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January 30, 2009

ADVICE LETTER 2061-E
(U902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REVISIONS TO CONFORMED 2006 LONG TERM PROCUREMENT PLAN IN COMPLIANCE WITH D.08-11-008

PURPOSE

San Diego Gas & Electric Company (SDG&E) hereby requests California Public Utilities Commission (Commission) approval to revise its Conformed 2006 Long-Term Procurement Plan (Conformed 2006 LTPP) to comport with modifications approved in Decision (D.) 08-11-008.

BACKGROUND

In D.07-12-052 dated December 20, 2007, the Commission adopted SDG&E's 2006 LTPP with modifications and required SDG&E to file a conformed copy of the 2006 LTPP within ninety days of the decision.¹ In accordance with the Decision, SDG&E filed and served its Conformed 2006 LTPP, by way of Advice Letter 1983-E, on April 18, 2008, and further modified the Conformed 2006 LTPP through Partial Supplemental Advice Letters 1983-E-A and 1983-E-B, filed May 6, 2008 and July 3, 2008, respectively. The Conformed 2006 LTPP supersedes all previously approved plans and includes the 2006 LTPP filing originally made by SDG&E, with modifications indicated in D.07-12-052, and all advice letter amendments made since the 2006 LTPP was initially filed.

D.07-12-052 requires that all LTPP updates proposed between biennial procurement plan filings be accomplished through the advice letter process. In addition, LTPP update advice letters must include redlined pages of proposed revisions as well as clean tariff-like replacement sheets for the Conformed 2006 LTPP.

DISCUSSION

Resolution 4189-E, dated September 4, 2008, approved SDG&E's Conformed 2006 LTPP as filed and modified by Advice Letters 1983-E, 1983-E-A, and 1983-E-B. Since that approval, in D.08-11-008 dated November 6, 2008, the Commission ruled on a number of Petitions to Modify D.07-12-052. In doing so, the Commission modified a number of D.07-12-052's mandates.

¹ D.07-12-052 at 193-194, Conclusion of Law (COL) 1 and OP 1 and 2. SDG&E's request for a 30 day extension was granted by a letter from Energy Division, dated March 17, 2008.

In accordance with the update process outlined in D.07-12-052, SDG&E hereby revises its Conformed 2006 LTPP to comport with D.08-11-008 and the modifications specified therein. The attached Conformed 2006 LTPP sheets include these revisions.

In addition to D.08-11-008 related modifications, at the request of Energy Division staff, SDG&E has expanded the Conformed 2006 LTPP Table of Contents to include the plan's multiple subheadings.

For the public redacted version of SDG&E's Conformed 2006 LTPP, redlined and clean copies of the revisions applicable to plan are included herein as Attachments A and B, respectively. For the confidential version of SDG&E's Conformed 2006 LTPP, redlined and clean copies are included herein as Attachments C and D, respectively. The attached Conformed 2006 LTPP Sheets cancel those applicable current and effective sheets originally filed in Advice Letter 1983-E and its partial supplemental filings.

Confidential Information

SDG&E filed a *Motion to File Under Seal* on December 11, 2006 when it initially filed its 2006 LTPP. SDG&E's motion was granted on May 2, 2007.² The confidential information in the Conformed 2006 LTPP is the same information that was included in SDG&E's original 2006 LTPP filing, and thus remains confidential pursuant to ALJ Carol Brown's May 2 order.

EFFECTIVE DATE

SDG&E believes this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. Therefore SDG&E respectfully requests that this filing be approved effective November 6, 2008, which is the date of approval for D.08-11-008.

PROTEST

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 (jni@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.

² *Administrative Law Judge's Ruling Following April 24, 2007 PHC Establishing Schedules And Topics For Workshops, Evidentiary Hearings And Briefs And Ruling On Motions For: Party Status, Filing Under Seal, And To Strike Testimony*, filed May 2, 2007 in R.06-02-013.

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, including Attachments A and B (public redacted versions), has been served on the utilities and interested parties shown on the attached list, including interested parties to service list R.06-02-013, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed. The Commission will receive this advice letter with Attachments C and D (confidential versions).

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

RON VAN DER LEEDEN
Director – Rates, Revenues & Tariffs

(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) #: 2061-E

Subject of AL: Revisions to the Conformed 2006 Long Term Procurement Plan in Compliance with D.08-11-008

Keywords (choose from CPUC listing): Long Term Procurement Plan, Compliance

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: Confidential information in Attachments C and D is protected pursuant to PUC § 583, 454.5(g), GO 66-C, D.06-06-066 etc.

