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September 23, 2011

ADVICE LETTER 2292-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: REVENUE REQUIREMENT AND REGULATORY ACCOUNT UPDATE
ASSOCIATED WITH THE EL DORADO POWER PLANT FACILITY**

PURPOSE

The purpose of this Advice Letter is to submit for California Public Utilities Commission ("Commission") approval the updated revenue requirement and updated Regulatory Accounts associated with the purchase of the El Dorado Power Plant ("El Dorado"). This Advice Letter is filed in compliance with Commission Decision ("D.") 07-11-046.

BACKGROUND

On November 16, 2007, the Commission issued D.07-11-046, approving SDG&E's application to exercise an option to purchase the El Dorado Power Plant ("Plant") located in Nevada and owned by El Dorado Energy LLC, which is a Sempra Generation affiliate. Consistent with D.07-11-046, Sempra Generation will sell the Plant to SDG&E at a depreciated book value as of October 1, 2011. D.07-11-046 also approved SDG&E's proposed framework for recovery of costs related to owning and operating the Plant. Specifically, citing D.04-12-048, D.07-11-046 authorized SDG&E to utilize the Non Fuel Generation Balancing Account ("NGBA") to record the authorized operation and maintenance ("O&M") and capital-related non-fuel revenue requirements associated with the Plant. Finally, D.07-11-046 directed SDG&E to record fuel costs to operate the Plant in the Energy Resource Recovery Account ("ERRA").

DISCUSSION

On December 7, 2010, the Commission approved Advice Letter ("AL") 2204-E, SDG&E's Annual Non-Fuel Generation Balancing Account Update ("2011 NGBA Update"). The 2011 NGBA Update included an attachment scheduling the annual revenue requirement of El Dorado and a description of the filing process as follows:

"Prior to the transfer date, SDG&E will file a separate advice letter to update the revenue requirement for final costs and determination of book value as well as request the

appropriate change to SDG&E's NGBA rate at the time the Plant is transferred and in-service."¹

This is consistent with the Commission's direction in D.07-11-046 to "fully justify its rate base and non-fuel O&M expense forecasts and provide the associated revenue requirement calculations at the time it includes the forecasted 2011 revenue requirement in its NGBA advice letter filing."²

This filing therefore represents the update as described above and authorized in AL 2204-E.

The revenue requirement for the first year of operations updated for costs and purchase price is reflected in Attachment B and reflects adjustments as described below.

A. Purchase Price

In compliance with AL 2204-E, the El Dorado purchase price as defined in the Equity Purchase Option Agreement is equal to the closing book value of the plant at the time of the transfer in 2011. SDG&E will assume operation of El Dorado on October 1, 2011. The purchase price is trued up in this filing to reflect the new book value of the Plant of \$215.1 million. This new net book value reflects increases from capital, plant, IT improvements, infrastructure improvements to meet OSHA standards, and security improvements. These improvements result in a \$15.6 million increase to the estimated book value represented in AL 2204-E

B. O&M

O&M costs associated with plant operations total \$42.1 million from October 1, 2011 through December 31, 2012 and include IT, capital improvements and Long-Term Service Agreement ("LTSA") expenses. The current revenue requirement as filed herein includes a Labor O&M escalation of 3.02% and Non-Labor O&M escalation of 2.28% for 2011 to 2012, consistent with the latest Global Insights forecast as applied in the current 2012 GRC application.³ This reflects a \$2.2 million decrease in O&M over the 2011-2012 operating time period from what was represented in AL 2204-E.

C. Attrition

Should SDG&E be granted an attrition mechanism in its current GRC⁴ that would apply to revenues related to other generation equipment (i.e., Palomar Energy Center, Miramar I, Miramar II), then SDG&E would apply that same attrition mechanism to its El Dorado assets accordingly and notify the Commission during the NGBA filing in November each year for the following year. SDG&E will adjust this revenue requirement to reflect the actual attrition adopted in the GRC. SDG&E recognizes that the attrition may come in the form of a rate or a fixed-dollar value. In the case of fixed-dollar attrition, SDG&E will use the implied attrition rate.

