



Debra L. Reed
President & CEO

San Diego Gas and Electric
8330 Century Park Court
San Diego, CA 92123-1530

Tel: 858.650.6110
Fax: 858.650.6106
DReed@SempraUtilities.com

April 23, 2008

Mr. James D. Boyd—Vice Chair
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

DOCKET	
07-SPPE-2	
DATE	<u>APR 23 2008</u>
RECD.	<u>APR 25 2008</u>

Subject: Letter of Support for Orange Grove Project (Docket No. 07-SPPE-2)

Dear Commissioner Boyd:

San Diego Gas & Electric Company (SDG&E) submits this letter of support for the Orange Grove Energy L.P. (Orange Grove) project currently under consideration in Docket No. 07-SPPE-2. Orange Grove Energy L.P. is the applicant.

I am writing to you to express my great concern with delays that may keep the Orange Grove project from coming on line as soon as possible and the impact such delays will have on both reliability and costs for SDG&E customers. Project delays have resulted from a number of causes previously identified in this proceeding. I am not writing because of concern regarding the pace of the Commission's review, but to inform you of the current importance of this project to SDG&E customers. A CEC decision by January 1, 2009 coupled with timely local permitting, if needed, could allow the plant to be online during the summer of 2009, contributing to SDG&E system reliability and significantly lowering future Reliability Must Run (RMR) costs to SDG&E customers. A CEC decision by March 1, 2009 could allow the plant to be online by September 2009 and still benefit our customers through lower RMR costs.

SDG&E has actively monitored the procedural review currently under your consideration as part of Orange Grove's Small Power Plant Exemption (SPPE) application and has worked cooperatively with Orange Grove to bring this facility online. SDG&E offers its support for the project and provides information regarding our desire for an expedient review and approval of the project. I am requesting that you help ensure this project proceeds on a schedule that will allow our customers to reap the benefits of having this valuable resource in service as soon as possible.

The Orange Grove project is an important component of SDG&E's efforts to provide reliable service to our 3.4 million electric consumers. Orange Grove responded to a Request for Offers SDG&E issued in October 2006 for up to 250MW of new, in-basin peaker generating units. SDG&E initiated the competitive bid process in part in response to the record-high electricity use during the 2006 summer's heat wave. As the demand for electricity in the region continues to grow, SDG&E's role is to plan ahead to procure the resources to meet our customers' energy needs. The Orange Grove contract, executed on

PROOF OF SERVICE (REVISED 10/16/07) FILED WITH
ORIGINAL MAILED FROM SACRAMENTO ON 4/25/08

AE

May 9, 2007 and approved by the California Public Utilities Commission (CPUC) on September 6, 2007, will help us in our task of ensuring future energy reliability in the San Diego region as part of our long-term procurement plan. Orange Grove's technology is efficient, cleaner burning, and will meet our goal of delivering energy in an environmentally sensitive manner.

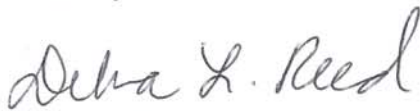
Since Orange Grove submitted their SPPE application on July 19, 2007 the concern over improved system reliability continues to escalate. On October 29, 2007 the California Independent System Operator (CAISO) wrote a letter of support to the CEC (attached) for the expedited approval of peaking units in Southern California. CAISO urged quick approval of these units to maintain available electric supply and grid reliability. Our contract called for the peaking units to be online by summer of 2008. Now it appears that without Commission action to expedite the procedural schedule, this project's ability to be online in 2009 may also be in jeopardy.

SDG&E wants to continue limiting costs to our electric customers. On January 28, 2008 SDG&E was copied on a letter from CAISO to the Mayor of Chula Vista (attached) stating that should certain events occur, including the completion of new peaking generation resources in SDG&E's service territory to help meet local area reliability requirements the RMR designation at the South Bay Power Plant could be removed as soon as 2010. This is an important consideration for minimizing the cost of electric service to SDG&E's customers. By meeting CAISO local area reliability requirements SDG&E could potentially avoid tens of millions of dollars in RMR costs. However, to reap those potential benefits, the Orange Grove project must be in service during the third quarter of 2009.

Orange Grove cannot begin construction until the necessary permits have been received. SDG&E believes that the Orange Grove project remains viable and is needed to maintain system reliability and reduce costs to SDG&E's customers. For these reasons, SDG&E respectfully requests your Committee's assistance to enable a decision by January 1, 2009, but no later than March 1, 2009, in accordance with whatever procedural process is most appropriate to accomplish this result. I would also request an estimated schedule for decision on the project under the most appropriate process assuming that all information necessary to review the application is received by the Commission by July, 2008.

Thank you for your assistance.

