Application No: A.11-01-xxx_____
Exhibit No.: ________________

Application of San Diego Gas & Electric Company (U 902 E) for Authority to Acquire the CalPeak El Cajon Energy Facility	Application 11-01-____ (Filed January 5, 2011)

PREPARED DIRECT TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
IN SUPPORTS OF APPLICATION FOR AUTHORITY
TO ACQUIRE THE CALPEAK EL CAJON ENERGY FACILITY

PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

January 5, 2011

250735

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PART ONE
Summary of Approval Request
(Witness: Robert Anderson)

I. INTRODUCTION

San Diego Gas & Electric Company (SDG&E) requests authority to exercise a purchase option to acquire the CalPeak El Cajon Energy Facility (ECEF). ECEF is an existing peaker power plant located on SDG&E's property at its El Cajon substation. SDG&E proposes to acquire ECEF for a total cost of $16.8 million, to be recovered in rates with an annual revenue requirement of $4.4 million in 2012. The option to purchase ECEF is included in a land lease agreement that was entered into by SDG&E and CalPeak Power LLC (CalPeak) in 2001, prior to the construction of ECEF. SDG&E currently receives the generation produced at ECEF pursuant to a contract between CalPeak and the California Department of Water Resources (DWR) that is administered by SDG&E on behalf of the DWR.[1] CalPeak's contract with the DWR expires January 1, 2012. SDG&E seeks to take ownership of the facility immediately thereafter, as contemplated in the 2001 lease agreement. Accordingly, it respectfully requests Commission approval of its application no later than October 6, 2011 to permit sufficient time to conduct all activities required to transfer the facility and for SDG&E to include the facility in its local resource adequacy filing.

II. BACKGROUND

In August, 2000, in an effort to bring additional peaking capacity online following rolling blackouts experienced throughout California, SDG&E made certain substation locations

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[1] In early 2001, California enacted legislation authorizing the DWR to make certain electricity purchases for the purpose of selling electricity to utility retail customers. Pursuant to this authority, DWR entered into several procurement contracts with multiple generator counter-parties (each a "DWR contract"). In D.02-09-053, the DWR allocated each DWR contract to a particular IOU to manage as an integral component of each IOU's resource portfolios. (*mimeo*, pp. 16-17).

available to respondents to a Request for Bids (RFB) issued by the California Independent System Operator (CAISO). A contract to provide peaking generation to the CAISO was ultimately awarded to one of the respondents to the RFB, DG Power Corporation (DG Power); DG Power subsequently assigned its CAISO contract rights and obligations to CalPeak. CalPeak sought to lease space for its peaking generation units at two of SDG&E's properties. In June, 2001, the Commission approved SDG&E's application for authority to lease space at its El Cajon and Mission[2] substations to CalPeak for the installation and operation of electric generation units.[3] The land lease agreement includes a purchase option, which gives SDG&E the right to purchase the unit based upon a fair market value assessment of certain predetermined plant components, less estimated site remediation costs.

ECEF is located at SDG&E's El Cajon substation and is surrounded by the SDG&E Eastern Operating and Maintenance Center. It is a single unit simple-cycle peaking power plant. The facility has a CAISO Net Qualified Capacity (NQC) rating of 42.2 MW. ECEF has an existing interconnection agreement. No transmission upgrades are required for this facility. The unit began commercial operation on May 20, 2002. A more detailed description of ECEF is provided in Part Two below.

III. CONSISTENCY WITH APPROVED RESOURCE NEED

As discussed more fully in Part Two below, the ECEF unit is fully consistent with the portfolio needs outlined in SDG&E's Commission-approved long-term procurement plan (LTPP).[4] SDG&E's 2006 LTPP identifies a need for existing units that meet local and system

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[2] The unit to be located at the Mission substation was never constructed.

[3] The Commission granted an exemption from the requirements of Public Utilities Code § 851 for SDG&E's lease of space at its El Cajon substation to CalPeak for the installation of an electric generation unit. See D.01-06-006, *mimeo*, p. 9.

[4] SDG&E's 2006 LTPP was approved with modifications in D.07-12-052. SDG&E filed its Conformed 2006 LTPP on April 18, 2008 (Advice Letter 1983-E).

resource adequacy (RA) requirements. In addition, it identifies a need for certain ancillary services, including quick start natural gas-fired resources to back up intermittent resources such as renewable resources.

While ECEF is presently being utilized by SDG&E to meet its current bundled customer local and system RA need, acquisition of the facility will help SDG&E meet its future bundled customer local and system RA requirements.[5] The proposed purchase of the ECEF is intended to fill some of the need SDG&E targeted for Product 5 in the 2009 Request For Offers (RFO) (see discussion of RFO products set forth in Part Two, Section II.B below). Product 5 requested 10-year contracts for existing units that meet local and system RA requirements. SDG&E procurement has been heavily driven by the need for local resources to meet local RA requirements. This purchase will maintain and provide RA to SDG&E's bundled customers as a local unit for the remaining life of the facility, estimated to be at least 15 years.

In addition, SDG&E's LTPP identifies a need for quick start units that can be used to support intermittent renewable resources and to provide reliable capacity at times of peak load. Indeed, in D.07-12-052, the Commission expressly directed SDG&E to procure such resources to further the State's goals of reducing greenhouse gas (GHG) emissions:

> To support the types of needs we anticipate in a GHG constrained portfolio, we require SDG&E to procure dispatchable ramping resources that can be used to adjust for the morning and evening ramps created by the intermittent types of renewable resources.[6]

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[5] As discussed in Part Two, Section I.C, in its 2006 approved LTPP, SDG&E's System RA needs were identified to be between 1649 and 1897 MW in 2012 growing to between 1988 and 2250 MW in 2016. The 2006 LTPP also identified a need for local RA capacity with the Sunrise Powerlink ranging from 448 to 666MW in 2012 growing to between 706 and 936 MW in 2016. Since the time the 2006 LTPP was filed, a number of the assumptions regarding resource need have changed. In order to provide the Commission with the most up-to-date need values, SDG&E has updated the need for both local and system resources.

[6] D.07-12-057, *mimeo*, p. 110.

ECEF meets this requirement. The unit is a quick start unit that can be used to mitigate the impacts of intermittency associated with renewable generation. The unit will provide reliable capacity at times of peak load.

IV. UNIQUE OPPORTUNITY

In D.07-12-052, as amended by D.08-11-008, the Commission adopted rules to govern the circumstances under which investor-owned utilities (IOUs) would be permitted to take ownership of generation assets outside of a competitive process. Under these rules, if an IOU proposes utility-owned generation (UOG) outside of a competitive RFO, the IOU must demonstrate that the circumstance falls into one of four specified categories: (1) market power mitigation; (2) preferred resources;[7] (3) unique opportunity; or (4) reliability.[8] These categories are described in detail in D.07-12-052.

The purchase option contained in the land lease agreement with CalPeak was negotiated nearly seven years prior to the Commission's adoption of these rules related to UOG and truly represents a unique opportunity. The purchase option was intended to benefit ratepayers by ensuring the availability of this well-priced resource; this was an integral component of the compensation received by SDG&E ratepayers for making utility land available. The ECEF is a low-cost project that offers several benefits to ratepayers. It is an existing plant powered by commercially-proven technology that is located in SDG&E's load pocket on SDG&E-owned property. As a project located in SDG&E's service territory, ECEF provides full deliveries and is thus able to provide full resource adequacy.

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[7] "Preferred resources" is defined in D.07-12-052 as "those resources that are procured in accordance with the State's preferred loading order of energy efficiency, demand response, renewables and distributed generation in order to meet the State's environmental goal." (*Mimeo*, p. 271, Finding of Fact No. 8) However, a utility may develop a clean fossil-fuel UOG outside of the RFO process only if it utilizes an advanced or emerging technology that the market is unlikely to develop.

[8] *See* D.07-12-052, *mimeo*, pp, 210-213, as amended by D.08-11-008, *mimeo*, pp. 20-23.

In addition, a switchyard with 69kV output voltage already connects the facility to the SDG&E transmission system via overhead lines. There are no incremental transmission impacts or costs associated with the transfer of ownership from CalPeak to SDG&E. ECEF is fully permitted for all required air and water uses. Finally, the quick start capability of ECEF is consistent with the type of unit characteristics that the Commission has found to be desirable in order to mitigate the intermittency of renewable resources. Thus, while it is not itself a "preferred resource," the public policy rationale supporting favored treatment of preferred resources would apply here where the resource is necessary to facilitate the addition of larger amounts of renewable resources.

The Commission indicated in D.07-12-052 that an application for UOG that falls into one of the categories described above should hold a competitive RFO, unless to do so would be infeasible.[9] In the instant case, however, it would be virtually impossible for any seller to offer a fully constructed, operational facility with equivalent benefits at a lower cost. Most of the total cost (close to 85%) for the facility is based on an independent evaluation performed pursuant to specific terms set forth in the lease agreement. In addition, the costs for this purchase option have been evaluated and compared with all the offers received for Product 5 in SDG&E's 2009 RFO. This analysis and other aspects of the decision process, including the market valuations conducted by a non-affiliated engineering firm, have been examined by the Independent Evaluator (IE) for the 2009 All-Source RFO, Van Horn Consulting.

As is discussed in more detail in Part Two below, ECEF is very attractively priced; the total cost of owning the facility is substantially less than the cost for all the other comparable resources bid into SDG&E's 2009 RFO. Given the benefits offered by ECEF and the

[9] D.07-12-052, *mimeo*, p. 211, note 241.

advantageous price terms, conducting a new RFO to solicit similar projects would serve little purpose. Accordingly, SDG&E submits the Commission should compare the ECEF purchase option against the results of SDG&E's most recent all-source RFO which requested long term offers from existing resources in its area. This comparison provides an effective "market test" that establishes the value and favorable pricing of the ECEF resource.[10] This is an effective test since the offers from the 2009 RFO are the same offers that SDG&E will present for Commission approval to cover the same need over a virtually identical period.

V. COMPARISON TO 2009 RFO

The cost-effectiveness of the proposal to exercise the purchase option can be determined by comparing the total ECEF purchase costs to the offers received in SDG&E's 2009 RFO, which solicited long-term offers for existing local resources along with seven other products. Accordingly, the eight products requested in the 2009 RFO and the resulting resource selections, including the purchase of ECEF, are discussed in Part Two below, which follows the format of the Commission-approved "RFO Solicitation Contract Approval Request" template (RFO Template).

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[10] *See* D.07-12-052, *mimeo*, note 241.

PART TWO
RFO Solicitation Contract Approval Request
(RFO Template)

I. BACKGROUND

A. Commission Decision/Directive Under Which the RFO Is Being Performed (Witness: Robert Anderson)

SDG&E requests authority to exercise a purchase option to acquire CalPeak's ECEF generating facility, an existing peaker power plant located on SDG&E's property at its El Cajon substation. The purchase option is included in a land lease agreement that was entered into by SDG&E and CalPeak Power LLC in 2001, as is explained in more detail in Section VII below.

