PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I.D. #6430

ENERGY DIVISION* **RESOLUTION E-4073**

DRAFT **March 15, 2007**

R E S O L U T I O N

Resolution E-4073. San Diego Gas & Electric (SDG&E) Company requests approval of four renewable resource procurement contracts resulting from its 2005 RPS solicitation. These contracts are approved with modifications.

By Advice Letter 1845-E filed on November 20, 2006.

SUMMARY

SDG&E's renewable contracts comply with the Renewable Portfolio Standard (RPS) procurement guidelines and are approved with modifications

SDG&E's renewable contracts comply with the Renewable Portfolio Standard (RPS) procurement guidelines and are approved SDG&E's request for approval of the renewable resource procurement contracts (Bull Moose, Esmeralda-San Felipe, Bethel Solar 1 and Bethel Solar 2) are granted pursuant to D.05-07-039. The energy acquired from these contracts will count towards SDG&E's Renewable Portfolio Standard (RPS) requirements.

Facility	Tech	Term	MW	GWh	COD	Location
Bull Moose	Biomass	20	20	158	12/08	San Diego
Esmeralda-San Felipe	Geothermal	15	20	166	12/10	Imperial Valley
Bethel Solar 1	Solar Thermal	20	49.4	168	06/08	Imperial Valley
Bethel Solar 2	Solar Thermal	20	49.4	168	12/08	Imperial Valley

In addition, the contract prices for each contract, which are at or below the Market Price Referent, are fully recoverable in rates over the life of the contracts, subject to Commission review of SDG&E's administration of the contracts. Because deliveries from these power purchase agreements (PPA) are priced below the 2005 market price referent (MPR), they do not require supplemental energy payments (SEPs) from the California Energy Commission (CEC).

Confidential information about the contract should remain confidential

This resolution finds that certain material filed under seal pursuant to Public Utilities (Pub. Util.) Code Section 583 and General Order (G.O.) 66-C should be kept confidential to ensure that market sensitive data does not influence the behavior of bidders in future RPS solicitations.

BACKGROUND

The RPS Program requires each utility to increase the amount of renewable energy in its portfolio

The California Renewables Portfolio Standard (RPS) Program was established by Senate Bill 1078, effective January 1, 2003. It requires that a retail seller of electricity such as SDG&E purchase a certain percentage of electricity generated by Eligible Renewable Energy Resources (ERR). The RPS program is set out at Public Utilities Code Section 399.11, et seq. Each utility is required to increase its total procurement of ERRs by at least 1% of annual retail sales per year so that 20% of its retail sales are supplied by ERRs by 2017.

The State's Energy Action Plan (EAP) called for acceleration of this RPS goal to reach 20 percent by 2010. This was reiterated again in the Order Instituting Rulemaking (R.04-04-026) issued on April 28, 2004.[1] On September 26, 2006, Governor Schwarzenegger signed Senate Bill 107 (SB 107, Chapter 464, Statutes of 2006), which officially accelerates the State's RPS targets to 20 percent by 2010. The bill went into effect on January 1, 2007.

In addition, the Commission established an APT for each utility, which consists of two separate components: the baseline, representing the amount of renewable generation a utility must retain in its portfolio to continue to satisfy its obligations

[1] http://www.cpuc.ca.gov/Published/Final_decision/36206.htm

under the RPS targets of previous years; and the incremental procurement target[2] (IPT), defined as at least one percent of the previous year's total retail electrical sales, including power sold to a utility's customers from its DWR contracts.

R.04-04-026 established procurement guidelines for the RPS Program

The Commission has issued a series of decisions that established the regulatory and transactional parameters of the utility renewables procurement program. On June 19, 2003, the Commission issued its "Order Initiating Implementation of the Senate Bill 1078 Renewable Portfolio Standard Program," D.03-06-071. On June 9, 2004, the Commission adopted its Market Price Referent methodology[3] for determining the Utility's share of the RPS seller's bid price, as defined in Public Utilities Code Sections 399.14(a)(2)(A) and 399.15(c). On the same day the Commission adopted standard terms and conditions for RPS power purchase agreements in D.04-06-014 as required by Public Utilities Code Section 399.14(a)(2)(D). Instructions for evaluating the value of each offer to sell products requested in a RPS solicitation were provided in D.04-07-029.

