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May 22, 2006

**ADVICE LETTER 1795-E**  
(U902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: REQUEST FOR APPROVAL OF RENEWABLE ENERGY PROCUREMENT  
CONTRACT RESULTING FROM 2004 RPS SOLICITATION**

**I. INTRODUCTION**

SDG&E seeks approval from the California Public Utilities Commission (“CPUC” or “Commission”) of this Power Purchase Agreement (“PPA”) with Esmeralda Truckhaven Geothermal, LLC (“Esmeralda”). Approval of this PPA by the Commission will further SDG&E’s efforts to move significantly closer to achieving its overall goal of reaching a 20% renewable portfolio mix by 2010.

SDG&E requests that the Commission issue a resolution approving this PPA at its earliest convenience.

SDG&E issued its first Renewable Portfolio Standard (“RPS”) Request for Offers on July 1, 2004 (“the RFO”), in accordance with Decision (D.) 04-06-014. Since receiving offers in response to the RFO, SDG&E has analyzed all bids received, developed a short list of potential developers and briefed its Procurement Review Group (“PRG”) during the course of the review, analysis and negotiation process.

The PPA contains standard terms and conditions authorized by the Commission in D.04-06-014, except as otherwise noted in the contract summary appended to this advice letter. The levelized Bid Price of the proposed PPA is above the levelized Contract Price that is equal to the Market Price Referent (“MPR”) as set forth in Resolution E-3942 issued July 21, 2005; therefore, Supplemental Energy Payments will be required for this project.

The PPA is being presented for Commission review and approval in accordance with the “RPS Solicitation — Contract Approval Milestones” contained in D.04-07-029.

Once the project is developed and commercial operation achieved, the project will contribute significantly towards SDG&E’s renewable procurement goals. The proposed project is for new development and is expected to provide an additional 0.9% of incremental renewable resources for SDG&E in 2010<sup>1</sup>. Appendix A illustrates the contribution the proposed project will make towards SDG&E’s Renewable Portfolio Standard (“RPS”) goals.

In support of this advice letter, SDG&E is submitting the following confidential information under

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<sup>1</sup> Based on full year operation in 2010.

the May 20, 2003 Protective Order issued in Rulemaking (R.) 01-10-024 and pursuant to Public Utilities Code sections 583 and 454.5(g) and General Order 66-C.

Appendix A	Proposed Project's Contribution Toward SDG&E RPS Goals
Appendix B	Project Viability Matrix
Appendix B-1	Project Pricing Details
Appendix B-2	Esmeralda Truckhaven Geothermal, LLC <ul style="list-style-type: none"> <li>▪ Contract Summary</li> <li>▪ Edison Electric Institute ("EEI") Cover</li> <li>▪ EEI Confirmations</li> <li>▪ Additional EEI Exhibits</li> </ul>
Appendix B-3	Selection of Esmeralda Project and Calculation of Supplemental Energy Payments
Appendix C	Summary of PRG Meetings

## II. DESCRIPTION OF THE PROJECT

A copy of this PPA is appended to this advice letter as Confidential Appendices B-2. The principal contract terms for the project are summarized in the table below:

Project	Type	Size Net (MW)	Term	Location
Esmeralda Truckhaven Geothermal, LLC	Geothermal	20.0	15 yrs	Imperial County

The Project is required to achieve commercial operations no later than December 31, 2010 and is expected to produce 159,720 MWh per year.

## III. CONTRACT ANALYSIS

### **Consistency with SDG&E's Commission Approved 2004 RPS Plan**

On June 14, 2004, SDG&E filed its 2004 Renewable Procurement Plan for review. SDG&E received approval shortly thereafter on June 28, 2004. The plan called for SDG&E to issue a competitive solicitation for eligible renewable resources. The RFO sought as-available or unit-firm capacity and/or energy from:

- 1) Re-powered facilities;
- 2) Incremental capacity upgrades of existing facilities;
- 3) New facilities;
- 4) Existing facilities with expiring contracts; or
- 5) Eligible resources currently under contract with SDG&E. SDG&E shall consider offers to extend terms of or expand contracted capacities for existing agreements.

