

**PUBLIC VERSION**

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

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Order Instituting Rulemaking to Continue	)	Rulemaking 06-05-027
Implementation and Administration of California	)	(Filed May 25, 2006)
Renewables Portfolio Standards Program.	)	

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**SECOND AMENDMENT TO 2008 DRAFT RENEWABLE PROCUREMENT  
PLAN OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)**

**\*\*REDACTED, PUBLIC VERSION\*\*  
(SUBJECT TO MOTION TO FILE UNDER SEAL)**

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August 10, 2007

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**SECOND AMENDMENT TO 2008 DRAFT RENEWABLE PROCUREMENT  
PLAN OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)**

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”) and the *Assigned Commissioner’s Ruling Regarding 2008 Renewables Portfolio Standard (RPS) Plans and 2010 RPS Goals* (the “ACR”), issued on July 31, 2007, San Diego Gas & Electric Company (“SDG&E”) hereby submits this second amendment to its draft 2008 Renewable Portfolio Standard (“RPS”) Procurement Plan (the “Plan”).<sup>1/</sup>

SDG&E filed its draft Plan on August 1, 2007. In the ACR, issued one day prior, the Commission directed that “in order to assess the feasibility of reaching the 2010 renewable energy goals, each IOU’s 2008 Plan should address its individual contracting situation, along with whether and how additional short term procurement strategies could enhance its ability to meet 2010 renewable delivery goals.”<sup>2/</sup> Given the timing of its issuance, the ACR granted each utility leave to file and serve an amendment to its 2008 Plan with the requested information.<sup>3/</sup>

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<sup>1/</sup> SDG&E’s first amendment was filed on August 8, 2007 in order to attach an inadvertently omitted Attachment to the Plan.

<sup>2/</sup> ACR, p. 3.

<sup>3/</sup> ACR, p. 6.

In addressing the extent to which additional short term procurement strategies could improve the ability of each utility to meet 2010 renewable delivery goals, the ACR offered the following two strategies for consideration: (i) issue a Request for Offers (“RFO”) for short-term contracts; (ii) postpone or forego the 2008 RPS solicitation. The ACR notes that “short term contracting may be a reasonable procurement strategy given that most long-term contracts resulting from a 2008 solicitation would be for new facilities that are unlikely to be built in time to begin deliveries for the 2010 goal,” and further that “postponing or forgoing an IOU’s 2008 solicitation may increase the likelihood of meeting the state’s RPS target in 2010 by allowing an IOU to reallocate its internal resources.”<sup>4/</sup>

The ACR requests that each Plan discuss the potential advantages and disadvantages of pursuing these two strategies and offer conclusion as to whether these strategies would be of assistance in achieving the 2010 RPS goal. The ACR further requests that the following information be provided to support any request to postpone or forgo a utility’s 2008 RPS solicitation:

- RPS contract failure rate. Calculate the IOU’s historical contract failure rate from previous RPS solicitations and estimate a projected rate for future solicitations.
- RPS project development risk. In the redacted 2008 Plan filing, provide aggregated information for the RPS contracts that are expected to deliver energy to meet 2010 goals and that are at risk for not delivering energy by their expected commercial online date (*e.g.*, percentage of such contracts that might not deliver, reason(s) for delay/possible failure, effect on IOU’s ability to meet its RPS goals). In the confidential version of the Plan, rate all RPS contracts as high, medium, or low risk for starting deliveries in the expected year, and each subsequent year. Define the methodology for making this determination, and identify reasons for the delays.

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<sup>4/</sup> ACR, p. 4.

- Contracting margin. On a contract basis, what percent of the IOU's retail sales will be met by renewable energy in 2010? Given the likelihood of some contract failure, what is the IOU's methodology for choosing an over-contracting margin?

- IOU internal resource allocation. Describe the IOU's current workload and distribution of person-hours toward various RPS procurement activities (*e.g.*, contract negotiation, project development, solicitation planning/implementation, regulatory affairs). What, if any, constraints exist toward completing renewable contract negotiations and tracking/assisting in project development? If the IOU were to postpone or forgo its 2008 solicitation, how would it re-allocate its resources? In what specific ways would postponing or forgoing a 2008 solicitation impact project development and/or contract negotiations?

