ALJ/DKF/sid **Date of Issuance 11/19/2007**

Decision 07-11-046 November 16, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Approval of Election to Exercise Option to Purchase Power Plant Owned by El Dorado LLC.	Application 07-08-006 (Filed August 8, 2007)

OPINION ON SAN DIEGO GAS & ELECTRIC COMPANY OPTION TO PURCHASE EL DORADO POWER PLANT

1. Summary

This decision approves the request of San Diego Gas & Electric Company (SDG&E) to exercise an option to purchase a power plant located in Nevada and owned by El Dorado Energy LLC, a Sempra Energy affiliate (the El Dorado Option). Beginning in October 2011, the El Dorado plant will provide approximately 480 megawatts (MW) of power to help meet the energy and reliability needs of SDG&E's bundled customers. This decision also approves SDG&E's proposed framework for recovery of costs related to owning and operating the plant.

2. Background

On November 21, 2005, the Attorney General of the State of California, on behalf of the Commission, filed a "Complaint for Damages, Statutory Penalties and Injunctive Relief" against Sempra Energy, SDG&E and Southern California

Gas Company (SoCalGas).[1] The complaint alleges that SDG&E/SoCalGas misrepresented the amount of pipeline capacity available to transport natural gas to Baja California and did not disclose to the Commission the potential for curtailment of customers in Southern California. After service was initiated to transport natural gas over the two utilities' pipeline systems to Sempra Energy affiliates, which sell and distribute natural gas within Baja California, SDG&E curtailed natural gas service on 17 days during the energy crisis in the winter of 2000-2001. In California, two major customers, which operated electric power plants, were curtailed and were forced to switch to fuel oil to generate power.

Following settlement negotiations, on September 21, 2006, the Settling Parties[2] reached an agreement (Settlement Agreement) to fully resolve their dispute and avoid the uncertainty and substantial costs caused by the pendency of the complaint. The Settlement Agreement provides SDG&E customers with certain benefits, including the option of additional supplies of energy at Commission-regulated rates. Specifically, the Settling Parties agreed that SDG&E would receive an option to obtain, at book cost effective October 1, 2011, ownership of an approximately 480 MW gas-fired power plant (and associated electric transmission facilities) located in Boulder City, Nevada and owned by El Dorado Energy LLC.[3]

---

[1] San Diego Superior Court Case No. GIC 857224.

[2] Settling Parties include Sempra Energy, SDG&E, SoCalGas, Attorney General, and the Commission.

[3] The offered price of the El Dorado Option, as defined in the Equity Purchase Option Agreement, is equal to the closing book value of the plant at the time of transfer in 2011, which is currently estimated by El Dorado to be $189 million.

According to the Settlement Agreement, SDG&E must decide whether to exercise the El Dorado Option within 45 days of the Commission's Phase II decision in the Long-Term Procurement Plan (LTPP) proceeding (Rulemaking (R.) 06-02-013). SDG&E's decision is subject to review by the Commission, and the Settlement Agreement provides that the Commission must decide, by December 31, 2007, whether SDG&E should exercise the El Dorado Option.[4]

The timing for issuance of the Phase II decision in the LTPP now differs from the time frame contemplated by the Settling Parties when they executed the Settlement Agreement. The Phase II decision in the LTPP has not yet been issued (although it is expected by the end of the year). Given the December 31, 2007 deadline for a Commission decision regarding whether SDG&E should exercise the El Dorado Option, SDG&E decided it no longer made sense to wait for a Phase II decision in the LTPP before bringing the El Dorado Option to the Commission for a decision. Therefore, SDG&E filed the application on August 8, 2007 and proposed a procedural schedule to ensure a decision by the end of 2007.

3. SDG&E's Request

SDG&E seeks authorization to exercise the El Dorado Option and thereby acquire the El Dorado plant for SDG&E's bundled customers. SDG&E maintains that (1) based on the results of the recently concluded competitive solicitation for needed resources in the 2010-2012 timeframe, the El Dorado Option continues to be the least cost, best fit option to fill a portion of SDG&E's bundled customers' future needs; (2) resolving the El Dorado Option by the end of this year provides certainty and stability to SDG&E's procurement portfolio, which benefits all

[4] This deadline may be extended upon mutual agreement of Sempra Energy, SDG&E, SoCalGas, and the Commission.

stakeholders, who will have better clarity regarding SDG&E's future needs; and (3) there is value in procuring SDG&E's future needs gradually and over time, thus diversifying SDG&E's purchased price of energy and capacity.

SDG&E proposes to use its existing balancing accounts to recover all of the costs associated with this resource from bundled customers.