The RFO provided that Respondents may offer 10, 15 or 20-year PPAs and that deliveries must commence in 2005, 2006, 2007 or 2008. Resources located in Imperial Valley must commence

in 2010, unless the resource has adequate transmission capability to deliver to SP-15 sooner. Any PPA executed with a Respondent offering resources from Imperial Valley without such adequate transmission capability shall be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area.

In addition to the PPAs described above, Respondents offering RPS eligible geothermal, photovoltaic or wind resources may also provide an option price for SDG&E to acquire the facility along with all environmental attributes, land rights, permits and other licenses – thus enabling SDG&E to own and operate the facility at the end of the PPA term.

Finally, Respondents may propose turnkey projects to develop, permit, and construct new, RPS-eligible geothermal, photovoltaic or wind generating facility to be acquired by SDG&E. The same transmission contingency applies to turnkey projects as to PPA offers.

#### 1. Fit with Identified Renewable Resource Needs

SDG&E's approved plan stated that for the 2004 solicitation, SDG&E does not have a preference for a particular product or technology type and that SDG&E has latitude in the resources that it selects. The proposed agreement therefore was not selected due to product type or technology type. Rather, SDG&E reviewed all offers and selected this project due to factors applicable to its least cost best fit analysis.

#### 2. Consistency with RPS Solicitation Protocol

An open and competitive playing field was established for the procurement effort. SDG&E followed protocols established within its solicitation:

- a. An RFO website was created, allowing respondents to download solicitation documents, participate in a Question and Answer forum and see updates or revisions associated with the process.
- b. A pre-bid conference was hosted at SDG&E.
- c. An internet upload capability was created to accept offers.
- d. SDG&E adhered to the following RFO schedule established for the solicitation:

<b>DATE</b>	<b>EVENT</b>
07/01/2004	RFO Issued
08/12/2004	Offers Due
08/26/2004	Briefed PRG on Offers Received
12/13/2004	Notified CPUC Executive Director that short list was finalized
02/15/2005	Briefed PRG on Shortlist
05/19/2005	Briefed PRG on negotiation status
07/18/2005	Briefed PRG on Recommendations and Status of Negotiations
07/21/2005	Final MPR Issued
09/09/2005	Briefed PRG on Status of Remaining Negotiations
10/14/2005	Executed proposed contract

### 3. Consistency with SDG&E's Long Term Resource Plan

SDG&E filed its 2005 Long Term Resource Plan ("LTRP") in R.04-04-003 on July 9, 2004, which was approved by the CPUC on December 16, 2004. The proposed agreement is consistent with the assumptions presented in the plan and contributes to SDG&E meeting its long-term RPS goals of achieving 20% by 2010.

SDG&E analyzed the projects on its short list to determine whether they would fit into its future needs by comparing the RFO projects to its LTRP. When SDG&E filed its LTRP, it planned a diversified portfolio of renewable resources, in and out of its service territory, to meet its mandate of 20% renewables by 2010. In its best fit analysis, SDG&E matched up the various bids to its LTRP and selected the projects that were not only the lowest cost resources but also fit into its LTRP portfolio, recognizing that the LTRP is intended to be flexible in order to accommodate the specific resource types that are available at the time of acquisition. Other than timing of delivery and the exact quantity delivered, the selected bids generally fit quite well into SDG&E's portfolio mix.

#### **Consistency of Bid Evaluation Process with Least Cost Best Fit (LCBF) Decision**

SDG&E evaluated all offers in conformance with the LCBF process outlined in D.03-06-071 issued on June 19, 2003 and D.04-07-029 issued on July 8, 2004.