D. El Dorado Transition Cost Memorandum Account ("EDTCMA")

On September 7, 2011, the Commission approved AL 2213-E-A, authorizing the formation of the EDTCMA and enabling SDG&E to track the pre-ownership costs associated with

¹ AL 2204-E, SDG&E's Annual Non-Fuel Generation Balancing Account update, approved on December 7, 2010.

² D.07-11-046, dated November 16, 2007, Section 6.4, page 21.

³ SDG&E Application 10-12-005, Prepared Direct Testimony of Scott Wilder, Table SRW2, page SRW6.

⁴ SDG&E Application 10-12-005, Prepared Direct Testimony of Herbert S. Emmrich, Section 3.

acquiring the Plant and getting it on-line with other SDG&E plants. The EDTCMA balance will be included in the NGBA filing for 2012 and is not reflected in this filing.

REGULATORY ACCOUNTS

Upon taking ownership of El Dorado, SDG&E will change the name to Desert Star Energy Center. Because AL 2204-E approved new language for "El Dorado", SDG&E requests to modify the NGBA to reflect the new name as "Desert Star Energy Center." Attachment A hereto includes these changes.

ELECTRIC RATE ADJUSTMENT

Upon ownership and operation of the Plant on October 1, 2011, SDG&E will record the El Dorado revenue requirement for 2011 to the NGBA and that balance will be part of the annual NGBA amortization effective January 1, 2012. SDG&E will implement the 2011 authorized revenue included in this filing in Attachment B. Going forward, annual revenue requirements will be addressed in the annual NGBA filings for rates effective January 1 of the following year.

To help minimize the amount and the number of rate changes that customers face, SDG&E will forego changing 2011 rates for this event on October 1, 2011 but will implement the rate change in conjunction with other rate change filings to become effective on January 1, 2012. The 2012 authorized revenue requirement will also be included in the NGBA filing for 2012.

FINAL UPDATE

In the Equity Purchase Option Agreement dated February 8, 2007 between Sempra Energy Power I and SDG&E, it states that "not later than 120 days after the Closing Date, Seller shall prepare and deliver to Buyer its proposed final Closing Balance Sheet setting forth an update of its estimate of the Closing Book Value."⁵ The Agreement goes on to state that "if requested by either party or by the CPUC not later than 60 days after the delivery by Seller of its proposed final Closing Balance Sheet as set forth in Section 2.2(d), the Closing Book Value shall be subject to review and audit."⁶ In order to protect ratepayer interest and assure an accurate correct final purchase price, SDG&E intends to request an audit. If there is a change in the purchase price as discovered in this audit, SDG&E will file a final advice letter to confirm these costs consistent with D.07-11-046, AL 2204-E, and the above-mentioned audit.

EFFECTIVE DATE

This filing is classified as a Tier 1 (effective pending disposition) pursuant to GO 96-B. SDG&E respectfully requests that this filing become effective on October 1, 2011, the date SDG&E assumes ownership and operation of the plant, in accordance with D.07-11-046.

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 must

⁵ Equity Purchase Option Agreement By and Among Sempra Energy Power I and San Diego Gas and Electric Company, dated February 8, 2007, Section 2.2(d), page 11.

⁶ Id. at Section 2.2(e), page 11.

be received no later than October 13, 2011, which is 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 of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian (inj@cpuc.ca.gov) and Maria Salinas (mas@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1879
E-mail: mcaulson@semprautilities.com

NOTICE

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties to service lists A.07-08-006 and R.10-05-006, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1879 or by e-mail at SDG&ETariffs@semprautilities.com.

CLAY FABER
Director – Regulatory Affairs

(cc list enclosed)

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 (U 902)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Megan Caulson

Phone #: (858) 654-1748

E-mail: mcaulson@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) #: 2292-E

Subject of AL: Revenue Requirement and Regulatory Account Update Associated with the El Dorado Power Plant Facility

Keywords (choose from CPUC listing): Revenue Requirement, Facility

AL filing type: Monthly Quarterly Annual One-Time Other _____

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

D.07-11-046

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: N/A

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 10/1/2011

No. of tariff sheets: 3

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

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: NGBA and Table of Contents

Service affected and changes proposed¹: N/A

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
mas@cpuc.ca.gov and jnj@cpuc.ca.gov

San Diego Gas & Electric
Attention: Megan Caulson
8330 Century Park Ct, Room 32C
San Diego, CA 92123
mcaulson@semprautilities.com

¹ Discuss in AL if more space is needed.

