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October 21, 2013

ADVICE LETTER 2528-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REQUEST FOR EXPEDITED APPROVAL OF A RESOURCE ADEQUACY CONTRACT BETWEEN SAN DIEGO GAS AND ELECTRIC AND NRG POWER MARKETING FOR THE CABRILLO II GENERATING UNITS

San Diego Gas & Electric Company ("SDG&E") hereby submits to the California Public Utilities Commission (the "Commission" or the "CPUC") for approval the *Confirmation for Resource Adequacy Capacity Product for CAISO Resources* with NRG Power Marketing LLC ("NRG") ("Confirmation"). This Confirmation, under which SDG&E will buy and NRG will sell resource adequacy ("RA") product from the Cabrillo II Generating Units ("CAB II") during the period from the later of January 1, 2014 or the effective date of that certain First Amendment to License Agreement between SDG&E and Cabrillo Power II LLC (the "First Amendment", for which SDG&E is also seeking Commission approval in a separate proceeding), through December 31, 2014, with SDG&E holding the option to extend the agreement for an additional term from January 1, 2015 through December 31, 2015. The agreement was bilaterally negotiated and agreed upon to address capacity requirements within the San Diego area in 2014 and 2015.

SDG&E respectfully urges the Commission to process this request for approval on an expedited basis.

A. BACKGROUND

The Cabrillo II units is a collection of 12 natural gas-fired peaking plants totaling 188 MW that are located on SDG&E property throughout San Diego County (Miramar, Kearny Mesa and El Cajon) These units entered service between 1968 and 1972 and were at one time owned by SDG&E. The Cabrillo II units have a long history of contracting with SDG&E, other IOU's and the California Independent System Operator ("CAISO") as part of meeting local and regional reliability needs.

The Confirmation, which contemplates an RA-only transaction for compliance year 2014 and gives SDG&E an option to extend the RA agreement for compliance year 2015, will keep the plant available to the CAISO for up to two years. SDG&E is filing this Advice Letter at the request of the Commission and by approval, SDG&E believes that the option to extend is presented in this Advice Letter and since the transaction is short term, no additional PUC approval is needed.

B. CONTRACT SUMMARY

The following table provides a summary of key aspects of the proposed transaction:

Counterparty	NRG Power Marketing LLC
Resource type	Natural Gas Fired
Location	NRG Cabrillo II units (Miramar, Kearny Mesa and El Cajon) all located in San Diego County.
Capacity	188 MW
Expected Deliveries	Local & System Resource Adequacy Capacity (no energy or ancillary services)
Delivery Point	CAISO Balancing Authority Area / Local Capacity Area ("LCA") within which the Cab II units are electrically interconnected.
Length of Contract	Approximately One -Year; beginningon the laterof January 1, 2014 or the effective date of that certain First Amendment through December 31, 2014 with SDG&E's option to extend the agreement for an additional year - January 1, 2015 through December 31, 2015

C. THE SDG&E - NRG CAB II NEGOTIATIONS

The substance of the negotiations conducted between SDG&E and NRG for the 2014-2015 CAB II RA capacity and a pricing analysis are provided in Confidential Attachment A to this Advice Letter. Confidential Attachment B contains a full copy of the executed Confirmation. SDG&E believes the contents of both Attachment A & B should be protected from public disclosure and requests that the Commission treat the information provided in those Attachments as confidential. Accompanying this Advice Letter is a Declaration in support of this request to preserve the confidentiality of the information provided in Attachments A & B.

D. LOCAL CAPACITY REQUIREMENTS

This Section D provides an overview of key components of the annual Resource Adequacy process which have come together to establish the circumstances that lead to the current need for the RA transaction described in this advice letter.

1. ANNUAL GRID TECHNICAL STUDY PROCESS

On May 1, 2013 the CAISO published its 2014 Local Capacity Technical Analysis – Final Report and Study Results ("2014 LCT Study"). These annual technical analyses accomplish four purposes[1]:

a) Determining minimum quantities of local generation capacity necessary, the Local Capacity Requirement ("LCR"), to ensure reliable grid operations in transmission-

[1] CAISO *2014 Local Capacity Technical Analysis – Final Report and Study Results*, May 1, 2013, http://www.caiso.com/Documents/May1_2013-2014FinalReport-LocalCapacityTechnicalAnalysisR11-10-023.pdf

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constrained load pockets with limited power-import capability, Local Capacity Areas ("LCA")

b) Serving as a basis for the local procurement obligations issued by the Commission to Load Serving Entities ("LSE") under its resource adequacy program[2].

c) Assisting in cost allocation regarding any CAISO capacity procurement needed to achieve grid reliability, and

d) Providing additional information on LCA sub-area need and effectiveness factors in order to allow LSEs to engage in more informed capacity procurement in their LCA.

2. EVOLVING LOCAL CAPACITY AREAS

There are ten (10) major LCAs within the CAISO Balancing Authority Area each of which can have further refined LCA sub-areas. For SDG&E there has always been just one major LCA, the San Diego local capacity area ("SD Area"), extending as far east as the Miguel and Sycamore substations, along with 5-10 LCA sub-areas (these may change year-to-year based on load growth and transmission grid enhancements). The LCR for the traditional SD Area, as determined in the annual technical study, has historically been the basis for the CPUC in assigning local RA obligations to LSEs in the San Diego region. While the sub-areas have not come into play in establishing LSE RA obligations, the CAISO, has the authority to backstop capacity needed to meet grid reliability criteria even to the sub-area level.