Once SDG&E received all the bids in the RFO, SDG&E performed an initial screening process to determine if each bid met the material criteria of the RFO. The bids must have been received on time and all bids must have been completed with prices, terms, transmission costs, etc. Bids not received in a timely manner (unless there was a technical difficulty and notification was received by SDG&E prior to the deadline) were disqualified. Once SDG&E had a list of viable projects, SDG&E began to narrow the field of bidders for its short list.

SDG&E ranked each project based on an all-in price consisting of the total average bid price (with and without Production Tax Credits (PTC)), annual carrying cost for transmission upgrades and annualized Average Wheeling Charges (if any), all converted to an average \$/MWh. The following describes the methodology:

1. Bid Price (with PTC) – SDG&E used the average bid price (with PTC) \$/MWh, if any, as provided by the bidder. SDG&E used the price without PTC if no PTC was given.
2. Transmission Rate - SDG&E's Transmission Planning Department determined that bids received for projects within SDG&E's service area did not fit the portfolio of resources used as the basis for SDG&E's cluster study and decided to perform new transmission studies for each bid received. For projects located within Pacific Gas and Electric ("PG&E") and Southern California Edison's ("SCE") service area, SDG&E used rates as provided in those utilities' cluster studies. The average transmission rate was calculated based on either PG&E or SCE's cluster study results or the results of the new study performed by SDG&E. The transmission costs in the cluster studies were in current dollars, so SDG&E escalated those costs by a 2.5% inflation rate to the project start date. Transmission costs developed by SDG&E's Transmission Planning Department were costs in the year of the project start date. SDG&E then calculated a \$/MWh annualized carrying cost of transmission rate by multiplying the total one-time cost of transmission upgrades (not including gen-ties) by a factor that is based on the expected life of the

transmission upgrades. This factor calculates the annualized carrying costs for SDG&E, which are the estimated amounts required by SDG&E to recover its costs, plus return on investment, over the life of the transmission facilities. The annualized costs were multiplied by the contract years and then divided by the projected total generation MWh over (provided by the bidder) to calculate an average transmission rate \$/MWh. The average transmission rate was then added to the bidder's price.

### **Consistency with Transmission Ranking Cost Decision**

In evaluating each bid for the least cost, SDG&E added transmission costs in the one of the following three ways:

1. The transmission costs provided to the bidder by the interconnected utility, or
2. The interconnected utilities' cluster study if the project did not provide the transmission costs, or
3. Transmission cost studies prepared by SDG&E. If the project was not specifically identified in the cluster study, then transmission costs were included in the project that were in the closest cluster study of the interconnecting utility.

SDG&E evaluated transmission costs for this project based on results from SCE Transmission Ranking Cost Report along with information provided by Seller related to studies performed by SCE related to expected transmission interconnection costs.

There were no transmission studies for projects located in the Imperial Irrigation District ("IID"). For projects from within IID's service territory, the average transmission wheeling costs for these projects were derived from the IID's transmission rate tariff. The charges were given to SDG&E by the bidder in millions of dollars per year. The dollars were then amortized over the life of the contract using a 2.5% escalation rate and present valued back to 2005 at the same 2.5% escalation rate. This analysis assumed that any transmission upgrades resulting from these resources would not cause upward or downward pressure on IID's tariff, and that IID's tariff would escalate by inflation. The total PV dollars were then divided by the projected generation MWh over the life of the project/term of the contract to calculate an average \$/MWh. The average transmission wheeling costs, if any, was then added to the bidder's price.

As no assessment of congestion cost or risk was undertaken using a formal modeling profile, SDG&E may incur net congestion costs, and/or re-marketing costs that may result from inclusion of this bid into its portfolio.

### **Consistency with Adopted Standard Terms and Conditions**

On June 14, 2004 the Commission issued D.04-06-014, which adopts standard contract terms and conditions for use in the RPS. The decision labeled some terms and conditions as being non-modifiable. During the course of negotiations, Esmeralda requested changes to modifiable terms and conditions. All material changes and the reasons for them are noted in the contract summary appended to this advice letter. SDG&E respectfully requests Commission approval of these changes.