General Order No. 96-B
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

DRA

S. Cauchois
R. Pocta
W. Scott

Energy Division

P. Clanon
S. Gallagher
H. Gatchalian
D. Lafrenz
M. Salinas

CA. Energy Commission

F. DeLeon
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

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

N. Rader

CCSE

S. Freedman
J. Porter

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham
E. Hull

City of Poway

R. Willcox

City of San Diego

J. Cervantes
G. Lonergan
M. Valerio

Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill
J. Pau

Dept. of General Services

H. Nanjo
M. Clark

Douglass & Liddell

D. Douglass
D. Liddell
G. Klatt

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.

K. Campbell
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg
J. Heather Patrick
J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

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

OnGrid Solar

Andy Black

Pacific Gas & Electric Co.

J. Clark

M. Huffman

S. Lawrie

E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

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

K. Cini

K. Gansecki

H. Romero

TransCanada

R. Hunter

D. White

TURN

M. Florio

M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi

N. Furuta

L. DeLacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing
Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

A.07-08-006

R.10-05-006

ATTACHMENT A
ADVICE LETTER 2292-E

Cal. P.U.C. Sheet No.	Title of Sheet	Canceling Cal. P.U.C. Sheet No.
Revised 22507-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, NON-FUEL GENERATION BALANCING ACCOUNT (NGBA), Sheet 2	Revised 22081-E
Revised 22508-E	PRELIMINARY STATEMENT, II. BALANCING ACCOUNTS, NON-FUEL GENERATION BALANCING ACCOUNT (NGBA), Sheet 3	Revised 22082-E
Revised 22509-E	TABLE OF CONTENTS, Sheet 1	Revised 22476-E



PRELIMINARY STATEMENT

Sheet 2

II. BALANCING ACCOUNTS
NON-FUEL GENERATION BALANCING ACCOUNT (NGBA)

3. Generation Non-fuel Revenue Requirement:

Palomar Energy Center:

The adopted generation non-fuel revenue requirement shall consist of the adopted operating and maintenance, and capital-related costs approved in SDG&E's General Rate Case (D.08-07-046). The revenue requirement for 2009, 2010, and 2011 shall be adjusted pursuant to the Post-Test Year Ratemaking Settlement adopted in D.08-07-046. The fuel costs of the Palomar Energy Center shall be recorded in the Energy Resource Recovery Account (ERRA). Any revenues received from the Independent System Operator (ISO) under the reliability-must run (RMR) contract shall be credited to the NGBA.

Miramar Energy Facility (MEF II)

The adopted generation non-fuel revenue requirement shall consist of the adopted operating and maintenance, and capital-related costs approved in D.09-01-008 updated for actual construction costs approved in AL 2126-E. The fuel costs of MEF II shall be recorded in the Energy Resource Recovery Account (ERRA). Any revenues received from the Independent System Operator (ISO) under the reliability-must run (RMR) contract shall be credited to the NGBA.

Desert Star Energy Center

The adopted generation non-fuel revenue requirement shall consist of the adopted operating and maintenance, and capital-related costs approved in D.07-11-046 and updated through advice letter upon in-service date of October 1, 2011. The fuel costs of Desert Star Energy Center shall be recorded in the Energy Resource Recovery Account (ERRA).

4. NGBA Rate

Once the generation non-fuel revenue requirement is established, the NGBA rate will be included as part of the Utility's total schedule EECC rate. The NGBA rate will be equal to the total adopted generation non-fuel revenue requirement including the SONGS Steam Generator Replacement Project (SGRP) disposal and installation costs authorized in D.06-11-026, divided by the authorized forecasted sales for the current calendar year.

5. Effective Date

This tariff is effective for service rendered on and after January 1, 2004.

6. Accounting Procedure

The Utility shall maintain the NGBA by making entries at the end of each month as follows:

- a. A debit entry equal to 1/12 of the authorized annual generation non-fuel revenue requirement for songs, as established in D.09-03-025 and D.08-07-046, excluding the SONGS 2 & 3 refueling and maintenance outages.