There were no protests or other responses to the application.

Due to the time constraints imposed by the Settlement Agreement and the status of the current LTPP, SDG&E's decision to file its application prior to a Phase II decision in R.06-02-013 is reasonable. Our evaluation of SDG&E's need for the El Dorado plant or similar resource, SDG&E's selection of El Dorado as best alternative, and SDG&E's proposed cost recovery framework follows.

4. SDG&E's Need for the El Dorado Plant or Similar Resource

The need for the El Dorado plant is driven by the future energy and resource adequacy needs identified by SDG&E in its LTPP for its bundled customers. The LTPP was filed in R.06-02-013 on December 11, 2006 and is currently under review by the Commission.

In the LTPP, SDG&E showed bundled customer needs for three different scenarios, Low, Base and High, mainly driven by different load growth scenarios. These scenarios also show the potential impact on resource needs in the San Diego service area with and without the Sunrise Powerlink, which is also currently under Commission review in a separate proceeding.[5] SDG&E has not identified any transmission constraints related to deliverability of power from El Dorado to SDG&E. The three Low, Base and High scenarios that support

[5] A.06-08-010.

SDG&E's request in this application as well as the LTPP were developed as follows:

> Base Need Scenario: The base need scenario is derived using a modified California Energy Commission (CEC) load forecast and the Commission-adopted goals for energy efficiency and demand response. SDG&E assumes Direct Access (DA) load will remain at historical levels.
>
> High Need Scenario: The high need scenario is derived using a combination of assumptions that could lead to a higher resource requirement for SDG&E's bundled customers. SDG&E's high case assumes 1% to 2% additional load growth in the first three years of the forecast horizon, followed by a 0.25% to 0.50% growth adder thereafter. The high case also assumes a return of some DA load to bundled load. It also assumes that the Otay Mesa power plant's on-line date is delayed one year to 2010.
>
> Low Need Scenario: The low need scenario is derived using a combination of assumptions that could lead to a lower resource requirement for SDG&E's bundled customers. SDG&E's low case assumes more moderate reductions to overall load in the forecast horizon and uses rates that are half of the high case. Over a five-year period, the low case also assumes large customers are allowed to return to DA over a five-year period. It also models potential load loss if DA is re-opened to customers with load greater than or equal to 500 kilovolts and these customers leave over a five-year period. In addition, a load loss is phased in over a three-year period to account for the possibility of CCA occurring over the 2008 – 2010 timeframe.

For each of the three scenarios, SDG&E determined resource needs to meet the requirements for its bundled customer load. SDG&E's bundled customer peak need in each of the scenarios from 2010 to 2016 is shown in Table 1 below. Need was determined by subtracting all energy efficiency and demand response programs, both committed and uncommitted, and existing and planned supply resources from the forecasted load plus a 15% reserve margin. SDG&E notes that since the Commission-approved reserve margin is actually a range of 15-17%, the values in this table could be increased by about 80 MW and still be within the Commission-approved range.

Table 1

Bundled Customer Need (in MWs)

Scenario	2010	2011	2012	2013	2014	2015	2016
Low	634	895	1488	1457	1598	1629	1680
Base	1017	1345	2004	1989	2144	2186	3351
High	1350	1734	2451	2470	2643	2706	2792

SDG&E's testimony makes the following points:

Of the total bundled need identified in SDG&E's LTPP filing, SDG&E has filed for Commission approval (Application (A.) 07-05-023) of two contracts to add 130 MW of new peaking capacity to be built in SDG&E's service area by 2008. A portion of this need, estimated to be about 100-350 MW over the 2010 to 2016 period will also be met with new renewable resources.

The large increase in need between 2011 and 2012 is mainly driven by the end of the California Department of Water Resources contract with the Sunrise Power Plant (Sunrise CDWR contract). Under that contract, SDG&E has full rights to all the capacity, energy and ancillary services from a combined cycle plant of approximately 545 MW. In the LTPP, SDG&E showed a generic combined cycle plant being added in 2012 to replace the capacity and energy that SDG&E's customers had from the Sunrise CDWR contract. The Sunrise Power Plant is located in Kern County, California, and its power is scheduled through the ISO and delivered at ZP-26. Thus, the addition of the El Dorado plant represents a replacement of a similar off-system resource that SDG&E has used to meet its bundled customers' needs since SDG&E was allocated, for the purposes of operational administration, the Sunrise CDWR contract in 2003.

