Application No.:A.09-05-_______________
Exhibit No.: __________________________
Witness: Sue Garcia
Date: May 20, 2009

SAN DIEGO GAS & ELECTRIC COMPANY

PREPARED DIRECT TESTIMONY OF

SUE GARCIA

PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

May 20, 2009

SDGE

231182

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PREPARED DIRECT TESTIMONY OF

SUE GARCIA

ON BEHALF OF SDG&E

I. INTRODUCTION

The purpose of my testimony is to describe the expenses that are recorded in San Diego Gas & Electric's (SDG&E's) Energy Resource Recovery Account (ERRA) and Transition Cost Balancing Account (TCBA) for the record period of January 1, 2008 through December 31, 2008. In addition, my testimony will explain SDG&E's contract administration activities during the record period associated with SDG&E's power purchase agreements.

II. DESCRIPTION OF EXPENSES

The expenses recorded in ERRA and TCBA for the record period are summarized in the Expenses section of Attachment A and Attachment B of the Direct Testimony of SDG&E witness Ms. Somerville. These expenses are recorded in compliance with California Public Utilities Commission (CPUC) Decision (D).02-12-074.

A. MIRAMAR AND PALOMAR FUEL COSTS

In accordance with Advice Letter 1711-E/Resolution E-3953 for Miramar and Advice Letter 1778-E/Resolution E-3988 for Palomar, the monthly recorded expenses for Miramar and Palomar's fuel and transportation costs are recorded in ERRA.

B. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

The monthly expenses recorded for 2008 are the nuclear fuel expenses for Unit 2 and Unit 3 only. These consist of the amortization of nuclear fuel based on power generated, the Department of

Energy spent fuel disposal fee based on power generated, and nuclear fuel carrying costs for nuclear fuel in inventory and in the reactor.

C. TOLLING AGREEMENTS AND RESOURCE ADEQUACY

The monthly recorded expenses for SDG&E's tolling agreements (LSP South Bay, LLC and Cabrillo I, LLC) include capacity, energy, fuel and transportation costs associated with the tolling agreement. In addition, ISO Market & GMC invoice and Reliability Must Run (RMR) invoice charges or credits associated with these contracts are recorded in ERRA in accordance with the terms and conditions of the contracts.

D. PORTLAND GENERAL ELECTRIC

The monthly expenses recorded in ERRA for the Portland General Electric (PGE) power purchase agreement only include the market benchmark value of the contract in accordance with D.02-12-074. for the record period, D.08-02-030[1] established the market benchmark of 7.399 cents/kWh. to determine the market value expenses for PGE, the kWh of energy received each month from PGE were multiplied by the market benchmark. Pursuant to D.02-12-074, ongoing transition costs (above market) associated with PGE are recorded in the TCBA (see testimony of SDG&E witness Ms. Somerville, Attachment B).

E. QUALIFYING FACILITIES

The monthly expenses recorded in ERRA for the Qualifying Facilities (QFs) power purchase agreements include the market benchmark value of the contract in accordance with D.02-12-074. To determine the market value of expenses for the eligible QFs, the kWh of energy received each month from eligible QFs were multiplied by the market benchmark. Also, pursuant to D.02-12-074,

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[1] D.08-02-030, Opinion on SDG&E's 2008 Energy Resource Recovery Account Forecast.

ongoing transition costs (above market) associated with eligible QF contracts are recorded in the TCBA (see testimony of SDG&E witness Ms. Somerville, Attachment B).

F. SALE OF SURPLUS ENERGY

In accordance with the Operating Agreement between the California Department of Water Resources (CDWR) and SDG&E, the revenue from SDG&E's sale of surplus energy is shared with CDWR. SDG&E excludes any revenue from sleeves or swaps, based on a verbal understanding with CDWR. The entry to ERRA for these sales is SDG&E's pro rata share of the proceeds from the sales, net of expenses such as broker fees. The pro rata sharing is determined hourly as the ratio of the supply of SDG&E energy to the sum of SDG&E and CDWR energy. SDG&E determines the pro rata sharing in two steps. Each month, SDG&E makes a preliminary calculation of the pro rata share based on schedules and estimated meter data. When the Independent System Operator (ISO) issues a final invoice with meter read data, SDG&E computes a true-up of the preliminary pro rata calculation.

G. ISO RELATED COSTS

This expense category includes the expenses from the invoices that the ISO issues to SDG&E. The ISO issues a preliminary and a final invoice for each month. When the ISO issues a preliminary invoice for a month, SDG&E records that amount in ERRA. In a subsequent month, the ISO issues a final invoice and SDG&E records that incremental amount in ERRA. In addition to the monthly invoices, SDG&E purchases firm transmission rights (FTRs) in the ISO's FTR auction and records the expense of that purchase in ERRA. Any FTR congestion revenues received by SDG&E are included as a credit to ISO charges. Finally, this category includes ISO expenses for SDG&E's share of SONGS. The ISO's tariff does not permit direct invoicing to SDG&E of its share of SONGS. Instead, the ISO invoices Southern California Edison (SCE) for SONGS. SCE then invoices SDG&E for its share of the ISO expenses related to SONGS. SDG&E records such expenses in the ERRA. In the record period, starting June 1, 2008, SDG&E assumed responsibility of Scheduling Coordinator for one of the CDWR contracts - Sunrise Power Plant (Sunrise). The ISO costs also includes the Sunrise related ISO charges.

H. OTHER PURCHASED POWER, INCLUDING RENEWABLES

This expense category captures the monthly expenses for renewable power purchase agreements, the non-TCBA eligible QFs and costs to hedge generation fuel and QF energy expenses.

I. NET SHORT, INCLUDING SELF PROCURED ANCILLARY SERVICES

This expense category captures the expenses for all short-term purchases of power and self procured ancillary services. The expense, if any, from exchanges, as described in the Direct Testimony of SDG&E witness Tony Choi, is also included here. The short-term purchases were made to meet the remaining net short requirements to serve load.

J. OTHER COSTS

This expense category includes miscellaneous charges. For example, when SDG&E transacts by means of a broker, the broker charges a fee. Those fees are recorded here. In addition, costs transferred from ERRA to the reliability services balancing account and customer incentive payments are recorded here as well.

