

SECTION 2

PROJECT DESCRIPTION

2.1 OVERVIEW OF SDG&E'S ELECTRIC GENERATION AND TRANSMISSION SYSTEM

SDG&E provides electric power to approximately 1.15 million customers within its service territory. Its service territory encompasses all of San Diego County and a narrow strip along the southern portion of Orange County. Electric power needed to meet the demands of SDG&E's service territory is either (a) imported through SDG&E's two transmission power links (i.e., the Southwest Power Link, which transports power from Arizona and the southwest, and the South-of-SONGS Path, which transports power from the San Onofre Nuclear Generating Station [SONGS]), or (b) generated at SDG&E's Encina and South Bay Power Plants. Additional electric power is obtained from SDG&E's 19 combustion turbines (CTs) located at nine sites throughout San Diego County.¹

The ability of SDG&E to import power is limited by the transmission capacities of its power links. The transmitting capacities of the 500-kilovolt (kV) Southwest Power Link and the five 230 kV lines that form the South-of-SONGS Path (the interconnection to Southern California Edison Company [Edison] at San Onofre) are roughly 970 megawatts (MW) and 1,800 MW, respectively. The South-of-SONGS Path is capable of transmitting up to 1,900 MW if the Southwest Power Link is out of service. Of the power that can be imported into SDG&E's system from the South-of-SONGS Path, a maximum of roughly 430 MW comes from SDG&E's 20 percent ownership interest in SONGS. Due to additional importing constraints, the maximum electric power that SDG&E can import is roughly 2,450 MW at a given time.

The Encina and South Bay Power Plants, including their CTs, have generating capacities of 965 MW and 706 MW, respectively. The 17 additional CTs located at seven other sites can provide an additional 253 MW of generating capacity. In addition to SDG&E's power generating assets, qualifying facilities (QFs) on SDG&E's system add an additional 174 MW of power.²

Generally speaking, SDG&E's electric power resources are very limited, but have been adequate to meet the need for system reliability and to satisfy customer demand. The extent to which the

¹ Since two of the 19 CTs are located at SDG&E's Encina and South Bay Power Plants, the discussions in this Initial Study of the Encina and South Bay Power Plants include the CTs located at those plants; the remaining 17 CTs are discussed separately.

² A QF is a designated plant that, under the authority of the Public Utility Regulatory Policy Act of 1978, is allowed to sell output to utilities at avoided cost rates. To become a QF, an independent power supplier has to produce electricity with a specified fuel type (cogeneration or renewables) and meet certain ownership, size, and efficiency criteria established by the Federal Energy Regulatory Commission.

energy demands of SDG&E's service area are met through imported electric power or by generation is a function of economics and system reliability. Historically, if electricity can be imported at a lower cost, SDG&E tends to import more power, while otherwise it tends to generate more power.

2.2 PROJECT PURPOSE AND NEED

On December 20, 1995, the California Public Utilities Commission (CPUC) issued a policy decision providing for the restructuring of the California electric industry. In this decision, the CPUC requested that Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison), the state's two largest utilities, voluntarily divest at least 50 percent of their fossil-fueled generating assets to address concerns over their possible market power in the restructured electricity market. In September 1996, California's electric industry restructuring legislation, Assembly Bill 1890 (AB 1890), was signed into law. AB 1890 endorsed a competitive generation industry separate from utility power transmission and distribution operations. (See Attachment B, Regulatory Background, for a discussion of electric industry restructuring.) Both AB 1890 and several CPUC decisions have required that generation assets be valued for the purpose of calculating the competitive transition charges, or CTCs, associated with the assets.³ Sale is one method of measuring the market value of generation 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 in furtherance of its business objectives and to advance the CPUC's efforts to foster competition in the electric industry. Specifically, SDG&E's Application No. 97-12-039 seeks approval from the CPUC to "sell its generating assets in furtherance of its business objectives including, without limitation, implementing innovative strategies to achieve the best possible competitive positioning to maximize its opportunities in the new energy marketplace." According to SDG&E's Proponent's Environmental Assessment (PEA), the proposed sales would result in a more competitive market and lower energy prices for consumers.