As discussed in SDG&E's application and noted above, ECEF constitutes a "unique opportunity" under the analysis set forth in D.07-12-052. In this application SDG&E compares the ECEF purchase option against the results of SDG&E's 2009 all-source RFO (specifically, the solicitation results related to Product 5 of the RFO) in order to demonstrate its cost-effectiveness. The 2009 RFO was authorized under D.07-12-052.

B. Reference the New Generation Authorization in the IOU's Current LTPP and Provide a Summary (Witness: Robert Anderson)

The ECEF is an existing facility and, therefore, it is not being procured to meet a new generation authorization under SDG&E's 2006 LTPP. In Part Two, Section I.C, SDG&E shows how the ECEF will meet SDG&E's current bundled customer local and system resource adequacy needs.

1. List all procurement already completed under that authorization (if any) (Witness: Robert Anderson)

Not applicable.

2. Demonstrates that the total authorization will not be exceeded with the contracts included in the request (Witness: Robert Anderson)

Not applicable.

C. Describe Any Changes in the Assumptions Used to Support the LTPP Authorization and Their Impact on the Need for These Contracts (e.g., are Significantly More Demand-Side or Renewable Resources Coming On-Line than Forecast, Resulting in a Lower Need for Conventional Generation than was Calculated in the LTPP?) (Witness: Robert Anderson)

The purpose of the proposed purchase of the ECEF is to fill some of the need SDG&E targeted for existing local resources (Product 5) in the 2009 RFO. Product 5 requested 10-year contracts starting in 2012 for existing units that meet local and system RA requirements. These long-term agreements will provide price stability for local resources for SDG&E's bundled customers and help to maintain existing local capacity at a cost less than new local capacity.

SDG&E's request to purchase the ECEF unit is not for the purpose of meeting the CPUC's authorization to procure new generation resources. Rather, it is to meet its bundled customers' local and system RA requirements. In its 2006 approved LTPP, SDG&E's System RA needs were identified to be between 1649 and 1897 MW in 2012, growing to between 1988 and 2250 MW in 2016. The 2006 LTPP also identified a need for local RA capacity ranging from 448 MW to 666 MW in 2012, assuming the Sunrise Powerlink goes into service in 2012, and growing to between 706 and 936 MW in 2016. Since SDG&E's 2006 LTPP was filed, a number of the assumptions regarding resource need have changed. In order to provide the Commission with the most current outlook for Need, SDG&E has updated its need values for both local and system resources. These updates used the CEC's last adopted load forecast (the 2009 IEPR), reduced SDG&E's need to account for the impact of the limited reopening of Direct Access (DA), updated Demand Response (DR) impacts based on the amounts filed in compliance with D-08-04-051, and updated the resources acquired via completed procurements and updated Net Qualifying Capacity (NQC) values. Also, since the 2006 LTPP only provided data through 2016, SDG&E has extended the forecast through the year 2020. Table 1 below shows the updated need for both system and local RA.

Table 1

SDG&E Updated Bundled Customer RA Need (MW)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Local RA	[redacted]	[redacted]	195	245	300	360	420	485	639
System RA	[redacted]	[redacted]	1,868	1,929	1,993	2,061	2,163	2,240	2,412

This table shows that SDG&E's bundled customers have a need for local and system resources for all years shown. The local need decreases in 2013, when the Sunrise Powerlink is forecasted to be fully counted by the CAISO in reducing the Need for local resources.[11] The local need continues to grow in later years, as load continues to grow.

In its evaluation of Product 5 offers, as described in Section III.D SDG&E evaluated [redacted] offers in its shortlist evaluation, of which [redacted] were the result of the RFO auction and the [redacted] was ECEF, for a total capacity of [redacted]. However, the shortlisted offers included some units that will likely be shut down prior to the end of the ten-year period in order to meet California's new once-through-cooling (OTC) restrictions, which were not considered in the 2006 LTPP. The evaluation described in Section III.D shows that exercising the purchase option for ECEF will be thelowest cost resource to meet the local resource need. Also, the need for new resources that the Commission authorized in SDG&E's 2006 resource plan, assumed that all the existing

[11] The Sunrise Powerlink is currently projected to be put into service in 2012. However, for planning purposes, SDG&E is assuming that the updated local RA needs in 2012 will still be based on Sunrise not being in service, since local RA needs are determined by October of the prior year and the line will still be in construction at that time.

in-basin resources, except South Bay, remain in service. However, without contracts, there is no guarantee that the existing resources will remain in service. Thus, by contracting for the existing resources and ensuring their continued operation, SDG&E customers will avoid the need to pay for new, more costly resources that would be needed to replace them in the near future.

D. Other Information Not Requested Above, But Relevant to the Origin of the RFO (Witness: Robert Anderson)

When developing the 2009 RFO, SDG&E took into consideration California's policy in favor of eliminating reliance on generating plants that employ OTC technology. Although the final policy had not been established at the time the RFO was released, substantial work was being undertaken by state agencies to develop a plan to maintain electric reliability and eliminate or greatly reduce the number of units using OTC. This was reflected in SDG&E's 2009 RFO requirement that a plant utilizing OTC could not be granted a long-term contract, but would instead be offered a 2-year contract with eight 1-year extension options. The State Water Board has since passed a rule[12] that would require the Encina Power Plant, the sole remaining OTC resource in SDG&E's service area, to meet these new requirements or to shut down by the end of 2017.[13]

II. RFO DESIGN PROCESS (WITNESS: ROBERT ANDERSON)

A. Describe the Factors and Considerations that Contributed to the Structure of the RFO (Witness: Robert Anderson)

SDG&E began the design of the 2009 RFO soon after approval of the 2006 LTPP filing. In the 2009 RFO, SDG&E sought both short-term (2010 and 2011) and long term (2012 and beyond) resources to meet the new generation authorization, the bundled customer local RA

[12] Resolution No. 2010-0020, issued May 4, 2010. STATEWIDE WATER QUALITY CONTROL POLICY ON THE USE OF COASTAL AND ESTUARINE WATERS FOR POWER PLANT COOLING

[13] The other OTC plant in SDG&E's service area, South Bay Power Plant, is expected to be shut down after it is released from RMR service at the end of 2010.

obligation and the bundled customers' system RA obligations that resulted from the approved LTPP. The RFO package is attached to this Application as Appendix 11.

B. List the Specific Product Requirements Identified in the LTPP and/or Bid Documents, and Explain the Need for the Selected Resource(s) – Particularly With Respect to How the Selected Resources Are Consistent with the Renewable and/or GHG-Reduction Goals of the Utility (or of the Service Area-Wide Resource Mix) (Witness: Robert Anderson)

SDG&E's 2009 RFO contained the following description of the specific products sought:

<u>Scope of Supply</u>

San Diego Gas & Electric Company (SDG&E) is issuing this Request for Offers (RFO) for demand response and supply resources to support reliability within the SDG&E service territory, supply energy to bundled customers and/or meet other portfolio needs including Resource Adequacy (RA) requirements. All resources that can meet the obligations set forth below are welcome to bid their offers into this RFO (Offer(s)); however, all renewable resources are strongly encouraged to participate in a separate renewables-only solicitation, which SDG&E issues annually. SDG&E anticipates this RFO will produce contracts from respondents (Respondent(s)) as indicated below:

	Local Resources		Resources Outside SDG&E	
	Short Term	Long Term	Short Term	Long Term
Product 1: Demand Response	Term:			
	3 years			
	Delivery Starts:			
	2012			
Product 2:				
New Generation		Term:		
		20 years		
		Delivery Starts:		
		2010 - 2014		
Product 3:				
Existing Resources	Term:			
	1 year / 2 years			
	Delivery Starts:			
	2010 or 2011			

Product 4:				
Existing Resources			Term:	
			2 years	
			Delivery Starts:	
			2010	
Product 5:				
Existing Resources		Term:		
		10 years		
		Delivery Starts:		
		2012		
Product 6:				
New or Existing Resources				Term:
				10 years
				Delivery Starts:
				2012
Product 7a:				
Firm LD Energy	Term:			
	2 years / 4 years			
	Delivery Starts:			
	2010 or 2012			
Product 7b:				
Resource Adequacy	Term:			
	2 years / 4 years			
	Delivery Starts:			
	2010 or 2012			

General characteristics of each product are described below. SDG&E anticipated that all Offers received would provide a menu of resources from which it can select to fulfill its short- and long-term needs. The capacities listed are not a guarantee of purchase amounts for each product, but rather estimates of potential volumes. The final purchase amounts of each product will depend on factors including evolving resource planning considerations, prices offered for each product, the number of Offers received for each product type and potential overlap in product characteristics from various Offers.

Product 1 - Demand Response

SDG&E seeks Demand Response products for a three year term. Initial load reduction will commence on May 1st 2012. This product must be a means of reducing an end-use customer's demand and/or energy usage during a demand response event, must be for at least 1.0 MW in the aggregate and be within SDG&E's service territory. The demand and/or energy reduction must be measureable. The Offer must provide, in sufficient detail, the Demand Response product, the process for delivering Demand Response and the manner in which it will meet the minimum guidelines specified in Section 6 Offer Requirements of this solicitation.

Product 2 - New Local Generation Projects, online in 2010 – 2014

SDG&E seeks a minimum of 100 MW of peaking or intermediate-class resources as new construction or expansion projects within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 20 years and online dates of May 1- or October 1 in 2010, 2011, 2012, 2013 or 2014. The generation must be located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. Products offered in this category shall be capable of operating under all permits at annual capacity factors of a minimum of 30% with an availability of -98%. It is anticipated that heat rates will be no higher than 10,500 btu/kWh. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 3 - Existing Local Resources, delivering in 2010 and/or 2011

SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory for deliveries in 2010 and 2011. Any resulting contract will be a tolling agreement with a term of up to 2 years with a start date of January 1, 2010, or a 1 year term with a start date of January 1, 2010 or January 1, 2011. Offers for this product must be existing generation capacity that is currently recognized by the CAISO as counting towards SDG&E's service area Local Capacity Requirement. Respondents must provide Offers for deliveries in both 2010 and 2011 and pricing may differ between the years. However, SDG&E may at its discretion contract with the Respondent for either or both years. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 4 - Existing Regional Resources, delivering in 2010 and 2011

SDG&E seeks a minimum of 200 MW of existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 2 years starting on January 1, 2010. This product must deliver into CAISO's SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations5 in the ranking of Offers.

Product 5 - Existing Local Resources, delivering in 2012-2021

SDG&E seeks a minimum of 400 MW of existing resources currently operating within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and a start date of January 1, 2012 to qualify. Offers for this product must be existing generation located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. Units located within CAISO's proposed expanded local area for SDG&E (see Addendum) should submit Offers in other products of this solicitation. In consideration of California State Once through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit utilizing OTC will be offered a contract with SDG&E that consists of a 2 year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC facilities. The decision to exercise the option will be based upon future rules governing OTC or SDG&E's sole discretion given its portfolio need. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations5 in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

Product 6 - All-Source Regional Resources, 2012-2021

SDG&E seeks minimum of 200 MW of new construction, expansion, or existing resources currently operating outside of SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 10 years and deliveries will begin on May 1, 2012. This product must deliver into CAISO's

SP-15. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and shutting down at night. In addition, SDG&E will include the additional value provided from projects that can provide quick start operations6 in the ranking of Offers. In consideration of California State Once through Cooling (OTC) goals and pending Water Board rules, any Offer for supply from a unit located in California utilizing OTC will be offered a contract with SDG&E that consists of a 2 year transaction with the possibility to extend for eight – 1 year options. OTC offers shall not include proposals for upgrades or retrofits of OTC facilities. The decision to exercise the option will be based upon future rules6 governing OTC or SDG&E's sole discretion given its portfolio need. If the CAISO expands SDG&E's Local RA area as described in the addendum, SDG&E could, at its sole discretion, evaluate Product 6 Offers that are located within the expanded area as if it were a Product 5 Offer.