Resolution Required? Yes No Tier Designation: 1 2 3

Requested effective date: 11/6/08 No. of tariff sheets: 0

Estimated system annual revenue effect (%): _____

Estimated system average rate effect (%): _____

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

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Interested Parties

R.06-02-013

ATTACHMENT A

**SAN DIEGO GAS & ELECTRIC COMPANY'S
2006 LONG TERM PROCUREMENT PLAN**

Revised Sheets (Redline Copy)

PUBLIC REDACTED VERSION



2006 LONG TERM PROCUREMENT PLAN

PUBLIC REDACTED VERSION

**SAN DIEGO GAS & ELECTRIC COMPANY'S
2006 LONG TERM PROCUREMENT PLAN**

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I. INTRODUCTION

San Diego Gas & Electric Company (SDG&E) filed its original 2006 Long-Term Procurement Plan (2006 LTPP) on December 11, 2006 in Rulemaking (R.) 06-02-013. SDG&E's 2006 LTPP consisted of two volumes and corresponding exhibits. At the hearings in Phase II, Track 2 of R.06-02-013, conducted in June 2007, the volumes and exhibits were marked as follows:

- the public version of Volume I of SDG&E's 2006 LTPP was identified as Exhibit 40 and the confidential version was identified as Exhibit 41-C;
- the public version of Volume II of SDG&E's 2006 LTPP was identified as Exhibit 42; and
- the public version of the Exhibits corresponding to SDG&E's 2006 LTPP was identified as Exhibit 43 and the confidential version identified as Exhibit 44-C.

SDG&E's LTPP is summarized in Appendix B of Decision (D.) 07-12-052, which approved, as modified, SDG&E's 2006 LTPP. So as to generate an updated 2006 LTPP, the Commission mandated that SDG&E make a compliance filing (via a Tier 3 advice letter) to conform its original 2006 LTPP to D.07-12-052. Accordingly, this Advice Letter constitutes SDG&E's conformed 2006 LTPP, and supersedes and replaces all previous short- and long-term procurement plans submitted by SDG&E. After the conformed 2006 LTPP is accepted by the Commission, all updates proposed before the next LTPP filing, currently scheduled for 2010^{1/}, will be made via the Commission's advice letter process. Advice letter updates will include redlined pages of the conformed 2006 LTPP, as well as clean replacement pages.^{2/}

On September 4, 2008, in Resolution E-4189, the Commission approved SDG&E's conformed 2006 LTPP. Since that approval, in D.08-11-008, the Commission ruled on a number of Petitions to Modify D.07-12-052. In doing so, the Commission modified a number of D.07-12-052's mandates. So

^{1/} R.08-02-007, Scoping Memo at 5-6.

^{2/} D.07-12-052 at 181.



San Diego Gas & Electric Company
San Diego, California

Original Sheet No. 2 A

2006 LONG TERM PROCUREMENT PLAN

as to conform SDG&E's approved 2006 LTPP to these modifications, this Advice Letter has been updated, including redlined pages and clean replacement pages.



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standardized, but no exchange exists on which to trade them. Examples of non-standard products are complex tolling arrangements or new capacity additions. Examples of standard products that SDG&E may buy or sell through RFOs include RA capacity. In D.08-11-008, the Commission modified the requirements for use of an Independent Evaluator (IE) if used for procurement of products of more than three months, such that: (i) SDG&E is required^{14/} by the Commission to use an Independent Evaluator (IE) in the solicitation process for products of greater than two years in duration and (ii) SDG&E must employ an IE wherever an affiliate or utility bidder is present, regardless of contract duration.^{12/} The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an IE is retained in all cases where an affiliate or utility may participate in an SDG&E RFO process, the Commission requires that SDG&E address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E chooses not to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received or designate at the outset of the RFO that an IE will be used.

In D.04-12-048, the Commission defined “all-source” RFOs as, “open to all resources (conventional/renewable - turnkeys, buyouts, and PPAs).”^{13/} SDG&E interprets this literally as meaning that any resource that can fit the identified need is eligible to participate, but it is important to note that

^{14/} ~~D.07-12-052, p. 140.~~

^{12/} ~~D.08-11-008 at page 27 and OP 2. However, as also discussed below in the section describing the IE requirements, SDG&E does not believe that the Commission intended this restriction to apply to short term annual RA RFPs, where SDG&E will try to shape its RA resources for the following year.~~

^{13/} D.04-12-048, Ordering Paragraph 26a.



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Specifically, SDG&E will apply the following limits in its RFOs:

