SECTION 1
INTRODUCTION

In December 1997, San Diego Gas and Electric Company (SDG&E) filed an application (Application No. 97-12-039) to divest (sell) its Encina and South Bay Power Plants, 17 combustion turbines (CTs) (the Encina and South Bay Power Plants each have one CT as well), its 24th Street Terminal Refueling Facility, a 20 percent ownership interest in the San Onofre Nuclear Generating Station (SONGS), and 11 long-term power supply contracts. These are the assets that SDG&E proposed to divest in its application. If, however, the San Diego Unified Port District were to purchase the South Bay plant, the Port District would also take title to additional land north and south of the South Bay plant. These assets are further described in detail in Section 2, Project Description. This Initial Study was prepared in accordance with the California Environmental Quality Act (CEQA) to evaluate the potential environmental consequences of SDG&E's proposed sale of these assets. The California Public Utilities Commission (CPUC), which is the CEQA lead agency for this project, is issuing this document for a 30-day review and comment period to Parties of Record in Application No. 97-12-039, other potentially affected agencies, and interested members of the public.

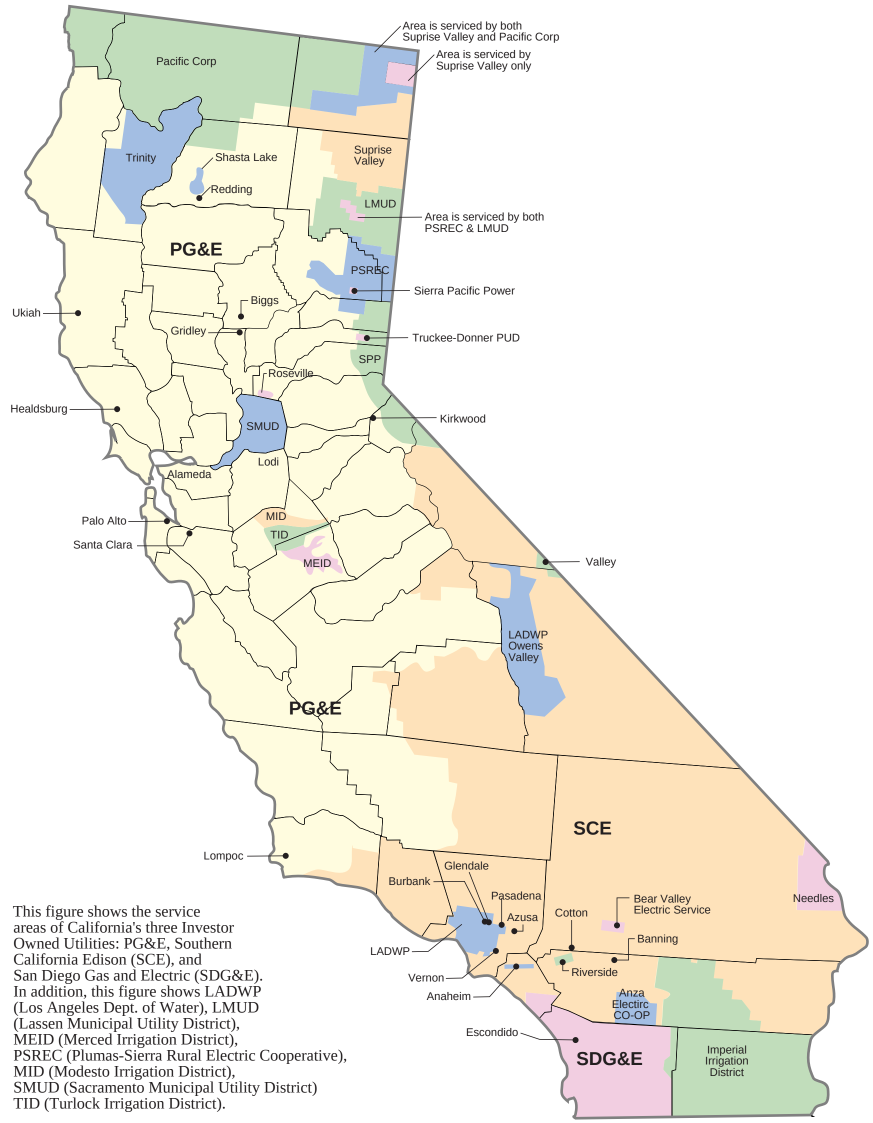
1.1 BACKGROUND

Electric energy is primarily generated using a turbine and a generator, which together comprise a generating unit. A generating facility or power plant normally consists of several generating units. In California, approximately 550 generating power plants (250 thermal plants and 300 hydroelectric plants) are owned by public and private electric utilities. An additional 900 smaller plants are owned and operated by non-utility generators.

Electric power systems consist of three components: generating facilities, transmission lines, and local distribution systems. Generating facilities may consist of one or more units that can operate separately to make electricity. The transmission system is a network of lines providing multiple paths from electricity suppliers, or generators, to distribution substations. Transmission lines feed electricity from generating units into distribution substations located near demand areas. Transformers located at the substations reduce or step down the high voltage transmitted over the transmission lines to a lower voltage for local distribution. Distribution lines connect the substations to the consumer (see Figure 1.1).