The 2012 planning cycle was affected by the placing into service of the Sunrise Powerlink transmission line ("SRPL"). The result of the addition of a major 500 KV transmission line was that the San Diego area grid constraints shifted significantly enough to cause the creation of a new San Diego-Greater Imperial Valley Area ("SD-IV Area"). In the 2012 technical study this new SD-IV Area was introduced, however, its LCR was less than that of the traditional San Diego local capacity area so RA obligations continued to be based on the SD Area. Since local SD Area generation resources can also satisfy SD-IV Area local capacity requirements, the establishment of this new Area had no impact on local RA capacity procurement.

In 2014 the CAISO revised up the San Diego LCR needs upward slightly due to load growth and increased significantly due to the shut-down of SONGS.

The California Independent System Operator ("CAISO") has recognized SDG&E's need for CAB II, as explained in the CAISO's 2014 Local Capacity Technical Analysis ("LCTA"). The purpose of the LCTA is to identify areas with limited import capability, and to identify minimum-generation needs to mitigate local reliability challenges. The CAISO provides its LCTA to the Commission for consideration in the Commission's resource adequacy program.

In 2014 the CAISO revised up the San Diego LCR needs upward slightly due to load growth and increased significantly due to the shut-down of SONGS.

These factors combined to significantly impact RA capacity procurement for 2014. Since the CAISO changes to the local area boundaries, the new SD-IV Area LCR exceeded that of the traditional SD Area. Significantly, this resulted in (i) the San Diego local capacity area being deemed a sub- area ("SD Sub-Area"), albeit a sub-area that contains all of SDG&E's load, and

[2] D.12-06-025 under R.11-10-023, "*Decision Adopting Local Procurement Obligations For 2013 and Further Refining The Resource Adequacy Program*" dated June 21, 2012 ("2013 RA Decision")

(ii) SDG&E's 2014 RA obligation now is being based on the SD-IV Area LCR. It is important to note that per CAISO's 2014 LCT Study, not all SD-IV Area generation resources (e.g., those interconnecting at the Imperial Valley Substation) satisfy SD Sub-Area local capacity requirements.

3. CAISO CAPACITY PROCUREMENT TO ACHIEVE RELIABILITY CRITERIA

The CAISO is under statutory and contractual obligation[3] to ensure efficient use and reliable operation of the transmission grid by complying with a body of planning standards & reliability criteria set forth by NERC[4], WECC, and the Participating Transmission Owners. The CAISO FERC[5]-approved tariff further gives it the authority to (i) establish additional reliability requirements[6], and (ii) engage in reliability procurement of LCA capacity resources to maintain the integrity of the interconnected transmission grid under both steady-state and contingency conditions[7].

Operationally, according to the CAISO Business Practice Manual ("BPM")[8], within a local capacity area CAISO reliability procurement occurs in two basic circumstances:

a) Individual LSEs are short of their assigned LCR, and/or

b) Despite all LSEs having met their assigned LCR so that sufficient MW are available, the LCA portfolio overall may fail to comply with reliability criteria because particular units needed to resolve specific contingencies were not procured by the LSEs. In such cases, the CAISO would rely on the Capacity Procurement Mechanism ("CPM") provisions in its Tariff for authority to engage in backstop procurement and the allocation of those procurement costs to ratepayers of the LSEs with in the affected LCA.
   Avoidance of this second circumstance of CAISO reliability capacity procurement is one example of why the annual technical analysis also provides LCA sub-area information (see Section D.1.d above). The implication for SDG&E is that there may be circumstances where some procurement strategies may be more efficient than others at optimizing ratepayer costs.

With regard to CAISO engaging in backstop capacity procurement for reliability reasons, aside from the obligations, authority, and business practices cited above, CAISO has made it clear in public forums that it intends to implement such ability should the need arise. Below are a few examples:

- **Backstop at the Category-C Level**: "The CAISO applies Option 2 [Category C] for its purposes of identifying necessary local capacity needs and the corresponding potential scope of its backstop authority."[9]
- **Backstop at the LCA Sub-Area Level**: "Setting an artificially low sub-area local capacity requirements may result in the ISO having to use its back stop authority to procure the

[3] CAISO's *Final Manual–2013 Local Capacity Area Technical Study*, January 2012, p. 3
[4] North American Electric Reliability Council
[5] Federal Energy Regulatory Commission
[6] *CAISO Tariff* - reliability requirements generally (sec. 40)
[7] Ibid, - procurement generally (sec. 40.3), - RMR contracts (sec. 41), - Other contracts (sec. 42), - CPM (sec. 43)
[8] CAISO BPM, sec 7.2.3
[9] 2013 LCT Study, p. 15; "*Option 2 is the local capacity level that the CAISO requires to reliably operate the grid per NERC, WECC, and CAISO standards*." It is based on the NERC Reliability Standard Category-C (double contingency) and results in a higher LCR level than Category=B (single contingency).

additional resource adequacy capacity needed. This backstop procurement through the ISO's capacity procurement mechanism may result in higher costs to ratepayers."[10]

4. SDG&E'S 2014 NET RA POSITION

Following the publishing of CAISO's 2013 LCT Study in late April 2012, the CPUC issued its 2013 RA Decision in late June, and followed-up in mid-September with the Commission releasing the Final 2013 RA Obligations for LSEs.

For the 2014 RA compliance year, SDG&E's current estimate, based on the 2014 LCT Study, of the total grid LCR requirement for the SD-IV Area is 3,772 MW. SDG&E's share of this is dependent on the amount allocated to the direct access Electric Service Providers in its service territory.

Consistent with the 2013 RA Decision, SDG&E's RA Obligations from the CPUC for 2014 are anticipated to be based on the LCR for the SD-IV Area, thus requiring that additional SD-IV Area RA capacity be added to SDG&E's 2014 RA portfolio. However, in 2014 and 2015, even if SDG&E contracts for its full portion of the SD-IV Area LCR, if it does not contract with the CAB II units there remains a high probability that the CAISO will exercise its backstop procurement authority to procure from the CAB II units, at a significantly increased cost to San Diego ratepayers who will, in effect, be double paying for RA.