Sincerely,



Debra L. Reed

Attachments: October 29, 2007 Letter from CAISO to CEC
January 28, 2008 Letter from CAISO to City of Chula Vista

cc: Commissioner Arthur H. Rosenfeld, Ph.D.
Kenneth Celli, Hearing Officer
Melissa Jones, Executive Director



California ISO

Your Link to Power

California Independent System Operator Corporation

Jim Detmers
Vice President, Operations

October 29, 2007

Mr. James Boyd, Vice Chairman
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

Dear Vice Chairman Boyd:

The California Independent System Operator Corporation (CAISO) weathered record electric loads reached during the Labor Day weekend last month with the help of energy conservation and extraordinary availability from California generators. The loads Southern California experienced were well in excess of anything previously anticipated.

Looking forward to 2008, the CAISO anticipates an even greater challenge to meet the growing peak demand in the Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E) service areas. This challenge will increase if the low hydro conditions continue. Additional power supplies, especially peaking units that increase available supply at peak hours, are critically needed to meet the growing demand.

I understand that your staff is currently reviewing permitting for peaking projects that are being proposed throughout Southern California. The CAISO views these peaker projects as critical to maintaining available supply and grid reliability. I am requesting your support and I urge you to expedite the approval of these peaking resources to ensure they are available for the summer of 2008. Since other permitting agencies rely on the CEC's decisions to complete their review, there will not be sufficient time for these other agencies to approve some of these projects in time to meet a summer 2008 service date, particularly if these agencies decline to process applications for necessary approvals in parallel with the CEC SPPE process.

Again, thank you for your ongoing support. I look forward to our continued, close collaboration in maintaining electric service reliability in Southern California.

Sincerely,

Jim Detmers
Vice President, Operations

CC: Mr. Arthur Rosenfeld—Commissioner, California Energy Commission
Ms. Felicia Miller – CEC Compliance Project Manager
Mr. Bill Horn—County of San Diego Supervisor District 5
Mr. Raymond Fernandez—Director County of San Diego APCD
Mr. Eric Gibson—Director San Diego County DPLU
Mr. Pedro Orso-Delgado—Director Caltrans District 11

Yakout Mansour
President & Chief Executive Officer

January 28, 2008

Honorable Cheryl Cox
Mayor
City of Chula Vista
276 Fourth Avenue, MS A-101
Chula Vista, CA 91910

Dear Mayor Cox:

Thank you for your letter of January 7, 2008, regarding the future of the South Bay Power Plant ("SBPP"). The letter asks the California Independent System Operator (ISO) to respond to the following questions:

- 1) What is the function of the SBPP as it relates to reliability and transmission?
- 2) What needs to occur in order to reduce the reliability designation on the SBPP enough to allow the lattice towers and transmission lines to be removed by December 2008?
- 3) What needs to occur in order to eliminate the Reliability Must Run (RMR) designation on SBPP so that it can be decommissioned and removed by February 2011?

I understand that the City of Chula Vista is in negotiations with various parties regarding the future use of the bay front that would require removal of the SBPP. Thus, the timing of the possible retirement of the SBPP is an important factor in these negotiations. As you know, the generating units at the SBPP are currently designated by the CAISO as Reliability Must-Run (RMR) units. This designation cannot be removed until local reliability requirements can be met without the SBPP.

The CAISO is a non profit public benefit corporation chartered under the laws of the State of California for the purpose of operating and maintaining the reliability of the statewide electric transmission grid. The reliability of the transmission grid is dependent on a number of specific power plants located in specific areas. SBPP is, in fact, critical to maintaining the reliability of the San Diego area. In order to remove the RMR designation from SBPP, the California ISO must find that reliability requirements can be met without SBPP units.

In May 2007, San Diego Gas & Electric ("SDG&E") entered into an agreement with the operator of the SBPP to fill SDG&E's Local Capacity Area Resource requirement needs as mandated by the California Public Utility Commission (CPUC). This agreement runs through December 31, 2009 and

Mayor Cox
January 28, 2008
Page Two

will secure all of the 704-megawatt capacity from the SBPP to the region. Although this agreement will provide SDG&E more flexibility over the operation of the facility and will ensure that the output from the plant is available to the CAISO to support the local area needs, the CAISO concluded that continued RMR designation was required in order to ensure availability of the resource to meet local reliability needs.

The CAISO is aware of the widespread interest that exists to see SBPP decommissioned and has been in discussions with SDG&E about the requirements necessary to remove the SBPP'S RMR designation. In order to remove the RMR designation, there are a number of modifications to the transmission and/or generation infrastructure that must happen first to ensure that local area reliability is maintained.

Three projects are underway to meet this local area reliability requirement. First, with respect to the need for new resources, construction of the Otay Mesa Energy Center is currently underway. Second, SDG&E has filed an application with the CPUC to construct the Sunrise Powerlink Transmission Project that will enable SDG&E to substantially improve system reliability and provide access to renewable resources. Third, SDG&E has recently executed contracts with two developers for new peaking generation resources in its service territory.

From the CAISO's perspective, at least two out of three of these major modifications must occur before the RMR designation at the SBPP can be removed. In addition to these modifications, the new Silvergate 230 kV substation and its related upgrades (scheduled for December 2008) as well as the new Baja Norte natural gas interconnection (scheduled for January 2008) must both be in service.