- SDG&E will not bid straight utility self-build projects into its RFOs. This prohibition does not extend to bids by utility affiliates to build and sell to the utility under a PPA. We continue to support this option and appreciate the Commission's willingness to investigate the proper evaluation criteria that would be useful in comparing such a bid with an IPP offer so as to allow utility self-build bids in the future;
- SDG&E will not solicit products that require transfer of an asset at the end of a long-term contract;
- SDG&E may seek PSA (also known as Build-Own-Transfer or Turnkey) offers in its RFO, where the utility would be seeking a merchant developer to build a new plant that the utility would own upon commercial operations (COD); and
- Under appropriate circumstances, SDG&E may seek a competitive bid for an Engineering, Procurement and Construction (EPC) contract that will choose among the best power plant construction firms to find a project that will be owned throughout development and operations by the utility, but managed and constructed under a fixed price contract with an EPC contractor. As stated in D.08-11-008, the purpose of allowing EPC bids is in no way intended to provide the IOUs with a broad loophole that allows for what are essentially direct utility build projects. The purpose is simply to acknowledge that certain extraordinary circumstances that are unpredictable in advance may necessitate utility ownership of generation at a particular site. While extraordinary circumstances are by definition difficult to identify a priori, the Commission's intention is to set a high bar for an "appropriate circumstance" for an IOU to circumvent the potential for private ownership by soliciting EPC bids. Simply owning land on which generation could be built or requesting EPC bids in general in an RFO as an alternative to PSAs and PPAs does not satisfy this requirement.

Code of Conduct.

Prior to conducting any RFO where SDG&E seeks a UOG project, SDG&E will work with its IE, PRG and the Commission's Energy Division staff to create a Code of Conduct per D.07-12-052, that will provide the checks-and-balances necessary to ensure that a utility ownership proposal will not be given preferential treatment or access to competitors bid information or other proprietary information that would benefit a utility bid over outside bidders. Such a Code of Conduct is only useful where the utility is actually preparing and tendering a bid into a utility-run RFO or for an EPC or PSA project.



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Utility Ownership Proposals Outside of a Competitive Solicitation.

The Commission recognizes that there are instances where Utility proposals for ownership of new generation resources, arising outside of a competitive solicitation, is warranted and in the best interest of ratepayers. SDG&E will evaluate its plans for meeting its authorized need in the context of the following important exceptions to competitive procurement.^{19/}

- Market Power Mitigation: The IOU must make a strong showing that as a result of some attribute of the desired resource, a private owner would have the ability to exert significant influence over the price of its development or of the price and quantity of its output (energy, capacity or ancillary services).
- Preferred Resources: While we continue to rely on markets to deliver efficiently priced products for ratepayers, we see no reason to limit our options and intend to continue to deploy all resources available to us, including utility development and ownership, to meet California's vital environmental policy objectives.
- Expansion of Existing Facilities: ~~Per D.08-11-008, "expansion of Existing Facilities" ceases to be a unique exception which would serve as a vehicle for utility ownership outside of a competitive solicitation. However, as this decision notes, the Commission did "not preclude the expansion of existing facilities for UOG projects approved via one of the remaining four exceptions to the competitive RFO requirement."^{20/} We can envision certain unique circumstances in which ratepayers would benefit from development on or expansion of an existing IOU asset that would not lend itself to the PPA project structure, but the IOU would need to make a strong showing that such developments were clearly preferable to a resource that could be obtained via a competitive solicitation that would not necessarily result in utility ownership.~~
- Unique Opportunity: An attractively priced resource resulting from a settlement or bankruptcy proceeding (we anticipate that these opportunities will diminish over time).
- Reliability: Resources needed to meet specific, unique reliability issues (particularly under circumstances in which it becomes evident that reliability may be compromised).
- if new resources are not developed, and the only means of developing new resources in sufficient time is via UOG).

^{19/} D.07-12-052 at page 211

^{20/} ~~D.08-11-008 at page 23.~~



2006 LONG TERM PROCUREMENT PLAN

Description of SDG&E's Consultation Process with Its Independent Review Groups

The Commission has set up two important layers of independent review to monitor utility procurement and provide feedback prior on the many decisions being made in utility procurement. The two groups are an IE to work with SDG&E in the design and implantation of its RFOs, and the PRG. SDG&E, and its ratepayers, have derived much benefit from its interactions with these groups and being able to discuss procurement decisions and activities ex-ante rather than after the fact through litigation at the Commission.

The Independent Evaluator Requirement

In D.04-12-048, the Commission ordered the use of an IE for RFOs that included "affiliates, IOU-built, or IOU-turnkey bidders."^{25/} Further, in D.06-10-019, Finding of Fact 19, Conclusion of Law 19 and Ordering Paragraph 19, the IOUs were ordered to utilize an IE in the conduct of any renewables negotiations that involved renewables procurement from an affiliate. In D.07-12-052, the Commission ~~has~~ further defined the parameters for how IOUs are to utilize IEs.

~~Among other requirements in~~ In D.08-11-00807-12-052, the Commission modified its requirements related to use of and IE and ordered: (i) that IEs be utilized for all RFOs seeking products of greater than two years in duration and (ii) that IEs continue to be utilized for all long-term solicitations that involve affiliate transactions or utility-owned or utility-turnkey bids regardless of length of the product sought. The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an

^{25/} D.04-12-048, Ordering Paragraph 26i.