III. CONTRACT ADMINISTRATION

The Settlements and Administration (SA) Division within SDG&E's Electric and Gas Procurement Department administers all of the active power purchase agreements.

During the record period, SDG&E's electricity portfolio consisted of both Utility Electric Generation (UEG) and various resources under contract with CDWR. The UEG portion of the portfolio is comprised of a combination of renewable, QF and bilateral agreements. SDG&E's

generating facilities during the record period were SDG&E's 20% share of ownership in SONGS, 100% ownership of the 46 MW Miramar Energy Center and 100% ownership of the 565 MW Palomar Energy Center. Beginning January 1, 2003, SDG&E administers various CDWR contracts allocated to SDG&E pursuant to D.01-10-024. SDG&E's administrative activities are performed in accordance with the Operating Agreement between SDG&E and CDWR, executed in February 2003. During the record period, the SA division provided limited administrative support to CDWR for the contracts allocated to SDG&E.

A. RENEWABLE RESOURCES

SDG&E's renewable portfolio is comprised of resources from power purchase agreements stemming from competitive solicitations, bilateral agreements and standard offer QFs originating from the 1980's and 1990's.

SDG&E's administrative duties for all renewable agreements included verifying invoices and tracking deliveries to comply with the CPUC's Renewable Portfolio Standard (RPS). A description of renewable resource projects that delivered energy to SDG&E during the record period, arranged by technology type, is provided below along with discussions of activities unique to each project agreement. Unless stated otherwise, all agreements resulted from competitive solicitations.[2]

1. BIO-MASS

Delano: During the record period, SDG&E had one agreement with a bio-mass (wood-waste burning) facility with Covanta Delano. This is a new contract effective January 1, 2008. This facility previously sold to SDG&E and that contract terminated on December 31, 2007. The total

[2] Descriptions are limited to "EEI" renewable agreements signed in 2002 and beyond that actually delivered energy or required contract administration activities during the record period. Consistent with testimony in previous years, SDG&E is not elaborating on the eleven, standard offer, QF-renewable facilities which existed before 2002. These pre-existing renewable projects account for less than 0.5% of SDG&E's electric portfolio and only add up to 12.4 MW.

nameplate output rating is 49 MW and the guaranteed minimum annual delivery is [redacted]. This contract has a term of 10 years, January 1, 2008 through December 31, 2017. The energy price in 2008 is [redacted] and escalates to approximately [redacted] in 2017. The annual capacity price in 2008 is [redacted] and reduces [redacted] in 2017.

2. BIO-GAS

SDG&E has agreements with seven projects supplying 27.5 MW of generation from biogas projects. These agreements were authorized by CPUC Resolutions E-3803, E-3965, E-4070 and E-4081. Five of the seven projects are located in San Diego County. The agreements are with:

- <u>Gas Recovery Systems, Inc (GRS) – Coyote Canyon:</u> The GRS agreement for the Coyote Canyon landfill facility in Irvine, California was signed on October 31, 2002. The project began deliveries on schedule in January 2003. The facility provides SDG&E with 7 MW of as-available capacity and energy for a term of ten years. The all-in price is $53.70/MWh, which is fixed during the term of the agreement. Due to the landfill's declining supply of bio-gas, GRS Coyote's capacity and annual guaranteed energy production also declines over the years. In 2008, the annual guaranteed energy production was 41,235 MWh, and the capacity level was at 6.3 MW.

- <u>Gas Recovery Systems, Inc (GRS) – Sycamore:</u> The GRS agreement for the Sycamore landfill facility in Santee, California was signed on October 31, 2002. The project began deliveries in April 2004. The facility provides SDG&E 2.5 MW of as-available capacity and energy for a term of ten years. The all-in price is $53.70/MWh, which is fixed during the term of the agreement. The plant provides SDG&E with a Guaranteed Annual Energy Production of 16,425 MWh.

- <u>MM San Diego LLC (MM San Diego):</u> The two MM San Diego projects converted their QF Power Purchase and Sale Agreements (PPSA) into renewable agreements in May 2003. Under the original PPSA, both projects sold their excess energy to SDG&E under terms pre-approved by the CPUC. The PPSAs terminated and the renewable agreements became effective on May 21, 2003.

- Miramar Land Fill (Miramar): Miramar is a 3 MW project located at the Miramar Land Fill. Under the new agreement, Miramar continues to deliver 3 MW of as-available capacity and energy to SDG&E. The term of the agreement is 10 years, beginning May 21, 2003. Miramar guarantees to deliver to SDG&E 20,000 MWh each year at an initial price of $48.39/MWh. The price shall escalate depending on the change in the Consumer Price Index – All Urban Consumers, San Diego Area. The annual escalation is capped at 1.5% per year. During the record period, the price from January 1 through April 30 was $51.36/MWh; and the price from May 1 through December 31 was $52.13/MWh.

- North City Water Reclamation Facility (North City): North City is a 1 MW facility. Under the new agreements, the project will continue to deliver 1 MW of as-available capacity and energy to SDG&E. The term of the agreement is 10 years from May 21, 2003. North City guarantees to deliver to SDG&E 5,000 MWh each year at an initial price of $48.39/MWh. The price shall escalate depending on the change in the Consumer Price Index – All Urban Consumers, San Diego Area. The annual escalation is capped at 1.5% per year. During the record period, the price from January 1 through April 30 was $51.36/MWh; and the price from May 1 through December 31 was $52.13/MWh.

- MM Prima Deshecha Energy LLC (Prima): As of October 1, 2007, this facility has been under a new agreement replacing a prior contract. The contract term is fifteen years, and throughout the term, the capacity increases from 6.1 MW to 15.25 MW, and contract price increase from [redacted]. During the record period, the contract capacity is 6.1 MW, and the guaranteed annual delivery to SDG&E is [redacted]; the price from January 1 through October 31 was [redacted]; and the price from November 1 to December 31 was [redacted].