SDG&E appreciates the Commission's willingness to consider variations on current RPS processes that may assist the utilities in achieving the 20% by 2010 RPS objective, as well as its sensitivity to the competing demands placed upon utility procurement resources. SDG&E addresses the Commission's queries in more detail in the attached Amendment.

Respectfully submitted this 10<sup>th</sup> day of August, 2007.

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**SECOND AMENDMENT TO  
SAN DIEGO GAS & ELECTRIC COMPANY  
2008 RENEWABLE PROCUREMENT PLAN**

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## AMENDMENT

### **I. BACKGROUND**

In accordance with the direction provided by the Commission, SDG&E filed its draft 2008 Renewable Portfolio Standard (“RPS”) Procurement Plan (the “Plan”) on August 1, 2007. In the *Assigned Commissioner’s Ruling Regarding 2008 Renewables Portfolio Standard (RPS) Plans and 2010 RPS Goals* (the “ACR”), issued on July 31, 2007, the Commission directed that “in order to assess the feasibility of reaching the 2010 renewable energy goals, each IOU’s 2008 Plan should address its individual contracting situation, along with whether and how additional short term procurement strategies could enhance its ability to meet 2010 renewable delivery goals.”<sup>1/</sup> Because the ACR was issued one day prior to the deadline for filing of each utility’s Plan, the ACR granted each utility leave to file and serve an amendment to its 2008 Plan setting forth the requested information.<sup>2/</sup>

In addressing the extent to which additional short term procurement strategies could improve the ability of each utility to meet 2010 renewable delivery goals, the ACR offered the following two strategies for consideration: (i) issue a Request for Offers (“RFO”) soliciting short-term contracts; (ii) postpone or forego the 2008 RPS solicitation. The ACR notes that “short term contracting may be a reasonable procurement strategy given that most long-term contracts resulting from a 2008 solicitation would be for new facilities that are unlikely to be built in time to begin deliveries for the 2010 goal,” and further that “postponing or forgoing an IOU’s 2008 solicitation may increase the

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<sup>1/</sup> ACR, p. 3.

<sup>2/</sup> ACR, p. 6.

likelihood of meeting the state's RPS target in 2010 by allowing an IOU to reallocate its internal resources.<sup>3/</sup>

The ACR directs that each Plan discuss the potential advantages and disadvantages of pursuing these two strategies and offer conclusion as to whether these strategies would be of assistance in achieving the 2010 RPS goal. The ACR further requests that any request to postpone or forgo a utility's 2008 RPS solicitation be accompanied by the following information: (i) RPS contract failure rate; (ii) RPS project development risk; (iii) contracting margin; and (iv) IOU internal resource allocation.<sup>4/</sup>

## **II. RESPONSES TO ACR INQUIRIES**

### **A. Would the ability to solicit short-term contracts assist in achievement of the 20% by 2010 RPS goal?**

SDG&E welcomes the Commission's recognition of the importance of using all available market tools in the IOU's efforts to reach the 20% RPS goal by 2010. SDG&E agrees that soliciting for short-term contracts should assist in the achievement of the 20% goal and, in fact, has already proposed in its Plan that it will solicit for short term resources for use in RPS compliance. While the available quantities of short term renewable power are unknown, it is for just this reason that it is necessary and appropriate to conduct an RFO designed to discover how much short term renewable power is available. To the extent SDG&E issues an RFO soliciting short-term renewable contracts prior to receiving Commission approval of the proposal in its Plan, the effectiveness of any resulting contract would be contingent upon 1) Commission approval of the proposal in SDG&E's Plan to issue a RFO for short-term contracts; and

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<sup>3/</sup> ACR, p. 4.

<sup>4/</sup> *Id.*

2) Commission approval of the required Advice Letter seeking approval of the individual transaction.