#### **A. Terms and Conditions of Delivery**

Conditions precedent for the proposed PPA are discussed in the contract summary appended to this advice letter.

B. Contract Price

The levelized Bid Price detailed in the appendices of this filing is above the levelized Contract Price that is equal to the MPR as set forth in Resolution E-3942. The proposed PPA requires Supplemental Energy Payments. SDG&E will pay no more than the MPR. The California Energy Commission will make Supplemental Energy Payments.

C. Qualitative Factors

As stated in the RFO, SDG&E differentiates offers of similar cost by reviewing qualitative factors including (in no particular order of preference):

- a) Location
- b) Benefits to minority and low income areas
- c) Resource diversity
- d) Environmental stewardship

Minority/low-income areas and environmental stewardship were not factors in SDG&E's ranking process because those factors were not applicable to the offers. However, SDG&E did consider its own service territory and resource diversity in its ranking.

D. Impact of Debt Equivalence

SDG&E expects it will be able to perform its obligations over the life of the contract without any undo effect on its financial strength.

E. Project Viability

The PPA identifies the agreed upon project milestones, including, land leases, permitting, project financing, construction start and commercial operation deadlines. Project Viability is discussed in more detail in confidential Appendix B, The conditions precedent to the contract and milestones are described in confidential Appendix B-2.

1. Financing: SDG&E expects that the developer will be able to obtain adequate and timely financing to allow the project to deliver by the Commercial Operation deadlines.
2. The Project will require SEP payments.
3. Tax Credits: The project is expected to make use of the Production Tax Credits ("PTCs").
4. Creditworthiness and Experience: The proposed PPA contains performance securities that will motivate the developer to declare Commercial Operation by the deadline and perform in accordance with all terms and conditions. The developer is currently seeking financing pending the approval of this advice letter.
5. Project Status: The project is a new greenfield development.
6. Transmission: The Project requires the completion of SDG&E's Sunrise Powerlink and either; (i) the execution of an Interconnection and Firm Transmission Service Agreements with the Imperial Valley Irrigation District (IID) to accommodate the delivery of energy to the 230 kV side of SDG&E's Imperial Valley Substation (IV Sub) or (ii) the execution of an Interconnection Agreement with SDG&E for delivery to a substation that is part of the Sunrise Powerlink.

#### **IV. PRG FEEDBACK**

SDG&E periodically met with its PRG to brief them during the course of the LCBF analysis, development of short list, negotiation and recommendation phases of the RFO process. SDG&E first briefed its PRG on August 26, 2004 on SDG&E's preliminary summary and review of the bids received in response to the RFO. SDG&E subsequently provided further briefings on February 15, 2005 to summarize its recommendations for its short list; May 19, 2005 to provide an update on the status of its negotiations; on July 18, 2005 to report final recommendations for projects that it proposed to contract with; and on September 9, 2005 to describe changes that had occurred during the final contract negotiation stages and how the final contracts differed from the presentation made on July 18th.

The PRG members have expressed their support for this proposed contract. None of the PRG members have expressed any objection to SDG&E's PPA recommendation or with the price or terms presented to them. Appendix C provides a summary for each meeting, the major issues discussed, and changes that SDG&E made as a result of the PRG meetings.

#### **V. SUPPLEMENTAL ENERGY PAYMENTS (SEP) and RENEWABLE ENERGY CREDITS**

Supplemental energy payments are necessary for the proposed PPA. The justification for and the calculation of the SEP payments is contained in confidential Appendix B-3.

The PPA provides that SDG&E receive all Renewable Energy Credits associated with the energy generated from the project.

#### **VI. REQUEST FOR COMMISSION APPROVAL**

The PPA is conditioned on "CPUC Approval" as that term is defined in the PPA.