- City of San Diego Metropolitan Wastewater Department (Point Loma): Point Loma executed an amendment with SDG&E on December 22, 2006. It became effective on January 1, 2008, and will terminate on December 31, 2012. Point Loma delivers 4.8 MW of as-available capacity and energy to SDG&E, and is guaranteed to deliver to SDG&E [redacted] each year at a price of [redacted] for the duration of the agreement.

- Covanta Otay 3: This PPA was executed on August 31, 2005. Under the agreement, the project delivers 3.75 MW of as-available capacity and energy to SDG&E. The term of the agreement is ten years from March 8, 2007. Covanta Otay 3 is guaranteed to deliver to SDG&E [redacted] each year at a price of [redacted]

3. WIND

Authorized by CPUC Resolutions E-3803, E-3867, E-3867 and E-3890, SDG&E has six agreements that delivered energy during the record period. Descriptions of each of the projects, the associated agreements and administration activities are provided below. The six agreements provided nameplate capacity totaling 257.9 MW. All of the agreements provide as-available energy and are for incremental generation to SDG&E. The agreements are as follows:

- WTE Acquisitions, LLC (WTE) assigned to FPL Energy (FPLE): This agreement is a 15-year power sale agreement. The original agreement was executed on October 31, 2002 and the assignment was effective April 7, 2004. FPLE is to provide 16.5 MW of as-available capacity and energy with a price of $52.60/MWh. The project is in the Palm Springs area of California with deliveries to SP-15. Deliveries under the agreement commenced on June 29, 2004.

- Iberdrola Renewables (a.k.a. PPM Energy, Inc., a.k.a. PacifiCorp Power Marketing): There are two projects under agreements with SDG&E. One agreement is a 15-year power sale agreement. It was executed on October 31, 2002, and the project began deliveries in December 2003. The amount is 22.8 MW of as-available capacity and energy with a price of $49.15/MWh. The other agreement is a 15-year PPA executed on November 7, 2003, with 2.1 MW of as-available capacity and energy with a price of $49.15/MWh. Both projects are in the Palm Springs area of California with deliveries to SP-15.

- Oasis Power Partners, LLC. (Oasis): This agreement is a 15-year power sale agreement. It was executed on October 30, 2002, and the project commenced deliveries in December 2004. The amount is 60 MW of as-available capacity and energy with a price of $49.20/MWh. The project is in the Tehachapi area of California with deliveries to SP-15.

- Kumeyaay Wind LLC (Kumeyaay): This agreement is a 20 year power sale agreement for 50 MW of as-available capacity and energy with an estimated annual output of 167,900 MWh. The project is located on the Campo Indian Reservation in eastern San Diego County. The contract has a tiered pricing structure: $49.00/MWh for Contract Year 1, $49.75/MWh for Contract Year 2, $50.50/MWh for Contract Year 3, $51.50 for Contract Year 4, and $51.75/MWh for Contract Years 5-20, with no further escalation. The agreement includes an Energy Production Guarantee of 100,740 MWh. SDG&E began taking deliveries of the energy on March 21, 2006.

- Naturener Glacier I: This bilateral agreement was executed on May 16, 2008. This is a fifteen-year power sale agreement for 106.5 MW of as-available wind energy starting December 29, 2008. The annual estimated output is [redacted]. The project is located in Ethridge, Montana. The transaction is a combination of two products. First, SDG&E buys the output, including green attributes. Second, Glacier I buys back the output, excluding green attributes, at the same delivery point. The prices for the products are [redacted] and [redacted], respectively. In the record period, SDG&E took delivery of test energy starting in October.

4. Hydro

- SDCWA – Rancho Penasquitos executed this PPA with SDG&E on November 20, 2003 for a term of 10 years starting on January 23, 2007. Under the PPA, the project provides SDG&E with 4.5 MW as-available capacity and energy at the price of [redacted].

B. QF RESOURCES

During the record period, SDG&E purchased 1,489 GWhs from QF projects. The total nameplate rating of the QF projects with power purchase agreements that delivered energy to SDG&E during the record period was 259.7 MW. The total number of operational QF Agreements that delivered energy in 2008 was 20. The breakdown of the types of operational QF projects is as follows: four Non-standard Agreements; eight Standard Offer 4 (SO4); two Standard Offer 2 (SO2); and six Uniform Standard Offer 1 (USO1)/Standard Offer 1 (SO1). An amendment was executed for one QF during the record period.

All QF projects that have agreements with SDG&E are located within SDG&E's electric service territory, with the exception of the Yuma Cogeneration Association (which is located in Yuma, Arizona).

1. PAYMENTS TO QFs

SDG&E's Major Markets Billing (Billing) department is responsible for the actual calculation of energy and capacity payments to firm capacity (SO2 and SO4) QFs as well as the other agreements, with the exception of CP Kelco. SA division has payment calculation responsibility for Kelco. Billing also handles special or manual billings to SDG&E's largest customers.[3]

On a monthly basis, Billing calculates the payments due to the firm capacity QFs by using: the contract payment provisions provided by the SA division; energy production data for QFs aggregated by Time-of-Use (this data is provided by SDG&E's Metering Services Department); Short Run Avoided Costs (SRAC) published monthly by the SA division; and scheduled maintenance outage reports for firm capacity QFs.

After the QF's monthly account total is calculated for SO2 and SO4 agreements, Billing prepares the QF's Power Purchase Statements. Additionally, throughout the term of the agreements, SA division ensures that QFs are properly paid by reviewing each SO2 and SO4 Power Purchase Statement for compliance with the payment provisions of their respective agreements before sending to the QFs. Along with preparing the monthly billing statement for the firm capacity QFs, Billing initiates the preparation and mailing of the checks to the QFs.

Billing is also responsible for the preparation of the monthly billing statements for the other QF PPSAs. Statements for the other QFs are calculated using basically the same information as outlined previously. As with the firm capacity QFs, if the other QF's account has a credit rather than a debit balance from the purchase of QF energy, Billing will initiate the preparation and mailing of a check to the QF.

2. <u>QF PERFORMANCE</u>

During the record period, the firm capacity operational QFs totaled 206 MW of capacity.

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[3] As of the dates upon which deliveries began under the renewable agreements, invoicing and payment functions for the three Minnesota Methane projects was transferred to the SA division..

Firm capacity QFs are required to meet minimum performance provisions during the summer on-peak period.