**B. Would the ability to postpone or forego the 2008 RPS solicitation assist in achievement of the 20% by 2010 RPS goal?**

SDG&E appreciates the Commission sensitivity to resource constraints and its recognition of the work volume associated with complying with all the elements of the RPS process, as well as the questionable efficacy of a 2008 RFO in meeting the 2010 RPS goal. However, at this time SDG&E feels that it is premature to make a decision regarding whether or not to conduct a renewables RFO in 2008. SDG&E proposes that each IOU be allowed to track its progress in completing contracts that are pending with existing offers and to use this information to inform a final decision as to the need for a 2008 Renewables RFO prior to the end of 2007. SDG&E proposes that the Commission find that:

- 1) each IOU may decide on its own whether or not to conduct a 2008 RFO
- 2) any changes to the filed 2008 RPS RFO document that are suggested by the ACR issued on July 31, 2007 (such as products and schedule) would be reviewed with the PRG and a new Plan would be transmitted to the Executive Director and approved by letter from him prior to issuance of the amended RFO. This is a higher standard than that which exists for conventional or all-source RFOs, where prior Commission approval of the RFO document is not required. SDG&E contemplates that such changes may include, 1) schedule of the solicitation, and 2) products sought.



The flexibility that such an approach would provide to the IOUs is valuable as each assesses its progress toward its RPS goal and makes its determination on issuance and timing of a 2008 RPS RFO.

SDG&E provides the following information to support its request:

- (i) ***RPS contract failure rate. Calculate the IOU's historical contract failure rate from previous RPS solicitations and estimate a projected rate for future solicitations.***

SDG&E suggests that the term “contract failure rate” leaves useful room for interpretation and that the Commission should look at various metrics when trying to establish a means of applying past experience to forecast expected outcomes. SDG&E suggests that the Commission consider the following:

- 1) SDG&E provides here as Attachment 1 a probabilistic estimate that it has prepared regarding the successful completion of current Commission-approved RPS projects that are in development. This Attachment assesses the likelihood of success by tracking progress in achieving major project milestones. This spreadsheet was used by SDG&E in determining the size of resources that would be short-listed in its 2007 RPS RFO in order to fulfill its strategy of short-listing twice the required need.
- 2) Another useful data point in forecasting the likely success rate of 2007 RPS RFO offers is evaluation of the total number of shortlisted projects bid into SDG&E RPS RFOs and calculation of the percentage of those projects that have resulted in Commission approved contracts. For SDG&E this number slightly over 50%. This means that for the projects

shortlisted by SDG&E, 1 in 2 have not progressed past negotiations or have failed after CPUC approval. It is important to note that this is not strictly a “failure rate” since some of these projects are still being actively pursued, although they have been a “work-in-progress” for at least a year (since the 2006 RPS RFO or earlier). By volume, the completed/approved contracts represent approximately one third of the total volume of all shortlisted offers. This may indicate the relative ease of completing smaller transactions.

- 3) If “contract failure” is strictly defined as those Commission-approved contracts that are canceled, only six (6) SDG&E contracts would meet this definition, or approximately 10%.

***(ii) RPS project development risk. In the redacted 2008 Plan filing, provide aggregated information for the RPS contracts that are expected to deliver energy to meet 2010 goals and that are at risk for not delivering energy by their expected commercial online date (e.g., percentage of such contracts that might not deliver, reason(s) for delay/possible failure, effect on IOU’s ability to meet its RPS goals). In the confidential version of the Plan, rate all RPS contracts as high, medium, or low risk for starting deliveries in the expected year, and each subsequent year. Define the methodology for making this determination, and identify reasons for the delays.***

SDG&E has addressed project development risk by including in this update to its 2008 RPS Plan the attached Attachment 1 that displays a probabilistic view of the likelihood of success of each of its projects as described above. This Attachment also details impact that these probabilities have on the overall success of SDG&E in meeting its 2010 RPS goal.