> SDG&E also identified in the LTPP that a portion of need could come from off-system resources, and SDG&E would still be able to meet its local resource adequacy requirements. In 2012, if the Sunrise Powerlink is added, then 540 MW of this total need must be on system in the base case. If the Sunrise Powerlink is delayed until after 2012, then about 1,400 MW of the need has to be on system, still leaving room for off system resources.
>
> Additionally, since the LTPP was filed, the staff of the CEC has issued a draft revised demand forecast for 2008, which is 50 MW higher than the LTPP forecast on both the expected (50/50 forecast) load and on an adverse peak basis (90/10 forecast). By 2012, the CEC forecast is 100 MW higher, and it is over 200 MW higher by 2018.

4.1. Discussion

SDG&E's proposal to procure approximately 500 MW of power for 2012 from a fully dispatchable, baseload facility is consistent with its LTPP that is currently being evaluated by the Commission in R.06-02-013. Although SDG&E's 2006 LTPP has not yet been approved, the amount of power at issue is well within SDG&E's identified bundled customers' needs for that timeframe. For the purposes of this application, we find that SDG&E has adequately demonstrated a need for the El Dorado plant or similar resource. However, we do not prejudge here any need determinations we may make in the LTPP proceeding R.06-02-013 or the Sunrise Powerlink proceeding A.06-08-010.

The procurement authority SDG&E requests in its 2006 LTPP should be reduced by the 480 MW of generation it is procuring by exercising the El Dorado Option.

5. Determination and Selection of the Best Option

5.1. Supply Resources Request for Offers

SDG&E issued a 2010-2012 Supply Resources Request for Offers (2010-2012 RFO) to address, in part, the large bundled customer short position that needs to be filled over the next few years due to expiring CDWR contracts. SDG&E indicates that it is procuring its future net short incrementally and over time, rather than buying all of the identified short position in a single RFO, thus diversifying its purchased price of capacity and energy. SDG&E also conducted this competitive solicitation as a market test for the El Dorado Option to determine whether there are any opportunities to purchase a project with characteristics similar to El Dorado, but at a lower cost.

After analyzing the portfolio needs, SDG&E made a decision on product type and quantity to seek in the RFO. SDG&E sought supply resources to supply energy to bundled customers and/or meet other portfolio needs, including resource adequacy requirements,[6] as follows:

> Product 1 in the RFO was for demand response. The product requirements stated that each demand response project must be a means of reducing an end-use customer's demand and/or energy usage by at least 1.0 MW and be within SDG&E's service territory.
>
> Product 2 in the RFO was defined as new generation capacity with a "preferred on line date of March 2010, but with

[6] Although the RFO solicited demand response and conventional resources, it did not solicit renewables (and was thus not a true All-Source RFO) due to the release the following business day (on March 12, 2007) of SDG&E's 2007 Renewable Portfolio Standard RFO.

> consideration of offers for dates as early as March 2009 or as late as March 2012." The new generation had to "be located physically within SDG&E's service territory … or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's service area such that the unit supports SDG&E's local resource adequacy requirement." Recognizing that there may be qualified developers that do not have familiarity with the San Diego region and may not have a site readily available to them, SDG&E offered two of its own sites (Rainbow and Lonestar) to potential developers in order to garner the best possible response to its RFO. The sites were opened for power purchase agreements (PPA) and build-own-transfer (turnkey) offers.
>
> Product 3 in the RFO was for resources able to compete with the services and characteristics offered by the El Dorado Option. Product 3 was for "one fully dispatchable, approximately 500 MW generation facility with a remaining useful life of at least 20 years capable of delivering unit contingent firm energy and capacity to SDG&E's service territory, with deliveries commencing between October 1, 2011 and March 31, 2012." Heat rates were generally held to be "... no higher than 8,000 btu/kWh, and the unit ... [was to] ... be capable of operating at capacity factors of 80% or more." Offers were to be "... PPA (tolls only) with an option offered at respondents' sole election for transfer to SDG&E at a price certain; or an acquisition by SDG&E." In every case, deliveries would begin no later than Q1 2012.

SDG&E indicates that it is continuing to work on negotiating contracts for Products 1 and 2 and may file any resulting contracts for approval by the Commission in the future. The results for Product 3 and the economic analysis of the associated offers are discussed further on in this decision.

