

PUBLIC UTILITIES COMMISSION

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May 25, 2012

Advice Letter 2354-E

Mr. Clay Faber
Director – Regulatory Affairs
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123-1548
E-Mail: cfaber@semprautilities.com

Subject: Approval of SDG&E AL 2354-E requesting approval of a power purchase agreement between SDG&E and Calpine Energy Services in compliance with Commission Resolution E-4471

Mr. Faber:

Energy Division approves Advice Letter 2354-E, effective May 25, 2012. Energy Division finds that the Advice Letter is in compliance with Commission Resolution E-4471.

Background:

On March 22nd, 2012 the Commission issued Resolution E-4471 ordering San Diego Gas & Electric (“SDG&E”) to negotiate a power purchase agreement with Calpine Energy Services L.P. (“Calpine”) for the Sutter power plant for a price less than that available under the Capacity Procurement Mechanism (CPM). The California Independent System Operator (“CAISO”) had filed with the Federal Energy Regulatory Commission (“FERC”) in order to create a contracting mechanism to provide Sutter with a backstop contract that would provide additional revenue to keep it operating. CAISO released a report as part of the backstop contracting process (referred to as Capacity Procurement Mechanism) that demonstrated the potential reliability risks that might occur in future years upon retirement of Sutter.

On May 4th, 2012 SDG&E filed Advice Letter 2354-E in compliance with Commission Resolution E-4471. The Advice Letter requests approval of the SDG&E contract with Calpine for its proportional share of the Sutter plant, and approval of the creation of a memorandum account to track the costs associated with the contract.

Protests:

DRA filed a protest on May 23rd disputing whether this contract and the pricing terms were just and reasonable. DRA discussed the contract price relative to market prices SDG&E otherwise pays for resource adequacy (RA) capacity and used this comparison to dispute SDG&E’s assertion that SDG&E followed the dictates of Resolution E-4471. Energy Division dismisses the protest, since Resolution E-4471 set the standard against which SDG&E was required to demonstrate reasonableness, i.e. the contract is less than SDG&E’s proportionate share of the CPM price of \$17.4 million. SDG&E demonstrated that they complied with the requirements of the resolution.

Alliance for Retail Energy Markets, Direct Access Coalition, Energy Users Forum, and Marin Energy Authority filed a joint protest (AReM et al. protest) on May 24th arguing that the approval of this Advice Letter would create costs for direct access customers without the accompanying allocation of

RA capacity credit, meaning that customers on direct access or customers of community choice aggregators would pay for RA capacity that they would not receive the benefits of. Protestants requested that the Commission order the utilities to allocate RA capacity credit to all benefitting customers as a means of giving them the benefits to go along with the costs of the Sutter contract. Energy Division does not believe this protest merits rejection of the Advice Letter since we plan to implement this request, as specified below. While the ARem et al. protest would have Energy Division implement their request at a later date, we believe we can comply immediately and avoid any further delays.

TURN protested the Advice Letter on May 24th on the basis that the mechanics of how Calpine and the utilities negotiated was not leading to best value for ratepayers. In addition, TURN proposed a means to return over market revenues to ratepayers in the form of agreements for future years. These concerns are outside the scope of the Advice Letter, as TURN's suggested process and any future year agreements are not criteria Energy Division was ordered to use in reviewing the Advice Letter. TURN's protest attempts to relitigate Resolution E-4471.

CUE filed a protest on May 24th and states that Calpine is bluffing about Sutter's retirement. CUE proposes a detailed mechanism to repay above market 2012 payments for Sutter from future profits from the Sutter plant. As with TURN's protest, CUE's suggestion is outside the scope of the Advice Letter and is an attempt to relitigate Resolution E-4471.

SDG&E waived its right to respond to protests on May 24th.

Discussion:

Energy Division does not find any of the four protests meet the grounds for protest established in General Order 96-B (Section 7.4.2). In particular "a protest may not rely on policy objections to an advice letter where the relief requested in the advice letter follows rules or directions established by statute or Commission order applicable to the utility". (Ibid.) With the exception of the ARem et al. protest which the Energy Division addresses via separate action, each of the other protests requests a relitigation of Resolution E-4471 and each requests the Energy Division not apply the approval standard clearly communicated via the Resolution.

In light of the above, SDG&E's Advice Letter is in compliance with Commission Resolution E-4471, and we find that SDG&E has shown that the Sutter contract is just and reasonable and the costs fully recoverable in rates. SDG&E's Advice Letter requested numerous other findings and conclusions, all of which are neither repeated nor denied herein, but the Advice Letter is approved in its entirety.

Allocation of RA capacity credit:

As adopted in D.07-09-044 and D.09-06-028, the Energy Division allocates capacity credit to load serving entities (LSEs) for the contracts whose costs are paid for via a non-bypassable charge to all benefitting customers. For purposes of SDG&E's Sutter contract, Energy Division will allocate capacity for July and August 2012 (capacity for those months was already allocated April 12th and May 16th respectively), for use in the RA filings due on June 1 and July 2. Via revised letter dated today, Energy Division will send revised capacity allocations to each LSE for these filing months to reflect the Sutter contract. Energy Division will continue to allocate capacity for this contract along the normal schedule for the remaining months of the contract term.

LSEs in SDG&E territory will be able to count this capacity towards their RA obligations for all months of the contract as the CAM allocation will not require a Path 26 allocation to become deliverable.

Sincerely,

Molly Steved for Ed Randolph

Edward F. Randolph, Director
Energy Division

Cc via email:

President Michael R. Peevey
Commissioner Mark J. Ferron
Commissioner Catherine J.K. Sandoval
Commissioner Mike Florio
Commissioner Timothy Alan Simon
Frank Lindh, General Counsel
Chief ALJ Karen Clopton
Service List for R.10-05-006
Service List for R.11-10-023
Service List for R.12-03-014

Protestors:

CUE, via email, mdjoseph@adamsbroadwell.com
TURN, via email, matthew@turn.org
AReM et al., via email, sue.mara@rtoadvisors.com
DRA, via email, Claire.eustace@cpuc.ca.gov; cynthia.walker@cpuc.ca.gov