2006 LONG TERM PROCUREMENT PLAN

Table III-2

Service Area Need with the Sunrise Powerlink

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|-------|------|------|------|------|------|------|
| High | (93) | 458 | (322) | 600 | 522 | 447 | 372 | 296 | 223 |
| Low | (93) | 690 | (86) | 840 | 765 | 694 | 622 | 550 | 480 |

The table without the Sunrise Powerlink shows the same needs as above through 2009. Starting in 2010, without the Sunrise Powerlink, additional generation is needed in all years. No existing generation would be able to retire until sufficient new generation is built to meet the identified shortage and replace the retiring generation.

Table III-3

Service Area Need without the Sunrise Powerlink

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| High | (93) | 458 | (322) | (400) | (478) | (553) | (628) | (704) | (777) |
| Low | (93) | 690 | (86) | (160) | (235) | (306) | (378) | (450) | (520) |

D. 08-11-008 authorizes SDG&E to procure up to the 530 MWs of new local capacity authorized in D.07-12-052, with the stipulation that applications for this procurement should be supported by updates of the status and projected on-line date of the Sunrise Powerlink project. Subtracting the 133 MWs of resources already approved by the Commission, this results in an additional 397400 MWs of authorization for local area resources through 2015. Because there was insufficient information, at the time of the decision, regarding if or when the Sunrise Powerlink project will be available to meet local capacity needs, the Decision authorized SDG&E to procure 530 MW of additional local capacity (which includes the 130 MW of local peakers already approved by the Commission, for a residual of 400 MW remaining procurement authorization), if its application for the Sunrise Powerlink is denied. If the Sunrise project is developed, only the 130 MW of local peakers are (retroactively) authorized. D.07-12-052 also noted that if a previously authorized resource is determined unviable during the development



2006 LONG TERM PROCUREMENT PLAN

Operating Agreement Exhibit B, as further detailed in Section III C “Fuel Supply Procurement Strategy” of this LTPP. The costs associated with these DWR volumes, purchased as agent for CDWR, will continue to be recovered through the CDWR annual revenue requirement.

In procuring gas, gas-related services and hedging for the forecast volumes of URG units (owned and under contract), SDG&E will transact in its own name. SDG&E expects to incur costs for the URG units (including Palomar, Miramar, and Otay Mesa), similar to those costs incurred while procuring as agent for CDWR in operationally administering its contracts (Sunrise and CalPeak). All such SDG&E-incurred costs will be recorded into the ERRA as generation fuel costs and will be recovered through rates applied to that account. As discussed above, these costs may, in any given year, include margin and other hedging costs incurred for future years.

NGBA Balancing Account - The Non-Fuel Generation Balancing Account (NGBA) records the authorized O&M and capital-related non-fuel revenue requirements associated with new turnkey and utility-owned generation plants.^{53/} The disposition of the NGBA account is addressed in SDG&E’s consolidated advice letter filing that sets electric rates beginning January 1 of each year. SDG&E plans to continue to utilize the existing NGBA balancing account and ratemaking mechanisms in order to provide for timely cost recovery between rate cases of revenue requirements associated with ongoing and future utility-owned generation projects.

Current Commission Guidance Related to Debt Equivalence

In D. 08-11-008, the Commission allowed “the use of the 20% DE adder in head-to-head competition between PPAs where no UOG projects (including EPC or PSA bids) are being considered

^{53/} SDG&E’s NGBA also includes non-fuel costs related to its ownership share of SONGS that are approved for SDG&E as part of D.06-05-016 in SCE’s General Rate Case.



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contract shall be submitted as part of the next LTPP filing and will be subject to Commission approval.

- Each IOU is to provide the name and information of the IE for each IOU, the type of procurement solicitation the IE was used for and the amount of money involved in the procurement solicitation be reported to the IOUs PRG before and after the solicitation takes place.
- In D.08-11-008, the Commission modified the requirements for use of an Independent Evaluator (IE), such that: (i) SDG&E is required by the Commission to use an IE in the solicitation process, for products of greater than two years in duration and (ii) SDG&E must employ an IE wherever an affiliate or utility bidder is present, regardless of contract duration.^{59/} The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an IE is retained in all cases where an affiliate or utility may participate in an SDG&E RFO process, the Commission requires that SDG&E address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E chooses not to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received, or designate at the outset of the RFO that an IE will be used. An IE shall be contracted with and retained for all competitive solicitations that involve affiliate transactions or utility-owned or utility-turnkey bids and for all competitive RFOs seeking products greater than three months in length regardless of the bidders. Competitive RFOs include RFOs issued to satisfy service area need and supply side resources not including EE and DR. For solicitations of less than five years, the IE report shall be filed with the QCR. An IE shall be utilized for all competitive RFOs regardless of length, the bidders or the type of the product being sought. For solicitations of less than five years, the IE report shall be filed with the QCR.
-
- The IOUs, in consultation with the PRG and ED, shall develop comprehensive conflict of interest disclosure requirements for the IE. An IE may be disqualified from participating in an RFO process if there are particular egregious conflicts of interest that arise during the contract. The conflict of interest disclosure requirements shall be approved along with the standard contracts in the next LTPPs proceeding.
- In order to clarify the information required in IE reports, we direct ED to develop a template for IEs to use when developing their reports.