5.1.1. Consultation Prior to RFO Release

SDG&E states that it consulted with its Procurement Review Group (PRG) and also worked with its Independent Evaluator (IE) to ensure that the solicitation was open, designed and evaluated without bias and likely to garner a robust response from the market. SDG&E indicates the following:

- The PRG was briefed on SDG&E's plans for the 2010-2012 RFO as early as October 13, 2006.
- On October 27, 2006, a PRG meeting was held to discuss, among other topics, the El Dorado Option.
- On March 1, 2007, draft RFO documents were sent to the PRG for their review prior to release publicly.
- On March 2, 2007, a call was held with Energy Division staff who had suggested changes that SDG&E incorporated into the RFO document prior to its release on March 9, 2007.
- On March 16, 2007, SDG&E again reviewed with its PRG the goals of the RFO, the process to be followed in the RFO and the need to be filled.

SDG&E states that it also consulted with its IE and provided it an opportunity to review and comment on the RFO document prior to its release. Additionally, SDG&E worked with the IE to resolve items that were brought to SDG&E's attention prior to issuing the RFO. SDG&E had chosen to continue with the same IE used for previous solicitations by the utility due to that entity's familiarity with SDG&E's portfolio and the PRG. After the RFO was underway, the IE asked to withdraw from this matter due to a potential conflict related to other work being done by the IE's firm. SDG&E therefore switched IE firms immediately prior to the receipt of offers. This change in IE was discussed with the PRG on two occasions.

On March 9, 2007, SDG&E issued its 2010-2012 RFO to the market. In order to achieve its goals of maximum participation and robust competition, SDG&E states that it took the following actions: (1) issued a press release, which was carried by major trade publications; (2) conducted a direct mailing (via e-mail) to a list of likely interested parties; (3) noticed the RFO on its web site;

(4) posted all relevant documents on that site for access by any interested party; (5) convened a pre-bid conference on March 30, 2007, which was attended by almost 50 individuals; and (6) regularly updated its RFO web site with new information and responses to questions submitted in writing regarding the RFO.

5.2. Product 3 Results

The evaluation of the bids started with screening for conformance with the RFO. SDG&E received two conforming offers in Product 3, one of which was the El Dorado Option.

In summary, the El Dorado Option is for the purchase of 100% interest in the existing 480 MW combined cycle power plant. The unit is located in southern Nevada and will be capable of providing system resource adequacy to SDG&E's portfolio as an import, which is dynamically scheduled into the ISO on the Merchant Branch Group. The unit will also provide SDG&E's bundled customers with ancillary services and energy at a heat rate that is attractive relative to the market. The offered price of the El Dorado plant, as defined in the Equity Purchase Option Agreement, is equal to the closing book value of the plant at the time of transfer in 2011, which is currently estimated to be $189 million.

The sole conforming bid to compete with El Dorado in the Product 3 category (Competing Offer) is an industry standard combined cycle unit similar to El Dorado. The Competing Offer would be expected to operate in a similar manner as El Dorado and, as proposed, would be built within SDG&E's service territory.

5.3. Economic Analysis of Costs and Benefits

SDG&E performed an economic analysis to demonstrate why it believes customers will benefit significantly from selection of the El Dorado Option as compared with the Competing Offer. The evaluation considered the fixed and variable costs of El Dorado ownership and the Competing Offer, and quantifies the overall net present value cost impact to ratepayers of adding either El Dorado or the Competing Offer to SDG&E's bundled resource portfolio.

The modeling methodology used in this comparative analysis is consistent with the approach used in SDG&E's Grid Reliability RFP that resulted in a number of approved projects, including the Palomar Plant, and in the Otay Mesa PPA Rehearing Proceeding (D.06-09-021).

The economic analysis focused on both capital and operating costs. Capital costs included (1) capacity and fixed costs; (2) debt equivalency costs; (3) cost variations associated with plant size; and (4) transmission system upgrade cost differences.[7] Operating costs included (1) system energy costs; (2) ancillary services benefits; (3) potential Greenhouse Gas (GHG) emissions costs; and (4) locational differences.

The result of SDG&E's analysis shows that its bundled customers are estimated to receive benefits of approximately $243 million under an expected case on a net present value (NPV) basis over the 25-year analysis period by exercising the option to procure the El Dorado plant as compared to the Competing Offer. SDG&E's analysis shows lower capital related costs of

---

[7] The RFO required that all offers for new projects provide a California Independent System Operator System Impact Study so SDG&E's analysis could assess any transmission system upgrade costs (beyond the "gentie") that would be required to make the plants deliverable. SDG&E did not receive such a study for the Competing Offer and thus made an assumption for this analysis that costs would be similar to the cost for integrating the Palomar combined cycle plant. In its prepared testimony, SDG&E discusses this analysis, as well as a sensitivity that evaluates lower transmission system upgrade costs.