Product 7 Firm Liquidated Damages (LD) Energy and/or Resource Adequacy

SDG&E seeks a minimum of 200 MW of Firm LD Energy and/or Resource Adequacy Purchases. Resources may be within or outside of SDG&E service area.

Product 7a: Third Quarter, 6x16, on-peak Firm LD energy products conforming to Schedule C of the Western States Power Pool. Any resulting agreement will be an EEI agreement for short-term, block power purchases. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 and/or 2) deliveries in 2012 and 2013. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options. Resources outside of SDG&E must deliver to SP-15. For Product 7a, SDG&E will shortlist projects within the timeframes indicated in the schedule in Section 3 of this RFO. Refreshed pricing of shortlisted Offers will be allowed only once and by the date indicated in the schedule. Respondents are caution that if refreshed prices exceed the competitive range, the Offer may be rejected.

Product 7b: Respondents shall Offer System Resource Adequacy (and local if within the SDG&E Local Area). Any resulting agreement will be a WSPP agreement for Resource Adequacy. Respondents may provide Offers for the following delivery periods: 1) for deliveries in 2010 and 2011 [Q3 or full year] and/or 2) deliveries in 2012 and 2013 [Q3 or full year]. If a Respondent provides Offers for both options, SDG&E may at its discretion contract with the Respondent for either or both options.

Respondents may provide Offers for a single product and term or a combination of Offers, providing SDG&E with flexibility to match Offers and fill its required energy and capacity needs.

> For products seeking new or expanded generation resources, the Respondent shall be responsible for development, permitting, financing, and construction of any required facilities. The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's Tariff, applicable CPUC and/or FERC rules, orders, and/or regulations, and SDG&E's specifications.

To address concerns associated with climate change, the solicitation document states that suppliers must comply with the Commission's Greenhouse Gas (GHG) Emissions Performance Standard as adopted in R.06-04-009. For resources that receive contracts as a result of their selection in the 2009 RFO, the contract provisions negotiated with each successful Bidder explicitly set forth the responsibilities for compliance with applicable GHG permits and regulations.

SDG&E did not specifically solicit renewable offers in this RFO since renewable resources are procured on an annual basis through a separate Commission-approved renewables-only RFO. It should be noted, however, that SDG&E's 2009 RFO did not prohibit any qualifying renewable resource from bidding to fill the identified need.

C. Describe How the PRG, IE, and ED Were Included in the RFO Design Process (Witness: Robert Anderson)

During the design stage of the 2009 RFO, SDG&E also consulted with its Procurement Review Group (PRG), worked with its IE and exchanged multiple drafts with the Commission's Energy Division to ensure that the solicitation was open, designed without bias and likely to garner a robust response from the market, and that it captured Energy Division concerns regarding treatment of OTC resources. SDG&E introduced its plan to issue an RFO seeking demand response and supply resources to the PRG on March 19, 2009. During this meeting SDG&E presented its portfolio need, its procurement strategy, the scope of the solicitation and preliminary RFO schedule. A draft RFO was provided in advance of the meeting for PRG review. At a subsequent PRG meetings on August 20, 2009, September 25, 2009, October 23, 2009, November 20, 2009, January 15, 2010, March 19, 2010, April 16, 2010, August 20, 2010, September 17, 2010 and November 19, 2010, SDG&E provided updates on the solicitation process.[14] Discussions during these meetings were wide-ranging and included matters such as SDG&E's evolving need, the selection criteria, ranking of each bid, proposed and final shortlists, negotiation status, and specific terms within power purchase agreements (PPAs). SDG&E enlisted the IE's assistance to design the solicitation and procurement strategy months in advance of RFO issuance. SDG&E worked with the IE to resolve issues identified by him prior to launching the RFO. The IE reported his findings regarding the overall process, fairness of the evaluation method, short listing rationale and other contractual considerations to the PRG at five PRG meetings. He continues to monitor the process, providing input during contract negotiations. Finally, in the weeks prior to issuance, SDG&E exchanged drafts with Energy Division staff to ensure that staff's concerns were adequately addressed.

D. Describe the Original Solicitation Documents and Any Subsequent Revisions that Were Communicated to All Potential Bidders (Witness: Robert Anderson)

The solicitation document issued in this RFO and made available on the solicitation website is included in this filing as Appendix 1. The major sections in the RFO document include : (1) a description of the products sought in the RFO; (2) a timeline of the solicitation process; (3) an RFO-specific website address, as well as an email address to be used to communicate with SDG&E regarding the RFO; (4) a list of the required RFO response forms to be used to communicate offers to SDG&E (and instructions on how to obtain the forms); (5) a description of the SDG&E-owned sites available to participants in the RFO, including interconnection study requirements; (6) a list of specific requirements applicable to all

[14] See Appendix 8.

respondents in the RFO; (7) an outline of the evaluation criteria to be used by SDG&E to select from among the offers received; (8) a description of credit criteria; (9) a description of the confidentiality provisions applicable to responses; and (10) a list of the contingencies that would impact SDG&E's acceptance of any offer.

SDG&E posted, as part of the RFO package, draft contracts that parties could comment on and submit as part of their bid package. The drafts provided bidders with a clear view of SDG&E's requirements in any commercial arrangement that resulted from the RFO.

SDG&E issued the RFO on June 9, 2009 and offers were due August 10, 2009. Prior to the deadline for submitting offers, SDG&E had in place a process to allow potential bidders to submit clarifying questions to SDG&E to assist them in preparing bids. All of these questions were answered by SDG&E and every question, with its accompanying response, was posted on the public RFO website for the benefit of all participants. SDG&E held a pre-bid meeting on conference on July 8, 2009. Attendance was not a prerequisite for submitting an offer. All conference materials, including a list of all questions and answers exchanged during the conference were posted on the solicitation website.[15] All answers posted on the website were reviewed by the IE prior to posting.

E. Summarize the solicitation outreach effort (Witness: Robert Anderson)

On June 9, 2009, SDG&E issued its 2009 RFO to the market. In order to achieve its goals of robust competition and maximum participation, SDG&E (i) issued a press release that was run by major trade publications; (ii) conducted a direct mailing (via e-mail to nearly 800 industry contacts) to a list of likely interested parties; (iii) placed a notice of the RFO on its website; and (iv) posted all relevant documents on that website for access by any interested

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[15] <http://www.sdge.com/rfo/supplyresource/index.shtml>

party. The pre-bid conference on July 8, 2009 attracted over 50 participants with interests ranging across all Products.

III. DETAILED DESCRIPTION OF BID SELECTION PROCESS

The following section describes the evaluation and selection process for Product 5 resources, which are directly comparable to the ECEF option.

A. List and Briefly Describe All Bids Received in a matrix that Ranks Bids and Clearly Demonstrates Who "Winners" are (Witness: Robert Anderson)

A matrix of the Product 5 bids received is included in this Application as Confidential Appendix 2.

B. Categorize Rejected or Withdrawn Bids, and Describe Efforts Made to Rectify Non-Conforming Bids (Witness: Robert Anderson)

SDG&E did not receive any non-conforming bid for Product 5.

C. Describe Quantitative and Qualitative Criteria Used to Evaluate Bids (Witnesses: Robert Anderson)

The bid evaluation criteria used in the ranking and selection of offers received in this RFO is included as Confidential Appendix 3. A description of these criteria was included in the solicitation documents issued to the market.

The initial bid evaluation calculations to determine a shortlist are outlined in Section III.D.1 below. Additional analysis done on the purchase options is in Section III.D.2. The result of the evaluation process, the units that were shortlisted in the RFO and the Purchase evaluation, is shown in Confidential Appendix 4.

D. Describe the Bid Evaluation Methodology, Including Least-Cost Best-Fit Evaluation (Witnesses: Robert Anderson)

The evaluation of bids began with screening for conformance with the RFO. Bids were screened by arranging their features and supporting information in a database. This allowed easy identification of the bids that did not conform due to missing information or because one or more features of the bid were inconsistent with the parameters set forth in SDG&E's RFO.

Next, all Product 5 conforming bids were run through a screening model with a 10-year period for the analysis. The screening model accounted for capacity costs, fixed and variable operating and maintenance (O&M) costs, and potential energy cost savings based on the terms and conditions proposed by the bidders. All offers submitted for this product were for in-basin generation, which eliminated the need to differentiate the offers by congestion impact because all in-basin supplies are deliverable to SDG&E load, and there is very little price differential between nodes. Since all Product 5 offers were for existing units, no new transmission is needed. In addition all offers, except one, were for 10-year resources with 2012 start dates. Hence, potential differences in impacts due to differences in start dates and lengths of contracts were not a factor in the initial evaluation performed for a 10-year period. The single exception to this was an offer that did not provide prices for options that covered the full 10 years. For evaluation purposes, SDG&E assumed the pricing could be extended out for the full 10-year period.

1. Bid Evaluation Calculation for 2009 RFO (Witness: Robert Anderson)

The Product 5 bids were ranked on a dollars per kW year ($/kW-yr) basis in order to create a comparable metric for evaluation of all projects. This total present value was levelized over a common period and the resulting value was divided by the capacity of the bid to obtain a levelized price expressed in $/kW-yr.[16]

PPA bids included both capacity charges and fixed O&M costs with three variations in the structure for fixed pricing used by bidders. The variations were: (1) fixed over the 10-year

[16] Capacity values used in the evaluation were based on the bidders proposed capacity value which may not be equal to the CAISO NQC.

term; (2) escalated at a given escalation rate over the term; and (3) a combination of a fixed component and an escalating component. To compare offers, the annual capacity charges and O&M costs for each offer, over the 10-year period, were discounted using SDG&E's weighted average cost of capital to obtain a net present value (NPV). Energy benefits were also included in this part of the evaluation. The value of the energy benefit was derived from comparing each offer's production costs to forecasted energy market prices. This energy benefit was also discounted on a NPV basis over the 10-year period and levelized. Then, the energy benefit was subtracted from the capacity cost, resulting in a final levelized bid ranking that was used to determine shortlist candidates.

At the time the Product 5 shortlist was developed, the option to purchase ECEF had not yet been evaluated. For the shortlist selection ECEF was evaluated using pro forma estimated levelized capacity and fixed O&M costs and an estimated PPA price if SDG&E were to sign this unit to a PPA. The energy benefit for ECEF was determined using the method used for all RFO offers. The results of the evaluation are shown in confidential Appendix 4. SDG&E determined its shortlist based upon the results of the overall Product 5 evaluation, and applied the results to eliminate an offer with a higher price. SDG&E continues to negotiate with those units on the Product 5 shortlist; requests for Commission approval of the final PPAs with those successful units will be filed separately.