For the San Diego region, the sub-areas are small isolated load pockets where the available generation in the sub-areas is often times procured to satisfy the larger LCA requirements thus at the same time satisfying the sub-area requirements. However, in the current situation RA capacity procured from resources within the SD-IV Area does not necessarily satisfy the SD-Sub-Area requirement. The reverse, however, is true that RA capacity procured in the SD Sub-Area will simultaneously satisfy the SD-IV Area.

Therefore, SDG&E proposed to optimize its procurement and minimize ratepayer costs by procuring the CAB II units to satisfy its SD-IV Area requirement and avoid the more expensive backstop procurement that the CAISO would likely undertake.

5. LOOKING AHEAD

The unique situation faced by SDG&E in 2014 and 2015 may be eliminatedif the CAISO allows the System Protection Scheme to manage certain contingencies. The CAISO has not yet made a determination as to whether this will happen, or if it does, on what timeframe. SDG&E is engaged in ongoing discussions with the CAISO on this matter.

The option for compliance year 2015 allows SDG&E to remove some of the uncertainty that is part of the evolving California RA market. If changes in the RA market for 2015 are more favorable to SDG&E's ratepayers than the existing confirmation, the option allows SDG&E to terminate the RA confirmation for the 2015 compliance year. Yet at the same time the option language in the confirmation provides upside protection to SDG&E's ratepayers for compliance year 2015 as well. This extension option gives SDG&E's ratepayers flexibility and some certainty in an uncertain RA market.

E. PROCUREMENT REVIEW GROUP (PRG) INVOLVEMENT

[10] CAISO 2013 LCT Study Reply-Comments to the CPUC in R.11-10-023, p. 3

When the first draft of the 2014 LCT Study was issued, SDG&E has been discussing with its PRG its concerns regarding the emerging 2014 and 2015 RA complexities and obtaining its feedback. The topic was presented to the PRG at each meeting between April and September 2013, with each month's discussion narrowing in on potential solutions to the challenges associated with 2014 and 2015 resource adequacy in the San Diego Local Capacity Area and the need to contract with the CAB II for local RA until the end of 2015.

After discussions with the PRG, there appears to be a general consensus among the PRG members that the transaction proposed herein is in the best interest of SDG&E's ratepayers.

F. INDEPENDENT EVALUATOR REPORT

SDG&E engaged the services of an Independent Evaluator to (i) review and confirm the implications of the 2014 LCT Study as it relates to resource adequacy in the San Diego market, (ii) monitor the bilateral negotiations, (iii) report on the fairness of the negotiations and the final RA agreement with NRG for CAB II's RA capacity during 2014 and 2015, and (iv) render an opinion on the reasonableness of the chosen solution for meeting 2014 and 2015 resource adequacy requirements and make a recommendation regarding moving forward with the Confirmation.

Merrimack Energy Group, Inc., of Charlestown, Massachusetts, was engaged as the Independent Evaluator. Wayne J. Oliver served as the firm's principal for this engagement. Their report, entitled "*San Diego Gas & Electric Company Submission of a Bilateral Transaction with NRG Power Marketing LLC for the Encina & Cabrillo II Units*," dated October 18, 2013 , regarding the above listed topics is attached as Confidential Attachment C to this Advice Letter. Two versions of this report have been prepared: (i) a public version in which certain market sensitive information has been redacted; and (ii) a confidential version in which the full details of the negotiations are provided

G. EFFECTIVE DATE

The SDG&E-NRG CAB II RA Confirmation is conditioned on (1) the receipt of timely Commission approval of the SDG&E-NRG CAB II RA confirmation and with such approval not including any conditions or requirements that are not acceptable to either party, and (2) the receipt of timely Commission approval of the First Amendment with such approval not including any conditions or requirements that are not acceptable to either party. SDG&E is filing this Advice Letter at the request of the Commission and by approval, SDG&E believes that the option to extend is presented in this Advice Letter and as the transaction is short term, no additional PUC approval is needed.

Pursuant to the direction provided by Commission staff, SDG&E submits this Advice Letter filing as a Tier 2 Advice Letter, subject to Energy Division disposition. SDG&E respectfully requests a shortened review period for this filing and be approved no later than **October 30, 2013**. This date is critical to SDG&E's ability to cost-effectively meet known and anticipated grid reliability needs during 2014 and 2015.

H. PROTEST

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such grounds as financial and service impact. Due to the required submittal of its annual resource adequacy compliance demonstration for 2014, **SDG&E requests a shortened protest period, with protests due no later than October 25, 2013. SDG&E also propose a shortened protest reply period, with replies due on October 28,**

2013. Any protest must be made in writing and must be received 4 days from the date of filing of this Advice Letter. 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
Tariff Files, Room 4004
505 Van Ness Avenue
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above. The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to SDG&E at 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

I. NOTICE

A copy of this filing has been served on the utilities and interested parties shown on the attached list including parties in R.12-03-014 and R.11-10-023 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

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:	Contact Person: Joff Morales
☒ ELC ☐ GAS	Phone #: (858) 650-4098
☐ PLC ☐ HEAT ☐ WATER	E-mail: jmorales@semprautilities.com

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: 2528-E

Subject of AL: Request for Expiddited Approval of a Resource Adequacy Contract between SDG&E and NRG Power Marketing for the Cabrillo II Generating Units

