

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



March 22, 2010

Advice Letter 2099-E

Ronald van der Leeden, Director
Rates, Revenues and Tariffs
San Diego Gas and Electric
8330 Century Park Court, CP32C
San Diego, CA 92123-1548

**Subject: Revenue Requirement Update Associated with the
Miramar Energy Facility II**

Dear Mr. van der Leeden:

Advice Letter 2099-E is effective January 1, 2010.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



Ron van der Leeden
Rates, Revenues & Tariffs
8330 Century Park Court
San Diego, CA 92123-1548

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July 30, 2009

ADVICE LETTER 2099-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REVENUE REQUIREMENT UPDATE ASSOCIATED WITH THE MIRAMAR ENERGY FACILITY II

PURPOSE

The purpose of this Advice Letter is to submit for California Public Utilities Commission (Commission) approval the updated revenue requirement associated with the completion of the Miramar Energy Facility II (MEF II), including modifications to SDG&E's Non-fuel Generation Balancing Account (NGBA) as shown in Attachment A. This Advice Letter is filed in compliance with Commission Decision (D.) 09-01-008.

BACKGROUND

On January 30, 2009, the Commission issued D.09-01-008, approving SDG&E's application for the MEF II project including an Engineering, Procurement, and Construction contract with Wellhead Services, Inc. and a contract with General Electric for the supply of a simple cycle gas-fired combustion turbine with a capacity of approximately 46.5 megawatts to provide peaking energy and capacity for SDG&E's service territory. This facility is complete and in the testing phases. It is owned and operated by SDG&E. As such, D.09-01-008 authorizes SDG&E to recover in rates the cost of constructing and operating MEF II consistent with the approved construction-related risk and reward incentive mechanism described in detail below.

The MEF II Application projected the total cost of the facility at \$56.5 million. The Commission acknowledged SDG&E's need for additional generation to service its bundled customers and approved MEF II as a reasonable option to meet this need. An advice letter that provides an update of the final construction costs and associated revenue requirements is required to be filed with the Commission when MEF II is complete.

DISCUSSION

This filing represents a pre in-service date true-up advice letter. SDG&E will initiate operation of MEF II for its load requirements on or after August 1, 2009. Consequently, SDG&E has updated its current total cost projection for MEF II and the associated revenue requirement, provided as Attachment B to this filing. This revenue requirement reflects changes to the following revenue requirement inputs filed in the application as summarized below:

Capital Construction Costs

Total project costs are currently projected to be \$53.8 million, or \$2.7 million lower than the original filing. SDG&E submits Attachment C as confidential information per Section 583 of the Public Utilities Code and/or General Order 66-C. Attachment C breaks these costs down by the major categories of equipment, engineering/procurement/construction, generation interconnection, AFUDC, and other SDG&E costs that include items such as labor, start-up fuel, and materials/supplies. In each of these categories, there remain non-fixed costs as work continues to ready the facility for commercial operation starting August 1, 2009. Even after this commercial date, costs will accrue due to yet to be undertaken/completed training, purchases, and minor work items. Minor work items are those tasks needed to reach final completion. SDG&E will include information that identifies final cost by category which will describe variances from its original application and the reasons therefore in SDG&E's NGBA update advice letter filed in November 2009 for rates effective January 1, 2010. SDG&E has not burdened this filing because there are no notable variances at this point as small cost savings were realized across most of the categories.

Construction-Related Risk/Reward Mechanism

D.09-01-008 approved SDG&E's proposed construction risk/reward mechanism in which: (1) shareholders take no construction risk (and have no reward opportunities) for construction costs within 5% of the \$56.5 million project cost estimate (the "deadband"), (2) shareholders take 10% of the construction risk/reward for the band that is 5% over (or under) to 15% over (or under) the estimated project cost, and (3) cost overruns in excess of 15% of the estimated project cost are subject to recovery through a regulatory review process (and shareholders have no reward opportunities for savings resulting from actual costs being greater than 15% below the estimated project cost).

