

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

Application of San Diego Gas & Electric Company
(U 902 E) for Approval of Election to Exercise Option to
Purchase Power Plant Owned by El Dorado Energy LLC

Application 07-08-_____
(Filed August 8, 2007)

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FOR APPROVAL OF ELECTION TO EXERCISE OPTION TO PURCHASE
POWER PLANT OWNED BY EL DORADO ENERGY LLC**

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I.

INTRODUCTION

Pursuant to California Public Utilities Code Sections 454.5 and 701 and the Commission’s Rules of Practice and Procedure, San Diego Gas & Electric Company (“SDG&E”) hereby files its Application for Approval 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”). The El Dorado Option will provide approximately 480 MW of power to meet the future energy and reliability needs of SDG&E’s bundled customers. SDG&E also seeks approval for recovery of the costs associated with exercising the El Dorado Option.

The El Dorado Option was included in a September 2006 settlement agreement (“Settlement Agreement”) among, on the one hand, Sempra Energy, SDG&E and Southern California Gas Company (“SoCalGas”) and, on the other hand, the Attorney General of the State of California (“Attorney General”) and the Public Utilities Commission of the State of California (“Commission”) (collectively “the Settling Parties”). As part of this Settlement Agreement, a Sempra affiliate, which owns 100% of El Dorado Energy LLC, will sell the El Dorado Plant to SDG&E at a depreciated book value as of October 1, 2011. In announcing the settlement that

included the El Dorado Option, Commission President Michael R. Peevey favorably observed that “[t]his settlement should provide significant benefits to SDG&E’s customers far beyond the cash payment as the El Dorado power plant is an efficient natural gas combined cycle power generating station with a remaining useful life of at least 20 years.”¹ This Application and the supporting testimony of SDG&E witnesses Mike McClenahan, Michael Calabrese and Benjamin Montoya demonstrate the significant ratepayer benefits of exercising the El Dorado Option. Their testimony shows that after completing a competitive solicitation, the El Dorado Plant is a necessary generation resource to meet bundled customers’ energy and system resource adequacy requirements, and it offers the best available price for SDG&E’s customers.

II. BACKGROUND AND SUMMARY OF THE EL DORADO OPTION

On November 21, 2005, the Attorney General, on behalf of the Commission, filed a “Complaint for Damages, Statutory Penalties and Injunctive Relief” against Sempra Energy, SDG&E and SoCalGas (the “Curtailed Action”).² Following settlement negotiations, on September 21, 2006, the Settling Parties reached an agreement to fully resolve their dispute and avoid the uncertainty and substantial costs caused by the pendency of the Curtailed Action. The Settlement Agreement provides SDG&E customers with substantial 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

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 (R.06-02-013). SDG&E’s decision whether to exercise

¹ California Public Utilities Commission News Release, dated October 13, 2006, which is available at cpuc.ca.gov.

² San Diego Superior Court Case No. GIC 857224.

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. (See 2010-2012 RFO at p. 4.)

the El Dorado Option is subject to review by the Commission, and the Settlement Agreement also 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), and the December 31, 2007 deadline for a Commission decision regarding whether SDG&E should exercise the El Dorado Option is fast approaching. Given that there are less than six months remaining in 2007, SDG&E believes it no longer makes sense to wait for a Phase II decision in the LTPP before bringing the El Dorado Option to the Commission for a decision.

Accordingly, with this Application, SDG&E seeks authorization from the Commission by the end of December 2007 to exercise the El Dorado Option and thereby acquire the El Dorado Plant for SDG&E's bundled customers. As described in more detail below and in SDG&E's supporting testimony, and based on the results of the recently concluded competitive solicitation for needed resources in the 2010-2012 time frame, 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. In addition, resolving the El Dorado Option by the end of this year provides certainty and stability to SDG&E's procurement portfolio, which benefits all stakeholders, who will have better clarity regarding SDG&E's future needs. Finally, there is value in procuring SDG&E's future needs gradually and over time, thus diversifying SDG&E's purchased price of capacity.

III.