The SO2 and SO4 agreements require QFs to maintain a minimum 80 percent capacity factor during the summer on-peak period. QFs that fail to meet this minimum provision may be placed on probation for a period not to exceed 15 months. The following describes the largest QF agreements currently under contract with SDG&E:

- Applied Energy Incorporated: SDG&E has four agreements with Applied Energy Inc.: AEI Naval Station SO4, AEI North Island SO4, and AEI Naval Training Center/Marine Corps Recruit Depot SO1 and SO4. There were no contract administration issues during the record period.
- AEI Naval Station: This QF is located at the Naval Station, San Diego. The agreement term extends to December 31, 2019. The SO4 is for 46.5 MW of firm capacity and energy. The energy price during the record period was at the SRAC.
- AEI North Island: This QF is located at the Navy Base Coronado. The term for the SO4 is to December 31, 2019. The amount equals 33.5 MW of firm capacity and energy. The energy price during the record period was at SRAC.
- AEI Naval Training Center/Marine Corps Recruit Depot: The term for the SO4 extends until December 31, 2019. The amount is 21.6 MW of firm capacity and energy. The energy price during the record period was at SRAC. The term for the 2.6 MW nameplate SO1 is indefinite with all output sold to SDG&E at SRAC energy and as-available capacity.
- Yuma Cogeneration Associates (YCA): YCA is a cogeneration project located in Yuma, Arizona that delivers its energy and capacity to Arizona Public Service Company for delivery to SDG&E at the North Gila Substation over SDG&E's 500 kV Southwest Powerlink between Arizona and San Diego. The term of the agreement extends through May 28, 2024. Firm capacity is

50 MW at a price of $140/kW-yr with energy purchased up to 56.5 MW at a price equal to SDG&E's monthly posted SRAC. The YCA agreement has economic curtailment provisions where SDG&E may exercise its rights to pay YCA an alternative energy price rather than SRAC during the curtailment hours. When YCA receives a curtailment notice from SDG&E, YCA may do one of the following: (1) physically curtail generation or (2) continue to generate and receive the alternate energy price, which is the ISO hourly SP-15 Ex Post price for supplemental energy. YCA's curtailment provision was exercised when the ISO SP-15 Ex Post price was expected to be lower than the SRAC.

- Goal Line LLP: This QF PPSA provides SDG&E with 49.9 MW of firm capacity and energy. The plant is located in Escondido, California. During the record period, the energy price SDG&E paid Goal Line was at SRAC, and the firm capacity price at $172/KW-yr. The original agreement provides SDG&E the option to economically curtail deliveries for five hours/day, seven days a week, between the hours of 12:00AM and 5:00AM. SDG&E provides a notice of curtailment and the economic curtailment price between 9:00AM and 2:00PM of each working day for economic curtailment hours for the following day. Within 90 minutes of receipt of this notice, Goal Line must notify SDG&E of its election to either (a) curtail deliveries or (b) continue deliveries, but receive only the economic curtailment price for the energy. The economic curtailment price is based on the ISO's hourly SP-15 Ex Post price for supplemental energy.

In February of 2004, SDG&E executed an amendment with Goal Line to revise the terms of the economic curtailment. The amendment permits SDG&E to curtail output on any five-hour period on Saturdays if SDG&E notifies Goal Line three calendar days in advance. This is effective until either party terminates the amendment. During the record period, Goal Line elected to shut down rather than run during economic curtailment hours for the majority of hours of curtailment. The term of this SO2 agreement expires on February 14, 2025.

- <u>C.P. Kelco (Kelco)</u>: This is a facility with an existing agreement which allows SDG&E to purchase 26 MW from Kelco at fixed prices of 7.193 cents/kWh for On-Peak and 4.785 cents/kWh for Off-Peak generation at the beginning of the record period. However, during the record period, due to a change in its manufacturing needs and lower limits on allowed emissions, Kelco typically only operated one generating unit on a regular basis and operated a second unit infrequently. In addition, Kelco no longer operated its third generating unit. This change in the operational nature of Kelco's QF triggered the execution of an amendment to the existing PPA on June 1, 2008. Key components of the amendment include:

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

C. BILATERAL POWER PURCHASE CONTRACTS

Portland General Electric Company (PGE): The PGE Agreement (PPA) consists of a Long Term Power Sale Agreement (LTPSA) and a Long Term Transmission Service Agreement (LTTSA) between PGE and SDG&E. The PPAs were executed on November 5, 1985 and will terminate on December 31, 2013. PGE's Boardman Unit 1 coal-fired plant and associated facilities are located near Boardman, Oregon. PGE is a majority owner and makes all operational decisions. SDG&E has a contractual right to 15% (about 89 MW) of the plant output, but has no ownership rights. SDG&E also can not make or veto PGE's operational decisions.

PGE is not required to deliver power from the Boardman plant; power may be delivered from other sources. If PGE elects to not operate the plant, SDG&E may elect to purchase electricity from PGE at a formula price based on the coal costs and a predetermined plant heat rate. At any time, SDG&E may elect to reduce its share of the plant output in any amount between SDG&E's entitlement and zero, or displace plant output by purchasing power from PGE's system power, if available, or from a third party. If the plant is not operating, SDG&E may obtain replacement power, if available, at a mutually agreed upon rate from PGE's system or from third parties using marketing assistance.

Under terms of the LTPSA, PGE obtains, on behalf of SDG&E, third party transmission service from Boardman to the John Day substation, where service under the LTTSA begins. Under the terms of the LTTSA, PGE is responsible to transmit the power to the California Oregon Border. The ISO is responsible for transmission inside California.

For services under the LTPSA, SDG&E pays PGE (1) a base price for entitlement for an annual fixed cost of $28.8 million/year; (2) a price for capital additions as escalated by an annual escalation rate; (3) plant fixed operating costs; (4) carrying costs; (5) plant variable operating costs;

and (6) third party transmission charges. Capital additions are based on required and elective work-in-progress capital additions. Fixed plant operating costs are based on operation and maintenance expenses, changes in working capital, and other expenses such as taxes and interest expenses. Carrying costs are based on the monetary value of the coal pile, as adjusted by the coal usage. Plant variable operating costs are determined using a formula that calculates a variable fuel cost based on the Boardman Plant heat rate and coal replacement costs.