Importantly, the largest single factor in SDG&E’s ability to meet its 2010 RPS

goals remains the approval and construction of the Sunrise Powerlink. As stated in the 2008 RPS Plan submitted on August 1, “[b]ased on the number of SDG&E approved contracts, contracts under negotiations, and contracts short listed from the 2007 RFO, roughly half of SDG&E’s renewable opportunities would need the Sunrise Powerlink to deliver its energy to the California grid. Without the Sunrise Powerlink transmission line, it is highly unlikely that SDG&E will achieve the 20% mandate by 2010.”<sup>5/</sup>

**(iii) Contracting margin. On a contract basis, what percent of the IOU’s retail sales will be met by renewable energy in 2010? Given the likelihood of some contract failure, what is the IOU’s methodology for choosing an over-contracting margin?**

SDG&E has addressed contracting margin in its 2008 RPS Plan. It has chosen to use a number of 20% - 30% as a goal for “over contracting” to allow for project failures while still maintaining a reasonable likelihood of reaching the 20% RPS goal. This would put SDG&E’s RPS contracting target at 24% to 26% of 2010 retail sales. SDG&E points out the following with regard to “over contracting”:

- 1) It has selected a quantity of “over contracting” of 20% to 30% of the RPS goal of 20% supply from renewables. This represents (at the high end of our range) the advice of the CEC.<sup>6/</sup> While this number is less than the ~50% “contract failure rate” discussed above, it is important to note that some of the contracts counted in that metric have not failed, they have simply not been concluded after some length of time. Further, the ~50% “contract failure rate” calculated by SDG&E represents all shortlisted projects, whereas the “over contracting” or 30% would

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<sup>5/</sup> Plan, p. 24.

<sup>6/</sup> See 2006 IEPR update, p. 47.

include projects that are completed contracts and are thus more likely to succeed. Given the higher viability of these contracts (as opposed to shortlist offers) the require contract margin would logically be less than the contract failure rate as defined above.

- 2) SDG&E has not yet “over contracted” as we have not yet reached the 20% RPS goal. The term “over contracting” suggests that the utility has contracted for more energy than is required. The Commission should make clear that it approves of a prudent contract margin, as proposed by SDG&E in its plan. This contract margin represents a hedge against contract failure. However, even if all projects are ultimately successful, this renewable generation beyond the 20% goal would be incremental progress toward AB32 goals and is still prudent and recoverable once pre-approved by the Commission.

- (iv) IOU internal resource allocation. Describe the IOU’s current workload and distribution of person-hours toward various RPS procurement activities (e.g., contract negotiation, project development, solicitation planning/implementation, regulatory affairs). What, if any, constraints exist toward completing renewable contract negotiations and tracking/assisting in project development? If the IOU were to postpone or forgo its 2008 solicitation, how would it re-allocate its resources? In what specific ways would postponing or forgoing a 2008 solicitation impact project development and/or contract negotiations?*

While SDG&E is encouraged by Commission recognition of the large workload created by the regulatory framework that has developed around RPS, the largest amount of the work was completed in the last two weeks with the filing of: 1) 2007 RPS Shortlist, 2) 2007 Least-Cost/Best-fit analysis, 3) Independent Evaluator Reports, 4) the 2008 RPS

Plan with its many required attachments, 5) 2008 RPS RFO and 6) the August 1<sup>st</sup> RPS Compliance Report and 7) the August 1<sup>st</sup> RPS Project Status Report. SDG&E notes the potential tremendous savings in staff time (both at SDG&E and at the Commission) resulting from making the RPS procurement process part of regular procurement process and has advocated in its long-term procurement plan (“LTPP”) that the RPS procurement process be combined with conventional procurement through the LTPP.<sup>2/</sup>

SDG&E estimates that 50%-60% of its commercial transaction staff’s time is devoted to processing various regulatory requirements (filings, compliance reports, extensive advice letters, workshops, comments, data request, etc). While this workload is most intense around the July timeframe (see the extensive list of required filing above), large amounts of regulatory work is required year-round. The requirements of RPS have become much greater than the regulatory requirements that surround all other procurement, without any discernable benefit derived from that extra regulation. SDG&E urges the Commission to continue to examine the need for greater regulation in RPS and to make efforts to use the conventional procurement regulatory as a framework to streamline RPS – or better still, to combine RPS with all other procurement.