As described in Section 1, Introduction, a series of events (namely the merger of Enova Corporation, the parent company of SDG&E, and Pacific Enterprises into Sempra Energy) since the divestiture application was originally filed have resulted in the CPUC ordering the sale of SDG&E's natural gas-fired generation assets. The order (D.98-03-073) 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, but are proposed to be sold.

³ A CTC is defined as a non-bypassable charge on each customer of the utility distribution company (UDC), including those who are served under contracts with non-utility suppliers, for recovery of the utility's transition costs. Refer to Attachment C, System Economic and Operational Characterization, for a more detailed discussion of CTCs.

2.3 PROJECT SETTING AND BACKGROUND

2.3.1 INTRODUCTION

On December 19, 1997, SDG&E filed an application (Application No. 97-12-039) with the CPUC to sell (divest) its electric generation facilities, a refueling facility, and long-term power supply contracts through a competitive auction process. Specifically, SDG&E proposes to sell its two fossil-fueled power plants (the Encina and South Bay Power Plants), 17 additional CTs, the 24th Street Terminal Refueling Facility, its 20 percent interest in SONGS, and 11 long-term power supply contracts. The power plants, the CTs, and the 24th Street Terminal Refueling Facility are tangible assets wholly owned by SDG&E, operated by and within the discretionary control of SDG&E. SDG&E's ownership interest in SONGS and the long-term power supply contracts are intangible assets in that the discretionary operational control of these generating assets does not reside with SDG&E and in that SDG&E holds no ownership interest in the QFs or out-of-state utilities that produce electricity under the power supply contracts and only a passive ownership interest in SONGS. The locations of SDG&E's tangible and intangible assets being divested are shown in Figures 2.1 and 2.2, respectively. By selling these assets, SDG&E would divest itself of approximately 2,736 MW of its combined generating capacity and firm capacity guaranteed from its ownership interest in SONGS and long-term power supply contracts. The CPUC has discretionary approval authority over the general terms of the Asset Sale Agreement, the Operation and Maintenance (O&M) Agreement, and the Bidding Contract of each proposed sale.

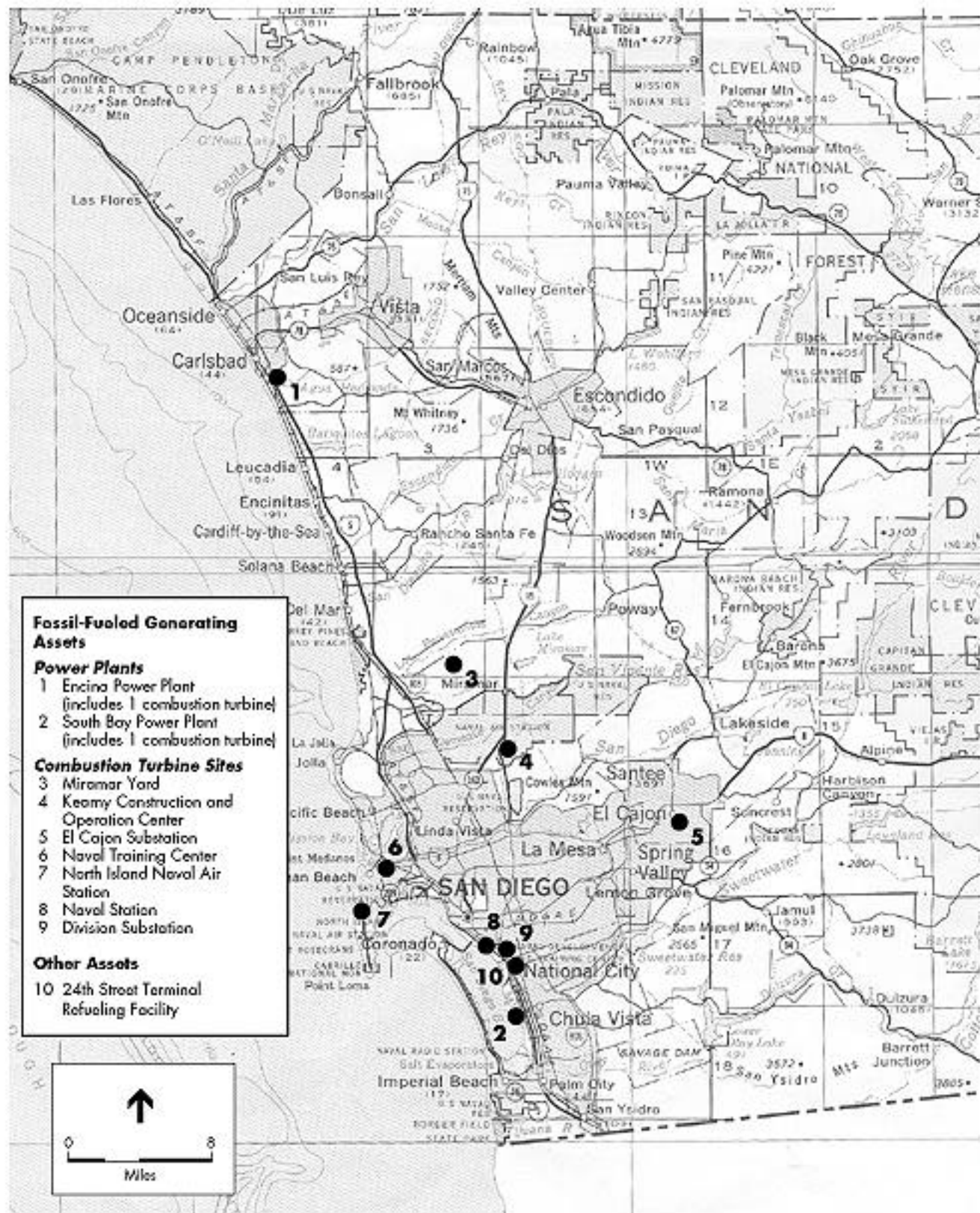
The Independent System Operator (ISO), the entity responsible for the operation and control of the statewide transmission system, has designated SDG&E's Encina and South Bay Power Plants and all 17 additional CTs as "must-run" generating facilities needed to ensure local load reliability and to maintain the rating of regional transmission facilities.⁴ The new owner would be assigned SDG&E's "must-run" contracts with the ISO to ensure the availability of these generating facilities.