The Audit Services Department historically performed annual audits of the PGE Agreement. In accordance with the contract's audit right provision, SDG&E decided to perform audits every two years in order to reduce audit costs. The audit for years 2007 and 2008 were deferred until 2009. The audit objective is to verify that fixed demand charges, and charges for energy purchases and plant operating costs were accurate, properly supported and in accordance with the agreements.

D. TOLLING AGREEMENTS

- Dynegy (LSP) South Bay, LLC

On March 30, 2007, SDG&E and LSP South Bay, LLC entered into a tolling agreement, starting on May 1, 2007, and terminating on December 31, 2009, for the entire output of the five gas and oil fueled generation units located in Chula Vista, California. The facility is fully dispatchable by SDG&E. The product includes: Contract Capacity, the Net Electrical Output, the Ancillary Services and the Resource Adequacy Attributes. During the record period, the Local Resource Adequacy Attributes were allocated to other parties by virtue of the RMR contract between Dynegy and ISO. The Contract Capacity is 704.0 MW. The Capacity Rate is [redacted] for the term of the contract. On April 2, 2007, Dynegy, Inc. acquired certain LS Power entities, including South Bay units. Thus, the Tolling Agreement was assigned to Dynegy.

Monthly invoices sent directly to SDG&E from Dynegy were reviewed for accuracy and completeness by SA. Availability, schedules, deliveries, rates and fuel costs were verified, and any discrepancies were addressed and resolved prior to payments. Separately, monthly payments were made by Dynegy to SDG&E for recovery of the RMR contract and for ISO invoice payments after the required review and resolution of discrepancies.

During the record period, the automatic voltage regulator for generator Unit1 was out of service for more than 96 hours, which prevented SDG&E from bidding any regulation ancillary services before it was repaired. Pursuant to its agreement with Dynegy, SDG&E was able to obtain a $80,000 capacity reduction through netting against the tolling invoice.

- Cabrillo I, LLC

On December 13, 2006, SDG&E and Cabrillo Power I, LLC (a subsidiary of NRG Energy) entered into a tolling agreement, starting on January 1, 2007, and terminating on December 31, 2009, for the entire output of the five steam units and a combustion turbine unit located in Carlsbad, California. The facility is dual fuel and fully dispatchable by SDG&E. The product includes: Contract Capacity, the Net Electrical Output, the Ancillary Services and the Resource Adequacy Attributes. The Contract Capacity is 964 MW. The Capacity Rate was [redacted] for 2007, is [redacted] for 2008, and will be [redacted] for 2009. Effective November 1, 2007, SDG&E took over the responsibilities of Scheduling Coordinator.

Monthly invoices sent directly to SDG&E from NRG Energy for the tolling agreement are reviewed for accuracy and completeness. Availability, schedules, deliveries, rates and fuels costs are verified, and any discrepancies are addressed and resolved prior to payments.

During the beginning of the record period, one of the generating units was not certified for Ancillary Services (AS). However, pursuant to its agreement with NRG, SDG&E managed to settle the related CAISO charges in order to recoup the lost revenues and damages incurred during the relevant period.

During the record period, in order to match the contracted amount to the CAISO master file, NRG agreed to amend the original agreement to change the Minimum Operating Level for Encina Unit 3 from 30 MW to 20 MW, which would provide SDG&E with more dispatch flexibility. The amendment was executed on September 8, 2008.

E. CDWR POWER PURCHASE CONTRACTS

In D.02-12-069, the CPUC approved an operating agreement between SDG&E and CDWR. Exhibit E of the operating agreement specifies that CDWR will retain the majority of contract administration duties, including the following management responsibilities: performance assessment; formal correspondence and notifications with Generators; agreement interpretation; and dispute resolution. SDG&E engages in limited duties in support of CDWR's administrative function. SDG&E, in its role as limited agent for California Energy Resources Scheduling (CERS), brings any contract issues that it discovers to the attention of CERS. However, the administration of disputes associated with the CDWR contract remains a CERS function. Any costs associated with these contract disputes, though they may have been identified by SDG&E, are ultimately dealt with and resolved by CERS. SDG&E's duties include:

- <u>Verifying invoices for the allocated agreements</u>: Monthly invoices are sent directly to SDG&E from the Generators. SDG&E works with CDWR, the Generator and the Generator's scheduling coordinators to ensure consistency between all schedules. If there are discrepancies, SDG&E works with all parties to reconcile the schedules. SDG&E also reviews the ISO metered data online. After schedules and metered data are confirmed to be correct, SDG&E verifies invoices for payment pursuant to the agreement price.

- Conducting weekly meetings with CDWR to discuss administration issues: As part of the coordination efforts between SDG&E and CDWR, the parties hold weekly conference calls to discuss issues related to administration of the agreement. Face-to-face meetings may also be conducted as necessary. This testimony highlights the major issues discussed relating to contract administration and due diligence, while SDG&E witness Tony Choi's testimony discusses the issues relating to least cost dispatch. Members from SDG&E's SA division and scheduling teams participate in the weekly conference calls with CDWR as specific issues arise. These meetings are a forum where a wide range of issues, including least cost dispatching, are discussed and processes are coordinated.
- Coordination of Annual Performance tests: Most of the CDWR contracts require the generators to perform an annual test as demonstration of capacity. According to the Operating Agreement between DWR and SDG&E approved in D.03-04-029, SDG&E filed Advice Letter 2048-E on December 12, 2008 seeking Commission approval of the transfer of DWR's annual performance test monitoring obligation to SDG&E.

The following briefly describes the agreements allocated to SDG&E:

- CalPeak–Border: On August 14, 2001, CDWR and CalPeak Power–Border, LLC (CalPeak–Border) executed a Master Power Purchase Agreement. On May 2, 2002, CDWR and CalPeak–Border executed an Amended and Restated Power Purchase Agreement. On May 24, 2006, CDWR and CalPeak–Border executed a settlement agreement. On September 1, 2007, CDWR and Calpeak–Border executed a Second Amended and Restated Power Purchase Agreement and a Settlement Agreement. The CDWR and CalPeak–Border Agreement terminates on October 23, 2011. The agreement is for capacity and dispatchable energy. The simple cycle plant is located at Otay Mesa, California. The facility output that is dedicated to CDWR is 1,200 hours during Peak

Periods[4] and 1,300 hours during non-peak periods. Effective July 1, 2008, as a result of the annual performance test, the new Rated Capacity value is 52.652 MW.