SDG&E requests approval of a new renewable energy contract

On November 20, 2006, SDG&E filed Advice Letter (AL) 1845-E requesting Commission approval of four renewable procurement contracts: Bull Moose, Esmeralda-San Felipe, Bethel Solar 1 and Bethel Solar 2. These PPAs result from SDG&E's September 30, 2005 solicitation for renewable bids, which was authorized by Decision D.05-07-039.

The Commission's approval of this PPA will contribute significantly towards SDG&E's renewable procurement goals. In 2005, the year of this RPS solicitation, SDG&E's IPT was approximately 158 GWh. Once all the projects are generating, the PPAs will contribute an incremental aggregate of approximately 660 GWh per year, approximately 500 GWh of which are planned to be delivered in 2010.[4]

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[2]IPT - The incremental procurement target (IPT) represents the amount of RPS-eligible procurement that the LSE must purchase in a given year, over and above the total amount the LSE was required to procure in the prior year. An LSE's IPT equals at least 1% of the previous year's total retail electrical sales, including power sold to a utility's customers from its DWR contracts.

[3] D.04-07-015

[4] The California Energy Commission is responsible for determining the RPS-eligibility of a renewable generator. See Public Utilities Code Sect. 399.12 and CPUC decision D.04-06-014.

SDG&E requests final "CPUC Approval" of PPAs

SDG&E requests the Commission to issue a resolution containing the findings required by the definition of "CPUC Approval" in Appendix A of D.04-06-014. In addition, SDG&E requests that the Commission issue a resolution that approves for each of the four PPAs:

1. The PPA is approved in its entirety, including payments to be made by SDG&E, subject to CPUC review of SDG&E's administration of the PPA. Costs to SDG&E may include items such as congestion and transmission upgrades.
2. Any procurement pursuant to this PPA is procurement from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), D.03-06-071, or other applicable law;
3. Any procurement pursuant to this PPA constitutes incremental procurement or procurement for baseline replenishment by SDG&E from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, CPUC D.03-06-071, or other applicable law.
4. Any costs associated with the rebalancing of SDG&E's capital structure due to the impacts of FIN 46 or debt equivalence obligations shall be recoverable.

SDG&E's Procurement Review Group participated in review of the contracts

In D. 02-08-071, the Commission required each utility to establish a "Procurement Review Group" (PRG) whose members, subject to an appropriate non-disclosure agreement, would have the right to consult with the utilities and review the details of:

1. Overall transitional procurement strategy;
2. Proposed procurement processes including, but not limited to, RFO; and
3. Proposed procurement contracts before any of the contracts are submitted to the Commission for expedited review.

The PRG for SDG&E consists of: California Department of Water Resources (DWR), the Commission's Energy Division, Natural Resources Defense Council (NRDC), Union of Concerned Scientists (UCS), Division of Ratepayer Advocates (DRA), and The Utility Reform Network (TURN).

SDG&E periodically met with its PRG to brief them during the course of LCBF analysis, shortlist development and negotiation. SDG&E first briefed its PRG on December 5, 2005, regarding SDG&E's preliminary assessment of the bids received in response to the 2005 RFO. SDG&E provided further briefings on January 24, 2006, to summarize its recommendations for a preliminary shortlist.

On March 24, 2006, SDG&E briefed the PRG on its final shortlist and provided an update on the status of its negotiations. The March 24th meeting included a summary of the terms of the Bull Moose PPA, the Esmeralda-San Felipe PPA, the Bethel Solar 1 PPA and the Bethel Solar 2 PPA. On June 13, 2006, SDG&E provided further analysis of the final shortlist to the PRG, including contributions to the 20% RPS target and summaries of the qualitative and quantitative factors used to evaluate each project on the shortlist. SDG&E provided an additional update regarding the 2005 final shortlist.

None of the PRG members have expressed any objection to the price or terms presented to them in connection with the Proposed PPAs. Although Energy Division is a member of the PRG, it reserved its conclusions for review and recommendation on the contracts to the resolution process.

Although Energy Division is a member of the PRG, it reserved its judgment on the contracts until the resolution process. Energy Division reviewed the transactions independent of the PRG, and allowed for a full protest period before concluding its analysis.

NOTICE

Notice of AL 1845-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

AL 1845-E was not protested.