2. El Cajon Purchase Option Evaluation (Witness: Robert Anderson)

After completing the ECEF evaluation process, and determining a "market value" purchase price as required by the lease agreement, SDG&E analyzed the purchase option for ECEF. SDG&E calculated a levelized price to ratepayers for the purchase option using a revenue requirements approach over the 15-year time horizon for the plant's remaining book life. The purchase price was $13.7 million, agreed by the parties, based on Burns and McDonnell

Engineering's asset valuation, in accord with the terms of the lease. The lease terms and the asset valuation are explained in Section VII.A. Additional expenditures for the items to incorporate the unit into SDG&E's operations, such as spare parts inventory and corrosion abatement, along with expected O&M costs, as described in Section III.E.9 were included in the total cost of the transaction.

Since the Product 5 offers were for a 10-year contract period, SDG&E analyzed three different end-effect scenarios that extended the 10 year offers out to a 15-year period:

- Replace with a New PPA Method: SDG&E enters into a 10-year PPA. Upon expiration of the PPA, SDG&E begins a 5-year PPA for the same facility, assuming the 5-year PPA was at the same price as the 10-year PPA;
- O&M Cost Replacement PPA Method: SDG&E enters into a 10-year PPA. Upon expiration of the PPA, SDG&E begins a 5-year PPA estimated to be equal to just the O&M costs of maintaining the facility. It is unlikely any PPA would be offered with a price equal to the O&M costs only, but this assumption was used to demonstrate the robustness of the analysis.
- Replace with New Plant Method: SDG&E enters into a 10-year PPA. Upon expiration of the PPA, SDG&E pays for a new facility for 5 years. At the conclusion of this 5-year period, the new facility is sold at its book value adjusted for inflation.[17]

For the offer subject to OTC regulations, assuming the plant would be available at the same price for the entire 10 year period is not realistic. Thus, for this option, the evaluation

[17] This method is consistent with analysis previously submitted to the Commission.

assumes that SDG&E enters into a PPA through 2017, the year by which the plant must satisfy OTC regulations. Upon expiration of the PPA, SDG&E pays for a new plant for the remainder of the 15-year period. At the conclusion of this period, the plant is sold at its inflation-adjusted book value.

The three options were analyzed with annual projections and with the inclusion of Franchise Fees and Uncollectables (FF&U), so that the revenue requirement of a PPA could be compared consistently with the revenue requirements shown in Section VII.A.2. The results show that exercising the purchase option will result in ratepayer costs that are lower than with other Product 5 offers.

As is described in Section VII.A.2, the total levelized cost of ownership for the ECEF, including all costs to integrate the unit into SDG&E's operation and transaction costs, is $71.8/kW-yr for the remaining 15-year book life of the unit. When including energy benefits, the levelized cost as compared to the product 5 offers was [redacted]. Appendix 4 shows this price as compared to the shortlisted offers extended for the full 15-year period, as described above. This analysis demonstrates that the ECEF ownership cost would be the lowest-cost option among all the Product 5 offers. It clearly establishes that the option to purchase ECEF can be exercised at a very attractive price, which will result in substantial saving to customers.

One additional method for determining ratepayer savings from SDG&E's exercise of the purchase option is to compare the ownership revenue requirements with costs that would be incurred under a PPA. The ECEF is a unit that is functionally equivalent to two other units located in the SDG&E service area that were built at the same time and are based on the same technology. Both of these other units were bid into the 2009 RFO and were shortlisted. Given the equivalencies between these units, it is reasonable to assume that ECEF would have been bid to SDG&E at the same price as the other two units. Based upon this assumption, the savings to SDG&E ratepayers of ownership compared to a PPA would be realized immediately. The savings to ratepayers in the first year alone are in excess of one million dollars. These savings grow over time as the revenue requirement decreases over the 15-year remaining book life of the plant.

SDG&E notes that its financial analysis assumes that ECEF reaches the end of its economic life in 2027 after 15-years of SDG&E ownership. This is a very conservative assumption. As has been observed, most generating plants continue to be useful beyond the end of their book life. Thus, ECEF is likely to provide benefits to customers beyond this 15-year period. Also, even if the major components must be replaced, there is substantial value in having a site at which a new turbine generator could be installed.

E. Summarize the Selected Offer(s), Including the Following: (Witness: Frank Thomas)

The selected offer is the purchase option included in the land lease for the ECEF. The lease is described in Section VII.

1. Name (identify unit or project) (Witness: Frank Thomas)

The unit is the CalPeak El Cajon Energy Facility.

2. Counterparty (Witness: Frank Thomas)

The counterparty is CalPeak Power-El Cajon LLC, which is a subsidiary of Cal Peak Power, LLC. CalPeak Power LLC is owned by Starwood Energy and Tyr Capital.

3. Description of technology (Witness: Frank Thomas)

At the time of purchase, ECEF will be a ten year old single unit simple-cycle peaking power plant powered by a Pratt & Whitney Power Systems (PWPS) Model FT8-2 Swift Pac, comprised of two gas turbines connected to one common generator with common exhaust and emissions control systems. The turbines are equipped with dry low NOx (DLN) burners that do not require water injection into the combustors.

4. MW and MWh (Witness: Frank Thomas)

The facility has a CAISO NQC rating of 42.2 MW. Annual energy delivery is contingent upon grid reliability needs and market price. The unit will have an expected average heat rate of approximately 10,500 BTU/KWHR. The facility has permits that allow it to operate up to 8,760 hours per year.

5. Location (Witness: Frank Thomas)

ECEF is located at SDG&E's El Cajon Substation on SDG&E property and is surrounded by the SDG&E Eastern Operating and Maintenance Center. The approximate address is 904 W. Main Street, El Cajon, CA.

6. On-line date (Witness: Frank Thomas)

The unit began commercial operation on May 20, 2002. Transfer of ownership of the existing facility to SDG&E will be effective January 1, 2012.

7. Contract Term (Witness: Frank Thomas)

The ECEF will be utility-owned, operated, and maintained plant for the remaining life of the asset. The economic evaluation is based on the remaining 15-year book life. However, the asset will likely have value to SDG&E's customers beyond the book life.

8. Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.) (Witness: Frank Thomas)

The ECEF is an existing project in SDG&E's service territory that provides full deliveries and is thus able to provide full resource adequacy. A switchyard with 69kV output voltage connects the facility to the SDG&E transmission system via overhead lines. There are no incremental transmission impacts or costs associated with the transfer of ownership from CalPeak LLC to SDG&E.

9. Cost info (e.g., capacity payments, total cost, NPV, etc.) (Witnesses: Frank Thomas)

a) SDG&E will pay $13,700,000 for purchase of facility. A summary of the Purchase Option Implementation Agreement entered into by SDG&E and CalPeak (Purchase Agreement) is included as Appendix 6. The Purchase Agreement itself is included as confidential Appendix 7. SDG&E intends to undertake a final comprehensive review prior to final acceptance of the acquisition:

- Engine borescope inspection;
- Generator step-up transformer condition assessment
- Condition Assessment of the fuel gas supply system including the gas compressor skid
- Refresh of the Phase I Environmental Site Assessment
- Site observations by SDG&E during startup/run/shutdown operations.

Results must be acceptable to SDG&E. If they are not and they would alter the conclusions of the aforementioned appraisal, the Seller must remedy the identified problems prior to asset transfer or the asset price will be reduced accordingly. Third-party vendors along with SDG&E will undertake these actions. Actual labor and non-labor costs expended through October 2010 are embedded in to the total listed herein.

b) SDG&E Other Costs: Other costs include costs to integrate the unit into SDG&E's operations, spare parts inventory, engineering review, and internal labor. SDG&E prepared estimates for these items are summarized below:

	Cost	Estimated Expense
i	Remote Control Telecommunications Upgrades	$175,000
ii	Combustion Turbine Generator Controls/ Continuous Emissions Monitoring System Upgrades	$200,000
iii	Spare Parts Inventory	$1,000,000
iv	Safety & Security Enhancements	$150,000
v	Corrosion Abatement	$300,000
vi	Transaction Costs	$308,000
vii	Training, Staffing, and Tools Purchase	$320,000
	Total	$2,453,000

i. Remote Control Telecommunications Upgrades ($175,000): Consistent with SDG&E operations of its Miramar peaking facilities (Miramar Energy Facility I & II), ECEF will be dispatched and monitored from SDG&E's Palomar Energy Center, once it is owned by SDG&E. Presently, this function for ECEF is undertaken at CalPeak's operations center. Conversion of this function will require the acquisition of software from Pratt & Whitney, hardware additions to the Palomar control room, and re-routing and installation of communications.

ii. Combustion Turbine Generator Controls/ Continuous Emissions Monitoring System (CEMS) Upgrades ($200,000): The Pratt & Whitney Power Systems (PWPS) control system for the plant will be ten years old at the time of acquisition and will need to be replaced within the first year of ownership. PWPS has recommended upgrades to CalPeak in order to insure reliable operation and maintain the availability of parts and service. This upgrade should take place as soon as practical. Finally, the existing CEMS would be modified to conform to SDG&E systems. Absent this upgrade SDG&E would have additional O&M expenses associated with operating two separate systems.

iii. Spare Parts Inventory & Tools ($1,000,000): Spare parts inventory will be required to maintain plant reliability, environmental compliance, and high performance standards. The lease option that allows for the purchase of ECEF includes spare parts directly associated with the facility. A limited amount of spare parts was obtained from CalPeak as part of the negotiated transaction. These spare parts are included in the asset purchase price. ECEF will be the only PWPS peaking plant operated by SDG&E. SDG&E's existing spare parts inventory are for the Miramar I and Miramar II peaking facilities, which are based on General Electric LM6000 turbines and cannot be used for this facility. Since only minimal spares will be included with the acquisition, additional spare components will need to be procured. This forecasted expenditure of $1.0 million will include applicable spare parts unique to this DLN technology. This expenditure is consistent with purchases recently made for SDG&E's Miramar II peaking facility.

iv. Safety & Security Enhancements ($150,000): Security changes for remote monitoring and operation from Palomar Energy Center will require addition of security card readers at the main entrance and the control room, integration of the existing remote operated cameras at the corners of the CTG area and at the 69kV switchyard, and associated telecommunications with the card readers and cameras. Having recently completed similar work at the Miramar Energy Facility, SDG&E expects the cost for ECEF to be $150,000.

v. Corrosion Abatement ($300,000): SDG&E engaged Power Engineers to assess facility condition and perform due diligence at ECEF.[18] Power Engineers concluded that the facility had been well maintained with the notable exception of corrosion control and recommended rust removal and facility painting.

vi. Transaction Costs ($308,000): Transaction cost include appraisal, due diligence, transfer/acquisition of permits & licenses, legal, and closing fees. In 2010, SDG&E contracted with Power Engineers for an independent condition assessment and, along with CalPeak's majority owner (Starwood Energy), a joint appraisal study with environmental due diligence, which formed the basis of the Purchase Agreement.

vii. Training & Staffing ($320,000): SDG&E engaged Power Engineers to assess O&M costs for the remaining 15-year book life and to estimate first-year needs. The operation and maintenance of ECEF is expected to closely resemble that of MEF I or 2 since the ECEF is an aeroderivative technology like the Miramar units. O&M personnel will continue to be based out of the Palomar Energy Center. As with MEF I & II, ECEF will be started and operated remotely from the Palomar control room. When in operation, O&M personnel will be dispatched as needed to ECEF.

