

**SDG&E Comments on Standard Capacity Product (SCP) Straw Proposal  
(February 20, 2009)**

SDG&E has commented previously on the SCP proposal through several comments offered by the California Forward Capacity Market Advocates (CFCMA) advocacy group, and by one set of comments on the “grandfathering” rules offered jointly with NRG and Reliant. SDG&E raises here one additional issue concerning the “grandfathering” rules that may be peculiar to SDG&E.

The grandfathering rules will establish a cut-off date beyond which all new RA resources will be subjected to the availability/performance standards that will be set forth in the CAISO’s SCP tariff. The precise date is still being discussed, with the CAISO currently proposing January 1, 2009, and others proposing dates driven by FERC approval of the proposed tariff amendment. Regardless of which date is ultimately selected, SDG&E requests the CAISO to clarify that execution prior to the cut-off date of an option to sign a definitive purchased power agreement (PPA) will qualify the PPA ultimately executed for the protections afforded by the SCP grandfathering rules.

Briefly, well prior to January 1, 2009, SDG&E negotiated two PPAs for development of local peaking plants that are urgently needed to support reliability in the San Diego area. SDG&E has submitted the PPAs for regulatory approval, and it expects a favorable regulatory decision will be forthcoming shortly. To preserve the negotiated deal during the pendency of regulatory review, SDG&E granted an option to each developer that allows the developer to execute the PPA by a date certain once a favorable regulatory decision has been received.

Any effort to re-negotiate the PPAs at this point would upset the on-going regulatory review and present the prospect for delay that is inconsistent with SDG&E's need for new peaking capacity. Moreover, if these PPA options are judged not to fall within the CAISO's grandfathering rules, then delay is also likely. The PPAs already include stiff availability/performance standards, so imposition of redundant tariff-based availability/performance standards could have a material adverse financial effect and deter the project developers from exercising the options as scheduled.

One option expires by April 2009; the other by November 2010. SDG&E is therefore requesting the CAISO to clarify that options to execute a definitive PPA that were signed before the grandfathering cut-off date will qualify for grandfathering treatment, as long as the option is exercised within 24 months of the cut-off date.