^{59/} D.08-11-008 at page 27 and OP #2.



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A. Level I: Check for Conformance

1. Offers will be determined to be conforming or non-conforming based on a list of criteria in the RFO. Not all products in an RFO will have the same conformance requirements. The list may include the following items; this list may be expanded to customize evaluation in any given RFO:
 - a. Product type
 - b. Minimum and/or maximum capacity (MW) requirement
 - c. Seasonal requirement (monthly or quarterly)
 - d. Online date requirement and/or seasonal requirements
 - e. Fixed heat rate requirement
 - f. Locational and delivery point requirements
 - g. Grid reliability requirements

SDG&E reserves the right, in its sole discretion, to either reject any non-conforming offer, or negotiate with any non-conforming offer. Summarily rejecting all non-conforming offers may not be in its customer's best interest as some offers may present opportunities that were unknown to SDG&E at the time that it issued its RFO.

B. Level II: Screening Analysis

1. For each offer, SDG&E will calculate the total average annual cost for each year. Costs may be in either \$/MW or \$/MWHR depending on the product. The following factors may be included in the initial screening analysis:
 - a. Capacity Costs as submitted in offer
 - b. Energy cost/benefit will be calculated based on the energy costs in the offer minus energy benefits. Energy benefits may be determined in a number of ways such as comparing energy costs from the offer vs. forward price curve. Energy costs will be based on data in the offer for energy costs or heat rate, fuel price and variable O&M costs.
 - c. Debt Equivalence when appropriate.
 - e.d. Congestion costs/benefits will be added to/subtracted from Offers.
 - d.e. Resource Adequacy Credit value, system and/or local, may be added if needed.
2. SDG&E will rank all the offers. Depending on the term of the RFO the ranking may be based on individual year scores or the net present value

Modeling and Detailed Analysis of Short List Candidates

A. Level III: Modeling Short List Candidates

1. SDG&E will model all Short List Candidates in its production cost models to determine the portfolio of resources that provides the lowest cost to customers.
2. Ancillary Service Credit may be added to offers that offer Ancillary services. Which ancillary services will be valued and the value for each service will be determined prior to bid evaluation. The Green House Gas (GHG) Cost will be assessed by adding a cost equal to the GHG adder times the change in GHG emissions associated with the entire portfolios operation with the offer as compared to the

ATTACHMENT B

**SAN DIEGO GAS & ELECTRIC COMPANY'S
2006 LONG TERM PROCUREMENT PLAN**

Revised Sheets (Clean Copy)

PUBLIC REDACTED VERSION



2006 LONG TERM PROCUREMENT PLAN

PUBLIC REDACTED VERSION

**SAN DIEGO GAS & ELECTRIC COMPANY'S
2006 LONG TERM PROCUREMENT PLAN**

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San Diego Gas & Electric Company
San Diego, California

Original Sheet No. 2 A

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as to conform SDG&E's approved 2006 LTPP to these modifications, this Advice Letter has been updated, including redlined pages and clean replacement pages.



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standardized, but no exchange exists on which to trade them. Examples of non-standard products are complex tolling arrangements or new capacity additions. Examples of standard products that SDG&E may buy or sell through RFOs include RA capacity. In D.08-11-008, the Commission modified the requirements for use of an Independent Evaluator (IE), such that: (i) SDG&E is required by the Commission to use an IE in the solicitation process for products of greater than two years in duration and (ii) SDG&E must employ an IE wherever an affiliate or utility bidder is present, regardless of contract duration.^{11/} The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an IE is retained in all cases where an affiliate or utility may participate in an SDG&E RFO process, the Commission requires that SDG&E address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E chooses not to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received or designate at the outset of the RFO that an IE will be used.

In D.04-12-048, the Commission defined "all-source" RFOs as, "open to all resources (conventional/renewable - turnkeys, buyouts, and PPAs)."^{12/} SDG&E interprets this literally as meaning that any resource that can fit the identified need is eligible to participate, but it is important to note that

^{11/} D.08-11-008 at page 27 and OP 2.

^{12/} D.04-12-048, Ordering Paragraph 26a.



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not all resources fit all needs. For instance, a run-of-river hydro project cannot fit a baseload need and a remote project cannot fulfill an in-basin grid reliability need for SDG&E. The Commission recognized this in D.04-12-048: “the IOUs have the flexibility to tailor their RFOs to reflect their specific resource needs.”^{13/} SDG&E cannot in this document present an all-inclusive list of caveats to the term all-source. However, as a principle, SDG&E will endeavor to be as inclusive as possible so that its customers can choose from the largest possible list of products to meet its procurement needs. Also, SDG&E will identify specifically the products sought in each all-source RFO so that bidders may evaluate for themselves whether or not their product will qualify.

