

SECTION 2

PROJECT DESCRIPTION

2.1 OVERVIEW OF SDG&E'S ELECTRIC GENERATION AND TRANSMISSION SYSTEM

SDG&E provides electric power to approximately 1.15 million customers within its service territory. Its service territory encompasses all of San Diego County and a narrow strip along the southern portion of Orange County. Electric power needed to meet the demands of SDG&E's service territory is either (a) imported through SDG&E's two transmission power links (i.e., the Southwest Power Link, which transports power from Arizona and the southwest, and the South-of-SONGS Path, which transports power from the San Onofre Nuclear Generating Station [SONGS]), or (b) generated at SDG&E's Encina and South Bay Power Plants. Additional electric power is obtained from SDG&E's 19 combustion turbines (CTs) located at nine sites throughout San Diego County.¹

The ability of SDG&E to import power is limited by the transmission capacities of its power links. The transmitting capacities of the 500-kilovolt (kV) Southwest Power Link and the five 230 kV lines that form the South-of-SONGS Path (the interconnection to Southern California Edison Company [Edison] at San Onofre) are roughly 970 megawatts (MW) and 1,800 MW, respectively. The South-of-SONGS Path is capable of transmitting up to 1,900 MW if the Southwest Power Link is out of service. Of the power that can be imported into SDG&E's system from the South-of-SONGS Path, a maximum of roughly 430 MW comes from SDG&E's 20 percent ownership interest in SONGS. Due to additional importing constraints, the maximum electric power that SDG&E can import is roughly 2,450 MW at a given time.

The Encina and South Bay Power Plants, including their CTs, have generating capacities of 965 MW and 706 MW, respectively. The 17 additional CTs located at seven other sites can provide an additional 253 MW of generating capacity. In addition to SDG&E's power generating assets, qualifying facilities (QFs) on SDG&E's system add an additional 174 MW of power.²

Generally speaking, SDG&E's electric power resources are very limited, but have been adequate to meet the need for system reliability and to satisfy customer demand. The extent to which the

¹ Since two of the 19 CTs are located at SDG&E's Encina and South Bay Power Plants, the discussions in this Initial Study of the Encina and South Bay Power Plants include the CTs located at those plants; the remaining 17 CTs are discussed separately.

² A QF is a designated plant that, under the authority of the Public Utility Regulatory Policy Act of 1978, is allowed to sell output to utilities at avoided cost rates. To become a QF, an independent power supplier has to produce electricity with a specified fuel type (cogeneration or renewables) and meet certain ownership, size, and efficiency criteria established by the Federal Energy Regulatory Commission.

energy demands of SDG&E's service area are met through imported electric power or by generation is a function of economics and system reliability. Historically, if electricity can be imported at a lower cost, SDG&E tends to import more power, while otherwise it tends to generate more power.

2.2 PROJECT PURPOSE AND NEED

On December 20, 1995, the California Public Utilities Commission (CPUC) issued a policy decision providing for the restructuring of the California electric industry. In this decision, the CPUC requested that Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison), the state's two largest utilities, voluntarily divest at least 50 percent of their fossil-fueled generating assets to address concerns over their possible market power in the restructured electricity market. In September 1996, California's electric industry restructuring legislation, Assembly Bill 1890 (AB 1890), was signed into law. AB 1890 endorsed a competitive generation industry separate from utility power transmission and distribution operations. (See Attachment B, Regulatory Background, for a discussion of electric industry restructuring.) Both AB 1890 and several CPUC decisions have required that generation assets be valued for the purpose of calculating the competitive transition charges, or CTCs, associated with the assets.³ Sale is one method of measuring the market value of generation assets.

In its efforts to further competition, the CPUC did not specifically request that SDG&E divest ownership of 50 percent of its fossil-fueled generating capacity, as it did with PG&E and Edison. Instead, SDG&E initially voluntarily proposed to divest its assets in furtherance of its business objectives and to advance the CPUC's efforts to foster competition in the electric industry. Specifically, SDG&E's Application No. 97-12-039 seeks approval from the CPUC to "sell its generating assets in furtherance of its business objectives including, without limitation, implementing innovative strategies to achieve the best possible competitive positioning to maximize its opportunities in the new energy marketplace." According to SDG&E's Proponent's Environmental Assessment (PEA), the proposed sales would result in a more competitive market and lower energy prices for consumers.

As described in Section 1, Introduction, a series of events (namely the merger of Enova Corporation, the parent company of SDG&E, and Pacific Enterprises into Sempra Energy) since the divestiture application was originally filed have resulted in the CPUC ordering the sale of SDG&E's natural gas-fired generation assets. The order (D.98-03-073) specifies that "on or before December 31, 1999, SDG&E shall sell its gas-fired generation facilities to nonaffiliates of the merged company." This order therefore applies to the Encina and South Bay Power Plants and 15 of the 17 remaining CTs being divested. Two of the CTs (the CT at the Division Substation and one of the CTs at the North Island Naval Air Station) are fueled by diesel only and are not directly addressed by this order, but are proposed to be sold.

³ A CTC is defined as a non-bypassable charge on each customer of the utility distribution company (UDC), including those who are served under contracts with non-utility suppliers, for recovery of the utility's transition costs. Refer to Attachment C, System Economic and Operational Characterization, for a more detailed discussion of CTCs.