Keywords (choose from CPUC listing): Resource Adequacy, Procurement

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: None

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

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

Resolution Required? ☐ Yes ☒ No Tier Designation: ☐ 1 ☒ 2 ☐ 3

Requested effective date: 10/30/2013 No. of tariff sheets: 0

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: None

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: None

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	**San Diego Gas & Electric**
Attention: Tariff Unit	**Attention: Megan Caulson**
505 Van Ness Ave.,	**8330 Century Park Ct, Room 32C**
San Francisco, CA 94102	**San Diego, CA 92123**
EDTariffUnit@cpuc.ca.gov	**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
Y. Schmidt
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
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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
R.12-03-014
R.11-10-023

San Diego Gas & Electric Advice Letter 2528-E
October 18, 2013

CONFIDENTIAL DECLARATION

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF E BRADFORD MANTZ REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, E Bradford Mantz, do declare as follows:

1. I am an Energy Contracts Originator for San Diego Gas & Electric Company ("SDG&E"). I have reviewed Advice Letter 2528-E, requesting approval of a Resource Adequacy Confirmation with NRG Power Marketing, LLC for the Cabrillo II Units (with attached confidential and public appendices), dated October 21, 2013 ("Advice Letter"). I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, as modified by D.07-05-032, and D.08-04-023, to demonstrate that the confidential information ("Protected Information") provided in the Advice Letter submitted concurrently herewith, falls within the scope of data protected pursuant to the IOU Matrix attached to D.06-06-066 (the "IOU Matrix").[1/] In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly or consists of information from which that

[1/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

information may be easily derived."[2]

3. I address below each of the following five features of Ordering Paragraph 2 in D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix to which the data corresponds,
- That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[3]

4. SDG&E's Protected Information: As directed by the Commission, SDG&E demonstrates in table form below that the instant confidentiality request satisfies the requirements of D.06-06-066:[4]

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
1. ***Confidential Attachment A -Substance of negotiations and pricing analysis*** 2. ***Confidential Attachment C -Independent Evaluator Report***	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	The data provided is non-public bid data from SDG&E's bilateral negotiation evaluation and contract terms
	Identify the Matrix category or categories to which the data corresponds	This information is protected under IOU Matrix category VIII B. and VII.B.
	Affirm that the IOU is complying with the limitations on	In accordance with the limitations on confidentiality set forth

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2/ *See, Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).

3/ D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

4/ *See, Administrative Law Judge's Ruling on San Diego Gas & Electric Company's Motions to File Data Under Seal,* issued April 30 in R.06-05-027, p. 7, Ordering Paragraph 3 ("In all future filings, SDG&E shall include with any request for confidentiality a table that lists the five D.06-06-066 Matrix requirements, and explains how each item of data meets the matrix").

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
	confidentiality specified in the Matrix for that type of data	in the IOU Matrix, SDG&E requests that this information be kept confidential until one year following the expiration of the confirmation.
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	SDG&E cannot summarize or aggregate the bid data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.
3. *Confidential Attachment B -Confirmation*	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	The data provided is non-public bid data from SDG&E's contract terms
	Identify the Matrix category or categories to which the data corresponds	This information is protected under IOU Matrix category VII.B.
	Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data	In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential until one year following the expiration of the confirmation.

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	SDG&E cannot summarize or aggregate the bid data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.

5. As an alternative basis for requesting confidential treatment, SDG&E submits that the Power Purchase Agreement enclosed in the Advice Letter is material, market sensitive, electric procurement-related information protected under §§ 454.5(g) and 583, as well as trade secret information protected under Govt. Code § 6254(k). Disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.[1]/

6. Public Utilities Code § 454.5(g) provides:

The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports,

[1]/ This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

or any combination, provided that the Office of Ratepayer Advocates and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

7. General Order 66-C protects "[r]eports, records and information requested or required by the Commission which, if revealed, would place the regulated company at an unfair business disadvantage."

8. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.[5/] Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

9. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.[6/]

10. If disclosed, the Protected Information could provide parties, with whom SDG&E is currently negotiating, insight into SDG&E's procurement needs, which would unfairly undermine SDG&E's negotiation position and could ultimately result in increased cost to ratepayers. In addition, if developers mistakenly perceive that SDG&E is not committed to assisting their projects, disclosure of the Protected Information could act as a disincentive to developers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

5/ *See also* Govt. Code § 6254.7(d).

6/ *See*, D.06-06-066, *mimeo*, pp. 26-28.

11. Developers' Protected Information: The Protected Information also constitutes confidential trade secret information of the developer listed therein. SDG&E is required pursuant to the terms of its Resource Adequacy Confirmation to protect non-public information. Some of the Protected Information in the Resource Adequacy Confirmation (including confidential attachments) and my supporting declaration, relates directly to commercial aspects of the respective transaction. Disclosure of this extremely sensitive information could harm the counterparty's ability to negotiate necessary contracts and/or could invite interference from competitors.

12. In accordance with its obligations under its Resource Adequacy Confirmation and pursuant to the relevant statutory provisions described herein, SDG&E hereby requests that the Protected Information be protected from public disclosure.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 21st day of October, 2013, at San Diego, California.

E Bradford Mantz
Energy Contracts Originator
Electric and Fuel Procurement
San Diego Gas & Electric

CONFIDENTIAL

Attachment A

All information contained in the following Confidential Appendices is considered Confidential except where printed in italics. Italicized information contained in the Confidential Appendices is also included in Part 1 of this Advice Letter.

CONFIDENTIAL

Attachment B

All information contained in the following Confidential Appendices is considered Confidential except where printed in italics. Italicized information contained in the Confidential Appendices is also included in Part 1 of this Advice Letter.

San Diego Gas & Electric Advice Letter 2528-E
October 21, 2013

Attachment C

Public Version of the Project Specific IE Report

San Diego Gas & Electric Company

Submission of Bilateral Transactions with NRG Power Marketing LLC for the Encina and Cabrillo II Units

Report of the

Independent Evaluator

October 18, 2013

Prepared by

Merrimack Energy Group, Inc.

