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October 28, 2013

ADVICE LETTER 2527-E-A
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: PARTIAL SUPPLEMENTAL OF ADVICE LETTER 2527-E; REQUEST FOR EXPEDITED APPROVAL OF RESOURCE ADEQUACY CONTRACT BETWEEN SAN DIEGO GAS AND ELECTRIC (SDG&E) AND NRG POWER MARKETING FOR THE ENCINA POWER STATION

PURPOSE

San Diego Gas and Electric Company ("SDG&E") hereby requests that the California Public Utilities Commission ("Commission" or "CPUC") approve 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 Encina Power Station ("Encina").

DISCUSSION

On October 21, 2013, SDG&E submitted a tier 2 Advice Letter ("AL") 2527-E for approval to the Commission with a requested effective date of October 30, 2013 and a shortened protest period. This was in order to meet the Commission's filing date for SDG&E's annual Resource Adequacy plan. Upon feedback received from the Commission, SDG&E is modifying the Advice Letter to withdraw the request for the shortened review period as noted in this partial supplemental filing.

Please find enclosed the original and a copy of pages 6 and 7 whereby there are modifications to sections Sections G and H to read as follows:

G. EFFECTIVE DATE

SDG&E believes this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. SDG&E respectfully requests that this filing be approved effective November 27, 2013, 30 days from the date filed.

H. PROTEST

Anyone may protest this AL 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 be received by November 18, 2013 which is 21 days of the date this AL 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:

An asterisk has been reflected in the upper right corner of page 6 and 7.

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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

(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: Joff Morales

Phone #: (858) 650-4098

E-mail: jmorales@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) #: 2527-E-A

Subject of AL: Partial Supplemental of Advice Letter 2527-E: Request for Expedited Approval of Resource Adequacy Contract between SDG&E and NRG Power Marketing for the Encina Power Station

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 AL¹: N/A

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

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 11/27/2013

Number 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 proposed¹: 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
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
EDTariffUnit@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

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

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

R.12-03-014

R.11-10-023

The unique situation faced by SDG&E in 2014 and 2015 may be eliminated if 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

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 Encina 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 Encina'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 11, 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

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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

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