$316 million for El Dorado are offset to a degree by higher operating costs of $72 million. According to SDG&E, benefits related to the capital cost components result from SDG&E being able to procure El Dorado at book value. Operating costs/benefits related to system energy, ancillary services and GHG emissions are relatively close between El Dorado and the Competing Offer, which SDG&E notes would be expected since the plants are expected to operate in a similar manner. El Dorado has higher total operating costs primarily due to locational price differences related to its location outside of SDG&E's service territory versus the Competing Offer, which would be located in SDG&E's service area.

In order to test the robustness of the analysis, additional sensitivities were applied to both El Dorado and the Competing Offer that addressed (1) local resource adequacy; (2) locational marginal price differential; (3) transmission system upgrade costs; and (4) terminal value. The results of the sensitivity analysis show that SDG&E's bundled customers continue to receive benefits on a NPV basis over the 25-year analysis period by exercising the option to procure the El Dorado Plant as compared to the Competing Offer.

5.4. GHG Emissions Performance Standard Evaluation

D.07-01-039 set an interim GHG Emissions Performance Standard (EPS) for any new long-term commitments to baseload generation. SDG&E calculated the forecasted carbon dioxide (CO^2) emissions per megawatt hour. Based on forecasted operation from its production simulation model, SDG&E calculated that the expected emissions would be less than 900 pounds/MWh over the 2012-2021 timeframe. This amount is below the EPS of 1,100 lbs/MWh. Thus, SDG&E asserts that the plant would pass the EPS recently adopted by the Commission.

SDG&E also checked the Competing Offer for compliance with the EPS. SDG&E calculated the expected emissions for the Competing Offer would also be less than 900 lbs/MWh over the 2012-2021 timeframe.

5.5. Selection

The 2010 -2012 RFO process resulted in SDG&E selecting the El Dorado Option for Product 3.[8] Selection was a simple comparison of the revenue requirement impacts of the two offerings – the El Dorado Option vs. the Competing Offer. Based on the outcome of the analysis described above and detailed in SDG&E's prepared testimony, SDG&E maintains that the El Dorado Option is a superior alternative to the Competing Offer.

5.5.1. Consultation on Selection

The PRG continued to be briefed after the RFO was issued. On April 27, 2007, SDG&E met with its PRG to discuss and review the proposed evaluation criteria to be used in making a selection. On June 20, 2007, SDG&E reviewed the results of its analysis and presented its proposed shortlist to the PRG, including its decision to exercise the El Dorado Option.

Methodologies and empirical data assumptions were proposed and considered by both the IE and SDG&E. The subjects covered isolation of key variables, consistency of analytical approaches and the possible presence of

---

[8] The Settlement Agreement for the El Dorado Option is contained in both Exhibits 1 and 2. The Equity Purchase Option Agreement is contained in Exhibit 3.

perceived bias. This process included numerous site visits, conference calls and e-mails with the IEs.

5.5.2. Independent Evaluator's Report

SDG&E's prepared testimony included a copy of the Independent Evaluator's Report: SDG&E's Product 3 Selection for its March 9, 2007 request for Offers for Supply Resources (IE Report).[9] VHC's opinions and conclusions regarding the selection of the El Dorado Option are summarized as follows:[10]

> As discussed above, VHC reviewed SDG&E's bid receipt and evaluation processes and methods, as well as spot-checking data and calculations. In addition to conducting on-site and telephone interviews and discussions with SDG&E personnel, VHC reviewed bid-related materials and quantitative analyses, recommended refinements, and initiated numerous discussions.
>
> VHC concludes that SDG&E has run a fair and unbiased solicitation for Product 3, resulting in its selection of the El Dorado project. No preference was shown for the El Dorado affiliate bid. As noted earlier, SDG&E provided the acquisition costs of the El Dorado project in the RFO solicitation, in order to allow other bidders to estimate the benchmark costs that their offers would need to beat in their bids.
>
> VHC concurs with SDG&E that the El Dorado project is a lower cost option than the "Offer" and is the appropriate Product 3 resource selection. VHC has noted areas where it may have used

---

[9] The report was prepared by Van Horn Consulting (VHC), which began its role as IE on May 17, 2007. VHC assumed the role previously performed by PA Consulting, which had reviewed the design of the solicitation and the early evaluation criteria. VHC's IE Report included a discussion of PA Consulting's review.

[10] IE Report, p. 16. VHC's use of the term "Offer" refers to what SDG&E calls the "Competing Offer" in its testimony.