Merrimack

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Energy

Table of Contents

I. Introduction

A. Overview

On October 11, 2013 San Diego Gas & Electric Company ("SDG&E") submitted a Tier 2 Advice Letter to the California Public Utilities Commission ("CPUC") seeking approval of Long Form Confirmations for Resource Adequacy Capacity Product ("Confirm") for CAISO Resources with NRG Power Marketing LLC ("NRG") for 965 MW of Resource Adequacy ("RA") from the Encina Power Station ("Encina") and for 188 MW of RA from the Cabrillo II ("Cab II") Units for a term of one year beginning on January 1, 2014. [1]SDG&E also holds an option to extend the agreements for an additional year beginning on January 1, 2015. The contracts are designed to meet a portion of SDG&E's Local Capacity Requirements in the San Diego Area. Under the Agreements, SDG&E shall receive and purchase the RA Attributes and Local RA Attributes from the Units. The contract is for Firm RA Product.

SDG&E is submitting these contracts for fast-track Commission approval using a Tier 2 advice letter.

Pursuant to regulatory requirements of the CPUC, SDG&E retained Merrimack Energy Group, Inc. ("Merrimack Energy") as the Independent Evaluator ("IE") for these bilateral contract filings.

B. Regulatory Requirements for the IE

The requirements for participation by an IE in utility solicitations are outlined in Decisions ("D").04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28), D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8) of the CPUC, D.09-06-050 and D.10-07-042.

The role of the IEs in California IOU procurement processes has evolved over the past ten years. In D.04-12-048 (December 16, 2004), the CPUC required the use of an IE by investor-owned utilities (IOUs) in resource solicitations where there is an affiliated bidder or bidders, or where the utility proposed to build a project or where a bidder proposed to sell a project or build a project under a turnkey contract that would ultimately be owned by a utility. The CPUC generally endorsed the guidelines issued by the Federal Energy Regulatory Commission ("FERC") for independent evaluation where an affiliate of the purchaser is a bidder in a competitive solicitation, but stated that the role of the IE would not be to make binding decisions on behalf of the utilities or administer the entire process.[2] Instead, the IE would be consulted by the IOU, along with the Procurement Review Group ("PRG") on the design, administration, and evaluation aspects of the

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[redacted]

[2] Decision 04-12-048 at 129-37. The FERC guidelines are set forth in Ameren Energy Generating Company, 108 FERC ¶ 61,081 (June 29, 2004).

Request for Proposals ("RFP"). The Decision identifies the technical expertise and experience of the IE with regard to industry contracts, quantitative evaluation methodologies, power market derivatives, and other aspects of power project development. From a process standpoint, the IOU could contract directly with the IE, in consultation with its PRG, but the IE would coordinate with the Energy Division.

In D.06-05-039 (May 25, 2006), the CPUC required each IOU to employ an IE regarding all RFPs issued pursuant to the RPS, regardless of whether there are any utility-owned or affiliate-owned projects under consideration. This was extended to any long-term contract for new generation in D.06-07-029 (July 21, 2006). In addition, the CPUC directed the IE for each RFP to provide separate reports (a preliminary report with the shortlist and final reports with IOU advice letters to approve contracts) on the entire bid, solicitation, evaluation and selection process, with the reports submitted to the utility, PRG, and CPUC and made available to the public (subject to confidential treatment of protected information). The IE would also make periodic presentations regarding its findings to the utility and the utility's PRG consistent with preserving the independence of the IE by ensuring free and unfettered communication between the IE and the CPUC's Energy Division, and an open, fair, and transparent process that the PRG could confirm.

In 2007, the use of an IE was required for any competitive solicitation seeking products for a term of more than three months in D.07-12-052 (December 21, 2007). Also, the process for retaining IEs was modified substantially, with IOUs developing a pool of qualified IEs subject to feedback and any recommendations from the IOU's PRG and the Energy Division, an internal review process for IE candidates, and final approval of IEs by the Energy Division.

In 2008, in D.08-11-008, the CPUC changed the minimum term requirements from three months to two years, and reiterated that an IE must be utilized whenever an affiliate or utility bidder participates in the RFO, regardless of contract duration.

In D.09-06-050 issued on June 18, 2009 in Rulemaking 08-08-009, Order Instituting Rulemaking to Continue Implementation and Administration of California Renewable Portfolio Standard Program, the CPUC required that bilateral contracts should be reviewed according to the same processes and standards as contracts that come through a solicitation. This includes review by the utility's PRG and its IE, including a report filed by the IE.

In D.10-07-042 issued on July 29, 2010, the Commission reaffirmed the role of the IE and required the Energy Division to revise the IE Template to ensure that the IEs focus on their core responsibility of evaluating whether an IOU conducted a well-designed, fair, and transparent RFO for the purpose of obtaining the lowest market prices for ratepayers, taking into account many factors (e.g. project viability, transmission access, etc.).

This IE report is submitted in conformance with the above requirements and is generally consistent with the requirements outlined in the CPUC's Short Form IE Report Template.

C. Issues Addressed in this Report

This report addresses Merrimack Energy's assessment regarding the following issues associated with the evaluation and execution of the Encina and Cab II Contracts.