DISCUSSION

Description of the projects

The following table summarizes the substantive features of the PPAs. See confidential Appendix B for a detailed discussion of contract prices, terms, and conditions:

Facility	Tech	Term	MW	GWh	COD	Location
Bull Moose	Biomass	20	20	158	12/08	San Diego
Esmeralda-San Felipe	Geothermal	15	20	166	12/10	Imperial Valley
Bethel Solar 1	Solar Thermal	20	49.4	168	06/08	Imperial Valley
Bethel Solar 2	Solar Thermal	20	49.4	168	12/08	Imperial Valley

PPAs are consistent with SDG&E's CPUC adopted 2005 RPS Plan

California's RPS statute (SB 107) requires the Commission to review the results of a renewable energy resource solicitation submitted for approval by a utility. The Commission will then accept or reject proposed PPAs based on their consistency with the utility's approved renewable procurement plan (Plan). On September 7, 2005 the Energy Division notified SDG&E that no protests were received in response to its revised 2005 plan and authorized SDG&E to issue its 2005 RFO. The Proposed PPA's are consistent with SDG&E's Commission-approved RPS plan.

PPAs fit with identified renewable resource needs and are consistent with RPS Solicitation Protocol

SDG&E's 2005 RPS plan called for SDG&E to issue competitive solicitations for eligible renewable resources from both large-scale generation projects and small, distributed renewable projects. The solicitations were entitled: "Eligible Renewable Resources" and "Distributed Renewable Technologies." Both solicitations were issued on September 30, 2005 and responses were due on November 1, 2005. Offers from both solicitations were evaluated collectively under one LCBF analysis. One short list was created that encompassed offers from both RFOs.

For Eligible Renewable Resources, SDG&E sought large-scale generation for as-available or unit-firm capacity and/or energy from:

1) Re-powered facilities;
2) Incremental capacity upgrades of existing facilities;
3) New facilities;
4) Existing facilities with expiring contracts; or
5) Eligible resources currently under contract with SDG&E. SDG&E shall consider offers to extend terms of or expand contracted capacities for existing agreements.

In order to submit proposals under the solicitation, the Projects had to have participated in the 2005 Transmission Ranking Cost Report ("TRCR") study applicable to the specific utility's transmission grid to which each of the Projects will tie-in. Responses from Respondents who had system impact studies approved by the CAISO were also acceptable and deemed in conformance of the RFO.

The RFO provided that Respondents could offer 10, 15 or 20-year PPAs with deliveries commencing in 2006, 2007 or 2008. Resources located in Imperial Valley were required to commence in 2010, unless the resource had adequate transmission capability to deliver to SP-15 sooner. The RFO required that any PPA executed for resources from Imperial Valley without such adequate transmission capability be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area.

In addition to the PPAs described above, Respondents offering new renewable resources were also allowed to provide an option price for SDG&E to acquire the facility along with all environmental attributes, land rights, permits and other licenses – thus enabling SDG&E to own and operate the facility at the end of the PPA term.

Finally, Respondents were allowed to propose turnkey projects to develop, permit, and construct new, RPS-eligible generating facilities to be acquired by SDG&E. The same transmission contingency applied to turnkey projects as to PPA offers. An open and competitive playing field was established for the procurement effort.

Bid evaluation process consistent with Least-Cost Best Fit (LCBF) decision

SDG&E evaluated all offers in accordance with the LCBF process outlined in D.03-06-071 and D.04-07-029.

Bid Evaluation Process

Upon conclusion of the bidding process, SDG&E performed an initial screening to determine if each bid met minimum requirements of the RFO. Each bid was required to be received by the RFO deadline and must have included all required documentation. Bids not received by the RFO deadline (unless there was a technical difficulty and notification was received by SDG&E prior to the deadline) were disqualified. Once SDG&E had a list of viable projects, SDG&E began to narrow the field of bidders for its short list. For its LCBF analysis, SDG&E assessed various cost elements associated with a qualified offer, including average all-in bid price, transmission cost adders, congestion cost/benefit and Reliability Must Run ("RMR") benefits. The following describes how SDG&E determined each of the cost elements:

1) Average All-in Bid Price – SDG&E determined the average all-in bid price ($/MWH) of each project based on the total capacity and energy cost over the term of the PPA's divided by the projected output over the term. SDG&E expected the offered pricing to include any costs necessary for a Respondent to deliver energy to the delivery point and project gen-tie costs. If the actual output from a project differs from the projected output, the average all-in bid price could either increase or decrease. SDG&E used offered pricing inclusive of PTC or ITC if the Respondents indicated the dependence on such credits. If no mention was made of such credits, SDG&E confirmed with the Respondents whether they would rely on PTCs or ITCs. If after the confirmation, the Respondents acknowledged they did not include PTC's or ITC's that they were entitled to in their original bid, SDG&E requested that the Respondent recalculate its bid prices to include them.
2) Transmission Cost Adders – As required by D.04-06-013 issued on June 9, 2004 and D.05-07-040 issued on July 21, 2005, SDG&E estimated transmission upgrade costs necessary to accommodate the proposed projects. Total transmission cost adders were derived from CAISO-approved system impact studies or TRCR's published by the utilities. The 2005 transmission upgrade costs were inflated to 2006 dollars using an average cost of inflation. An annualized carrying cost value was calculated

by multiplying the estimated cost of transmission upgrade costs times SDG&E's total weighted average Levelized Annual Capital Costs (LACC). The resulting annualized value was then divided by the expected annual deliveries (MWh) of each project which resulted in a $/MWh adder for project.

a. Bull Moose and Esmeralda responded to SDG&E's TRCR. Therefore, SDG&E evaluated transmission costs for these projects based on results from the TRCR.

b. Bethel Solar 1 was originally located in the CAISO control area and participated in the TRCR for Southern California Edison. However, the developers expressed concern about the lack of water rights at this location. They suggested relocating the project to other locations, including the Imperial Valley area next to the other Bethel Solar plant located in Imperial Irrigation District ("IID"). The developer concluded that they might be able to reduce their price due to economies of scale. SDG&E agreed to move the project if price concessions for both plants were made.

   Bethel Energy revised their prices and the project was relocated next to their other project. Since Bethel Solar 1 was not originally included in a TRCR at its new location, SDG&E determined that the qualitative factors like resource diversity and location were attractive along with the economies of scale when combined with the other plant. SDG&E agreed to the project so long as Bethel could get firm transmission from IID. SDG&E used a project of similar size and location that had participated in the TRCR to estimate the transmission upgrade costs.

c. Bethel Solar 2 is located in the IID service territory and outside the CAISO control area. It was an optional turnkey project that had not been included in the TRCR, since the project was moved to the IID service territory after contract negotiations commenced. However, SDG&E determined that the qualitative factors like resource diversity and location were attractive along with the economies of scale when combined with the other plant. SDG&E agreed to the project so long as Bethel could get firm transmission from IID. SDG&E used a project of similar size and location that had participated in the TRCR to estimate the transmission upgrade costs.

3) Congestion Cost/Benefit – SDG&E hired ABB Consulting to determine the congestion cost to deliver output from a project's delivery point to SDG&E's load aggregation point. ABB used its GridView Market Simulation Software for this analysis. Input included publicly available information regarding projected transmission upgrades and included information from Respondents. SDG&E requires that Respondents pursue all applicable options for obtaining PTC or ITC benefits or other alternative funding that may be available regarding the offered projects. The resultant congestion cost/benefit was also calculated on a $/MWh basis.

4) Reliability Must-Run ("RMR") – SDG&E assessed the potential RMR benefits a proposed project may provide to local system reliability. Similar to the other cost elements, RMR benefits, if any, are on a $/MWH basis.

Once all cost elements were determined, SDG&E summed up the four $/MWh cost elements in 2006 dollars to determine the overall unit cost ("OUC") of a proposed project for ranking purposes. SDG&E ranked each OUC in the order of least cost. Those projects with acceptable OUC's were initially shortlisted.

Portfolio Fit

SDG&E's 2005 plan stated that SDG&E does not have a preference for a particular product or technology type and that SDG&E has latitude in the resources that it selects. The Projects, therefore, were not selected due to a pre-determined preference for the product type or technology type. SDG&E fairly reviewed all offers and selected the Projects due to factors applicable to its LCBF analysis, as explained above.

Consistent Application of Time of Delivery ("TOD") Factors

In its solicitation documents, SDG&E notified potential Respondents that "SDG&E is utilizing Time of Delivery TOD factors for non-baseloaded resources." During its LCBF evaluation, SDG&E applied TOD factors to all offers with intermittent products such as wind and solar. The average all-in bid price, as described above, was adjusted to reflect the relative value of projected energy deliveries during peak, semipeak and off-peak periods. The projected delivery profiles were provided by the Respondents.