> different assumptions in the economic evaluation for Product 3. Overall, VHC believes that SDG&E's set of assumptions for the Product 3 evaluation have led to the comparative costs of the El Dorado project being somewhat higher than they might otherwise have been estimated to be. However, even using such relatively conservative assumptions, the costs of the El Dorado bid remain considerably lower than the costs of the "Offer." VHC does not see a likely scenario where the "Offer" would be a superior selection to the transfer of the El Dorado plant to SDG&E.
>
> Although, not considered in the evaluation, the smaller, shorter-lived El Dorado project may also allow greater flexibility in the future to comply with more stringent rules and regulations regarding CO^2 emissions reductions.

5.6. Discussion

The RFO process, as conducted by SDG&E for 2010 -2012 and as described above is a reasonable means for determining whether the El Dorado Option is the least cost, best fit resource to fulfill the associated bundled customer resource need identified by SDG&E in its LTPP. The Competing Offer, a new combined cycle unit similar to the existing El Dorado unit, provides a reasonable comparison to El Dorado for the purpose of making such a determination. We also note that SDG&E's PRG was kept informed during the entire RFO process, and no party responded to or protested this application.

SDG&E's economic analysis of the El Dorado Option and the Competing Offer is consistent with that adopted in prior Commission decisions. We have reviewed SDG&E's analysis and the results appear reasonable. As indicated, the principal factor that leads to the selection of the El Dorado Option is the value of the purchase price being based on the depreciated value of the plant at the time of the October 1, 2011 purchase. Also, as indicated above, the IE Report reviewed SDG&E's economic analysis. In VHC's judgment, the bids were evaluated fairly, enabling SDG&E to make a reasonable comparison of the values of the bids and to make an appropriate Product 3 selection.

We also acknowledge SDG&E's analysis that shows the El Dorado plant would pass the GHG EPS recently adopted by the Commission.

For these reasons, we find SDG&E's selection of the El Dorado Option for Product 3 of the 2010-2012 RFO to be reasonable. This sufficiently demonstrates that the El Dorado Option is the least cost, best fit alternative to fulfill the associated bundled customer resource need identified by SDG&E in its LTPP. Also, ensuring the addition of the El Dorado plant to SDG&E's bundled resource portfolio now is a significant step in SDG&E's strategy to procure its future resource needs gradually and over time, thus diversifying its purchased price of capacity and energy. It is in the interest of SDG&E's bundled ratepayers for SDG&E to exercise its option to purchase the El Dorado plant, and SDG&E's request to do so should and shall be approved.

6. Cost Recovery Framework

In D.04-12-048, the Commission authorized the utilities to utilize the Non-Fuel Generation Balancing Account (NGBA) to record the authorized operations and maintenance (O&M) and capital-related non-fuel revenue requirements associated with new turnkey/utility owned generation plants. SDG&E proposal for a cost recovery framework for the El Dorado Option consists of three elements as described below.

6.1. Fixed Revenue Requirement

As of the date El Dorado ownership is assumed by SDG&E, the monthly fixed revenue requirement would be recorded in the NGBA for recovery through SDG&E's commodity rates (Schedule EECC-Electric Energy Commodity Cost).

This fixed revenue requirement would be recorded monthly to the NGBA and be balanced against billed revenues received from the rate component of Schedule EECC set to recover fixed El Dorado costs. For 2011, the year in which El Dorado is scheduled to go into service, the forecasted 2011 revenue requirement would be included in SDG&E's annual NGBA advice letter filing. However, prior to the in-service date of El Dorado, SDG&E would file an advice letter to identify the final El Dorado fixed monthly revenue requirement to be recorded to the NGBA.

Commodity rates that include the El Dorado authorized fixed revenue requirement may lead to recorded revenues that are higher or lower than the authorized revenues due to higher or lower than expected customer sales. Such over collections or under collections of the El Dorado authorized fixed revenue requirement would be recorded in the NGBA. For each calendar year following the in-service date, the El Dorado NGBA balance would be included in SDG&E's annual NGBA advice letter filing (filed in the 4th quarter) and annual consolidated electric rate change filing (filed in December) to be recovered in commodity rates effective January 1 of the following year.

6.2. Variable Operation and Maintenance and Non-Fuel Costs

SDG&E requests approval of a variable O&M rate to recover the El Dorado variable O&M non-fuel costs at the time the monthly fixed revenue requirement is approved. SDG&E proposes a variable O&M rate per MWh of generated output from the plant based on the estimated costs required to operate and maintain El Dorado. The authorized variable O&M non-fuel costs, equal to the authorized variable O&M rate times the MWh generated, would be recorded monthly to the NGBA.