1. Review the basis for the requirements for the Encina and Cab II contracts. This review includes a brief assessment of the 2014 Local Capacity Technical Analysis Final Report and Study Results completed by the California Independent System Operator ("CAISO") and issued on April 30, 2013. Merrimack Energy has also reviewed SDG&E's assessment of need and options as identified in Procurement Review Group ("PRG") presentations;

2. Review and assessment of the analysis and assessment undertaken by SDG&E as the basis for pursuing bilateral contract negotiations with NRG Power Marketing for the Encina and Cab II Units;

3. Overview of the contract negotiation process;

4. Summary and assessment of the RA Confirms with NRG for the Encina and Cab II units including a review and assessment of the fairness of the negotiations;

5. IE assessment of the reasonableness of the selection process;

6. Recommendations

II. Description of the Role of the IE throughout the Solicitation

In compliance with D.09-06-050 SDG&E requested that Merrimack Energy serve as IE for the Encina contract negotiation during the summer of 2013. Subsequently, Merrimack Energy was also asked to review the Cab II contract which is very similar to the Encina contract. [3]

Merrimack Energy's role during the contract negotiation process included the following:

- Reviewed contract turns and discussed the contract negotiation process and status with SDG&E;[4]

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[3] Merrimack Energy is also serving as IE for SDG&E's Resource Adequacy Request for Proposals ("RA RFP") seeking Bids and Offers for 2014 Resource Adequacy Resources. The RFP was issued on August 27, 2013 and proposals were received on September 10, 2013.

[4] The IE did not participate in specific contract negotiations with NRG. It is the understanding of the IE that NRG and SDG&E primarily exchanged turns of the Confirm with the majority of the changes applicable to project specific information as well as inclusion of provisions to effectuate the option to extend the agreements.

- Reviewed the sections of the presentations to the PRG associated with Local Capacity Requirements and options considered by SDG&E to meet capacity requirements in the San Diego Sub-Area and the San Diego-IV Area;

- Reviewed the Final Report and Study Results of the 2014 Local Capacity Technical Analysis, including the study results for the San Diego Area to assess the reasonableness of SDG&E's analysis and planning assumptions and inputs;

- Prepared the final IE Report for filing with Tier 2 Advice Letter

III. Background to Resource Decision - 2014 Local Capacity Requirement

On April 30, 2013 the California ISO issued its 2014 Local Capacity Technical ("LCT") Analysis Final Report and Study Results. The objective of the 2014 LCT Study is to identify specific areas within the CAISO Balancing Authority Area that have limited import capability and determine the minimum generation capacity (MW) necessary to mitigate the local reliability problems in those areas. The 2014 LCT Study results are provided to the CPUC for consideration in its 2014 Resource Adequacy requirements program. These results will also be used by the CAISO as "Local Capacity Requirements" or "LCR" (minimum quantity of local capacity necessary to meet LCR criteria) and for assisting in the allocation of costs of any CAISO procurement of capacity needed to achieve the Reliability Standards notwithstanding the resource adequacy procurement of Load Serving Entities ("LSE").

For the 2014 LCT Study, the CAISO presented the LCR results for the LA Basin and San Diego local areas based on three different scenarios for the availability of the SONGS units during 2014: (1) two SONGS are available; (2) one SONGS unit is available at 70% power and (3) SONGS is not available. Since the release of the LCT Study, the SONGS units have been shut down, resulting in scenario (3) representing the actual case.[5]

The study concluded that San Diego LCR needs have slightly increased due to load growth and significantly increased due to the absence of SONGS. The Table in the Executive Summary of the Report illustrates that for 2014 Local Capacity Requirements, the San Diego/Imperial Valley Area has a deficiency of 167 MW based on Category B and a 458 MW deficiency based on Category C. This compares to a maximum deficiency of 144 MW for 2013 based on Category C.[6]

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[5] SDG&E has shown that with the retirement of SONGS from service this puts more emphasis on requirements in the San Diego Sub Area and that from the early 2014 LCT Study drafts it became clear that the San Diego Area was to become the controlling LCA in the San Diego region.

[6] The study notes that no local area is "overall deficient". Resource deficiency values result from a few deficient sub-areas; and since there are no resources that can mitigate this deficiency the numbers are carried forward into the total area needs. Resource deficient sub-area implies that in order to comply with the criteria, at summer peak, load may be shed immediately after the first contingency.

The LCT Study sets forth different solution "options" with varying ranges of potential service reliability consistent with CAISO's Planning Standard. As the report indicates, the CAISO applies Option 2 (Category C) for its purpose of identifying necessary local capacity needs and the corresponding potential scope of its backstop authority.[7]

The LCT Study also presents detailed local capacity requirements study results by Local Area, including San Diego – Imperial Valley Area. The Study concludes that with SONGS not available, the CAISO recommends retaining the Kearny peakers, Miramar GTs and El Cajon CT generating facilities ("Cab II" units) for the San Diego Sub-Area until the most limiting contingency is mitigated.

SDG&E raised the issue of its 2014 RA capacity position to the PRG beginning in April at the April 19, 2013 PRG meeting. At the meeting, SDG&E presented several slides describing the results from the CAISO draft 2014 LCR study depicting SDG&E's local capacity position without SONGS. SDG&E noted that the San Diego Sub-Area would be short by 164 MW in 2014 without SONGS. The position also assumes that certain renewable resources come on line which SDG&E stated may be optimistic for 2014. SDG&E also presented slides which illustrated San Diego Sub-Area Resources vs LCR Need, which also demonstrated the shortfall in 2014. The analysis included Encina and Cab II resources as part of the supply portfolio. SDG&E also noted that if SDG&E does not execute a contract with Encina, the CAISO would likely subject Encina to the Competitive Procurement Mechanism ("CPM") at the CPM price for 2014 of $70.88/kW-year, which would result in customers paying more in total costs for the RA capacity. SDG&E indicated that it had been negotiating with NRG for all of Encina and Cab II capacity for 2014 at a price of [redacted].