As stated previously, currently, the total estimated costs for constructing MEF II is \$53.8 million (4.8% below the approved projection of \$56.5 million) which falls within the deadband in the approved mechanism above.

SDG&E intends to update the results of this mechanism with its final cost and revenue requirement update submitted in the NGBA update advice letter in November 2009 for rates effective January 1, 2010.

Regulatory Accounts

Language has been added to SDG&E's NGBA to include recovery for MEF II non-fuel costs not being recovered by another component of SDG&E's rates. Pursuant to D.09-01-008, the authorized MEF II non-fuel related revenue requirement is to be recorded in the NGBA and collected through rates from its bundled customers¹. Fuel costs are recorded in SDG&E's ERRA. The ERRA currently includes wording that addresses the recording of fuel and fuel-related expenses of electric generation and therefore does not need to be updated as part of this advice filing.

¹ D.09-01-008 OP 2.

Rate Making Treatment

Upon the initiation of operations at MEF II, SDG&E will record the monthly revenue requirement filed herein to the NGBA for recovery from bundled service customers. However, SDG&E does not intend to adjust its retail electric rates for this additional revenue requirement at this time. Once all of the final costs are accumulated, SDG&E will update this cost projection and associated revenue requirement in the NGBA update advice letter filed in November, for rates effective January 1, 2010. At that time, commodity rates contained in SDG&E's schedule Electric Energy Commodity Cost (EECC) will be adjusted to reflect recovery of these commodity costs, along with other approved NGBA related changes.

EFFECTIVE DATE

SDG&E believes that this filing is subject to Energy Division disposition and should be classified as Tier 3 (effective after Commission approval) pursuant to GO 96-B. SDG&E respectfully requests that the Commission issue a resolution providing the authorizations requested at the Commission's earliest convenience.

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.

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1788
E-Mail: mcaulson@semprautilities.com

NOTICE

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including parties in A.08-06-017, 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.

RON VAN DER LEEDEN
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: Joff Morales

Phone #: (858) 650-4098

E-mail: jmorales@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) #: 2099-E

Subject of AL: Revenue Requirement Update Associated with the Miramar Energy Facility II

Keywords (choose from CPUC listing): Revenue Requirement, Facility

AL filing type: Monthly Quarterly Annual One-Time Other

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

N/A

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: AL contains Confidential

Capital Construction costs in Attachment C, pursuant to Section 583 of the PUC and/or GO 66-C.

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: _____

No. of tariff sheets: 4

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: NGBA – Non-fuel Generation Balancing Account

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: Megan Caulson

8330 Century Park Ct, Room 32C

San Diego, CA 92123

mcaulson@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

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

Pacific Gas & Electric Co.

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

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

San Diego Regional Energy Office

S. Freedman
J. Porter

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.08-06-017

ATTACHMENT A
ADVICE LETTER 2099-E

Cal. P.U.C. Sheet No.	Title of Sheet	Canceling Cal. P.U.C. Sheet No.
Revised 21294-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, NON-FUEL GENERATION BALANCING ACCOUNT (NGBA), Sheet 1	Revised 21128-E
Revised 21295-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, NON-FUEL GENERATION BALANCING ACCOUNT (NGBA), Sheet 2	Revised 21129-E
Revised 21296-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, NON-FUEL GENERATION BALANCING ACCOUNT (NGBA), Sheet 3	Revised 20726-E
Revised 21297-E	TABLE OF CONTENTS, Sheet 1	Revised 21285-E