Commodity rates based on recovery of the El Dorado projected variable O&M non-fuel costs may lead to recorded revenues that are higher or lower than the authorized revenues due to higher or lower than expected customer sales and/or higher or lower than expected generation output from El Dorado. Such over collections or under collections of the El Dorado variable O&M non-fuel costs would be recorded in the NGBA. For each calendar year following the in-service date, the El Dorado NGBA balance and the following year's projected variable O&M non-fuel costs based on the adopted variable O&M rate and estimated generation output would be included in SDG&E's annual NGBA advice letter filing (filed in the fourth quarter) and annual consolidated electric rate change filing (filed in December) to be recovered in commodity rates effective January 1 of the following year.

6.3. Fuel Costs

El Dorado fuel costs would be recorded in the Energy Resource Recovery Account (ERRA) for recovery through commodity rates. In the ERRA, actual fuel costs are compared with billed revenues with the balance (under- or over-collection) being amortized in commodity rates the following year. For 2011, the year in which El Dorado is scheduled to become an SDG&E plant, the forecasted fuel costs would be included in the annual ERRA forecasted revenue requirement application. In subsequent years, the El Dorado ERRA balance and following year's forecasted fuel costs would be included in SDG&E's annual ERRA forecasted revenue requirement application (filed in the fourth quarter).

6.4. Discussion

SDG&E's proposal to recover fixed revenue requirement and variable operation and maintenance and non-fuel costs through the NGBA and to recover fuel costs through the ERRA is generally consistent with the provisions discussed and adopted in D.04-12-048.[11] In that decision we state the following:[12]

> In the LTPP proceeding SDG&E proposes a three-phase cost recovery framework for turnkey project cost recovery that starts with the filing for Commission approval of the project. In that filing, SDG&E will identify the ratebase and operations and maintenance (O&M) - related revenue requirements associated with the project for the first full calendar year of operation of the generation plant. SDG&E proposes to record costs associate with the turnkey plants to its NGBA and ERRA for recovery through SDG&E commodity rates. Under SDG&E's proposal, the Commission will adopt the annual revenue requirement of the applicable turnkey plant simultaneously with approval of the project. Prior to the operation of the turnkey generation unit, SDG&E will file an advice letter to incorporate any adjustments to the adopted revenue requirement.

SDG&E's proposal was adopted. However, in requesting approval to exercise the El Dorado Option, SDG&E did not identify the rate base and O&M costs for the first year of operation as specified above. At this point, we cannot determine the reasonableness of or adopt the associated revenue requirement. Since SDG&E will not assume ownership of El Dorado until October 1, 2011, adopting a specific rate base and O&M revenue requirement may be premature at this time. We will adopt SDG&E's proposed cost recovery framework, including its proposals related to setting the rate base and O&M revenue requirements through the NGBA advice letter process. However, we expect

---

[11] See D.04-12-048, *mimeo.,* pp. 108 -112, Findings of Fact 65 through 67, and Conclusion of Law 35.

[12] D.04-12-0438, *mimeo.,* pp. 109 -110.

SDG&E to fully justify and support its rate base and non-fuel O&M expense forecasts and provide the associated revenue requirement calculations at the time it includes the forecasted 2011 revenue requirement in its NGBA advice letter filing. Only reasonable forecasted costs will be included for recovery in rates.

In adopting SDG&E's cost recovery mechanism, we are not precluding SDG&E from, at some point, requesting cost recovery for El Dorado through its general rate case process. It may be more efficient to consider the revenue requirement for El Dorado along with that for SDG&E's other assets.

7. Testimony and Exhibits

On October 3, 2007, pursuant to Rule 13.8(d) of the Rules of Practice and Procedure, SDG&E filed a motion to offer its testimony into evidence. The motion will be granted. SDG&E's testimony is identified as follows and will be received into evidence:

Exhibit 1 – Application of San Diego Gas & Electric Company for Approval of Election to Exercise Option to Purchase Power Plant Owned by El Dorado Energy LLC, including the following testimony (Confidential Version):

Independent Evaluator's Report

Direct Testimony of Mike McClenahan

Direct Testimony of Benjamin A. Montoya

Direct Testimony of Michael A. Calabrese

Exhibit 2 – Application of San Diego Gas & Electric Company for Approval of Election to Exercise Option to Purchase Power Plant Owned by El Dorado Energy LLC, including the following testimony (Public Version):

Independent Evaluator's Report

Direct Testimony of Mike McClenahan

Direct Testimony of Benjamin A. Montoya

Direct Testimony of Michael A. Calabrese

Exhibit 3 – Equity Purchase Option Agreement

Exhibit 4 – Disclosure Schedule

8. Confidential Information

On October 3, 2007, concurrent with its motion to offer testimony into evidence, SDG&E filed a motion to seal the evidentiary record. SDG&E has provided declarations regarding the confidentiality of data provided in prepared testimony in support of its application request. The declarations identify information subject to requested confidential treatment, the appropriate reference to the Matrix Category in Appendix A of D.06-06-066[13] regarding confidential treatment of investor owned utility data, and the assertion that the detailed information is required for the application and cannot be aggregated, summarized, redacted masked or otherwise protected in a way that allows partial disclosure.