At the May 17, 2013 PRG meeting, SDG&E provided an update to bilateral RA opportunities, including Encina and Cab II. At subsequent PRG meetings, SDG&E provided updates with regard to the status of the Encina and Cab II contract negotiations, including the extension of the land lease between NRG and SDG&E for the Cab II units.

At the July 19, 2013 PRG meeting, SDG&E provided a slide summarizing the NRG transactions. The Encina transaction was identified as a transaction for 2014 Resource Adequacy with an option to extend the agreement for 2015, while the Cab II transaction was identified as a contract for 2014 and 2015 RA. The contract price was identified as

[7] Option 2 is a service reliability level that reflects generation capacity that is needed to readjust the system to prepare for the loss of a second transmission element (N-1-1) using generation capacity after considering all reasonable and feasible operating solutions (including those involving customer load interruption) developed and approved by the CAISO, in conjunction with the PTOs. Under this option, there is no expected load interruption to end-use customers under normal or single contingency conditions as the CAISO operators prepare for the second contingency. However, the customer load may be interrupted in the event the second contingency occurs. Option 2 is the local capacity level that the CAISO requires to reliably operate the grid per NERC, WECC and CAISO standards. The CAISO recommends adoption of this Option to guide resource adequacy procurement.

[redacted]r. SDG&E reported that the contracts were currently under negotiation with NRG.[8]

SDG&E continued to provide updates at the August and September PRG meetings. Discussions during the April to September period focused on potential solutions to the challenges associated with 2014 and 2015 resource adequacy in the San Diego Local Capacity Area.

Based on the evidence provided by SDG&E as well as the conclusions from the CAISO's 2014 Local Capacity Technical Analysis Final Report and Study Results, the IE concludes that SDG&E needs the capacity amounts provided through these agreements with NRG for the Encina and Cab II units to meet its Local Capacity Requirements and maintain system reliability. Based on available information, it is reasonable to expect that the units would be subject to CPM treatment should SDG&E and NRG not reach agreement for the units.

IV. Economic Analysis Supporting Decision

The annual RA price of [redacted]r was negotiated as a component of the bilateral agreements with NRG for Encina and Cab II units. To assess the reasonableness of the negotiated price, the IE has attempted to compare the price with comparable competitive options available in the market. Prior to completion of these agreements, SDG&E issued an RFP for Resource Adequacy ("RA") capacity for 2014 on August 27, 2013 and Offers were received on September 10, 2013. Offers received for Local RA Capacity from the solicitation could serve as one point of reference. Alternatively, the CAISO could subject Encina and/or Cabrillo II to CPM treatment to maintain system reliability. The CPM price for 2014 and 2015 could also provide a point of reference as an alternative cost to customers.

With regards to the results of the RA RFP, [redacted]

Also, due to the uncertainty with regard to approval of the lease agreement for Cab II in time for the unit to qualify for 2014 compliance year-ahead RA capacity requirements, [redacted]

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[8] [redacted]

[redacted]

[redacted]

The other option is that if SDG&E does not contract with Encina or Cab II, the CAISO could potentially CPM Encina and/or Cab II at the existing CPM price. As a result, there is uncertainty with regard to the position the CAISO is likely to take in implementing CPM status for various units, such as Encina or Cab II which would appear to be crucial to maintain system reliability. SDG&E believes there remains a high probability that the CAISO will exercise its backstop procurement authority to procure from the Cab II units, at a significantly increased cost to San Diego ratepayers who will, in effect, be double paying for RA.

The CAISO tariff, for example, identifies the cases in which the CAISO will have the authority to designate eligible capacity to provide CPM capacity services under the CPM. These include:

- Insufficient Local Capacity Area Resources in an annual or monthly Resource Adequacy Plan;
- Collective deficiency in Local Capacity Area Resources;
- Insufficient Resource Adequacy Resources in an LSE's annual or monthly Resource Adequacy Plan;
- A CPM significant event;
- A reliability or operational need for an exceptional dispatch CPM;
- Capacity at risk of retirement within the current RA Compliance Year that will be needed for reliability by the end of the calendar year following the current RA Compliance Year.

It would appear based on positions of the CAISO that CPM status for Encina and/or Cab II would be triggered under several of cases identified above.

The expected CPM price for 2014 is $70.88/kW-year, significantly above the capacity price in the contract with Encina and Cab II. As a result, the pricing under the Encina and Cab II contracts appear reasonable and competitive and do not appear to reflect any market power on the part of NRG.

V. Outreach to Bidders

SDG&E negotiated the agreement as a bilateral contract rather than selecting the project through a solicitation process. However, SDG&E did conduct its RA RFP process for 2014 RA capacity during the timeframe in which SDG&E was negotiating the RA contracts with NRG for Encina and Cab II.

VI. Contract Negotiations Process

As noted, during the contract negotiation process Merrimack Energy had the opportunity to review mark-ups of the contract between SDG&E and NRG. The contract was based on a revised RA Confirm and was similar to the RA Confirm used in the RA RFP.

The Contract Quantities underlying the Contract are based on unit contract capacity for specific units specified in the Confirm. These quantities are listed in Exhibit 1.