Staffing costs will be incurred prior to SDG&E taking title to the facility since it must hire new personnel and train existing and new personnel in the fourth quarter of 2011. Based upon Power Engineers assessment, three new

[18] See Appendix 5.

O&M positions are required.[19] SDG&E is targeting bringing on new personnel two months prior to title transfer so that these employees can undertake the requisite training and become acclimated to Palomar and ECEF. For all personnel, the cost for technical training includes the cost of courses, associated travel costs and labor. Similar to the spare parts ownership discussed above, SDG&E will not acquire any tools in the transfer since none are dedicated to ECEF. Thus, a small expenditure ($40,000) is included so that requisite tools specific to Pratt & Whitney turbines can be obtained.

viii. On-going O&M: After title transfer, SDG&E will operate and maintain the facility. Based upon Power Engineer's assessment as corrected for SDG&E labor costs,[20] labor and non-labor first year O&M costs total $679,000.

10. Environmental costs / attributes (Witness: Frank Thomas)

ECEF is equipped with dry low NOx (DLN) burners which mean that water is not injected as done with other technologies to lower NOx emissions. The facility utilizes a CO catalyst and aqueous ammonia in combination with a selective reduction catalyst (SCR) for NOx control. Demineralized water for inlet fogging is utilized for capacity augmentation. Inlet fogging mitigates power loss due to ambient temperatures. The water is purified via portable reverse osmosis units on site. The facility was designed as zero-discharge for liquids, meaning that rainwater that impacts potentially oily surfaces such as equipment skids is collected and discharged to an above-ground storage tank for disposal via truck. There is no sewer connection.

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[19] The staffing requests presented in SDG&E's 2012 GRC filing are distinct and separate from the request herein. While synergies will be extracted from existing staff, the recommendations by Power Engineers are based upon the addition of the ECEF to SDG&E's fleet and therefore are incremental to SDG&E's 2012 GRC filing request.

[20] The only adjustment to the Power Engineers report long-term O&M cost estimate pertains to the fully loaded or "burden" cost for O&M technicians. Here, SDG&E updated the analysis to reflect its direct and indirect labor costs.

The three-hour rolling emissions limits for the facility are as follows:

- NOx ppm @15% O_2 – 3.5
- NOx lbs – 7.2
- CO ppm @15% O_2 – 50
- CO lbs – 22

The facility is in current compliance with these limits.

A Phase 1 Environmental Site Assessment was completed and found no contamination related to this facility. While this study will be refreshed prior to ownership transfer, SDG&E does not anticipate any change in the conclusion since ECEF has up-to-date pollution control facilities and has followed appropriate practices. If it is determined that ECEF has created a hazardous waste liability, however, CalPeak is obligated to remedy the situation under its existing lease agreement.

11. Greenhouse gas profile (Witness: Frank Thomas)

A description of the conformance of this unit to current Commission policy on GHG is included in Section IV.D. At a heat rate of 10,400 Btu/kWh (representative of operation at full load), CO_2 emissions are approximately 1200 lbs/MWh. Normal operation of the facility will be on at full load or completely off. Run hours are dictated by the CAISO to meet day-ahead or hour-ahead need. Historically, SDG&E's peaking facilities have operated at less than 10% capacity factors.

12. Assignment of regulatory risk (Witness: Frank Thomas)

The facility was permitted in 2001 and constructed with a selective catalytic reduction system to minimize NOx and CO emissions. The main regulatory risk that ECEF faces is new mandates for tighter environmental compliance. It is important to note, however, that this risk is faced by all new facilities and, indeed, exists with PPAs since impacts due to changes in law are typically passed on to the buyer.

13. Terms for contract termination (Witness: Frank Thomas)

SDG&E may terminate the transaction if inspection that precedes title transfer indicates that the unit condition has deteriorated below the market value of the equipment and an adjusted purchase price cannot be successfully negotiated.

14. Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents) (Witness: Frank Thomas)

The Purchase Agreement makes no specific provisions for renegotiation other than price adjustment to reflect changes in equipment conditions.

F. Provide Other Information Relevant to the Bidding and Selection Process (e.g., Mutually Exclusive Bids) (Witness: Frank Thomas)

None.

IV. CONSISTENCY WITH COMMISSION DECISIONS

The purpose of this section is to identify how the RFO process complies with procurement-related Commission decisions. Where applicable, specific citations to Commission decisions should be provided. At a minimum, this section should describe:

A. Whether the Solicitation and Bid Selection were Consistent with the IOU's LTPP and Solicitation Protocol:

1. Identify the Commission decision that approved the IOU's LTPP and explain with specific citations how the IOU adhered to Commission guidelines for conducting RFOs (Witness: Robert Anderson)

SDG&E's 2006 LTPP was approved with modifications in D.07-12-052. SDG&E filed its Conformed 2006 LTPP on April 18, 2008.[21] A description of the process utilized by SDG&E in conducting competitive solicitations is contained in its Commission-approved 2006 LTPP (at

[21] Advice Letter 1983-E.

Section II.A). SDG&E's 2009 RFO was compliant with the process set forth in its Commission-approved Plan.

2. Evaluate how the bid evaluation process was consistent with the approved IOU LTPP (Witness: Robert Anderson)

SDG&E's 2006 LTPP included bid evaluation guidelines that were approved as part of those plans. SDG&E's conduct and consistency with its procurement plans are subject to review by its PRG and IE. Both have been kept informed regarding the RFO, including the ECEF evaluation and comparison with Product 5 offers, and with the progress of SDG&E's negotiations.[22]

3. Explain how the Selected Offer(s) conform to the IOU's portfolio needs, including least-cost/best-fit evaluation (Witness: Robert Anderson)

SDG&E's approved 2006 LTPP outlines its portfolio needs. The plan identified the need for quick start natural gas-fired resources to back up renewable resources. D.07-12-052, in fact, directed SDG&E to procure such resources:

> To support the types of needs we anticipate in a GHG constrained portfolio, we require SDG&E to procure dispatchable ramping resources that can be used to adjust for the morning and evening ramps created by the intermittent types of renewable resources.[23]

ECEF meets this requirement. The unit is a quick start unit that can be used to meet sudden changes in loads or resources and to provide reliable capacity at time of peak.

SDG&E's procurement has been heavily driven by the need for local resources to meet local RA requirements. This purchase will maintain and provide RA to SDG&E's bundled customers as a local unit for the remaining life of the facility, estimated to be at least 15 years.

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[22] See Appendix 8.

[23] D. 07-12-057, *mimeo*, p. 110.

4. Discuss/explain any discrepancies/ambiguities between the LTPP requirements and this RFO (Witness: Robert Anderson)

The ECEF unit is fully consistent with the resource need in SDG&E's LTPP.

B. Robustness of RFO Solicitation (Witness: Robert Anderson)

Market interest in SDG&E's 2009 RFO was high, with over 70 projects offered by 28 developers, totaling over 16,000 MW of offers. For Product 5, there was limited participation, since there are a limited number of units that meet the product description – *i.e.*, that the offer be for an existing unit in SDG&E's load pocket. However, all the existing units that could meet this criterion participated in the RFO.

C. Confirm Consistency with EAP Loading Order. Specifically, Reference the IOU's Process for Ensuring that Renewables, EE, DR, and/or DG Did Not Exist at Cost Effective Prices and/or Could Not Perform as Needed for the Specific Product Requested. Identify Any Significant Changes in the Cost or Functionality of Higher Loading Order Resources that have Reduced the Need for Conventional Resources that was Calculated in the LTPP (Witness: Robert Anderson)

SDG&E's energy planning focuses first on energy efficiency, demand response and renewable power prior to adding any gas-fired generation. One area of focus in the Commission's review of SDG&E's 2006 LTPP was on ensuring that the planned actions are consistent with State policies and that SDG&E's plan recognizes the Energy Action Plan (EAP) loading order and maximizes preferred resources, while optimizing least cost/best fit and maintaining reliability. Even after planning for these resources, SDG&E has determined that there will be a need for additional capacity to meet customers' needs. In the case of this application, the ECEF will maintain existing local capacity needed to meet peak energy needs.

While SDG&E did not specifically solicit renewables in this RFO, as explained above, SDG&E's 2009 RFO did not prohibit any qualifying renewable resource from bidding to fill the identified need.

D. Selected Offer(s)' Compliance with the Commission's GHG Emission Performance Standard and Consistency with the IOU's Overall GHG Reduction Objectives (Witness: Robert Anderson)

In D.07-01-039, the Commission adopted standards that set limits on the GHG emissions profiles of long-term contracts entered into by IOUs. Under these standards, a long-term commitment by a load-serving entity to take power from a power plant must demonstrate compliance with the Emissions Performance Standard (EPS) if the power plant is a baseload facility (with an estimated annual capacity factor greater than 60%) or if the power plant is designed to augment the output or extend the operating life of an existing baseload or non-baseload plant.[24] The purchase of the ECEF project complies with D.07-01-039. The facility is a peaking power project (with an estimated annual capacity factor far less than 60%), and this application is not designed or intended to augment the output or extend the operating life of the existing power plant.

E. Selected Offer(s)' Impact on Transmission (Witness: Frank Thomas)

ECEF is an existing facility with an existing interconnection agreement. No transmission upgrades are required for this facility.

F. Affiliate Bids and UOG Ownership Proposals (if Applicable)

1. Describe the design and implementation of any Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids, including any violation(s) of that code (Witness: Robert Anderson)

The RFO did not request, nor did SDG&E receive any UOG bids for any of the Products. The purchase of the ECEF unit does not involve an affiliate. It is being pursued subject to an option provision included in an existing lease with an independent third party that currently owns and operates the generating facility on the site leased from SDG&E. The option gives SDG&E

[24] D.07-12-052, *mimeo*, p. 7.

the right to purchase the unit based on a fair market value assessment of predetermined plant components less estimated site remediation costs. The determination of the purchase price was based on a valuation conducted by an independent party that did not have any knowledge of the RFO bids. The purchase price also needed to be negotiated between SDG&E and the plants current owner.

2. Describe other safeguards and methodologies implemented by the IOU, including those stipulated in Commission decisions D.04-12-048 and D.07-12-052 for head-to-head competition between utility ownership and independent ownership bids, to ensure that affiliate and UOG bids were analyzed and considered on as comparable a basis as possible to other bids, that any negotiations with such bids' proponents were conducted as comparably as possible to negotiations with other proponents, and that the utility's final selections in such cases did not favor an affiliate or UOG bid (Witness: Robert Anderson)

There were no UOG or affiliate bids placed in the RFO for Product 5. Section VII.A.1 herein describes how the UOG cost of ownership was independently determined and how the cost compares to Product 5 offers.

3. Describe the compliance of the RFO process with these safeguards (Witness: Robert Anderson)

See response IV.F.1 above. SDG&E compared the purchase option with bids for Product 5 and concluded that there would be significant cost savings for SDG&E's customers. SDG&E's IE for the RFO reviewed SDG&E's analysis of the purchase option and comparisons with Product 5 bids.

4. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownership, explain and analyze whether the utility's selection of such bid(s) was preferable from the ratepayers' perspective (Witness: Robert Anderson)

Exercising the existing ECEF purchase option will result in utility ownership. The benefits to ratepayers of the purchase option are explained in Section III.D. The exercising of the option is preferable for ratepayers since in this unique circumstance, utility ownership is lower cost than PPA options and cost saving begin immediately.

G. Qualitative Factors that the IOU Considered in its Evaluation and Selection of Bid(s):

1. Project viability (including technology or counterparty concerns) (Witness: Robert Anderson)

Purchase of the ECEF is particularly attractive, because it is an existing plant powered by commercially proven technology, and the plant is located in SDG&E's load pocket on an SDG&E-owned site.

2. Resource diversity (Witness: Robert Anderson)

SDG&E's LTPP describes a portfolio of resources, each of which meets one or more specific requirements. There is no single resource that, by itself, is suited to meet all portfolio needs. Therefore, SDG&E procures a variety of capacity resources. The ECEF is a peaking plant designed to meet specific portfolio needs. It is a dispatchable unit designed for low-run hours intended to serve primarily during peak hours or as required to adjust for demands placed on system operations by increasing amounts of intermittent resources.

3. Greenfield versus brownfield (including repowering) environmental impacts/benefits (Witness: Robert Anderson)

As noted above, the ECEF is located on existing SDG&E property. The property was a brownfield site at the time the unit was constructed in 2001.

4. Environmental/economic justice (Witness: Robert Anderson)

As discussed in Section IV.D, the ECEF facility will meet the Commission's current rules regarding the mitigation of GHG. Furthermore, ECEF is fully permitted for all required air and water uses. It is located on industrial land and is surrounded by various light to heavy industrial properties. The quick start capability of ECEF is consistent with the type of unit characteristics which the Commission has found to be desirable to facilitate the addition of larger amounts of intermittent resources.

5. Other qualitative factors considered (Witness: Robert Anderson)

No other qualitative factors were considered.

H. List and Explain Any Significant Negotiated Revisions to the RFO Solicitation Package that were Agreed to By the IOU and Individual Counterparties. Include an Explanation (and supporting analysis) of Why the Negotiated Revisions Did not Sufficiently Alter the Nature of the Product to Warrant Revisions to or a Re-Issuance of the RFO Bid Documents to All Bidders (i.e., Confirm that the Changes Would Not Have Resulted in a Different Bid Selection had All Parties been Afforded the Opportunity to Bid a Similarly Nonconforming Product). (Witness: Robert Anderson)

Not applicable. The option to procure ECEF is contained in a lease agreement that pre-dates issuance of D.07-12-052.

V. OUTSIDE PARTICIPATION AND FEEDBACK

A. PRG Participation:

1. Describe all RFO-related information distributed to the PRG (Witness: Robert Anderson)

Meeting dates are provided in Section V.A.2. The material from each meeting, including SDG&E presentations and IE reports, is included as Appendix 8.

2. Summarize the PRG's participation in the RFO design, bid evaluation, and bid selection process (Witness: Robert Anderson)

SDG&E met with its PRG on thirteen occasions during which the subject of the solicitation was discussed. At the March 19, 2009 meeting, SDG&E discussed the upcoming 2009 RFO. At the August 20, 2009 and October 23, 2009 meetings, SDG&E presented raw bid data from the RFO. At the August 20, 2009, September 25, 2009 and October 23, 2009 meetings, SDG&E presented analysis of the offers received. At the October 23, 2009, November 20, 2009 and January 15, 2010 meetings, SDG&E presented preliminary and final shortlists, and discussed its reasoning for selection of the shortlisted projects. At the March 19, 2010, April 16, 2010 and November 19, 2010 meetings, SDG&E discussed the status of negotiations with the shortlisted projects. SDG&E introduced the proposed ECEF acquisition to the PRG on August 20, 2010. During this meeting SDG&E reviewed with its PRG the results of its due diligence, market evaluation and estimated cost to customers. Finally, on November 19, 2010, SDG&E presented the final cost values to the PRG.

B. IE Participation:

1. Cite CPUC decisions requiring the use of an IE and their applicability to this RFO (Witness: Robert Anderson)

The Commission's decisions requiring the use of an IE and their applicability to this RFO are set forth in D.04-12-048 and D.07-12-052. In D.04-12-048, the Commission eliminated its prior ban on affiliate transactions, but imposed a requirement that any solicitation that involved a bid from an IOU affiliate must employ an IE to monitor the solicitation, bids and evaluation process, in order to ensure the fairness of the process. In D.07-12-052, the Commission confirmed its requirement regarding the use of IEs and further refined the IE selection process by, for example, requiring the development of a pool of qualified IEs and creating a pro forma IE retention agreement. The Commission also confirmed that IE costs, as part of the procurement process, are recoverable through Energy Resource Recovery Account (ERRA).

2. Summarize the IE participation in the RFO development, bid solicitation, and bid selection processes (Witness: Robert Anderson)

Prior to SDG&E launching its solicitation, SDG&E consulted with its IE, Dr. Andy Van Horn, concerning the need for capacity resources and the overall design of the RFO and procurement process. Dr. Van Horn was informed about and consulted on scheduling and milestones and reviewed the RFO drafts. He discussed the steps of the bid processing and evaluation protocol and the evaluation spreadsheet template itself. Regular consultations between the IE and SDG&E's staff occurred, during which the IE offered feedback and recommendations throughout the design and implementation stages. He offered revisions to the template, which SDG&E implemented. He was on site in San Diego for the bidders conference and, later, for the receipt of the offers. The IE reviewed SDG&E's responses to questions from potential bidders. He also reviewed SDG&E's bid processing and met with processing team members on the day bids were received.

The IE and his associates reviewed SDG&E's bid evaluation spreadsheet models, as well as other information, and commented on the evaluation methods and procedures throughout the process. Dr. Van Horn reviewed the initial short list selection of offers, the comparisons of the ECEF purchase option with potential PPAs, and potential contract terms. He selectively participated in numerous conference calls with bidders after the short list was announced. He also prepared summary briefings for discussions with the PRG and answered questions from PRG members during meetings which covered this RFO. More complete details of the IE's participation and oversight of this RFO and his recommendations are contained in the attached IE report.

In addition, the IE was apprised of the ECEF lease option (allowing for the purchase and valuation of assets), provided a copy of the lease agreement, given an overview of negotiation strategy to determine price, and received the independent Burns and McDonnell aforementioned valuation study.

3. Attach the IE's report on the solicitation (Witness: Robert Anderson)

The Public Report of the Independent Evaluator: Purchase of the CalPeak El Cajon Energy Facility and SDG&E's June 9, 2009 RFO for Demand Response and Supply Resources and its Confidential Addendum, dated December 14, 2010, provide the IE's review of the ECEF purchase option. These are attached as Appendix 9.

4. Present and explain the IE costs for the RFO (Witness: Robert Anderson)

The invoiced total to date for time spent by the IE on Product 5, and on reviewing and comparing the ECEF purchase option to Product 5 offers, is approximately [redacted].

C. Provide any Other Information Relevant to Outside Participation and Feedback that is Important to Evaluation of the RFO Process (Witness: Robert Anderson)

During the period between issuance of the 2009 RFO and the deadline for submittal of offers to SDG&E, an e-mail box was provided to potential bidders to allow them to ask questions and to seek clarification regarding the RFO documents, products sought, requirements for offers or any other area where clarification or assistance was required. SDG&E provided responses to all questions and posted all responses on the RFO website so that all participants would benefit from the response, thus ensuring that all participants had equal knowledge of the requirements of the RFO.

VI. CONTINGENCIES AND MILESTONES

Identify any contractual obligations that will impact the schedule for Commission approval (termination clauses, transmission upgrades, etc.). Also describe any milestones and uncertainties regarding technology, regulatory permitting, and on-line date risk (Witness: Frank Thomas)

In order for SDG&E to assume operation of ECEF on January 1, 2012, when deliveries under its DWR contract cease, SDG&E must hire requisite staff, train new and existing staff, and transfer necessary permits and licenses. This continuity will allow this facility to be counted for local RA in 2012. Thus, SDG&E respectfully requests a final Commission decision no later than October 6, 2011, so that it has at least two months to conduct final due diligence and implement turnover by January 1, 2012. SDG&E also requests approval by this date so that SDG&E can include the unit in its Commission-required filing demonstrating compliance with local resource adequacy requirements for 2012.

VII. RATE RECOVERY OF PROPOSED REVENUE REQUIREMENT

A. Purpose and Summary

1. History and lease description (Witness: Frank Thomas)

In August, 2000, in an effort to bring additional peaking capacity online following rolling blackouts in California, SDG&E made certain substation locations available for respondents to a solicitation issued by the CAISO. A contract to provide peaking generation to the CAISO was ultimately awarded to one of the respondents to the RFB, DG Power; DG Power subsequently assigned its CAISO contract rights and obligations to CalPeak. CalPeak sought to lease space for its peaking generation units at two of SDG&E's properties. On April 16, 2001, SDG&E filed an application[25] for the authority to lease space at its El Cajon and Mission[26] substations to CalPeak for the installation and operation of electric generating units. Since leases of utility property, such as those requested by the application, require Commission approval under § 851, SDG&E sought relief under § 853(b), which provides an exemption from the requirements of § 851 under certain circumstances. The application included a draft of the proposed lease agreement, which included the purchase option. In its decision the Commission found that an exemption from § 851 as authorized by § 853(b) was in the public interest and granted approval for SDG&E to lease land to CalPeak.[27] SDG&E entered into the lease agreement with CalPeak on November 30, 2001. The lease agreement expires October 31, 2011. Since CalPeak's contract with DWR expires January 1, 2012 but its lease expires October 31, 2011, SDG&E will extend the land lease to allow CalPeak to fulfill its DWR requirements.

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[25] Application 01-04-015.

[26] The unit to be located at the Mission substation was never constructed.

[27] Decision 01-06-006.

The lease grants SDG&E the option to purchase the ECEF unit on an "as is" basis, including all equipment, spare parts, permits, plans, emission credits or offset, records, unexpired warranties, and other assignable rights directly associated with the unit at the end of the lease. The lease language pertaining to the valuation method states:

> The Purchase Price for the Unit shall be (a) the Fair Market Value of the Pratt and Whitney 49-megawatt FT8 Swift Pac aero-derivative combustion turbine-generator consisting of the *gas turbine unit, the generator unit, and the electrical/control unit only* (emphasis added), less (b) the costs that would have been incurred by CalPeak to comply with section 19 of this Agreement, i.e. remove and remediate. To the extent that CalPeak can remediate the Premises of hazardous materials caused by its activities without materially impacting the operations of the Unit, CalPeak shall perform those activities and the Purchase Price shall be adjusted accordingly. "Fair Market Value" means an amount that would be obtained in an arm's length transaction between an informed and willing buyer and an informed and willing seller, without regard to the existence of the Company's right to purchase, but taking into account that the equipment can no longer remain on the site.