PRELIMINARY STATEMENT

Sheet 1

II. BALANCING ACCOUNTS
NON-FUEL GENERATION BALANCING ACCOUNT (NGBA)

- 1. **Purpose:** The purpose of the NGBA is to provide recovery of approved electric generation non-fuel costs not being recovered by another component of SDG&E's rates. Currently, the Utility has ownership interest in the following plants in operation: San Onofre Nuclear Generating Station (SONGS) the Miramar Combustion Turbine (CT) facility, the Palomar Energy Center facility, and the Miramar Energy Facility II (MEF II).
- 2. **Applicability:** The NGBA shall be applied only to the Utility's bundled service customers.
- 3. **Generation Non-fuel Revenue Requirement:**

SONGS:

The generation non-fuel revenue requirement shall consist of the SONGS operating & maintenance and capital-related costs approved for SDG&E in the Southern California Edison (SCE) General Rate Case (D.09-03-025) and the SDG&E General Rate Case (D.08-07-046). The 2009 revenue requirement authorized in D.09-03-025 shall be adjusted in future years pursuant to the PYTR mechanism adopted in the proceeding. Year 2010 and 2011 revenue requirements shall be subject to increases of 4.25% and 4.35% respectively, consistent with the PTYR mechanism adopted in D.09-03-025. Pursuant to D.09-03-025, the utility is authorized to recover \$13.36 million (2009 dollars), \$13.92 million (2010 dollars), and \$14.53 million (2011 dollars) for each SONGS 2&3 refueling and maintenance outage that occurs in 2009 through 2011 respectively. If the actual number of SONGS 2&3 refueling and maintenance outages in 2009 through 2011 is different than the number of outages in SDG&E's 2009 through 2011 generation revenue requirement, the difference will be addressed via an advice letter submitted to the Commission by February 15, 2010 (for the 2009 difference), 2011 (for the 2010 difference) and 2012 (for the 2011 difference). The resulting adjustment will be made as an entry to the NGBA. Pursuant to D. 06-11-026, beginning in January 2007 and ending in 2011, the utility is authorized to recover through depreciation expense, 20% of its ownership share of the removal and disposal costs of the original steam generators related to the Steam Generator Replacement Project (SGRP). D.06-11-026 also authorizes the utility to recover the SGRP installation costs revenue requirement (See SONGS MAAC Subaccount section 8 below).

Miramar CT:

The generation non-fuel revenue requirement shall consist of the operating and maintenance and capital-related costs approved in SDG&E's General Rate Case (D.08-07-046). The revenue requirement for 2009, 2010, and 2011 shall be adjusted pursuant to the Post-Test Year Ratemaking settlement adopted in D.08-07-046. The fuel costs of the Miramar CT shall be recorded in the Energy Resource Recovery Account (ERRA). Any revenues received from the Independent System Operator (ISO) under the reliability-must run (RMR) contract shall be credited to the NGBA.

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PRELIMINARY STATEMENT

II. BALANCING ACCOUNTS
NON-FUEL GENERATION BALANCING ACCOUNT (NGBA)

3. Generation Non-fuel Revenue Requirement:

Palomar Energy Center:

The adopted generation non-fuel revenue requirement shall consist of the adopted operating and maintenance, and capital-related costs approved in SDG&E's General Rate Case (D.08-07-046). The revenue requirement for 2009, 2010, and 2011 shall be adjusted pursuant to the Post-Test Year Ratemaking Settlement adopted in D.08-07-046. The fuel costs of the Palomar Energy Center shall be recorded in the Energy Resource Recovery Account (ERRA). Any revenues received from the Independent System Operator (ISO) under the reliability-must run (RMR) contract shall be credited to the NGBA.

Miramar Energy Facility (MEF II):

The adopted generation non-fuel revenue requirement shall consist of the adopted operating and maintenance, and capital-related costs approved in D.09-01-008 updated for actual construction costs approved in AL 2099-E. The fuel costs of MEF ii shall be recorded in the Energy Resource Recovery Account (ERRA). Any revenues received from the Independent System Operator (ISO) under the reliability-must run (RMR) contract shall be credited to the NGBA.