- CalPeak–El Cajon: On August 14, 2001, CDWR and CalPeak Power–El Cajon, LLC (CalPeak – El Cajon) executed a Master Power Purchase Agreement. On May 2, 2002, CDWR and CalPeak–El Cajon executed an Amended and Restated Power Purchase Agreement. On May 24, 2006, CDWR and CalPeak–El Cajon executed a settlement agreement. On September 1, 2007, CDWR and CalPeak–El Cajon executed a Second Amended and Restated Power Purchase Agreement and a Settlement Agreement. The CDWR and CalPeak–El Cajon Agreement terminates on January 1, 2012. The agreement is for capacity and dispatchable energy. The simple cycle plant is located in El Cajon, California. The facility output that is dedicated to CDWR is 1,200 hours during Peak Periods and 1,300 hours during non-peak periods. Effective July 1, 2008, as a result of the annual performance test the new Rated Capacity value is 52.027 MW.

- CalPeak–Enterprise: On August 14, 2001, CDWR and CalPeak Power–Enterprise, LLC (CalPeak–Enterprise) executed a Master Power Purchase Agreement. On May 2, 2002, CDWR and CalPeak–Enterprise executed an Amended and Restated Power Purchase Agreement. On May 24, 2006, CDWR and CalPeak–Enterprise executed a settlement agreement. On September 1, 2007, CDWR and CalPeak–Enterprise executed a Second Amended and Restated Power Purchase Agreement and a Settlement Agreement. The CDWR and CalPeak–Enterprise Agreement terminates on October 26, 2011. The agreement is for capacity and dispatchable energy. The simple cycle plant is located in Escondido, California. The facility output that is dedicated to CDWR is

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[4] "Peak Period" means 6:00 a.m. to 10:00 p.m., Monday through Saturday, during the months of January, February, June, July, August, September, October and December; provided however that Peak Period shall not include North American Electric Reliability Corporation (NERC) holidays or the Monday following any NERC holiday that falls on a Sunday.

1,200 hours during Peak Periods and 1,300 hours during non-peak periods. Effective August 1, 2008, as a result of the annual performance test, the new Rated Capacity value is 50.117 MW.

- Sunrise Power Company (Sunrise): On June 21, 2001, CDWR and Sunrise executed a Master Power Purchase Agreement. On December 31, 2002, CDWR and Sunrise executed an Amended and Restated Power Purchase and Sale Agreement, Amended and Restated Confirmation Agreement and a Settlement Agreement. The CDWR–Sunrise agreement terminates on June 30, 2012. The agreement is for a dispatchable, combined cycle plant located near Bakersfield, California. Sunrise performs an annual capacity test to determine the capacity output level for the year. Sunrise performed a capacity test on April 19, 2007, resulting in a capacity of 574.77 MW. This capacity level was applicable during the record period from January through May. Another capacity test was performed on April 24, 2008. The resultant capacity of 570.08 MW was applicable during the record period from June through December.

- J. P. Morgan Ventures Energy Corporation ("JPMVEC") (a.k.a. Bear Energy, LLP , a.k.a. Williams Products A, B & C): On November 11, 2002, CDWR and Williams Energy Marketing & Trading Company (Williams) entered into the Amended and Restated Master Power Purchase and Sale Agreement for Products A, B & C. All products are delivered at SP15. Effective September 1, 2008, Bear Energy LLC merged with and into JPMVEC, with JPMVEC as the surviving entity.

  - Product B is for firm 6X16 energy. The amount was 275 MW, beginning January 1, 2008 through December 31, 2010. The price was $77.07/MWh in 2007, $76.07 in 2008, $75.07 in 2009 and $74.07 in 2010.

  - Product C is firm 6X16 energy. The amount is 50 MW from July 1, 2003 through December 31, 2010. The price is $70.00/MWh.

- Whitewater Cabazon: On April 1, 2002, CDWR and Whitewater Energy Corporation entered into the Amended and Restated Master Power Purchase and Sale Agreement for Whitewater Cabazon. The agreement terminates on December 31, 2013. The agreement amount is 42.9 MW of as-available energy with a price of $54.00/MWh. The project is in the Palm Springs area of California with deliveries to SP-15.
- Whitewater Hill: On January 2, 2003, CDWR and Whitewater Energy Corporation entered into the Amended and Restated Master Power Purchase and Sale Agreement for Whitewater Hill. The agreement terminates on December 31, 2013. The agreement amount is 61.5 MW of as-available energy with a price of $51.50/MWh. The project is in the Palm Springs area of California with deliveries to SP-15.

F. MISCELLANEOUS CONTRACT ADMINISTRATION ISSUES

In addition to the daily responsibilities associated with administering the power purchase agreements already discussed, SDG&E implements various obligations that are supplementary to the power purchase agreements. A summary of these duties are discussed below:

1. EFFICIENCY MONITORING

In 1991, D.91-05-007 authorized the utilities to monitor the compliance of co-generators with operating and efficiency standards of the Federal Energy Regulatory Commission (FERC). The program implementing this decision is known as QF Efficiency Monitoring. As a result, SDG&E QFs are required to submit operating data to SDG&E to demonstrate compliance with FERC standards.

When it is cost effective, SDG&E takes measures necessary to file complaints at FERC against those QFs that cannot demonstrate compliance. QFs out of compliance by FERC may lose their QF status and be ordered to refund overpayments to the utility. Based upon the reported energy use and production for a calendar year, SDG&E determines conformity with the FERC performance requirements on an annual basis. SDG&E solicits the data required to make the determination from the QFs beginning with a request letter mailed early each year.