Qualitative Factors

As stated in the RFO, SDG&E differentiates offers of similar cost by reviewing qualitative factors including (in no particular order of preference):

1) Location
2) Benefits to minority and low income areas
3) Resource diversity
4) Environmental stewardship

Minority/low-income areas and environmental stewardship were not factors in SDG&E's ranking process because those factors were not applicable to the offers. However, SDG&E did consider its own service territory and resource diversity in its ranking.

Consistency with Adopted Standard Terms and Conditions

D.04-06-014 adopted standard RPS contract terms and conditions to be used in RPS PPAs. The decision identified certain terms as either modifiable or non-modifiable. All non-modifiable terms and conditions in each of the proposed PPAs are consistent with D.04-06-014.

Contract prices are at or below the 2005 MPR

The contract prices for each of the Proposed PPAs are at or below the 2005 MPR prices as set forth in Resolution E-3980 issued on April 13, 2006. Therefore, the proposed PPAs do not require Supplemental Energy Payments.

PPAs are viable projects

SDG&E believes that the projects are viable because:

Financing

SDG&E expects that each of the Projects will be able to obtain adequate and timely financing to allow such Projects to deliver by their Commercial Operation deadlines.

Creditworthiness and Experience

Each of the Proposed PPAs contains performance securities that will motivate the respective developers to declare Commercial Operation by the respective deadlines and perform in accordance with all terms and conditions. In addition,

each developer has prior experience developing projects similar to those contemplated by their respective PPAs.

1) Bull Moose - Bull Moose's project development team consists of members with a wide variety of relevant industry experience. BME's Chairman of the Board and CoFounder cofounded a consulting firm in 1975 to assist clients in managing the construction and operation of nuclear power plants. During the 1980's and 1990's, BME's vice president was President/CEO of an electric contracting firm which provided electrical construction, instrumentation, process control technology and distributed power generation services to water and wastewater facilities throughout California and Arizona. Today, he is involved in every aspect of energy projects including basis of design decisions and constructability issues. This included O & M considerations as well as contractor evaluation and selection.
2) Esmeralda - The developer served on Gov. Brown's Geothermal Task Force and DOE's Geothermal Advisory Committee. He developed the 16 MW Fish Lake project in Nevada. He has been developing Greenfield projects in Nevada and California since 1996.
3) Bethel - The developer has over 20 years of experience in solar thermal power generation. The project team lead was the former Vice President of Engineering and Construction and later the General Manager with Luz Engineering, the company that developed the solar electric generation systems (SEGS) plants in the Mojave Desert. The developer deployed eight out of nine SEGS plants during the 1980s and 1990s and also has extensive experience with hybrid facilities fired on solar and natural gas.

<u>Transmission</u>

1) Bull Moose - The project is currently on the CAISO queue and requires transmission upgrades to accommodate the delivery of energy to the grid. The developer has informed SDG&E's Electric and Gas Procurement Department that it is currently working with SDG&E's Transmission Planning personnel to plan for the project. Bull Moose is well into its interconnection process and expects transmission interconnection to be completed in time for Bull Moose to begin deliveries in December 2008.

2) Esmeralda - Esmeralda had preliminary discussions with IID to determine how the project will connect to the IID system for delivery to the Imperial Valley ("IV") substation. Subsequent discussions for interconnection studies for IID and the IV substation upgrades with SDG&E's transmission planners will follow as the projects continue to develop. The project is predicated on the completion of Sunrise Powerlink. However, if delays in completion of Sunrise look likely in 2008, SDG&E will perform a congestion cost analysis by 12/31/08 to determine if it is cost-effective to take deliveries via some other transmission pathway.

3) Bethel - Bethel projects 1 and 2 propose to deliver power to the Imperial Valley (IV) substation and utilize existing transmission lines to transmit power to San Diego. Power will be transmitted over the Southwest PowerLink 500 kV Transmission Line (SWPL). SDG&E has conducted congestion analysis for the 2005 solicitation and found that congestion costs will not negatively impact the viability and competitiveness of these projects. Bethel 1 and 2 are not dependent on the proposed Sunrise link, although Sunrise would provide access for future solar projects.

   Bethel has submitted an application for transmission to the Imperial Irrigation District (IID) and is a valid customer for IID Transmission Services. IID will be the scheduling coordinator for this project and is prepared to initiate a formal transmission study of the system and facility impacts to determine costs and obstacles regarding transmission needs. Bethel is currently raising capital to fund these studies. These projects do not require any California ISO applications and SDG&E is not contemplating any system upgrades.