As described in its application, SDG&E proposes to sell its tangible assets in the following three packages:

- Encina Power Plant (includes one CT)
- South Bay Power Plant (includes one CT) and the 24th Street Terminal Refueling Facility
- Remaining 17 CTs at seven locations

One or more buyers may purchase these tangible asset packages. No other bundling of assets is proposed. One or more buyers may also purchase SDG&E's intangible assets (SONGS ownership interest and 11 long-term power supply contracts).

⁴ A "must-run" unit is a generating unit that is subject to an agreement between the unit owner and the ISO under which, in return for certain payments, the ISO is entitled to call upon the owner to run the unit or to provide ancillary services when required by the ISO to maintain electrical system reliability.

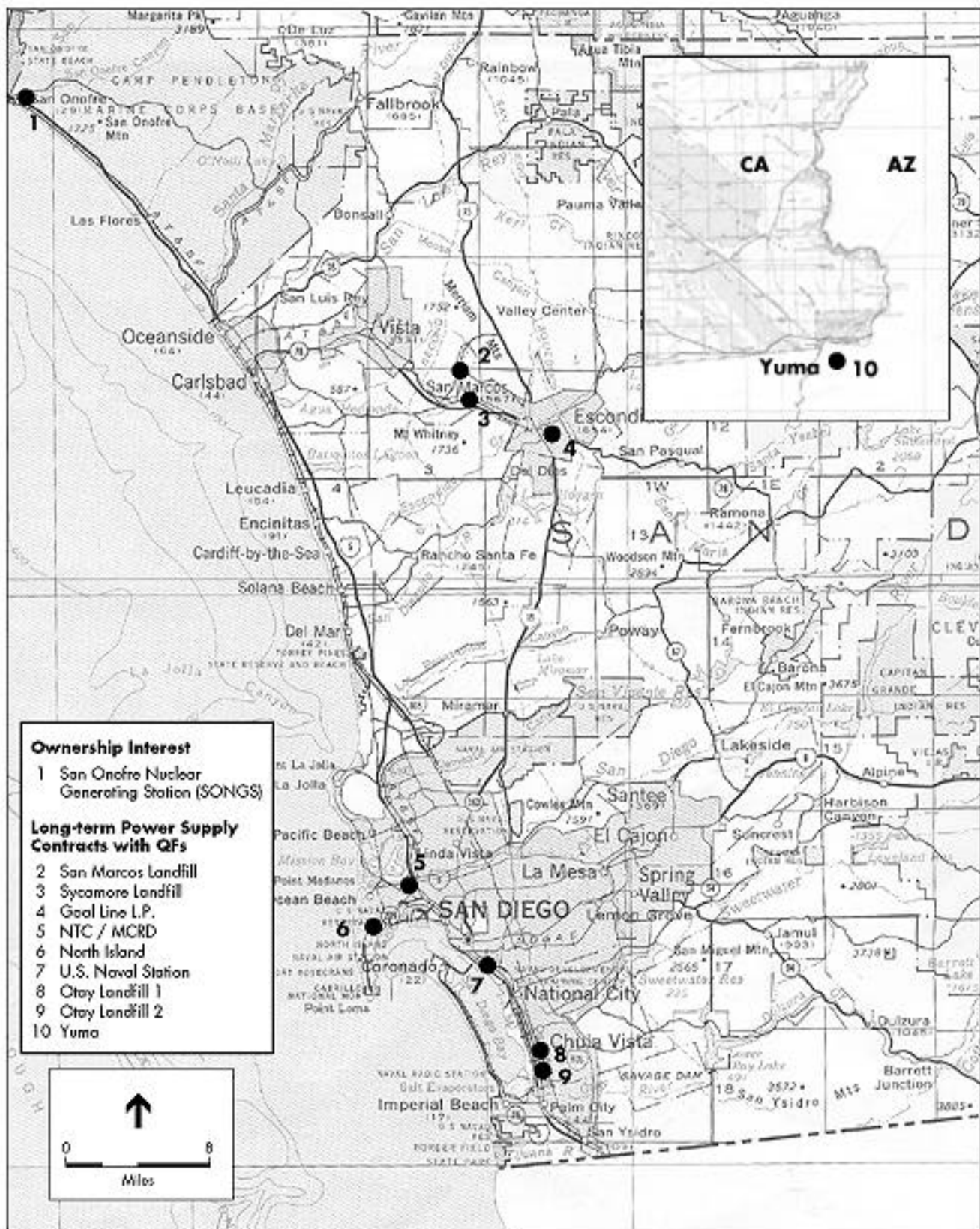


Note: SDG&E's long-term power supply contracts with non-qualifying energy suppliers (i.e., Portland General and PNM) are not shown here.

SOURCE: U.S.G.S., Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.1
SDG&E's Tangible Assets to Be Divested



Note: SDG&E's long-term power supply contracts with non-qualifying energy suppliers (i.e., Portland General and PNM) are not shown here.

SOURCE: U.S.G.S.; Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.2
SDG&E's Intangible Assets to Be Divested

Subsequent to the filing of Application No. 97-12-039, SDG&E and the San Diego Unified Port District (Port District) announced an agreement whereby SDG&E would transfer ownership of the South Bay Power Plant, the 24th Street Terminal Refueling Facility and other SDG&E lands to the Port District through a negotiated sale and donation rather than selling those facilities through an auction process. The assets that would be transferred to the Port District under the negotiated agreement by SDG&E include:

- the personal property, improvements, equipment and fixtures at the South Bay Power Plant, including the plant and all related operating equipment;
- the South Bay Power Plant site, including the land upon which the switchyard is located, consisting of approximately 116 acres;
- the 24th Street Terminal Refueling Facility;
- the former liquefied natural gas (LNG) site adjacent to the southern boundary of the South Bay Power Plant site, consisting of approximately 33 acres; and
- additional land owned by SDG&E (and used by SDG&E for transmission purposes), which is located immediately to the north of the South Bay Power Plant between J and F Streets, consisting of approximately 16 acres.

These latter two properties, totaling approximately 49 acres, were not proposed by SDG&E to be sold through the auction process. Pursuant to the agreement between SDG&E and the Port District, SDG&E will refrain in the near term from offering the South Bay plant for sale by auction. If the details of the negotiated sale are not finalized by November 30, 1998, 60 days after the signing of the agreement, then the agreement between SDG&E and the Port District will terminate and SDG&E would recommence the auction of the South Bay Power Plant as originally proposed in its divestiture application. Regardless of the manner in which the sale of the South Bay Power Plant is conducted (i.e., auction or negotiation) or the identity of the purchaser, the transfer of ownership would be subject to approval by the CPUC. In order fully to account for and evaluate the impacts of the transfer of the South Bay assets, this Initial Study addresses as the project both the potential negotiated sale to the Port District and the potential sale through an auction process to an unidentified party, which would involve identical physical facilities but less real property.

