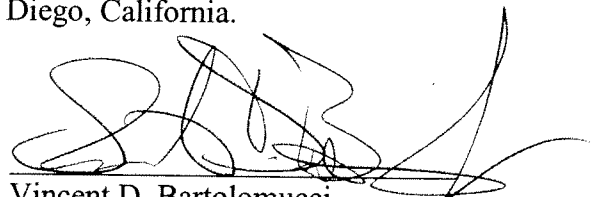
4. I am not aware of any instances where the Protected Information has been disclosed to the public.

5. I will comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or further summarized.

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

Executed this 30th day of June, 2008, at San Diego, California.



Vincent D. Bartolomucci
Manager of Energy Supply and Dispatch
San Diego Gas & Electric Company