^{13/} D.04-12-048, p. 141.



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the evaluation criteria to be used in ranking offers; and any unique considerations in the RFO. In the event that the IE, PRG, or Energy Division Staff have differences of opinion with SDG&E regarding any aspect of the RFO, SDG&E will work with Energy Division staff to resolve such issues prior to release of the RFO.

Third, the RFO is distributed to the market. In order to achieve the RFO goal of maximum liquidity and competition, SDG&E uses the broadest possible distribution list for e-mailing the RFO document directly to potential offerors. This typically starts with the WSPP membership list and is expanded to include past RFO participants, or any party that has shown an interest or is known by SDG&E to be capable of providing the resources sought in the RFO. Information on the status of the RFO and responses to bidder questions are routinely provided as updates to interested participants.

Fourth is the preparation of bid evaluation criteria. In order to ensure equity to all participants, it is important to have a pre-established method for evaluation of offers. Such a methodology will vary in accordance with the nature of the products being solicited. Exhibit II-2 to this LTTP is a sample of the items that will be included in the evaluation criteria. In conformance with D.07-12-052, SDG&E incorporates the following change into its' Evaluation Criteria.

- Viability: SDG&E has incorporated the concept of a viability criterion into its evaluation criteria. Further work will need to be done to refine the use of this important but potentially subjective criterion prior to the finalization of detailed evaluation criteria to be used in the next SDG&E RFO.



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Specifically, SDG&E will apply the following limits in its RFOs:

- SDG&E will not bid straight utility self-build projects into its RFOs. This prohibition does not extend to bids by utility affiliates to build and sell to the utility under a PPA. We continue to support this option and appreciate the Commission's willingness to investigate the proper evaluation criteria that would be useful in comparing such a bid with an IPP offer so as to allow utility self-build bids in the future;
- SDG&E will not solicit products that require transfer of an asset at the end of a long-term contract;
- SDG&E may seek PSA (also known as Build-Own-Transfer or Turnkey) offers in its RFO, where the utility would be seeking a merchant developer to build a new plant that the utility would own upon commercial operations (COD); and
- Under appropriate circumstances, SDG&E may seek a competitive bid for an Engineering, Procurement and Construction (EPC) contract that will choose among the best power plant construction firms to find a project that will be owned throughout development and operations by the utility, but managed and constructed under a fixed price contract with an EPC contractor. As stated in D.08-11-008, the purpose of allowing EPC bids is in no way intended to provide the IOUs with a broad loophole that allows for what are essentially direct utility build projects. The purpose is simply to acknowledge that certain extraordinary circumstances that are unpredictable in advance may necessitate utility ownership of generation at a particular site. While extraordinary circumstances are by definition difficult to identify a priori, the Commission's intention is to set a high bar for an "appropriate circumstance" for an IOU to circumvent the potential for private ownership by soliciting EPC bids. Simply owning land on which generation could be built or requesting EPC bids in general in an RFO as an alternative to PSAs and PPAs does not satisfy this requirement.

Code of Conduct.

Prior to conducting any RFO where SDG&E seeks a UOG project, SDG&E will work with its IE, PRG and the Commission's Energy Division staff to create a Code of Conduct per D.07-12-052, that will provide the checks-and-balances necessary to ensure that a utility ownership proposal will not be given preferential treatment or access to competitors bid information or other proprietary information that would benefit a utility bid over outside bidders. Such a Code of Conduct is only useful where the utility is actually preparing and tendering a bid into a utility-run RFO or for an EPC or PSA project.



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Utility Ownership Proposals Outside of a Competitive Solicitation.

The Commission recognizes that there are instances where Utility proposals for ownership of new generation resources, arising outside of a competitive solicitation, is warranted and in the best interest of ratepayers. SDG&E will evaluate its plans for meeting its authorized need in the context of the following important exceptions to competitive procurement.^{17/}

- Market Power Mitigation: The IOU must make a strong showing that as a result of some attribute of the desired resource, a private owner would have the ability to exert significant influence over the price of its development or of the price and quantity of its output (energy, capacity or ancillary services).
- Preferred Resources: While we continue to rely on markets to deliver efficiently priced products for ratepayers, we see no reason to limit our options and intend to continue to deploy all resources available to us, including utility development and ownership, to meet California's vital environmental policy objectives.
- Expansion of Existing Facilities: Per D.08-11-008, "expansion of Existing Facilities" ceases to be a unique exception which would serve as a vehicle for utility ownership outside of a competitive solicitation. However, as this decision notes, the Commission did "not preclude the expansion of existing facilities for UOG projects approved via one of the remaining four exceptions to the competitive RFO requirement."¹⁸
- Unique Opportunity: An attractively priced resource resulting from a settlement or bankruptcy proceeding (we anticipate that these opportunities will diminish over time).
- Reliability: Resources needed to meet specific, unique reliability issues (particularly under circumstances in which it becomes evident that reliability may be compromised).
- if new resources are not developed, and the only means of developing new resources in sufficient time is via UOG).