Regardless of the mechanism of sale, as to both the Encina and South Bay Power Plants, SDG&E would retain ownership of certain facilities and equipment located on the land, such as the switchyards, interconnection facilities, grid-related switching equipment, communication equipment and facilities, and proprietary computer software and hardware, that relate to electricity transmission and distribution. In addition, SDG&E would reserve to itself easements over such lands to enable SDG&E to access, operate, maintain and upgrade such facilities and equipment, and to perform its environmental remediation obligations. SDG&E also proposes to retain the land owned by SDG&E associated with the CTs, except those associated with the Encina and South Bay Power Plants. The four CTs located at North Island, the Naval Station, and the Naval Training Center are located on land owned by the United States Navy. SDG&E's access rights to the Navy property are provided through a service agreement between SDG&E

and the Navy. The current agreement was extended at the end of September 1998 for 30 months. Access rights to the Navy property held by SDG&E would be transferred to the selected buyer. The remaining CTs are located on SDG&E property that must be retained for transmission, distribution and other purposes. SDG&E would provide the buyer with long-term leases and related easements to these properties.

Where applicable, SDG&E is proposing a two-step process for its auctions, similar to the processes approved by the CPUC for recent divestiture applications from Edison (Application No. 96-11-046) and PG&E (Application Nos. 96-11-020 and 98-01-008). In the first step, SDG&E requests the CPUC to issue an interim decision approving SDG&E's proposed auction process, proposed contracts, and proposed ratemaking. In the second part of the process, SDG&E would conduct the proposed auctions. If SDG&E were to receive satisfactory bids for some or all of its generating assets being divested, it would then negotiate final contracts with the winning bidder(s) and submit the final contracts to the CPUC for approval.

Specifically, SDG&E's Application No. 97-12-039 seeks the following from the CPUC:

1. A determination that SDG&E's fossil-fueled power plants, CTs, SONGS ownership interest, and long-term power supply contracts are no longer necessary or useful in the performance of SDG&E's duties to the public, or alternatively, that SDG&E's proposed divestiture of these assets is in the public interest;
2. A determination that SDG&E's proposed divestitures are reasonable and would not impair the reliability of the electric supply;
3. Approval of SDG&E's proposed auction process;
4. A determination that SDG&E's proposed auction process would establish the fair market value of the auctioned assets;
5. A determination that SDG&E need not entertain post-auction overbids;
6. Approval of SDG&E's proposed ratemaking for the sales;
7. Approval of SDG&E's proposed auction-related contracts, including sales agreements and O&M contracts;
8. Authorization to obtain recovery of its estimated future generation-related environmental clean-up costs in a subsequent application.
9. A determination that: (1) SDG&E's proposed generation divestitures are not subject to CEQA because they do not constitute a "project" within the meaning of CEQA; (2) that CEQA does not apply to SDG&E's divestitures because they fall within a categorical exemption to CEQA; or, alternatively (3) that a Negative Declaration under CEQA is appropriate because SDG&E's divestitures will not cause one or more significant effects on the environment.

Final CPUC approval is a condition to the closing of each sale, whether the sale is negotiated (as with the Port District) or conducted by auction. Approval by the Nuclear Regulatory

Commission is also required for the transfer of SDG&E's SONGS ownership interest, and by the Federal Energy Regulatory Commission (FERC) for transfer of the long-term power supply contracts.

In a motion filed with the CPUC on April 1, 1998, the Office of Ratepayer Advocates (ORA) and SDG&E requested that the CPUC adopt a revised schedule for SDG&E's proposed divestiture. The revised schedule bifurcates the CPUC's consideration of SDG&E's divestiture of its tangible assets (fossil-fueled generating assets and refueling facility) and intangible assets (SONGS ownership interest and long-term power supply contracts) described in Application No. 97-12-039. SDG&E's application initially sought a single auction and regulatory approval track for all of its assets being divested. SDG&E now proposes to hold two separate auctions, one for its tangible assets and one for its intangible assets (SDG&E and ORA, 1998). Pending the completion of this environmental review, it is anticipated that the auction of the tangible assets will be held before the end of 1998. The auction of the intangible assets is likely to occur sometime in 1999.