4. NGBA Rate

Once the generation non-fuel revenue requirement is established, the NGBA rate will be included as part of the Utility's total schedule EECC rate. The NGBA rate will be equal to the total adopted generation non-fuel revenue requirement including the SONGS Steam Generator Replacement Project (SGRP) disposal and installation costs authorized in D.06-11-026, divided by the authorized forecasted sales for the current calendar year.

5. Effective Date

This tariff is effective for service rendered on and after January 1, 2004.

6. Accounting Procedure

The Utility shall maintain the NGBA by making entries at the end of each month as follows:

- a. A debit entry equal to 1/12 of the authorized annual generation non-fuel revenue requirement for songs, as established in D.09-03-025 and D.08-07-046, excluding the SONGS 2 & 3 refueling and maintenance outages.

(Continued)

2H12

Advice Ltr. No. 2099-E

Decision No. _____

Issued by
Lee Schavrien
Senior Vice President
Regulatory Affairs

Date Filed Jul 30, 2009

Effective Jan 1, 2010

Resolution No. _____

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|
N



PRELIMINARY STATEMENT

Sheet 3

II. BALANCING ACCOUNTS
NON-FUEL GENERATION BALANCING ACCOUNT (NGBA)

6. Accounting Procedure (Continued)

- b. A debit entry equal to 1/12 of the authorized SONGS 2&3 refueling and maintenance outage authorized revenue requirement as established in D.09-03-025.
- c. An entry equal to the SONGS 2&3 refueling and maintenance outage adjustment as described in Section 3 above.
- d. A debit entry equal to 1/12 of the authorized annual generation non-fuel revenue requirement for the Miramar CT as established in D.08-07-046.
- e. A debit entry equal to 1/12 of the authorized fixed annual generation non-fuel revenue
- f. A debit entry to 1/12 of the authorized fixed annual generation non-fuel revenue requirement of the MEF II as established in D.09-01-008 and updated in AL 2099-E
- g. A debit entry equal to 1/12 of the authorized SONGS 2&3 revenue requirements for recovery of the Utility's ownership share of 20% of the estimated SGRP removal and disposal costs through depreciation, as established in D. 06-11-026.
- h. A credit entry equal to any revenues received from the ISO for reliability must run (RMR) contract.
- i. A credit entry equal to the revenue billed during the month from the NGBA rate, net of franchise fees and un-collectibles.
- j. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries 6.a. through 6.j. at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15. or its successor.

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7. Disposition

Disposition of the balance in the NGBA shall be addressed as part of the Utility's annual consolidated electric rate change filed via advice letter in December of each year.

3H12

Advice Ltr. No. 2099-E

Decision No. _____

Issued by
Lee Schavrien
Senior Vice President
Regulatory Affairs

Date Filed Jul 30, 2009

Effective Jan 1, 2010

Resolution No. _____



TABLE OF CONTENTS

Sheet 1

The following sheets contain all the effective rates and rules affecting rates, service and information relating thereto, in effect on the date indicated herein.

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(Continued)

**San Diego Gas & Electric – Advice Letter 2099-E
Attachment B
Revenue Requirement Update – Miramar Energy Facility II
7/30/2009**

Annual Revenue Requirement						
Electric Plant		2009	2010	2011	2012	2013
Franchise Fees & Un-collectibles	3.64%	130	334	318	305	293
O&M expenses		91	223	228	233	239
Property Taxes	1.25%	248	633	596	560	526
Preferred Equity Interest	7.25%	83	212	199	187	176
Interest Expense	5.62%	506	1,294	1,217	1,144	1,074
Depreciation Expense		887	2,129	2,129	2,129	2,129
Federal Tax Expense		654	1,744	1,559	1,472	1,384
State Tax Expense		14	193	205	223	237
Return on Equity	11.10%	1,083	2,767	2,602	2,446	2,298
Revenue Requirement		3,696	9,529	9,052	8,699	8,357
Return on Ratebase (ROR)		1,672	4,272	4,018	3,777	3,549