SDGE

A Sempra Energy utility®

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March 21, 2013

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue, Room 4005
San Francisco, CA 94102

Re: **Substitute Sheet for San Diego Gas & Electric Advice Letter 2459-E, Request for Approval of Amended Renewable Power Purchase Agreement with Covanta Delano Inc.**

Please find enclosed the original and four copies of page 1 and 6 of San Diego Gas & Electric (SDG&E) Advice Letter (AL) 2459-E submitted on February 13, 2013.

Subsequent to filing, an error was noted by the California Public Utilities Commission (CPUC) Energy Division in regards to Supplemental Energy Payments. According to Resolution E-4070, the original Covanta Delano Power Purchase Agreement was below the market price referent (MPR) and thus would not receive Supplemental Energy Payments but public goods charge funds.

SDG&E hereby replaces "Supplemental Energy Payments" with "public goods charge funds" in the first paragraph of page 1 and in the last paragraph of page 6.

An asterisk has been reflected in the upper right corner of the sheet referenced above.

The attached substitute sheet is being served to interested parties in R.11-05-005.

Sincerely,

Joff Morales
Rates, Regulations & Tariffs

Enclosed

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Regulatory Affairs
8330 Century Park Court
San Diego, CA 92123-1548

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February 13, 2013

ADVICE LETTER 2459-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REQUEST FOR APPROVAL OF AMENDED RENEWABLE POWER PURCHASE AGREEMENT WITH COVANTA DELANO INC.

I. Introduction

A. Identify the purpose of the advice letter

San Diego Gas & Electric Company ("SDG&E") hereby seeks approval from the California Public Utilities Commission ("CPUC" or "Commission") to enter into a proposed amendment (the "Proposed Agreement") to an existing power purchase agreement (the "Original PPA") with Covanta Delano, Inc. ("Covanta"). The Proposed Agreement modifies the Original PPA by increasing the price to be paid by SDG&E for the generation from the 49 megawatt ("MW") Covanta facility located in Delano, California. The price increase was requested by Covanta in the second quarter of 2012 in response to the loss of $15 per MWh in revenue that was being paid to Covanta in the form of public goods charge funds, formerly administered by the California Energy Commission. The increased price to be paid by SDG&E in the Proposed Agreement will allow Covanta to continue operating the facility and to recover its costs and earn a fair return. In exchange for the price increase, SDG&E was given the right to terminate the Original PPA earlier than its current expiration date of December 31, 2017 upon appropriate notice to Covanta.

By this Advice Letter filing, SDG&E requests that the Commission find that the terms and conditions of the PPA, as amended by the Proposed Agreement, are reasonable, that procurement under the PPA, as amended by the Proposed Agreement, is eligible to count toward SDG&E's compliance with the Renewables Portfolio Standard ("RPS"), and that all payments from SDG&E to Covanta under the PPA, as amended by the Proposed Agreement, may be recovered in SDG&E's rates.

B. Identify the subject of the advice letter, including:

1. Project name: Delano Energy

2. Technology (including level of maturity): Biomass (mature, operating facility)

3. General Location and Interconnection Point: 31500 Pond Road, Delano, California 93215, interconnecting at the Pandol substation (SCE).

4. Owner(s) / Developer(s)

challenges during Compliance Period 1. At the same time, the Proposed Agreement provides SDG&E to optimize its RPS portfolio during CP1 and CP2, and minimize ratepayer costs. Compliance with D.12-11-016 is discussed in greater detail in Part 2 of this Advice Letter

Finally, as a baseload resource, the Covanta facility also contributes to SDG&E's capacity and resource adequacy needs.

4. Describe the project characteristics set forth in the solicitation, including the required deliverability characteristics, online dates, locational preferences, etc. and how the Project meets those requirements.

   NA – existing facility already under contract and generating.

5. For Sales contracts, provide an analysis that evaluates selling the proposed contracted amount vs. banking the RECs towards future RPS compliance requirements (or any reasonable other options.

   NA - not a sales agreement.

B. Bilateral contracting – if applicable

1. Discuss compliance with D.06-10-019 and D.09-06-050.

   In D.06-10-019, the Commission concluded that bilateral contracts used for RPS compliance must be submitted for approval via advice letter and, while not subject to the MPR, must contain pricing that is "reasonable."[4] In D.09-06-050, the Commission established price benchmarks and contract review processes for very short term (< four years), moderately short term (at least 4 years, less than 10 yrs.) and bilateral RPS contracts. The Proposed Agreement conforms to the price benchmarking requirements of D.06-10-019 and D.09-06-050. The pricing ranks favorably with contracts recently executed by SDG&E, as well as with recent competitive offers in the RAM. The comparison with other agreements is discussed in more detail in Part 2, Confidential Appendix A.

2. Specify the procurement and/or portfolio needs necessitating the utility to procure bilaterally as opposed to a solicitation.

   Covanta approached SDG&E early in 2012 to discuss the financial impacts of the termination of public goods charge funding on December 31, 2011. Because the matter dealt with an existing contract that was already producing energy as part of SDG&E's portfolio, it made sense to pursue the negotiation around pricing and other terms as a bilateral project rather than having Covanta "bid" the requested price adjustment into the RFO. It was important for SDG&E not to potentially lose the energy from the Covanta facility, which was critical to SDG&E's RPS compliance for CP1. Over the ensuing months, Covanta and SDG&E negotiated over a number of different amendments and proposals to meet

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4 D.06-10-019, *mimeo*, p. 31.

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[1] Under prior provisions of the Renewable Portfolio Standard ("RPS") Program, SEPs were awarded by the CEC to cover renewable energy procurement costs that exceeded the relevant market price referent ("MPR"). *See* Senate Bill ("SB") 1078 (Stats. 2002, Ch. 516). SB 1036 modified administration of the RPS program by transferring the authority to award funds to cover above-MPR costs from the CEC to the Commission. *See* SB 1036 (Stats. 2007, Ch. 685).

The Commission previously determined in Resolution E-4070 (April 7, 2007) that procurement of generation from the Project was consistent with SDG&E's Procurement Plan. The Proposed Agreement complies with SDG&E's approved Plan by allowing an existing project in SDG&E's RPS portfolio to continue operating and help to meet SDG&E's compliance challenges during Compliance Period 1. At the same time, the Proposed Agreement provides SDG&E to optimize its RPS portfolio during CP1 and CP2, and minimize ratepayer costs. Compliance with D.12-11-016 is discussed in greater detail in Part 2 of this Advice Letter

Finally, as a baseload resource, the Covanta facility also contributes to SDG&E's capacity and resource adequacy needs.

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