In an effort to increase generation in the western United States, FERC waived the applicability of federal QF operating, efficiency and fuel use standards for the period December 8, 2000 through April 2001. The waiver was later extended twice through calendar years 2001 and 2002 as part of docket number EL01-47-000. This waiver terminated on December 31, 2002. Thus, pursuant to the procedures explained in the previous paragraph, SDG&E solicited operating and efficiency data for calendar year 2008 in early 2009. No QF under a power purchase agreement with SDG&E failed to meet efficiency standards in the record period.

2. INSURANCE MONITORING

The CPUC-approved standard offer agreements required QFs to obtain and maintain comprehensive general liability insurance during the term of their agreements. SDG&E requires each QF to provide SDG&E with evidence of insurance coverage that will reimburse SDG&E for all costs incurred, and any judgments against or damages suffered by SDG&E, as a result of a QF's actions. In D.82-01-103, the CPUC reaffirmed SDG&E's policy on insurance. In that decision, the Commission ruled that it is appropriate for QFs to provide insurance coverage at a commercially reasonable amount; consistent with utility's actual risk of loss; and to name the utility as an additional insured party under the QF's insurance policy, provided the QF was larger than 100 kW.

An insurance administration procedure has been established by the SA division, which is designed to ensure that: QFs provide their initial insurance certificates before their projects are first operated in parallel with SDG&E; QF insurance policies and insurance carriers meet SDG&E's approval; and QFs maintain their insurance throughout the term of the QF's Agreement.

Before interconnection with a QF, SDG&E conducts an insurance check. The SA verifies that the QF's insurance is in place and that it meets the requirements of the agreement. QFs that provide the required insurance are authorized to interconnect, while QFs that fail to secure the required insurance are denied interconnection until acceptable evidence of insurance is furnished to SDG&E. This review is completed as part of SDG&E's standard pre-operational review for QFs.

Upon receipt of initial or renewed certificates, the SA division tracks the pertinent data by an Excel worksheet. Periodically, the SA division generates an insurance report to identify projects with insurance coverage nearing expiration or which have expired. The QF is contacted, as appropriate, when action is required.

Commission D.00-12-037 issued on December 21, 2000 adopted a new set of interconnection standards including insurance amounts different from those of the original standard offers. During the record period, the SA division enforced the new set of insurance requirements in the same manner as they did for the original standard offers.

3. CONTRACT MANAGEMENT SYSTEM

During the record period, SDG&E commenced implementation of the Enterprise Contract Management system (ECM). It went into production in 2007 and became fully implemented in the beginning of 2008. ECM is a centralized system for storing all contracts and related documents. It offers functional features for contracts, such as commitments, workflows, correspondence and history tracking. The commitments section allows for tracking of milestones, alerts and recurring tasks. The workflows provide the ability to track the agreement approval process. The correspondence and history sections create an audit trail of changes made to the contracts for regulatory filings.

4. WREGIS (Western Renewable Energy Generation Information System)

Starting in 2007, as part of the Renewable Program Standard compliance effort, the California Energy Commission (CEC), Western Governors' Association (WGA) and Western Electricity Coordinating Council (WECC) jointly launched implementation of WREGIS, which tracks renewable energy generation from units that register in the system using verifiable data and creates renewable energy certificates (RECs) for this generation. In the record year, SDG&E became an AH (account holder) and QRE (qualified reporting entity) within WREGIS, and worked with our renewable counterparties to register each facility into the system. SDG&E began reporting renewable generation from these facilities through WREGIS starting on May 1, 2008.

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G. HISTORICAL PURCHASES

Table 1 summarizes the agreements and delivery amounts for the record period.