SDG&E and CalPeak jointly retained the Burns & McDonnell Engineering Company (BMcD) to perform an asset valuation in accordance with the lease terms. BMcD surveyed multiple turbine dealers to establish market rates for used turbines, estimated the value of other plant components including the value of scrap metals, and estimated other site retirement costs. The BMcD valuation is included as Appendix 10. The BMcD valuation concluded the following:

- The fair market value range for the combustion-turbine generator and associated turbine control equipment is $12 to $14 million.
- The total demolition costs to retire the facility are approximately $848,000.
- The scrap and salvage value of the balance of plant equipment is approximately $1,565,000.

- The net site retirement cost is negative $717,000. The scrap and salvage value of the balance of plant equipment is greater than the cost to remove the equipment and combustion turbine-generator.
- There were no hazardous waste issues requiring remediation.
- The purchase price of ECEF is the fair market value of the combustion-turbine generator less the site retirement costs (which is actually a credit), would equate to approximately $12.7 to $14.7 million.

SDG&E and CalPeak have agreed to a purchase price of $13.7 million. SDG&E will also incur additional capital costs to complete the transaction, including purchasing spare parts, adding communications to allow SDG&E to remotely dispatch the unit, integrate and enhance controls, undertake preventative maintenance, hire and train staff to maintain the unit and complete final due diligence. Thus, the total cost to SDG&E will be $16.8 million.

2. Revenue Requirement (Witness: Michael Foster)

This section identifies the proposed fixed revenue requirement of ECEF. More specifically, this section describes and summarizes the components of the revenue requirement proposed for ECEF, which are (1) rate base; (2) return; (3) depreciation; (4) taxes; and (5) O&M expenses. The ECEF annual revenue requirement for the term January 2012 through December 2015 is shown in Table 2. Over the 15 year book life the project has a total levelized cost of $71.8/kW-yr.

Table 2

San Diego Gas & Electric
El Cajon Energy Facility
Annual Revenue Requirement
(Dollars in Thousands)

Electric Plant		2012	2013	2014	2015
Franchise Fees & Uncollectibles	3.698%	155	147	142	137
O&M Expenses		679	701	723	745
Property Tax	1.253%	217	202	187	172
Preferred Equity Interest	7.250%	68	64	58	53
Interest Expense	5.620%	417	388	355	324
Depreciation		1,162	1,162	1,162	1,162
Federal Tax Expense		573	520	486	449
State Tax Expense		197	114	111	114
Return on Equity	11.100%	891	829	760	693
Revenue Requirement		4,360	4,126	3,985	3,850

After the acquisition of ECEF is complete, SDG&E will file an advice letter with the Commission that provides an update of the final purchase and integration costs and associated revenue requirement. Thus, SDG&E will only look to collect revenue requirements associated with the actual costs incurred.

B. Rate Base (Witness: Michael Foster)

The major components of rate base for ECEF for the term of the cost recovery rate plan (*i.e.,* January 2012 through December 2016) are presented below, and described in more detail in Section III.E, above. The total rate base including the purchase price plus the transaction and other capital costs is $16.8 million.

1. Purchase price

The major cost is the purchase price of $13.7 million.

2. Other costs

Other costs associated with ECEF as previously identified by witness Thomas are listed in Section III.E.9.b. Capital loaders on these amounts total $667,000.

3. Other SDG&E costs

a. Working cash

The working cash requirement is computed by multiplying total estimated fixed and variable annual O&M expenses (excluding depreciation and fuel costs) by one-eighth. The resulting amount represents 45 days of O&M expenses. This method is accepted by the FERC and has been used in previous filings before this Commission.

b. Accumulated depreciation and deferred taxes

Rate base also includes accumulated depreciation and deferred taxes which are discussed in Sections VII.D and E, below.

c. AFUDC

The revenue requirements include projected allowance for funds used during construction (AFUDC) which is the financing costs of capital spent that is in Construction Work in Progress (CWIP) prior to taking ownership of the facility in January 2012. AFUDC has been applied using SDG&Es' currently authorized CPUC ROR of 8.40 percent. AFUDC is applied until such time as the project is completed and transferred into service at which time AFUDC is no longer applied since the capital project then earns SDG&Es' authorized return on rate base.

C. Return (Witness: Michael Foster)

The rate of return (ROR) used for ECEF is based on SDG&E's authorized capital structure, embedded cost of debt, embedded cost of preferred stock, and the authorized return on equity (ROE) of 11.1% approved by the Commission in D.07-12-049 on December 20, 2007.

The resulting ROR applicable to generation is 8.40%. The return on investment is calculated by multiplying the ROR by the average rate base for ECEF for the term of the cost recovery rate plan, January 1, 2012 through December 31, 2015.

D. Depreciation (Witness: Michael Foster)

SDG&E assumes the facility will have 15 year remaining book life at time of acquisition. The FERC book life for similar peaking facilities is 25 years, and ECEF will be 10 years old at time of acquisition.[28]

SDG&E has incorporated an annual depreciation rate of 6.9% over 15 years, which recovers initial investment plus retirement costs. SDG&E based the ECEF site retirement cost estimate on the current site retirement liabilities booked for its Miramar peaker facilities. The rate of 6.9% is based on an estimated book life of 15 years, plus the recovery of approximately $650,000 in retirement costs.[29] The rate of 6.9% is included in the calculation of rate base and the revenue requirement for ECEF.

E. Taxes (Witness: Michael Foster)

1. Ad valorem taxes

The forecasted ad valorem expense for ECEF in years 2012 through 2016 is calculated by multiplying the projected assessed annual value of the plant as of the December 31, 2008 lien date by the estimated tax rate of 1.253% percent.

The assessed value is based on the Historical Cost Less Depreciation (HCLD) indicator of value, which is the primary value indicator for rate base regulated utility property for ad valorem tax purposes. HCLD is the estimated cost of property that is subject to assessment by

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[28] Similar facility MEFII assumed a 25 year useful life.

[29] $650,000 is approximately 4% of the overall capital expenditure. 1.04/15 = 6.9%.

the State Board of Equalization (SBE) less depreciation on this property. The deferred federal income tax reserve related to taxable property further reduces the HCLD indicator.

2. Income taxes

This section provides SDG&E's estimate of income taxes that will be incurred in years 2012 through 2015 due to the investment in ECEF and discusses the assumptions and methodology used to make the income tax estimate.

California Corporation Franchise Tax (CCFT) and federal income tax expenses are estimated based on net operating income before income taxes.

Federal income tax expense, including deferred income tax, is calculated by multiplying the currently effective corporate federal income tax rate of 35 percent by applicable federal taxable income. Similarly, state income tax expense is calculated by multiplying the statutory rate of 8.84 percent by state taxable income.

Following established Commission policy, federal income taxes are computed on a normalized basis. Deferred federal income taxes are calculated as the difference between book depreciation and federal tax depreciation times the federal tax rate. The Accumulated Deferred Federal Income Tax Reserve is included as a credit in rate base. State income taxes are calculated on a flow-through basis.

For ECEF, federal tax depreciation is based on a double declining balance (DDB) method over 15 years, which follows the Modified Accelerated Cost Recovery Schedule (MACRS). State tax depreciation is based on a DDB method over 20 years.

3. Sales tax

In this transaction of assets, sales tax only applies to the limited spare parts conveyed to SDG&E by CalPeak and possibly some on-site consumables (*i.e.* stored lubricants). For purposes of this revenue requirement, it is ignored.

H. O&M Expenses (Witness: Michael Foster)

This section provides SDG&E's estimate of fixed O&M expenses that will be incurred in 2012 through 2015 to run ECEF, based upon information presented by witness Thomas. The O&M expenses included in the proposed fixed cost revenue requirement for the generation plant consist of Fixed O&M and FF&U. For fixed O&M, SDG&E proposes a fixed authorized budget.

1. O&M

Table 3 below identifies the annual O&M costs needed to operate and maintain ECEF. These O&M costs are escalated to the appropriate year's dollars to calculate the proposed revenue requirement.

Table 3

San Diego Gas & Electric
El Cajon Energy Facility
Fixed Operation and Maintenance Expenses
(Dollars in Thousands) - Escalated

Electric Plant	2012	2013	2014	2015
Fixed O&M	679	701	723	745

2. Franchise fees and uncollectibles (FF&U)

FF&U is the revenue requirement needed to pay required franchise fees on electric sales and to recover estimated uncollectible expenses. The FF&U factor used in calculating the proposed revenue requirement is 3.698 percent, which is the factor adopted in SDG&E's last general rate case (GRC) proceeding (A.06-12-009). SDG&E will modify the FF&U factor used to calculate the proposed revenue requirement to reflect the adopted FF&U in the GRC, if different from the proposed factor.[30]

I. Proposed Utility Rate Recovery (Witness: Greg Shimansky)

SDG&E proposes to recover the ECEF revenue requirement in a manner consistent with other utility generation assets, such as the Palomar and Miramar generating plants. These facilities are currently contained as part of SDG&E's GRC base margin, but recovered in electric commodity rates charged to bundled customers. The non-fuel portion of the revenue requirement is recovered through the Non-Fuel Generation Balancing Account (NGBA), while the fuel cost is recovered via the Energy Resource Recovery Account (ERRA). Since the date for the transfer of plant ownership (January 1, 2012) coincides with the effective date of SDG&E's next GRC decision, SDG&E proposes that the ECEF revenue requirement adopted in this proceeding be rolled into the base margin revenue requirement that is adopted in the 2012 GRC decision. If the GRC decision is not issued prior to the transfer of plant ownership, SDG&E proposes to establish a memorandum account to record the ECEF revenue requirement from the time the facility is placed in SDG&E's service until the date the final GRC decision is issued. Once all of the final costs are accumulated, SDG&E will update the costs and associated revenue requirement in the NGBA update advice letter filed in November, 2012, for rates effective January 1, 2013.

[30] Any increase in revenue necessitated by a PPA or UOG project would experience the same FF&U exposure since FF&U is charged to customers a percent of retail sales. Changes in the FF&U rate would affect a PPA or UOG project equally.

QUALIFICATIONS OF ROBERT B. ANDERSON

My name is Robert B. Anderson. My business address is 8330 Century Park Court, San Diego, California, 92123.

I am employed by San Diego Gas & Electric Company as Director - Resource Planning. My responsibilities mainly include electric resource planning. I have been employed by SDG&E since 1980, and have held a variety of positions in resource planning, corporate planning, power plant management, and gas planning and operations.

I have a BS in Mechanical Engineering and a MBA - Finance. I am a registered professional engineer in Mechanical Engineering in California.

I have previously testified before this Commission.

QUALIFICATIONS OF FRANK THOMAS

My name is Frank Thomas. I am employed by SDG&E as Manager of Electric Project Development and Business Planning. In this role I have a group that assists the Electric and Gas Procurement Department with its solicitations relative to generation development and generation technology. I am also responsible for the oversight and management of SDG&E's participation in SONGS. I was formerly Manager of Procurement Planning & Analysis within the Electric and Gas Procurement Department. My responsibilities in this former role included overseeing a staff of gas and electric analyst/planners that support the Procurement Department's traders and schedulers, assisting Resource Planning by taking the lead with short-term planning, valuing energy resources for acquisition, and supporting regulatory filings. I also took lead in developing and carrying out SDG&E's 2003 Grid Reliability RFO. I was lead or key contributor for SDG&E in its role for the contract development and oversight of the Palomar, Otay Mesa, and Miramar I generation projects and the subsequent Miramar II project several years later.