(Continued)

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Advice Ltr. No. 2292-E

Decision No. D.07-11-046

Issued by
Lee Schavrien
Senior Vice President
Regulatory Affairs

Date Filed Sep 23, 2011

Effective _____

Resolution No. _____



PRELIMINARY STATEMENT

Sheet 3

**II. BALANCING ACCOUNTS
NON-FUEL GENERATION BALANCING ACCOUNT (NGBA)**

6. Accounting Procedure (Continued)

- b. A debit entry equal to 1/12 of the authorized SONGS 2&3 refueling and maintenance outage authorized revenue requirement as established in D.09-03-025.
- c. An entry equal to the SONGS 2&3 refueling and maintenance outage adjustment as described in Section 3 above.
- d. A debit entry equal to 1/12 of the authorized annual generation non-fuel revenue requirement for the Miramar CT as established in D.08-07-046.
- e. A debit entry equal to 1/12 of the authorized fixed annual generation non-fuel revenue requirement for the Palomar Energy Center as established in D.08-07-046.
- f. A debit entry equal to 1/12 of the authorized fixed annual generation non-fuel revenue requirement for the MEF II as established in D.09-01-008 and updated in AL 2099-E.
- g. A debit entry equal to 1/12 of the authorized SONGS 2&3 revenue requirements for recovery of the Utility's ownership share of 20% of the estimated SGRP removal and disposal costs through depreciation, as established in D. 06-11-026.
- h. A debit entry equal to 1/12 of the authorized El Dorado Power Plant fixed annual generation non-fuel revenue requirements as established in D.07-11-046 and updated through advice letter upon in-service date of October 1, 2011.
- i. A debit entry equal to Desert Star Energy Center's authorized variable O&M non-fuel costs, calculated by multiplying the authorized variable O&M rate times the MWh generated.
- j. A credit entry equal to any revenues received from the ISO for reliability must run (RMR) contract.
- k. A credit entry equal to the revenue billed during the month from the NGBA rate, net of franchise fees and uncollectibles.
- l. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries 6.a. through 6.j. at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15. or its successor.

7. Disposition

Disposition of the balance in the NGBA shall be addressed as part of the Utility's annual consolidated electric rate change filed via advice letter in December of each year.

8. SONGS Major Additions Adjustment Clause (MAAC) Subaccount

- a. Purpose: The purpose of the SONGS MAAC Subaccount is to record SDG&E's authorized revenue requirement associated with its share of the SONGS Unit 2 and Unit 3 steam generator installation costs, the associated capital-related expenses, and any remaining, unrecovered actual disposal/removal costs of the original steam generators in compliance with D.06-11-026.

(Continued)

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Issued by

Date Filed

Sep 23, 2011

Advice Ltr. No. 2292-E

Lee Schavrien

Effective _____

Decision No. D.07-11-046

Senior Vice President
Regulatory Affairs

Resolution No. _____



TABLE OF CONTENTS

Sheet 1

The following sheets contain all the effective rates and rules affecting rates, service and information relating thereto, in effect on the date indicated herein.

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Advice Ltr. No. 2292-E

Decision No. D.07-11-046

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Senior Vice President
Regulatory Affairs

Date Filed Sep 23, 2011

Effective _____

Resolution No. _____

Attachment B
San Diego Gas & Electric
Advice Letter 2292-E
El Dorado
Annual Revenue Requirement (in millions)

<u>Electric Plant</u>		2011	2012	2013	2014	2015
Franchise Fees & Uncollectible	1.18%	0.306	0.787	0.915	0.756	0.746
O&M expenses		15.619	26.458	39.676	27.848	28.563
Property Taxes	1.29%	0.676	2.582	2.410	2.243	2.082
Preferred Equity Interest	7.25%	0.218	0.834	0.779	0.725	0.673
Interest Expense	5.62%	1.333	5.089	4.749	4.421	4.104
Depreciation Expense		3.079	12.317	12.317	12.317	12.317
Federal Tax Expense		1.815	6.966	5.901	5.479	5.087
State Tax Expense		0.302	1.520	1.542	1.535	1.531
Return on Equity	11.10%	2.850	10.884	10.158	9.456	8.778
Revenue Requirement		26.198	67.438	78.447	64.779	63.882
Return on Ratebase (ROR)		4.401	16.807	15.686	14.602	13.556