^{17/} D.07-12-052 at page 211

^{18/} D.08-11-008 at page 23.



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Description of SDG&E's Consultation Process with Its Independent Review Groups

The Commission has set up two important layers of independent review to monitor utility procurement and provide feedback prior on the many decisions being made in utility procurement. The two groups are an IE to work with SDG&E in the design and implantation of its RFOs, and the PRG. SDG&E, and its ratepayers, have derived much benefit from its interactions with these groups and being able to discuss procurement decisions and activities ex-ante rather than after the fact through litigation at the Commission.

The Independent Evaluator Requirement

In D.04-12-048, the Commission ordered the use of an IE for RFOs that included "affiliates, IOU-built, or IOU-turnkey bidders."^{23/} Further, in D.06-10-019, Finding of Fact 19, Conclusion of Law 19 and Ordering Paragraph 19, the IOUs were ordered to utilize an IE in the conduct of any renewables negotiations that involved renewables procurement from an affiliate. In D.07-12-052, the Commission further defined the parameters for how IOUs are to utilize IEs.

In D.08-11-008, the Commission modified its requirements related to use of and IE and ordered: (i) that IEs be utilized for all RFOs seeking products of greater than two years in duration and (ii) that IEs continue to be utilized for all solicitations that involve affiliate transactions or utility-owned or utility-turnkey bids regardless of length of the product sought. The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an

^{23/} D.04-12-048, Ordering Paragraph 26i.



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IE is retained in such cases, SDG&E will address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E does not wish to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received, or designate at the outset of the RFO that an IE will be used.

With respect to IE selection, SDG&E selected its second IE through an RFO process whereby potential candidates presented their credentials and proposals. Eventually, responses to the RFO were reduced to the top two candidates who were presented to the PRG, which had an opportunity to ask questions of the IE candidates. SDG&E made the final selection in consultation with the PRG. The second IE was then chosen to perform the IE function in the 2007/08/09 all-source RFO. Given the IE's demonstrated competence, SDG&E chose to expand the scope of work for its second IE to include work on the 2006 Renewables RFO, the 2008 Peaking RFO and a 2007 RFB for RA. The second IE chose to recuse himself prior to SDG&E issuing the 2010-2012 RFO, due to a self-identified, potential conflict with another client. SDG&E then hired its third IE to complete the IE work for that RFO and has leveraged their recently gained familiarity with the SDG&E portfolio by continuing to use this IE in subsequent procurement activity.

While SDG&E feels that it already has a pool of three qualified IEs, it will work with its PRG during 2008 to validate those parties as qualified IEs and potentially identify other IEs to add to its pool. The Commission has adopted a very detailed process for SDG&E to follow in creating the pool of IE candidates and SDG&E adopts and incorporates this process into its LTPP. The process found in



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Table III-2

Service Area Need with the Sunrise Powerlink

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|-------|------|------|------|------|------|------|
| High | (93) | 458 | (322) | 600 | 522 | 447 | 372 | 296 | 223 |
| Low | (93) | 690 | (86) | 840 | 765 | 694 | 622 | 550 | 480 |

The table without the Sunrise Powerlink shows the same needs as above through 2009. Starting in 2010, without the Sunrise Powerlink, additional generation is needed in all years. No existing generation would be able to retire until sufficient new generation is built to meet the identified shortage and replace the retiring generation.

Table III-3

Service Area Need without the Sunrise Powerlink

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| High | (93) | 458 | (322) | (400) | (478) | (553) | (628) | (704) | (777) |
| Low | (93) | 690 | (86) | (160) | (235) | (306) | (378) | (450) | (520) |

D. 08-11-008 authorizes SDG&E to procure up to the 530 MWs of new local capacity authorized in D.07-12-052, with the stipulation that applications for this procurement should be supported by updates of the status and projected on-line date of the Sunrise Powerlink project. Subtracting the 133 MWs of resources already approved by the Commission, this results in an additional 397 MWs of authorization for local area resources through 2015. D.07-12-052 also noted that if a previously authorized resource is determined unviable during the development process and the associated contract is terminated, the procurement authority for those megawatts remains.



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APPENDIX C – REQUIREMENTS FOR THE PRG, IE, AND RFOS FROM D.07-12-052 and D.08-11-008

2006 LTPP Compliance Table

Forecasts, Resources, and Need Determination

- IOUs are to use the CEC's forecast in their LTPPs.
- Until a new PRM methodology is developed, need determination shall be based on the CEC's base forecast under baseline (1-in-2) temperature conditions pursuant to D.04-12-048.
- The non-overlapping portion of IOU's uncommitted EE goals not included in the CEC forecast should be treated as a resource.