SDG&E therefore requests that the Commission approve the PPA in its entirety without modification, including a ruling that finds the following:

1. The agreement is approved in its entirety, including payments to be made by SDG&E and the SEP payments to be made by the California Energy Commission, subject to CPUC review of SDG&E's administration of the Agreement.
2. Any procurement pursuant to this agreement is procurement from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), D.03-06-071, or other applicable law;
3. Any procurement pursuant to this Agreement constitutes incremental procurement or procurement for baseline replenishment by SDG&E from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, CPUC D.03-06-071, or other applicable law.

#### **PROTEST**

Anyone may protest this advice letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service

impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date this advice letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102

Copies should also be sent via e-mail to the attention of both Jerry Royer (jrr@cpuc.ca.gov) and Honesto Gatchallian (jnj@cpuc.ca.gov) of the Energy Division. It is also requested that a copy of the protest be sent via electronic mail and facsimile to SDG&E on the same date it is mailed or delivered to the Commission (at the addresses shown below).

Attn: Monica Wiggins  
Regulatory Tariff Manager  
8330 Century Park Court, Room 32C  
San Diego, CA 92123-1548  
Facsimile No. (858) 654-1788  
E-Mail: mwiggins@semprautilities.com

### **EFFECTIVE DATE**

SDG&E respectfully requests the Commission issue a resolution approving this advice letter at its earliest convenience.

### **NOTICE**

In accordance with Section III.G of General Order No. 96-A, a copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in R.01-10-024, R.04-04-026 and the PRG, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to Christina Sondrini by facsimile at (858) 654-1788 or by e-mail to csondrini@semprautilities.com.

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J. STEVE RAHON  
Director - Tariffs & Regulatory Accounts

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC**

Utility type:

ELC     GAS  
 PLC     HEAT     WATER

Contact Person: Monica Wiggins

Phone #: (858) 654-1770

E-mail: mwiggin@semprautilities.com

### EXPLANATION OF UTILITY TYPE

ELC = Electric    GAS = Gas  
PLC = Pipeline    HEAT = Heat    WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 1795-E

Subject of AL: Request for Approval of Renewable Energy Procurement Contract Resulting from 2004 RPS Solicitation

Keywords (choose from CPUC listing): Procurement, Renewables

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL \_\_\_\_\_

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: Upon Commission Approval      No. of tariff sheets: N/A

Estimated system annual revenue effect: (%): \_\_\_\_\_

Estimated system average rate effect (%): \_\_\_\_\_

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed<sup>1</sup>: \_\_\_\_\_

Pending advice letters that revise the same tariff sheets: N/A

**Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:**

**CPUC, Energy Division  
Attention: Tariff Unit  
505 Van Ness Ave.,  
San Francisco, CA 94102  
jjr@cpuc.ca.gov and jnj@cpuc.ca.gov**

**San Diego Gas & Electric  
Attention: Monica Wiggins  
8330 Century Park Ct, Room 32C  
San Diego, CA 92123  
mwiggins@semprautilities.com**

<sup>1</sup> Discuss in AL if more space is needed.

General Order No. 96-A, Sec. III. G.  
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

ORA

D. Appling  
S. Cauchois  
J. Greig  
R. Pocta  
W. Scott

Energy Division

W. Franklin  
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CA. Energy Commission

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R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

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Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell  
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

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Children's Hospital & Health Center

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City of Chula Vista

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E. Hull

City of Poway

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J. Cervantes  
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D. Douglass  
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Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

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Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg  
J. Heather Patrick  
J. Squeri

Goodrich Aerostructures Group

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Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard

R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

Pacific Gas & Electric Co.

J. Clark  
M. Huffman  
S. Lawrie  
E. Lucha

R. W. Beck, Inc.

C. Elder

San Diego Regional Energy Office

S. Freedman  
J. Porter

School Project for Utility Rate Reduction

M. Rochman

Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander  
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TURN

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U.S. Dept. of the Navy

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Utility Specialists, Southwest, Inc.

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Western Manufactured Housing

Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

R.01-10-024  
R.04-04-026