BASED ON THE REVIEW OF OFFERS RECEIVED IN A COMPETITIVE SOLICITATION, THE EL DORADO OPTION REMAINS THE BEST OPTION FOR SDG&E'S BUNDLED CUSTOMERS

In its LTPP, SDG&E identified a large need for future energy resources.⁵ As described here in the detailed testimony of Benjamin Montoya, the LTPP showed, for example, bundled customers' needs for three different scenarios, "Low," "Base" and "High." As noted by

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

⁵ LTPP, Vol. I, pp. 169-74.

Mr. Montoya, the bundled need grows substantially in 2010 when existing contracts expire, and the need continues to increase in 2012. The expiration of an existing California Department of Water Resources contract with the Sunrise Power Plant (“Sunrise CDWR contract”) is responsible for particularly large increases in need between 2011 and 2012.

In order to fill a portion of this need, recognizing that a final decision on the LTPP is still pending, SDG&E issued its 2010-2012 Supply Resources Request for Offers (“2010-2012 RFO”). In light of the pending expiration of the El Dorado Option, SDG&E used this solicitation to test whether there are any opportunities to purchase a project similar to El Dorado, but at a lower cost. The 2010-2012 RFO sought bids on three product types. Product 3 was for a fully dispatchable, baseload facility, and the RFO explained that the El Dorado Option would be bid into this product category.⁶ At all stages of the 2010-2012 RFO, SDG&E consulted with its Procurement Review Group (“PRG”) and also worked closely with its Independent Evaluator (“IE”) to ensure that the solicitation was open, designed without bias and would be likely to generate a robust response from the market. The report of the IE is being served with this Application and testimony.

The supporting testimony of Mike McClenahan describes in detail the management and design of the 2010-2012 RFO SDG&E used to evaluate the El Dorado Option. As set forth in Mr. McClenahan’s testimony, the 2010-2012 RFO was designed to be consistent with the portfolio as presented in the LTPP filing. In particular, the LTPP showed that SDG&E’s bundled customers are going to require significant procurement to replace expiring contracts over the next five years, including the Sunrise CDWR contract. Under these circumstances, it is critical to address procurement of a portion of the future need now to ensure that resources are available when needed.

Ultimately, SDG&E received two conforming offers in Product 3, one of which was the El Dorado Option (for purposes of this Application, the other conforming offer will be referred to as the “Competing Offer”). As set forth in the testimony of Michael Calabrese, both conforming bids were modeled for life-cycle customer impacts. This analysis focused on various

⁶ In addition to the RFO, the pending El Dorado Option was announced in the Commission’s press release noted above, a Sempra Energy press release, and it was also discussed in the 2007-2016 LTPP.

cost category comparisons based on expected values.⁷ The results of this modeling show that SDG&E's bundled customers could receive benefits totaling approximately \$243 million 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. To test the sensitivity of the benefits calculation, additional analysis was performed on the cost categories that could have the biggest impact on the relative value between the El Dorado Option and the Competing Offer. The results of this sensitivity analysis showed that even when the expected values for these cost categories are modified, SDG&E's bundled customers continue to receive significant benefits to as high as \$378 million on a NPV basis over the 25-year analysis period by exercising the El Dorado Option as compared to the Competing Offer. Although modifying other expected values results in benefits lower than \$378 million (the specifics of which are confidential, but are addressed by Mr. Calabrese), such benefits continue to be significant for SDG&E's bundled customers.

Based on these results, ownership of the El Dorado plant is the least costly alternative with the greatest benefits. Indeed, the gap in costs between the El Dorado Option and the Competing Offer is so large as to not allow for a reasonable chance to produce price reductions that could result in choosing the Competing Offer over the El Dorado Option. Accordingly, in conformance with the terms of the Settlement Agreement and related Equity Purchase Option Agreement, SDG&E respectfully requests approval to exercise the El Dorado Option as the least cost, best fit option to procure a portion of SDG&E's bundled customers' need identified in the LTPP.

IV.

ARTICLES OF INCORPORATION

SDG&E is a corporation created under the laws of the State of California. A certified copy of the Restated Articles of Incorporation of SDG&E presently in effect and certified by the

⁷ The assumptions used in developing these expected values were reviewed by the IE, as described in the IE report. In addition, the expected variable costs, including both capital costs (e.g., capacity and fixed costs, debt equivalency costs, cost variations associated with plant size and transmission system upgrade cost differences) and operating costs (e.g., system energy costs, ancillary services benefits, potential greenhouse gas ("GHG") emissions costs and locational differences) are explained in more detail in the testimony of Mr. Montoya.