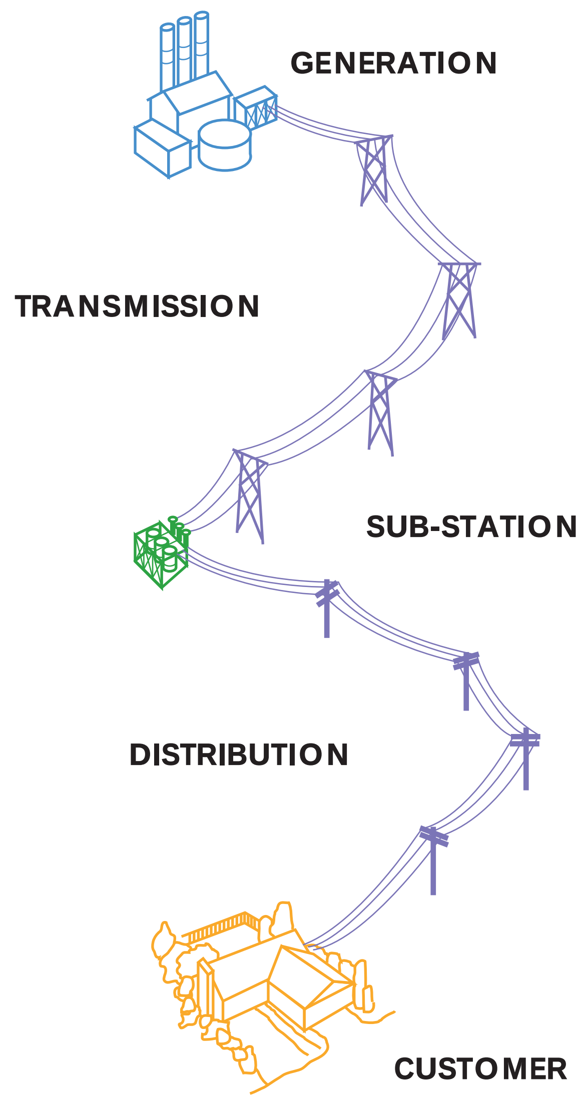
Consumers in California have historically purchased the majority of their electricity from one of the state's larger investor-owned utilities (IOUs): SDG&E, Pacific Gas and Electric Company (PG&E), or Southern California Edison Company (Edison). These utilities are state-regulated entities that historically have provided a "bundled" service at specified rates. A bundled service refers to all stages of electricity service including: electricity generation at power plants; routing

California's Electric Utility Service Areas (1996)



Note: This figure shows the service areas of California's three Investor Owned Utilities: PG&E, Southern California Edison (SCE), and San Diego Gas and Electric (SDG&E). In addition, this figure shows LADWP (Los Angeles Dept. of Water), LMUD (Lassen Municipal Utility District), MEID (Merced Irrigation District), PSREC (Plumas-Sierra Rural Electric Cooperative), MID (Modesto Irrigation District), SMUD (Sacramento Municipal Utility District) TID (Turlock Irrigation District).

Electric Power System Model



SOURCE: California Public Utilities Commission

Figure 1.1
Structure of Utility Industry

power to broad regions via transmission lines; distributing power to consumers over local wires or distribution lines; and administrative activities associated with providing electric services.

California's electricity rates historically have been about 50 percent higher than the national average. In the past, the CPUC set electric utility rates for generation, transmission, and distribution. These rates were based on a cost-of-service regulatory framework plus a reasonable profit margin for the IOUs. Regulated utilities had to seek approval from the CPUC prior to making any changes to rates or services.

In order to make California's electric industry more competitive, improve consumer choices, and lower utility rates, California's legislature and the CPUC have taken a series of steps to restructure and reform the industry. These reforms, their evolution, and their likely consequences for consumers are summarized in two attachments to this report: Attachment A "How Electric Industry Change Will Affect You," and Attachment B "Regulatory Background." As an end result, consumers of electricity are able to purchase electricity either from their current utility or from other electricity suppliers. The legally mandated changes in the electric industry in California are generally and collectively referred to as electric industry "restructuring."

1.2 RELATED DIVESTITURE PROJECTS

To further competition, the CPUC requested that the two largest IOUs, PG&E and Edison, voluntarily divest ownership of 50 percent of their fossil-fueled generating capacity. The CPUC believes that this reform, by increasing the number of electricity suppliers, will foster competition in the electric industry.

In November 1996, PG&E filed an application (Application No. 96-11-020) to respond to the CPUC's request for voluntary divestiture, requesting authority to sell four of its eight fossil-fueled power plants: Hunters Point, Morro Bay, Moss Landing, and Oakland. In late June 1997, PG&E amended its application to withdraw the Hunters Point Power Plant from the sale. In accordance with CEQA, the CPUC prepared a Mitigated Negative Declaration for the amended divestiture application. The sale of the three plants to affiliates of Duke Energy Power Services, Inc. was approved by the CPUC on December 16, 1997. The sale closed on July 1, 1998.