Table 1:
Historical Purchases

Contract Name/Counterparty	Technology	Product	Purchased MWH Jan - Dec 2008	Contract MW	Contract Dates Start	Contract Dates Stop	CPUC Authorization
Dynergy - South Bay	Natural Gas	Dispatchable	471,598	704.0	5/1/2007	12/31/2009	CPUC Decision D.06-07-031
NRG - Encina	Natural Gas / Oil	Dispatchable	1,010,731	964.0	1/1/2007	12/31/2009	CPUC Decision D.06-07-031
Portland General Electric Boardman Power Purchase	Coal	Firm	605,068	89.0	11/05/85	12/31/13	CPUC Decision D.91-11-068; Conclusions of Law #6 in A.88-07-003 (ECAC).
Portland General Electric Boardman Transmission Purchase	Transmission	Firm		89.0	11/05/85	12/31/13	
AEI Naval Station	Natural Gas	Firm	296,600	46.5	12/01/89	11/30/19	CPUC Decision D.83-09-054
AEI North Island	Natural Gas	Firm	257,515	33.5	12/01/89	11/30/19	CPUC Decision D.83-09-055
AEI NTC/MCRD	Natural Gas	Firm	163,730	21.6	12/01/89	11/30/19	CPUC Decision D.83-09-056
Yuma Cogeneration Associates	Natural Gas	Firm	368,246	50.0	05/28/94	05/27/24	CPUC Decision D.90-06-028
Goal Line	Natural Gas	Firm	320,018	49.9	02/15/95	02/14/25	CPUC Decision D.91-09-07
Kelco	Natural Gas	Firm	24,708	26.0	06/23/04	12/31/09	CPUC Decision D.03-06-026 & Advice Letter 1998-E-A effective July 18, 2008
AES Delano	Bio-Mass	As-Available	318,923	49.0	01/01/08	12/31/17	CPUC Resolution E-4070
Gas Recovery Systems - Coyote Canyon	Bio-Gas	As-Available	54,580	6.3	01/01/03	12/31/12	CPUC Resolution E-3803
Gas Recovery Systems - Sycamore	Bio-Gas	As-Available	12,857	2.5	02/01/04	01/31/14	CPUC Resolution E-3803
MM San Diego - Miramar	Bio-Gas	As-Available	29,456	3.0	05/01/03	04/30/13	CPUC Resolution E-3803
MM San Diego - North City	Bio-Gas	As-Available	3,543	1.0	05/21/03	05/20/13	CPUC Resolution E-3803
MM Prima Deshecha	Bio-Gas	As-Available	38,210	6.1	10/01/07	09/30/22	CPUC Resolution E-3965
Covanta 3	Bio-gas	Firm	24,669	3.8	03/08/07	03/07/17	CPUC Resolution E-3965
City of San Diego Metro Waste Dept. (Point Loma)	Bio-Gas	As-Available	12,916	4.8	01/01/08	12/31/12	CPUC Resolution E-4081
Kumeyaay	Wind	As-Available	152,042	50.0	03/21/06	12/30/25	CPUC Resolution E-3890
WTE/FPL Acquisition	Wind	As-Available	24,661	16.5	06/28/04	12/31/18	CPUC Resolution E-3803 & E 3867
PPM Energy LLC	Wind	As-Available	76,438	24.9	12/15/03	01/01/19	CPUC Resolution E-3803 & E 3867
Oasis Power Partners	Wind	As-Available	197,011	60.0	12/15/04	01/01/20	CPUC Resolution E-3803 & E 3883
Naturener (Glacier Wind Energy 1)	Wind	RECs	39,212	106.5	12/29/08	12/28/23	CPUC Resolution E-4192
Otay Landfill I	Bio-gas	Firm	11,892	1.8	05/01/87	04/31/2009	Standard Offer Contracts
Otay Landfill II	Bio-gas	Firm	12,507	1.8	05/01/91	04/31/2011	
San Marcos Landfill	Bio-gas	Firm	4,993	1.3	05/01/89	04/31/2011	
Sycamore Landfill	Bio-gas	Firm	2,593	1.3	07/01/88	06/30/10	
Alvarado Hydro Facility	Hydro	As-Available	0	2.0	03/01/85	Evergreen	
Badger Filtration Plant	Hydro	As-Available	1,328	1.5	07/01/87	06/30/17	
Bear Valley Hydro	Hydro	As-Available	5,545	1.5	09/01/94	Evergreen	
Olivenhain Municipal Water Dist	Hydro	As-Available	428	0.5	11/01/88	Evergreen	
San Francisco Peak Hydro Plant	Hydro	As-Available	692	0.4	09/15/85	Evergreen	
SDCWA - Rancho Penasquitos	Hydro	As-Available	22,890	4.5	01/23/07	01/22/17	CPUC Resolution E-3868
Cal-Peak Border	Natural Gas	Dispatchable	9,807	48.6	10/23/01	10/23/11	CPUC Decision D.02-09-053; allocated selected Department of Water Resources' contracts to SDG&E
Cal-Peak El Cajon	Natural Gas	Dispatchable	9,556	48.9	06/01/02	01/01/12	
Cal-Peak Enterprise	Natural Gas	Dispatchable	9,357	48.4	10/26/01	10/26/11	
Sunrise	Natural Gas	Dispatchable	3,606,663	560.0	12/31/02	06/30/12	
JP Morgan Ventures (Bear B)	System	Firm	1,355,200	275.0	01/01/08	12/31/10	
JP Morgan Ventures (Bear C)	System	Firm	246,400	50.0	07/01/03	12/31/10	
Whitewater Cabazon	Wind	As-Available	114,836	42.9	10/01/02	12/31/13	
Whitewater Hill	Wind	As-Available	146,034	61.5	08/31/02	12/31/13	

IV. CONCLUSION

Based on the foregoing, SDG&E recorded expenses to ERRA in conformance with D.02-12-074.

This concludes my prepared direct testimony.

V. QUALIFICATIONS

My name is Sue Garcia. My business address is 8315 Century Park Court, San Diego, CA 92123. I am employed by SDG&E as the Settlements and Administration Manager in the Electric and Gas Procurement Department. My present duties include the settlements of all electric and gas commodity transactions as well as the management and administration of existing agreements, including renewable agreements, QF agreements, allocated CDWR agreements and bilateral agreements. I have been employed by SDG&E since 1995. I have been in my current position since November 2006.

I received a B.S. in Business Administration, with an Accounting Emphasis, from San Diego State University. I am a Certified Public Accountant and a Certified Internal Auditor.

I have previously testified before the Commission.

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION
OF SUE E. GARCIA

A.09-05-___
Application of San Diego Gas & Electric Company (U 902 E)
For Approval of Contract Administration, Least Cost Dispatch and Power Procurement Activities, and Costs Related to Those Activities, Incurred Between January 1, 2008 and December 31, 2008

I, Sue Garcia, declare as follows:

1. I am the Settlements and Administration Manager for San Diego Gas & Electric Company ("SDG&E"). I have included my Direct Testimony ("Testimony") in support of SDG&E's Application for Approval of Contract Administration, Least Cost Dispatch and Power Procurement Activities, and Costs Related to Those Activities, Incurred Between January 1, 2008 and December 31, 2008. Additionally, as a Settlements and Administration Manager, 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 am providing this Declaration to demonstrate that the confidential information ("Protected Information") in support of the referenced Application falls within the scope of data provided confidential treatment in the IOU Matrix ("Matrix") attached to the Commission's Decision D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas, I am addressing each of the following five features of Ordering Paragraph 2 in D.06-06-066:

- 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. The confidential information contained in my Testimony constitutes material, market sensitive, electric procurement-related information that is within the scope of Section 454.5(g) of the Public Utilities Code.[1] As such, the Protected Information provided by SDGE is allowed confidential treatment in accordance with Appendix 1 – IOU Matrix in D.06-06-066.

Confidential contracts terms on page SG-5, SG-6, SG-7, SG-8, SG-9, SG-10, SG-14, SG-16, and SG-17 is protected under Matrix category item VII.B. or VII.G. and is confidential for three years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.

4. I am not aware of any instances where the Protected Information has been disclosed to the public. To my knowledge, no party, including SDG&E, has publicly revealed any of the Protected Information.

5. I will comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

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[1] In addition to the details addressed herein, SDG&E believes that the information being furnished in my Testimony is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of such data under those provisions, as applicable.

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized and continue to provide the level of support to the Application as intended; however SDG&E is certainly willing to work with the Commission regarding possible aggregations if the Commission seeks to make any of the confidential information provided in the Testimony public.

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

Executed this 15 day of May, 2008, at San Diego, California.

Sue E Garcia

Sue E. Garcia
Settlements and Administration Manager
San Diego Gas & Electric Company