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January 29, 2007

California Energy Commission
 Re: Docket No. 02-REN-1038
 and Docket No. 03-RPS-1078
 1516 Ninth Street, MS 25
 Sacramento, CA 95814-5504

DOCKET	
02-REN-1038/ 03-RPS-1078	
DATE	JAN 29 2007
RECD.	JAN 30 2007

RE: Comments of San Diego Gas & Electric Company (“SDG&E”) on Guideline Revisions for the Renewable Energy Program and RPS Implementation

Dear Commissioners:

San Diego Gas & Electric Company appreciates this opportunity to offer its comments concerning the draft revised version of the *Renewables Portfolio Standard Eligibility Guidebook* (the “Draft RPS Eligibility Guidebook”) prepared by the California Energy Commission (the “Commission”). As is explained in more detail below, SDG&E urges the Commission to further revise the Draft Eligibility Guidebook to provide that biogas that is deliverable to California be designated as RPS-eligible fuel.

The Draft RPS Eligibility Guidebook currently provides that in order to qualify as an RPS-eligible fuel, biogas must satisfy certain specified criteria, including the requirement that it “be injected at a point *within* the California border.”^{1/} SDG&E is currently contemplating a transaction similar to that described in the Draft RPS Eligibility Guidebook, except that it would receive pipeline quality biogas from a supplier located outside of California rather than from within the state. The supplier would bio-digest cattle manure and inject the resulting gas into interstate pipelines for transportation to the California border. SDG&E would then burn an equivalent amount of gas at its Palomar Energy Center facility (“Palomar”). The related gas supply contract would take into account customary commodity pricing and transportation cost provisions, as well as an adder that reflects the renewable energy and greenhouse gas mitigation benefits attendant to the bio-digestion process.

SDG&E believes this transaction will serve the public interest. Specifically, it offers the following benefits:

- Fuel is produced from a renewable source.
- Bio-digesting manure reduces the level of greenhouse gases.
- Combusting bio-digested gas in Palomar, a highly efficient facility, rather than in a conventional biogas generator with a less efficient heat rate will result in fuel cost benefits to the ratepayer.

^{1/} Renewables Portfolio Standard Eligibility Guidebook, Second Edition, Staff Draft December 2006, CEC-300-2006-007ED2SD, p. 25 (emphasis added).

- California residents will enjoy the benefits of renewable generation in the very near future as opposed to renewable generation from RPS projects that are scheduled for completion closer to 2010 and that are subject to transmission and financing contingencies.

Among other things, the transaction will be contingent upon confirmation that SDG&E would receive all RPS attributes related to the calculated amount of electricity generated at Palomar from the combustion of the volume of bio-digested gas, taking into account Palomar's heat rate. Accordingly, SDG&E requests that the CEC eliminate the "within California" restriction and allow biogas that is deliverable to California to be deemed RPS-eligible. This modification reflects the practical reality of gas production and delivery, as Silicon Valley Power noted in its comments regarding the Draft RPS Eligibility Guidebook:

From a natural gas scheduling and verification perspective, the biogas producer is analogous to a natural gas producer. It would be inconceivable to limit natural gas use in California to natural gas produced in California. Rather, most of the natural gas that is used in California is natural gas that is physically deliverable to California.^{2/}

It is also important to note that limiting RPS eligibility to biogas injected at a point within the California border may have the unintended effect of reducing or even eliminating biogas as a fuel source. Bio-digested gas producers have indicated that, given the pace of commercial and residential development, California dairies and feed-lot operators located within California have been reluctant to sign 20-25 year long-term manure supply agreements, as these suppliers wish to preserve their rights to sell their land to real estate developers in the future. This has been the case, for example, in Imperial County. Thus, the potential for Californians to benefit from bio-digested gas will be enhanced if out-of-state sources are deemed eligible by the Commission.

Eliminating the unnecessary "within California" restriction on RPS-eligibility of biogas is consistent with the direction provided by the California Legislature. Indeed, in considering the RPS-eligibility of electric generation, the California Legislature has expressly deemed out-of-state electric generation to be RPS-eligible. Senate Bill 107 (*Chapter 464-2006*) provides that an electric generation facility with its first point of interconnection to the transmission network located outside the state is RPS-eligible where, *inter alia*, it is connected to the Western Electricity Coordinating Council ("WECC") service territory and electricity produced by the facility is delivered to an in-state location.^{3/} To the extent the California Legislature has concluded that the public interest is served by treating out-of-state electric generation as RPS-eligible, there exists no basis for an opposite conclusion here.

^{2/} Letter from Michael Pretto, City of Santa Clara - Silicon Valley Power, to Heather Raitt, California Energy Commission, dated January 9, 2007, p. 1 (emphasis in original).

^{3/} Senate Bill (SB) 107, § 25741(b)(2)(B) (Stats. 2006, Ch. 464).

For these reasons, the Commission should revise the Draft RPS Eligibility Guidebook to replace the "within California" requirement with the requirement that biogas be injected at a point "**at or within**" the California border in order to be RPS-eligible.

Yours sincerely,

A handwritten signature in blue ink that reads "Benji Oryza". The signature is written in a cursive style with a large initial 'B' and a long, sweeping tail on the 'z'.