Lastly, SDG&E responds to the ACR’s request for comment on the difficulty in completing negotiations. For reasons unknown to SDG&E, we have a number of reluctant counterparties that are not moving their projects forward expeditiously. SDG&E has made repeated efforts to get stalled projects moving, yet a significant number of counterparties are either uncertain of their projects or distracted by projects elsewhere.

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<sup>2/</sup> See, 2007-2016 Long-Term Procurement Plan of SDG&E (Vol. I), p. 26, filed on December 11, 2006, in R.06-02-013.

Whatever the reason, the result is a negative impact on SDG&E's progress toward its RPS goal.

# **ATTACHMENT 1**

# Needs Analysis for Shortlist

(revised to reflect changes subsequent to the 2007 Shortlist submission on 07/30/07)

Project / Contract	<u>2010</u> <u>Contribution</u>	<u>Estimated</u> <u>Probability</u> <u>(in that year)</u>	<u>Expected</u> <u>Contribution</u>	<u>2011</u> <u>Contribution</u>	<u>Estimated</u> <u>Probability (in</u> <u>that year)</u>	<u>Expected</u> <u>Contribution</u>
<b>Currently Producing (22)</b>						
<b>Contracted</b>						
Bull Moose						
Stirling						
Bethel 1 & 2						
Envirepel - Vista						
Esmeralda - San Felipe						
Pacific Wind						
<b>Under Negotiation</b>						
<b>Subtotal Contracts/Negotiations</b>						
<b>2007 RFO Short-List</b>						
<b>Subtotal Shortlist (Twice Need)</b>						
<b>Total</b>						



# Needs Analysis Probabilities

(revised to reflect changes subsequent to the 2007 Shortlist submission on 07/30/07)

Project / Contract	% weighting	Qualitative Factors Affecting Delivery Probability											Estimated Probability (2010)	Estimated Probability (2011)				
		2010 Contribution	2011 Contribution	Contract Completed	Experienced Developer*	Financing Available or Secured	Transmission Available On-time	Established Technology Proven Viable At or near MPR	Key Equipment Ordered / Priced	Required Permits In Hand (Construction/Air)	Fuel Supply Secured (or Land/ Mineral Rights)	Under Costcon or in Operation						
<b>Currently Producing (22)</b>																		
<b>Contracted</b>																		
Bull Moose																		
Stirling																		
Bethel 1 & 2																		
Envirepel - Vista																		
Esmeralda - San Felipe																		
Pacific Wind																		
<b>Under Negotiation</b>																		

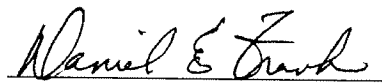
\* Experienced = has completed project of similar scale on their own

**AFFIDAVIT**

I am an employee of the respondent corporation herein, and am authorized to offer this affidavit on its behalf. The matters stated in the foregoing **SECOND AMENDMENT TO 2008 DRAFT RENEWABLE PROCUREMENT PLAN OF SAN DIEGO GAS & ELECTRIC COMPANY** are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

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

Executed this 10th day of August, 2007, at San Diego, California

  
\_\_\_\_\_  
Daniel E. Frank  
Electric Contract Manager

## CERTIFICATE OF SERVICE

I hereby certify that a copy of **SECOND AMENDMENT TO 2008 DRAFT RENEWABLE PROCUREMENT PLAN OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)** has been electronically mailed to each party of record on the service list in R.06-05-027. Any party on the service list who has not provided an electronic mail address was served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

Copies were also sent via Federal Express to Commissioner Michael R. Peevey and the Assigned Administrative Law Judges Burton Mattson and Anne E. Simon.

Executed this 10<sup>th</sup> day of August 2007 at San Diego, California

/s/ Jodi Ostrander  
Jodi Ostrander