Exhibit 1: Contract Quantity by Unit

Unit	Unit Contract Capacity (MW)
Encina Contract Units	
Encina Unit 1	106
Encina Unit 2	104
Encina Unit 3	110
Encina Unit 4	300
Encina Unit 5	330
Encina Gas Turbine Unit 1	14.5
Total Capacity	964.5
Cabrillo II Contract Units	
El Cajon GT	16
Kearny GT Unit 1	16
Kearny GT2 Aggregate	59
Kearny GT3 Aggregate	61
Miramar CT Aggregate	36
Total Capacity	188

This summary reviews the principal terms and conditions of the executed Long Form Confirmations ("Confirm") evidencing the Resource Adequacy ("RA") Capacity Product Purchase and Sale Agreement (the "Transaction") between San Diego Gas & Electric Company ("Buyer") and NRG Power Marketing LLC ("Seller"), dated October 11, 2013. In addition to the Confirmations, the Transactions are governed by the terms and conditions of the Edison Electric Institute Master Power Purchase and Sale Agreement dated 4/25/00 (the "EEI Agreement"). The EEI Agreement and the Confirmations collectively comprise the entire "Agreement" of Buyer and Seller (the "Parties"). To the extent that the Confirmations are inconsistent with any provision of the EEI Agreement, the Confirmations govern the rights and obligations of the Parties.

Exhibit 2 provides a summary of the key contract provisions for the Encina and Cab II contracts negotiated by SDG&E with NRG. While the two contracts are essentially the same, the provisions of each contract are listed in Exhibit 2 to ensure a complete assessment for each contract option is presented.

Exhibit 2: Summary of Contract Provisions

Contract Provision	Encina Contract	Cabrillo II Contract
Section 3.1: Product	[redacted].	[redacted].
Section 3.4: Delivery Period	[redacted]	[redacted]

SB_GT&S_0513875

	[redacted]	[redacted]
Section 3.5 Contract Quantity	[redacted]	[redacted]
Section 4.1: Pricing	[redacted]	[redacted]
Section 2.2: Conditions Precedent	[redacted]	[redacted]

SB_GT&S_0513876

		[redacted]
Section 3.2: Seller's Firm Quantity	[redacted]	[redacted]

SB_GT&S_0513877

	[redacted]	[redacted].
3.5(b): Seller Contract Quantity Rights	[redacted].	
Section 9: Collateral Requirements	[redacted].	[redacted]
Section 5: Seller's Failure to Deliver Contract Quantity Section 5.1: Seller's Duty to Provide Replacement Capacity	[redacted]	[redacted]

[10] Appendix B to the Encina and Cab II contracts contain a planned outage schedule for each unit in each Agreement. In general, planned outages are planned to occur during the January to May timeframe for Encina and the January to April timeframe for Cab II.

	[redacted]	[redacted]
Section 5.2: Damages for Failure to Provide Replacement Capacity	[redacted]	[redacted]

	[redacted]	[redacted]

The IE has identified two issues with regard to the contract provisions. First, the Capacity Attributes acquired through these agreements do not include Flexible RA Attributes. While flexible capacity in not a requirement in 2014 and therefore does not affect the firm capacity acquired during the contract term, a decision whether to exercise the option to extend the agreements for an additional year beginning on January 1, 2015 on the part of SDG&E will have to take into account the implications of flexible capacity requirements for 2015 as well as the projected prices for Flexible and Generic RA Capacity prior to making a decision whether or not to exercise the option during the notice period of June 15, 2014 through July 15, 2014. Under the option, SDG&E will essentially acquire Generic RA for [redacted]

The second issue is the right of the Seller to reduce the Contract Quantity for the option year of 2015. The Seller will have the right to elect to retire any unit no later than June 15, 2014. This notice period provides SDG&E with adequate time to decide whether to exercise the option for 2015 or let the option expire if the remaining terms are not favorable. In any case, SDG&E controls the option and can assess the implications of the provision during the option period of June 15, 2014 through July 15, 2014.

VII. Safeguards to Compare Affiliate Bids or Utility Owned Generation Options

This section is not applicable since this is a third-party non-affiliate transaction.

VIII. Recommendation For Contract Approval

SDG&E is seeking approval of Long Form Confirmations for Resource Adequacy Capacity Product for CAISO Resources with NRG Power Marketing LLC for 965 MW of Resource Adequacy from the Encina Power Station and for 188 MW of RA from the Cab II units for a one year term for 2014 compliance year to meet a portion of SDG&E's Local Capacity Requirements. SDG&E also holds an option to extend the agreements for an additional year beginning on January 1, 2015. Based on evidence provided by SDG&E as well as the conclusions from the CAISO's 2014 Local Capacity Technical Analysis Final Report and Study Results, it is reasonable to conclude that SDG&E needs the RA capacity provided through these agreements with NRG for the Encina and Cab II units to meet its Local Capacity Requirements and maintain system reliability. Based on available information, it is reasonable to expect that the units would be subject to CPM treatment should SDG&E and NRG not reach agreement for the units. The pricing of the RA capacity in the Confirms with NRG for Encina and Cab II of [redacted] f annual local San Diego Area RA bid into SDG&E's recent RFP for 2014 RA. [redacted]. Due to the uncertainty associated with approval of the land lease between SDG&E and NRG for the Cab II units in a timely manner, SDG&E approached [redacted] The pricing of RA in the Encina and Cab II contracts is competitive with market options and would certainly result in much lower cost than the alternative of a CAISO CPM for these units. Finally, the contracts negotiated between SDG&E and NRG are reasonable and fair. While the IE was concerned that the capacity attributes acquired through these Agreements do not include flexible RA attributes, essentially the contracts are firm for 2014, with an option for 2015 when a flexible capacity requirement is expected. While flexible capacity is not a requirement in 2014 and therefore does not affect the firm capacity acquired during the contract term, a decision whether to exercise the option on the part of SDG&E will have to take into account the implication of flexible capacity requirements for 2015 as well as the projected prices for flexible and generic RA capacity. As a result of this assessment, the IE views the decisions of SDG&E to execute RA Confirms with NRG for the Encina and Cab II units to be reasonable and effective decisions to meet Local RA Capacity requirements for 2014. SDG&E will also have adequate time to assess the market and determine the implications of whether or not to exercise the options for 2015. The IE therefore recommends approval of these contracts.