Given that the Otay Mesa Energy Center is under construction, the future addition of Sunrise Powerlink would satisfy the requirements for removal of RMR designation at SBPP. If Sunrise is delayed or not constructed, additional new peaking generation will be required within SDG&E's service territory. The amount of new capacity would be based on the CAISO's existing grid reliability standards, which are analyzed each year. Based on the current status of the previously noted projects, the RMR designation at the SBPP could be removed as early as 2010. However, delays in construction of the Sunrise Powerlink, lack of sufficient new peaking capacity, or delays in the in-service dates in implementing the new Baja Norte natural gas interconnection, would clearly delay this date. Once the RMR designation is removed, there should be no CAISO-related impediment to retiring and decommissioning SBPP.

Mayor Cox
January 28, 2008
Page Three

I trust that this sheds some light on the California ISO's role in determining the generation and transmission infrastructure necessary to ensure grid reliability and its analysis of local reliability needs related to the SBPP. If you have additional questions, please call Ali Chowdhury, Director of Regional Transmission South, at (916) 608-1113.

Sincerely,



Yakout Mansour
President & CEO

cc: Ali Chowdhury (CAISO)
Mike Niggli (SDG&E)
Steve Castaneda (City of Chula Vista)
David Garcia (City of Chula Vista)
Scott Tulloch (City of Chula Vista)
Michael Meacham (Conservation & Environmental Services)

BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION OF THE
STATE OF CALIFORNIA

**ORANGE GROVE POWER
PLANT REPLACEMENT PROJECT
SMALL POWER PLANT EXEMPTION**

**Docket No. 07-SPPE -2
PROOF OF SERVICE
Revised (10/16/07)**

INSTRUCTIONS: All parties shall either (1) send an original signed document plus 12 copies or (2) mail one original signed copy AND e-mail the document to the address for the Docket as shown below, AND (3) all parties shall also send a printed or electronic copy of the document, which includes a proof of service declaration to each of the individuals on the proof of service list shown below:

CALIFORNIA ENERGY COMMISSION
Attn: Docket No. 07-SPPE-2
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512
docket@energy.state.ca.us

APPLICANT

Stephen Thome
J-Power USA Development
1900 East Golf Road, Suite 1030
Schaumburg, IL 60173
sthome@jpowerusa.com

Mike Dubois
J-Power USA Development
1900 East Golf Road, Suite 1030
Schaumburg, IL 60173
mdubois@jpowerusa.com

APPLICANT CONSULTANT

Uday Singh, Vice President
TRC
21 Technology Drive
Irvine, CA 92619
usingh@trcsolutions.com

Joe Stenger, PG. REA
TRC
2666 Rodman Drive
Los Osos CA 93402
jstenger@trcsolutions.com

Charles, Diep, PE, CPP
TRC
21 Technology Drive
Irvine, CA 92619
cdiep@trcsolutions.com
cdiep@Roadrunner.com

COUNSEL FOR APPLICANT

Jane Luckhardt
Downey Brand, LLP
555 Capitol Mall, 10th Floor
Sacramento, CA 95814
jluckhardt@downeybrand.com

Wayne Song
Morgan, Lewis & Bockius LLP
300 S Grand Avenue, 22nd Floor
Los Angeles, CA 90071
wsong@morganlewis.com

INTERESTED AGENCIES

Larry Tobias
Ca. Independent System Operator
151 Blue Ravine Road
Folsom, CA 95630
LTobias@caiso.com

Electricity Oversight Board
770 L Street, Suite 1250
Sacramento, CA 95814
esaltmarsh@eob.ca.gov

Steve Taylor
San Diego Gas & Electric
8306 Century Park Court
San Diego, CA 92123
srtaylor@semprautilities.com

INTERVENORS

Gloria D. Smith
Marc D. Joseph
Adams Broadwell Joseph & Cardozo
601 Gateway Boulevard, Suite 1000
South San Francisco, CA 94080
gsmith@adamsbroadwell.com

* Anthony J. Arand
219 Rancho Bonito
Fallbrook, CA 92028
(760) 728-7388 Voice
tony@envirepel.com

ENERGY COMMISSION

JAMES D. BOYD
Presiding Member
jboyd@energy.state.ca.us

ARTHUR ROSENFELD
Associate Member
pflint@energy.state.ca.us

Kenneth Celli
Hearing Officer
kcelli@energy.state.ca.us

Felicia Miller
Project Manager
fmiller@energy.state.ca.us

Jared Babula
Staff Counsel
jbabula@energy.state.ca.us

Public Adviser's Office
pao@energy.state.ca.us

DECLARATION OF SERVICE

I, April Esau, declare that on April 25, 2008 I deposited copies of the attached Letter of Support for Orange Grove Project (Docket No. 07-SPPE-2) in the United States mail at Sacramento, California with first-class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above.

OR

Transmission via electronic mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210. All electronic copies were sent to all those identified on the Proof of Service list above.

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

Original Signature in Dockets
April Esau