Edison also filed an application with the CPUC (Application No. 96-11-046) in November 1996 to sell 12 fossil-fueled power generating stations in southern California (all of its in-state fossil-fueled power generating stations, except for Pebbly Beach located on Catalina Island). The CPUC also prepared a Mitigated Negative Declaration for that application. In November 1997, Edison announced the sale of 10 of these plants. In February and March 1998, Edison announced the sale of the remaining two plants. The purchasers of the plants include AES Corporation, Houston Industries Power Generation, Inc., Thermo Ecotek Corporation, and NRG Energy, Inc. and Destec Energy, Inc. (NRG/Destec). All of these sales have closed.

In January 1998, PG&E filed a new application (Application No. 98-01-008) to sell four of its five remaining fossil-fueled power plants (Contra Costa, Pittsburg, Potrero, and Hunters Point) and its Geysers Geothermal Power Plant. On July 17, 1998, PG&E amended the application to withdraw the Hunters Point Power Plant from the sale, pursuant to a July 9, 1998 agreement between PG&E and the City and County of San Francisco. The CPUC has prepared an Environmental Impact Report (EIR) for the sale of the three remaining fossil-fueled power plants and the Geysers Power Plant. The Draft EIR was published for a 45-day public review period on August 5, 1998.

1.3 DIVESTITURE OF SDG&E ASSETS

In its efforts to further competition, the CPUC did not specifically request that SDG&E divest ownership of 50 percent of its fossil-fueled generating capacity, as it did with PG&E and Edison. Instead, SDG&E initially voluntarily proposed to divest its assets to further its business objectives and to advance the CPUC's efforts to foster competition in the electric industry.

In December 1997, SDG&E filed an application (Application No. 97-12-039) to sell its Encina and South Bay Power Plants, 17 additional CTs, the 24th Street Terminal Refueling Facility, its 20 percent ownership interest in the SONGS, and 11 long-term power supply contracts. SDG&E would retain ownership of certain facilities and real estate interests associated with the generating assets relating to electric transmission and distribution (e.g., switchyards, interconnection facilities, certain grid-related switching equipment, certain communication equipment and facilities, and certain proprietary computer software and hardware). Approval by the CPUC of the specific divestiture plans is required by Public Utilities Code Section 851 prior to the sale of these generating assets and ownership interests.

A series of events has since resulted in the CPUC ordering the sale of SDG&E's natural gas-fired generation assets. In October 1996, Enova Corporation, the parent company of SDG&E, and Pacific Enterprises, the parent company of Southern California Gas Company (SoCalGas), jointly announced an agreement to combine their companies. The merger was approved by the following entities on the following dates: Pacific Enterprises and Enova Corporation shareholders on March 11, 1997; the Nuclear Regulatory Commission on August 29, 1997; the California State Attorney General on November 21, 1997; the U.S. Department of Justice on March 9, 1998; the CPUC on March 26, 1998; the Federal Energy Regulatory Commission on May 27, 1998; and the Securities and Exchange Commission on June 26, 1998. The approval by the Securities and Exchange Commission completed the merger, creating Sempra Energy, a new San Diego-based energy services company. The principal utility subsidiaries of Sempra Energy include SoCalGas and SDG&E, which will continue to operate as independent utilities. SoCalGas is a natural gas distribution utility serving most of central and southern California. In its March 26, 1998 decision (D. 98-03-073) regarding the merger of Enova Corporation and Pacific Enterprises, the CPUC issued an order with the intent of eliminating market power concerns. The order specifies that "on or before December 31, 1999, SDG&E shall sell its gas-fired generation facilities to nonaffiliates of the merged company." This order therefore applies to the Encina and South Bay Power Plants and 15 of the 17 remaining CTs being divested. Two of the CTs (the CT at the Division Substation and one of the CTs at the North Island Naval Air Station) are fueled by diesel only and are not directly addressed by this order.

1.4 PUBLIC AGENCY PARTICIPATION PROGRAM

In order to gather information related to the possible environmental effects of SDG&E's divestiture application, the CPUC initiated a concerted program to consult other affected agencies and jurisdictions. The CPUC's Public Agency Outreach Program was developed for the purposes of establishing early contact and opening lines of communication with key public agencies directly affected by the divestiture plan proposed by SDG&E and obtaining local-level insight and information for the Initial Study.

The Agency Outreach Program included consultations with 27 agencies conducted at central meeting locations, agency offices, and by telephone. Documents and plans were obtained from the communities where the power plants and CTs are located that provided information regarding the potential environmental effects of divestiture to these communities. Local agency representatives provided historic background on power plant and CT operations, permitting requirements, land use information, community perceptions, and local environmental concerns. Section 6 of this Initial Study presents a list of individuals contacted from the various affected agencies and a schedule of meetings held as part of the Agency Outreach Program.