Procurement Process Issues

PRG

- IOUs are to provide PRG members with meeting agendas and materials a minimum of 48 hours in advance of the PRG meeting, unless there are unusual, extenuating circumstances that the IOU communicates to PRG members in an email announcing a meeting or distributing meeting materials on a tighter timeframe.
- The IOUs are to provide confidential meeting summaries to PRG members that include a list of attending PRG members (including the organizations represented), a summary of topics presented and discussed, and a list of information requested or offered to be supplied after the meeting, (and identify the requesting party).
- The IOUs are to individually set up and maintain a web-based PRG calendar that can be accessed and updated by the IOU.
- The IOUs are to provide the following information to the public through a web-based forum: date, meeting time and duration of the meeting; the individuals participating in the meeting and organization represented by the individual; and a list of non-confidential items discussed.
- When procuring or potentially procuring CAM resources, the IOUs are to utilize an advisory CAM Group consistent with the proposal as presented in Attachment D.
- The IOUs are required to consult with their PRGs for any transaction with a delivery term greater than three months' duration.



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contract shall be submitted as part of the next LTPP filing and will be subject to Commission approval.

- Each IOU is to provide the name and information of the IE for each IOU, the type of procurement solicitation the IE was used for and the amount of money involved in the procurement solicitation be reported to the IOUs PRG before and after the solicitation takes place.
- In D.08-11-008, the Commission modified the requirements for use of an Independent Evaluator (IE), such that: (i) SDG&E is required by the Commission to use an IE in the solicitation process, for products of greater than two years in duration and (ii) SDG&E must employ an IE wherever an affiliate or utility bidder is present, regardless of contract duration.^{56/} The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an IE is retained in all cases where an affiliate or utility may participate in an SDG&E RFO process, the Commission requires that SDG&E address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E chooses not to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received, or designate at the outset of the RFO that an IE will be used. Competitive RFOs include RFOs issued to satisfy service area need and supply side resources not including EE and DR. For solicitations of less than five years, the IE report shall be filed with the QCR.
- The IOUs, in consultation with the PRG and ED, shall develop comprehensive conflict of interest disclosure requirements for the IE. An IE may be disqualified from participating in an RFO process if there are particular egregious conflicts of interest that arise during the contract. The conflict of interest disclosure requirements shall be approved along with the standard contracts in the next LTPPs proceeding.
- In order to clarify the information required in IE reports, we direct ED to develop a template for IEs to use when developing their reports.

^{56/} D.08-11-008 at page 27 and OP #2.



2006 LONG TERM PROCUREMENT PLAN

A. Level I: Check for Conformance

1. Offers will be determined to be conforming or non-conforming based on a list of criteria in the RFO. Not all products in an RFO will have the same conformance requirements. The list may include the following items; this list may be expanded to customize evaluation in any given RFO:
 - a. Product type
 - b. Minimum and/or maximum capacity (MW) requirement
 - c. Seasonal requirement (monthly or quarterly)
 - d. Online date requirement and/or seasonal requirements
 - e. Fixed heat rate requirement
 - f. Locational and delivery point requirements
 - g. Grid reliability requirements

SDG&E reserves the right, in its sole discretion, to either reject any non-conforming offer, or negotiate with any non-conforming offer. Summarily rejecting all non-conforming offers may not be in its customer's best interest as some offers may present opportunities that were unknown to SDG&E at the time that it issued its RFO.

B. Level II: Screening Analysis

1. For each offer, SDG&E will calculate the total average annual cost for each year. Costs may be in either \$/MW or \$/MWHR depending on the product. The following factors may be included in the initial screening analysis:
 - a. Capacity Costs as submitted in offer
 - b. Energy cost/benefit will be calculated based on the energy costs in the offer minus energy benefits. Energy benefits may be determined in a number of ways such as comparing energy costs from the offer vs. forward price curve. Energy costs will be based on data in the offer for energy costs or heat rate, fuel price and variable O&M costs.
 - c. Debt Equivalence when appropriate.
 - d. Congestion costs/benefits will be added to/subtracted from Offers.
 - e. Resource Adequacy Credit value, system and/or local, may be added if needed.
2. SDG&E will rank all the offers. Depending on the term of the RFO the ranking may be based on individual year scores or the net present value

Modeling and Detailed Analysis of Short List Candidates

A. Level III: Modeling Short List Candidates

1. SDG&E will model all Short List Candidates in its production cost models to determine the portfolio of resources that provides the lowest cost to customers.
2. Ancillary Service Credit may be added to offers that offer Ancillary services. Which ancillary services will be valued and the value for each service will be determined prior to bid evaluation. The Green House Gas (GHG) Cost will be assessed by adding a cost equal to the GHG adder times the change in GHG emissions associated with the entire portfolios operation with the offer as compared to the