SDG&E requests that Exhibit 1 be received into evidence under seal. An examination of the information contained in Exhibit 1 confirms the need for confidential treatment as indicated by SDG&E. The request will be granted.

9. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

---

[13] D.06-06-066, Appendix A, Part VII (G) provides that RPS contract summaries, including counterparty, resource type, location, capacity, expected deliveries, delivery point, length of contract and online date are public. Other terms are to remain confidential for three years, or until one year following expiration, whichever comes first.

10. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and David K. Fukutome is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There were no protests to this application.

2. The Commission is reluctant to approve procurement that has not been authorized via an approved LTPP. However, due to the time constraints imposed by the Settlement Agreement and the status of R.06-02-013, it is appropriate to make an exception under these circumstances, and we find that SDG&E's decision to file its application prior to a Phase II decision on its LTPP in R.06-02-013 is reasonable.

3. Due to the upcoming expiration of the CDWR contracts, SDG&E's LTPP shows a bundled customer resource need in the 2010 – 2016 timeframe.

4. SDG&E's proposal to procure approximately 500 MW of power for 2012 from a fully dispatchable, baseload facility is consistent with its LTPP that is currently being evaluated by the Commission in R.06-02-013. The amount of power at issue is well within SDG&E's bundled customers' needs for that timeframe.

5. For the purposes of this application, we find that SDG&E has adequately demonstrated a need for the El Dorado plant or similar resource.

6. For purposes of this application, we find that SDG&E has reasonably determined that the El Dorado Option is the least cost, best fit alternative to fulfill the associated resource need identified by SDG&E in its LTPP.

7. SDG&E's selection of the El Dorado Option for Product 3 of the 2010 – 2012 RFO is reasonable.

8. It is in the interest of SDG&E's bundled ratepayers for SDG&E to exercise its option to purchase the El Dorado plant.

9. SDG&E's proposed cost recovery framework is reasonable.

10. SDG&E did not identify the rate base and O&M costs for the first year of operation of the El Dorado plant. These costs must be identified and supported to ensure that only reasonable forecasted costs will be included for recovery in rates.

Conclusions of Law

1. SDG&E's request for approval of its election to exercise the El Dorado Option should be approved.

2. The bundled customer procurement authority SDG&E requests in its 2006 LTPP should be reduced by the 480 MW of generation it is procuring by exercising the El Dorado Option.

3. SDG&E should fully justify and support its rate base and non-fuel O&M expense forecasts and provide the associated revenue requirement calculations at the time it includes the forecasted 2011 revenue requirement in its annual NGBA advice letter filing.

4. SDG&E's October 3, 2007 motion to offer its testimony into evidence is consistent with the provisions of Rule 13.8(d) of the Rules of Practice and Procedure and should be granted.

5. SDG&E's October 3, 2007 motion to seal the evidentiary record is consistent with the provisions of D.06-06-066 and should be granted as set forth in the order below.

6. This decision should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's (SDG&E) request for approval of its election to exercise an option to purchase a power plant located in Nevada and owned by El Dorado Energy LLC, a Sempra affiliate, is granted.

2. SDG&E's cost recovery proposal for fixed revenue requirement, variable operation and maintenance and non-fuel costs, and fuel costs is approved.

3. SDG&E shall fully justify and support its rate base and non-fuel operation and maintenance expense forecasts and provide the associated revenue requirement calculations at the time it includes the forecasted 2011 revenue requirement in its annual Non-Fuel Generation Balancing Account advice letter filing.

4. SDG&E's October 3, 2007 motion to offer testimony into evidence is granted. As described in the body of this decision, the pieces of SDG&E's testimony are identified as Exhibits 1, 2, 3 and 4 and are received into evidence.

5. SDG&E's October 3, 2007 motion to seal portions of the evidentiary record is granted. Exhibit 1 shall be placed under seal and shall remain sealed for a period of three years from the effective date of this decision.

6. Application 07-08-006 is closed.

This order is effective today.

Dated November 16, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG

TIMOTHY ALAN SIMON
Commissioners