   While Bethel 1 and 2 will deliver power to the IV substation, Bethel has not yet chosen a point of interconnection. Bethel is considering interconnection at two existing substations: either the 169kV Superstition substation, which is located about 2 miles (line-of-sight) west of the project site, or the Dixieland Substation, which is located about 5 miles southwest of the site. The specific details for the Gen-Tie are currently under study. This includes the Gen-Tie type, length, and voltage.

Site Control

1) Bull Moose - Since the contract was executed, Bull Moose is making good progress towards obtaining site control and expects all necessary site-related matters to be resolved in a timely manner.

2) Esmeralda - The developer has requested a land lease from Bureau of Land Management (BLM), with a BLM decision expected sometime in 2007. Approval of the lease from BLM is likely.

3) Bethel - Both Bethel 1 and 2 will be sited at Fillaree Ranch, which is privately owned land in Imperial County. No percentage of the projects will be located in IID territory, which was initially stated in the advice letter. Each project will require 320 acres of land, and site control is currently in escrow with land owners and is scheduled to close on March 1, 2007.

   Ninety-five percent of Fillaree Ranch is comprised of alfalfa farmland. This land is currently zoned for agricultural use and solar power generation and the site is clear and conducive to construction. While the site is remote from any populated areas (10 miles from El Centro), it has fully developed transportation access suitable for delivery of all materials and supplies needed for construction and operation.

Permitting

1) Bull Moose - Developer has conducted discussions with both City and County entities overseeing the relevant permits. The developer is moving forward with city permitting efforts and has submitted its application for the APCD permit. Bull Moose does not anticipate any permitting issues that will delay the online date of the project.

2) Esmeralda - SDG&E states that all necessary permits for the project will be subsumed in the BLM land lease.

3) Bethel - While no formal permit applications have been initiated, Bethel has developed a preliminary list of all major permits required. Through discussions with the Imperial County Supervisor in charge of the Fillaree Ranch Area, a 3-6 month cycle for permit approval is anticipated for all necessary permits except air emission permits. Air emission permits are

the most challenging permits to obtain, but SDG&E does not anticipate any major roadblocks. Assuming the Bethel projects will not need an Environmental Impact Report (EIR), 6-8 months is estimated for air permits. If an EIR is required, then an additional 10 months to receive air permits will be needed. Although SDG&E does not anticipate an EIR will be required, the project will not be hindered if it is needed since the PPAs with SDG&E are valid until December 31st, 2009.

Technology

1) Bull Moose will burn biomass (urban wood waste) using technology already employed by many other generators.

2) Esmeralda will use geothermal energy technology already employed by many other generators.

3) Bethel - Bethel 1 and 2 will use solar electric generation systems (SEGS), a solar thermal technology that has been commercially proven in nine plants located in the Mojave Desert of California. More specifically, the Bethel projects will utilize LS3 technology, which is the latest generation technology that was deployed in three of the SEGS plants. The capacity factor of the solar plants is anticipated to be 38%. All of the installed SEGS plants have performed at their expected level and are still functional today.

   Bethel 1 and 2 are solar hybrid plants and plan to utilize biofuels as a backup to preheat the equipment. Bethel is under contract negotiations for bio-digested cow manure and the cost is subject to negotiation with the supplier. In the CEC RPS guidelines, it addresses the use of biofuels for preheating. SDG&E states that Bethel's proposed fuel is in compliance with the guidelines in CEC's RPS Eligibility Guidebook.

Production or Investment Tax Credits

The Proposed PPAs are not contingent on Production Tax Credits. However, the Bethel Solar 1 PPA and the Bethel Solar 2 PPA pricing terms are both contingent on Investment Tax Credits and accelerated depreciation benefits (though all price options for the projects are below the MPR).

Cost recovery for debt equivalence and FIN 46(R) requirements associated with these contracts will not be addressed in this Resolution

In AL 1845-E, SDG&E requests Commission approval by resolution for recovery of any costs associated with the rebalancing of SDG&E's capital structure due to the impacts of FIN 46 or debt equivalence obligations. Pursuant to D.07-02-011, pp.29-31, such ratemaking relief may not be made via resolution, but instead may be addressed in the IOUs' cost of capital proceedings.