California Secretary of State was filed with the Commission on December 4, 1997 in connection with SDG&E's Application No. 97-12-012, and is incorporated herein by reference.

V.

CATEGORY OF PROCEEDING AND NEED FOR HEARINGS

In accordance with Rule 7.1, SDG&E requests that this Application be categorized as ratesetting because SDG&E proposes to recover the costs incurred under the El Dorado Option from its ratepayers, and the costs will thus influence SDG&E's rates. In addition, because this Application raises ancillary issues that do not fall clearly into a single category, Rule 7.1(e)(2) requires that it be categorized as a ratesetting proceeding.

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provides the Commission with a sufficient record upon which to grant the relief requested on an ex parte basis.

VI.

ATTACHMENTS SERVED (BUT NOT FILED) WITH APPLICATION

Served with, but not filed:

- Independent Evaluator Report – Confidential and Public Versions
- Testimony of Mike McClenahan – Confidential and Public Versions, and Confidentiality Declaration
 - Exhibit 1 (2010-2012 Supply Resources RFO)
 - Exhibit 2 (Settlement Agreement; due to its large size, the Equity Purchase Option Agreement (confidential and public versions) is available upon request)
- Testimony of Michael Calabrese – Confidential and Public Versions, and Confidentiality Declaration
 - Exhibit 1 (Comparative Analysis) – Confidential and Public Versions
- Testimony of Benjamin Montoya – Confidential and Public Versions, and Confidentiality Declaration

VII.

PROPOSED SCHEDULE

In order to meet the December 31, 2007 deadline for Commission approval, SDG&E proposes the following schedule for this proceeding.

Action	Date
Application Filed	August 8, 2007
End of Response Period (including expedited Applicant Reply but not expedited 30 day initial Reply/Response for others).	September 19, 2007
Prehearing Conference (if necessary)	September 26, 2007
Proposed Decision Issued	November 5, 2007
Comments on Proposed Decision (expedited)	November 26, 2007
Reply Comments on Proposed Decision	December 3, 2007
Commission Decision Adopted	December 6, 2007

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VIII.
RELIEF REQUESTED

SDG&E respectfully requests that, in accordance with the proposed schedule, the Commission issue a decision finding that:

1. SDG&E's bundled customers need the resource that is the subject of the El Dorado Option;
2. SDG&E's election to exercise the El Dorado Option should be approved;
3. The cost recovery requested by SDG&E should be granted; and
4. Such other relief as is necessary and proper.

IX.
CONCLUSION

WHEREFORE, SDG&E requests that the Commission grant SDG&E's Application as described herein.

DATED this 8th day of August, 2007, at San Diego, California.

Respectfully submitted,



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Lee Schavrien
Senior Vice President - Regulatory Affairs

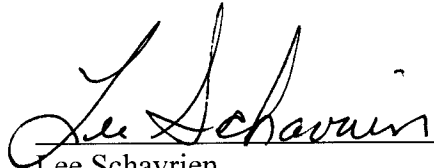
OFFICER VERIFICATION

Lee Schavrien declares the following:

I am an officer of San Diego Gas & Electric Company and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR APPROVAL OF ELECTION TO EXERCISE OPTION TO PURCHASE POWER PLANT OWNED BY EL DORADO ENERGY LLC** are true to my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

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

Executed this 8th day of August, 2007, at San Diego, California.



Lee Schavrien
Senior Vice President - Regulatory Affairs

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR APPROVAL OF ELECTION TO EXERCISE OPTION TO PURCHASE POWER PLANT OWNED BY EL DORADO ENERGY LLC** has been served on each party of record on the service list in R.06-02-013 by electronic service. Hard copies will be sent by overnight mail to the Assigned Commissioner and Assigned Administrative Law Judges in R.06-02-013.

Dated at San Diego, California, this 8th day of August, 2007.

/s/ Jenny Tjokro
Jenny Tjokro