I received my Bachelor's Degree in Hydrology and a Master's Degree in Civil Engineering from the University of New Hampshire. I have received an MBA from the University of Southern New Hampshire (formerly New Hampshire College) with a focus on finance. Much of my career has been as a consultant, where I managed projects including the divestiture of utility assets and relicensing of FERC regulated hydroelectric projects. I spent four years with Citizen's Utilities Company, where I valued hydroelectric assets and life extending capital additions, represented the company in deregulation activities, and analyzed its generation portfolio relative to stranded benefits and costs. My work at Citizen's culminated with strategic planning for the acquisition and divestiture of utility franchises. I joined SDG&E in October, 2002. I have previously testified before this Commission.

QUALIFICATIONS OF MICHAEL FOSTER

My name is Michael W. Foster. My business address is 8326 Century Park Court, San Diego, California 92123-1530. I am employed as a Project Manager in the Regulatory Case Financial area of the Finance department of SDG&E. I have worked for SDG&E since December 2001. In my current capacity, I am responsible for providing financial analysis of various utility projects and initiatives. In addition, I provide regulatory financial support and have been extensively involved in regulatory proceedings such as SDG&E's phase I and phase II cost of capital proceedings, the Sunrise Powerlink Phase II proceeding, and the SDG&E AMI proceeding. I testified as the finance and revenue requirement witness in Southern California Gas's Advanced Metering Infrastructure proceeding. I am also responsible for updating the utilities' project evaluation guide and toolkit, which provides the standard financial analysis required for each new utility project.

I received a Bachelor of Science degree in Economics from the University of California, Santa Barbara in 1995. I received a Master of Business Administration degree from the Darden School of Business at the University of Virginia, Charlottesville in 2000. I have previously testified before this Commission.

QUALIFICATIONS OF GREG SHIMANSKY

My name is Greg Shimansky. I am employed by San Diego Gas & Electric Company (SDG&E), as the Regulatory Accounts Manager in the Financial Analysis Department. My business address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include managing the process for the development, implementation, and analysis of regulatory balancing and memorandum accounts. I assumed my current position in July 2010

I have been employed with SDG&E and Sempra Energy since June 30, 2003. In addition to my current position in Regulatory Affairs, I served as Financial Planning Manager for Sempra Energy Corporate (Parent) and was responsible for the completion of the 5-year financial plan and accompanying analysis. I held that role from June 2009 through April 2010. From August 2008 to June 2009, I was the Regulatory Reporting Manager in charge of the monthly close and reporting of revenues, cost of goods sold and balancing accounts. Further I was responsible for the filing of financial data as required to the CPUC and FERC – such as FERC form 1 reports. From June 2003 through August 2008, I worked for SDG&E in the Utility planning department working my way up to Financial Planning Manager in charge of yearly outlooks, the 5-year forecast, monthly actual variance reporting, and ad hoc analysis.

I received a Bachelors of Science degree in Economics from the University of California, Los Angeles in June 1993. I also received a Masters of Science in Management, with concentrations in Finance and Marketing, from Purdue University in May 1998.

I have not previously testified before this Commission.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF ROBERT B. ANDERSON REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Robert Anderson, do declare as follows:

1. I am the Director, Resource Planning for San Diego Gas and Electric Company ("SDG&E). I am sponsoring testimony ("Testimony") in support of SDG&E's Application for Authority to Acquire the CalPeak El Cajon Energy Facility filed with the California Public Utilities Commission on January 5, 2011. I am thoroughly familiar with the facts and representations in this declaration and if called upon to testify I could and would testify to the following based upon personal knowledge.

2. I hereby provide this Declaration in accordance with D.06-06-066[1/] and D.08-04-023 to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below) falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[2/]

1/ As amended by D.07-05-032.

2/ The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm*. 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[3/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . or consists of information from which that information may be easily derived."[4/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated redacted summarized, masked or otherwise protected in a way that allows partial disclosure.

3/ *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.

4/ *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).

5. SDG&E's Protected Information: The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	**Matrix Category**	**Period of Confidentiality**
Bundled Customer Resource Need (net open positions – MW) (Table 1, Part Two, Section I.C)	VI.A	2012-2013 (front three years of forecast data confidential)
Bid Information – Total number of projects and megawatts bid by resource type (Part Two, Section I.C; Section III.D.2; Appendix 2; Appendix 3; Appendix 4)	VIII.A	Public after final contract submitted to CPUC for approval
Invoiced total for IE services related to RFO (Part Two, Section V.B.4)	VII.B	Three years
PRG Presentations; Portions of IE Report (Appendix 8, 9)	VII.G;[5/] VIII.A; VIII.B	Three years

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized.

9. As an alternative basis for requesting confidential treatment, SDG&E submits that the Protected Information is material, market sensitive, electric procurement-related information protected under§§ 454.5(g) and 583, as well as trade secret information

[5/] The Commission previously considered and approved application of IOU Matrix confidentiality protection to project development status data in its *Administrative Law Judge's Ruling Granting San Diego Gas & Electric Company's May 21, 2007 Amendment to April 3, 2007 Motion and May 22, 2007 Amendment to August 1, 2006 Motion*, issued June 28, 2007 in R.06-05-027.

protected under Govt. Code § 6254(k), and that the disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.[6/]

10. Public Utilities Code § 454.5(g) provides:

> The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports, or any combination, provided that the Office of Ratepayer Advocates and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

11. General Order 66-C protects "[r]eports, records and information requested or required by the Commission which, if revealed, would place the regulated company at an unfair business disadvantage."

12. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.[7/] Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

[6/] This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

[7/] *See also* Govt. Code § 6254.7(d).

13. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.[8/]

14. If disclosed, the Protected Information could provide parties with whom SDG&E is currently negotiating insight into SDG&E's procurement options and negotiation strategy, which would unfairly undermine SDG&E's negotiation position and could ultimately result in increased cost to ratepayers. In addition, as noted below, certain information included in the Protected Information constitutes confidential trade secret information of third party developers and SDG&E's Independent Evaluator ("IE"). If these third parties, or other potential counter-parties, mistakenly perceive that SDG&E is not committed to protecting their confidential data, they may be unwilling to extend opportunities to, or enter into negotiations with, SDG&E in the future. This would create an unfair business disadvantage for SDG&E and could increase the costs borne by utility ratepayers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

15. The Protected Information constitutes confidential trade secret information of the developers listed therein, as well as of SDG&E's IE. Portions of the Protected Information relate directly to status and viability of various generation projects. Disclosure of this market sensitive information could harm the developers' ability to negotiate necessary contracts and/or could invite interference with project development by competitors. Disclosure of information pertaining to amounts invoiced by SDG&E's IE could disadvantage him in negotiations with other potential clients.

[8/] *See*, D.06-06-066, *mimeo*, pp. 26-28.

16. In accordance with the statutory provisions described herein, SDG&E hereby requests that the information set forth in the Testimony be protected from public disclosure.

17. I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 5th day of January, 2011, at San Diego, California.

/s/ *Robert B. Anderson*
Robert B. Anderson
Director, Resource Planning
San Diego Gas & Electric Company

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECLARATION OF FRANK W. THOMAS
REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Frank W. Thomas, do declare as follows:

1. I am the Manager, Electric Project Development for San Diego Gas and Electric Company ("SDG&E). I am sponsoring testimony ("Testimony") in support of SDG&E's Application for Authority to Acquire the CalPeak El Cajon Energy Facility filed with the California Public Utilities Commission on January 5, 2011. I am thoroughly familiar with the facts and representations in this declaration and if called upon to testify I could and would testify to the following based upon personal knowledge.

2. I hereby provide this Declaration in accordance with D.06-06-066[1/] and D.08-04-023 to demonstrate that the confidential information ("Protected Information") provided in the Testimony submitted concurrently herewith (described below) falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[2/]

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor

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[1/] As amended by D.07-05-032.

[2/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.*, 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[3/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . or consists of information from which that information may be easily derived."[4/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated redacted summarized, masked or otherwise protected in a way that allows partial disclosure.

[3/] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.

[4/] *See*, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).

5. <u>SDG&E's Protected Information</u>: The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	**Matrix Category**	**Period of Confidentiality**
Portions of CalPeak Power El Cajon Facility Acquisition Due-Diligence Study (Appendix 5)	VIII.B[5]	3 years starting 1/1/2012
Purchase Option Implementation Agreement (Appendix 7)	VII.E	3 years starting 1/1/2012

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized.

9. As an alternative basis for requesting confidential treatment, SDG&E submits that the Protected Information is material, market sensitive, electric procurement-related information protected under§§ 454.5(g) and 583, as well as trade secret information protected under Govt. Code § 6254(k), and that the disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.[6]

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[5] *See, also* Matrix Category VII.G, The Commission previously considered and approved application of IOU Matrix confidentiality protection to project status information in its *Administrative Law Judge's Ruling Granting San Diego Gas & Electric Company's May 21, 2007 Amendment to April 3, 2007 Motion and May 22, 2007 Amendment to August 1, 2006 Motion*, issued June 28, 2007 in R.06-05-027.

[6] This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of

10. Public Utilities Code § 454.5(g) provides:

> The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports, or any combination, provided that the Office of Ratepayer Advocates and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

11. General Order 66-C protects "[r]eports, records and information requested or required by the Commission which, if revealed, would place the regulated company at an unfair business disadvantage."

12. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.[7/] Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

13. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.[8/]

14. If disclosed, the Protected Information could provide third parties with insight into SDG&E's procurement options, as well as into SDG&E's contract negotiation strategy, which would unfairly undermine SDG&E's future negotiation positions and could ultimately result in increased cost to ratepayers. In addition, SDG&E is

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action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

[7/] *See also* Govt. Code § 6254.7(d).

[8/] *See*, D.06-06-066, *mimeo*, pp. 26-28.

contractually bound to seek confidential protection for material deemed "confidential" by CalPeak Power LLC ("CalPeak"). If CalPeak or other potential counter-parties mistakenly perceive that SDG&E is not committed to protecting their confidential data, they may be unwilling to extend opportunities to, or enter into negotiations with, SDG&E in the future. This would create an unfair business disadvantage for SDG&E and could increase the costs borne by utility ratepayers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of the Protected Information, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

15. CalPeak's Protected Information: The facility-related information set forth in Appendix 5 is non-public market-sensitive information deemed confidential by CalPeak; the information contained in Appendix 7 provide insight into CalPeak's negotiation strategy. Disclosure of this valuable non-public information could unfairly disadvantage CalPeak, thus it constitutes confidential trade secret information of CalPeak that must be protected from disclosure.

16. In accordance with the statutory provisions described herein, SDG&E hereby requests that the Protected Information be protected from public disclosure.

17. I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 5th day of January, 2011, at San Diego, California.

/s/ *Frank Thomas*
Frank W. Thomas
Manager, Electric Project Development
San Diego Gas & Electric Company