Confidential information about the contracts should remain confidential

Certain contract details were filed by SDG&E under confidential seal. Energy Division recommends that certain material filed under seal pursuant to Public Utilities (Pub. Util.) Code Section 583, General Order (G.O.) 66-C, and D.06-06-066, and considered for possible disclosure, should be kept confidential to ensure that market sensitive data does not influence the behavior of bidders in future RPS solicitations.

COMMENTS

This is an uncontested matter in which the decision grants the requested relief with only minor modifications. Therefore, pursuant to Public Utilities Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment was shortened to 10 days (6 days for comments and an additional 4 days for reply comments). No comments or reply comments were received for draft Resolution E-4073.

FINDINGS

1) SDG&E filed Advice Letter 1845-E on November 20, 2006, requesting Commission review and approval of four new renewable energy contracts: Bull Moose, Esmeralda-San Felipe, Bethel Solar 1 and Bethel Solar 2.

2) The RPS Program requires each utility, including SDG&E, to increase the amount of renewable energy in its portfolio to 20 percent by 2010, increasing by a minimum of one percent per year.

3) On September 7, 2005 the Energy Division notified SDG&E that no protests were received in response to its revised 2005 plan and authorized SDG&E to issue its 2005 RFO.

4) SDG&E issued its 2005 RPS RFO on September 30, 2005.

5) D.04-06-014 set forth standard terms and conditions to be incorporated into RPS PPAs.

6) Levelized contract prices at or below the 2005 MPR are considered per se reasonable as measured according to the net present value calculations explained in D.04-06-015 and D.04-07-029.

7) D.04-07-029 adopted least-cost, best-fit criteria which the utilities must use in their selection process after the RFO has been closed.

8) The Commission required each utility to establish a Procurement Review Group (PRG) to review the utilities' interim procurement needs and strategy, proposed procurement process, and selected contracts.

9) SDG&E first briefed its PRG on December 5, 2005, regarding SDG&E's preliminary assessment of the bids received in response to the 2005 RFO. SDG&E provided further briefings on January 24, 2006, to summarize its recommendations for a preliminary shortlist. On March 24, 2006, SDG&E briefed the PRG on its final shortlist and provided an update on the status of its negotiations. None of the PRG members have expressed any objection to the price or terms presented to them in connection with the Proposed PPAs.

10) Certain material filed under seal pursuant to Public Utilities (Pub. Util.) Code Section 583, General Order (G.O.) 66-C, and D.06-06-066, and considered for possible disclosure, should not be disclosed. Accordingly, the confidential appendices, marked "[REDACTED]" in the redacted copy, should not be made public upon Commission approval of this resolution.

11) The proposed contract prices are at or below the 2005 MPRs released in Resolution E-3980 issued on April 13, 2006.

12) The Commission has reviewed the proposed contracts and finds them to be consistent with SDG&E's approved 2005 renewable procurement plan.

13) Procurement pursuant to the PPAs are procurement from an eligible renewable energy resource for purposes of determining SDG&E compliance with any obligation that it may have to procure eligible renewable energy

resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071, or other applicable law.

14) Procurement pursuant to the PPAs constitute incremental procurement or procurement for baseline replenishment by SDG&E from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation to increase its totals procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071, or other applicable law.

15) Any indirect costs of renewables procurement identified in Section 399.15(a)(2) shall be recovered in rates.

16) AL 1845-E should be approved with modifications today; per D.07-02-011 (pp. 29-31, CoL 9 and OP 2), SDG&E's request for recovery of costs from the rebalancing of SDG&E's capital structure due to the impacts of FIN 46 or debt equivalence obligations is not approved by advice letter, but is best addressed in a cost of capital proceeding.

THEREFORE IT IS ORDERED THAT:

1. Advice Letter AL 1845-E is approved with modifications.

2. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on March 15, 2007; the following Commissioners voting favorably thereon:

_____
STEVE LARSON
Executive Director

Confidential Appendix A

Solicitation Analysis

REDACTED

Confidential Appendix B -1

Bull Moose Contract Summary

REDACTED

Confidential Appendix B -2

Esmeralda Contract Summary

REDACTED

Confidential Appendix B -3

Bethel Contract Summary

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Confidential Appendix C

Contract Pricing Analysis

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Confidential Appendix D

Projects' Contribution Toward RPS Goals

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