2.3.2 TERMS OF THE PROPOSED SALES

As summarized in SDG&E's PEA (SDG&E, 1997b), SDG&E's Application No. 97-12-039 seeks authority to sell its fossil-fueled generating assets, 24th Street Terminal Refueling Facility, SONGS ownership interest, and long-term power supply contracts under the following terms and conditions:

1. The fossil-fueled generating assets (including the South Bay Power Plant if the sale to the Port District does not occur) would be offered for sale through an auction process to qualified bidders to ensure that the power plants and the CTs sold through the auction would continue to operate when needed to protect system reliability, and, when no longer needed, would be decommissioned in accordance with applicable laws.
2. SDG&E would retain ownership and control of certain transmission-related facilities associated with the generating assets being divested.
3. Subject to applicable federal, state, and local laws and regulations, SDG&E and the new owner(s) would apportion the respective liability and responsibility for conducting any necessary remediation of any environmental conditions at the power plants, CTs, or the 24th Street Terminal Refueling Facility, as required by any governmental agency having jurisdiction over such laws and regulations.
4. The power plants and CTs have been determined by the ISO to be "must-run" generating facilities. Accordingly, the new owner(s) of such facilities would be assigned of SDG&E's "must-run" contract with the ISO to ensure that electric power would be available when needed for reliability, to maintain transmission ratings, and to prevent price manipulation during times when market power exists, for as long as such facilities remain "must-run" facilities.
5. SDG&E would operate the Encina and South Bay Power Plants and the CTs on behalf of the new owners for at least two years following their sale pursuant to a contract with the new owner, in accordance with Public Utilities Code §363.

6. The power plants, CTs, and the 24th Street Terminal Refueling Facility would be transferred to the new owner(s) subject to all the limits and conditions of existing permits, approvals, licenses, regulations, contracts, and other entitlements affecting their use, modification, and operation to the extent permissible. SDG&E and the buyer(s) would prepare, execute, and file all documentation necessary to transfer or assist in the reissuance of such permits, licenses, approvals, contracts, and other entitlements to the new owner(s).
7. SDG&E would, as part of its “due diligence” disclosures, provide the new owner(s) of the power plants, CTs, and the 24th Street Terminal Refueling Facility with all material information and training documentation pertaining to any of the resources listed below that are known to exist at each facility:
 - wetlands;
 - endangered, threatened, candidate, or other sensitive species and their habitat, including biological resources of special sensitivity or significance;
 - worker health and safety programs, emergency preparedness plans, hazardous materials management programs, spill prevention and countermeasure plans, stormwater pollution prevention programs, waste reduction, and best management practices; and
 - paleontological, archaeological, and historical resources, including resources with unique ethnic cultural values and religious or sacred uses.

In addition to the terms and conditions specified in SDG&E’s divestiture application, SDG&E and the City of Chula Vista signed a Memorandum of Understanding (MOU) on June 3, 1998 regarding future uses of the South Bay Power Plant site. SDG&E agreed to prohibit the future placement of any gas- or steam-powered turbines, heat recovery steam generators, or electric generators on portions of the South Bay Power Plant located north of Telegraph Creek (see Figure 2.7 later in this section), but to eliminate any other restrictions on future land uses at the South Bay Power Plant site. Although the MOU does not directly apply to the Encina Power Plant, SDG&E also eliminated the requirement for a deed restriction on future land uses at the Encina Power Plant site.

If the South Bay Power Plant and related facilities were sold to the Port District, the transfer would be for the most part subject to the same terms and conditions as identified in Application No. 97-12-039 for the auction. The Port District, which has announced its intentions to close and decommission the South Bay Power Plant as soon as is feasible (i.e., as soon as the plant is no longer considered a “must-run” facility needed to achieve grid reliability standards by the ISO), would be responsible for all costs associated with the decommissioning of the plant. Decommissioning includes the decontamination, demolition, dismantlement and removal of any portions of the plant included among the assets being sold. With respect to site remediation, SDG&E would continue to be responsible for remediation of “existing soils contamination” at the South Bay Power Plant to industrial standards. Existing soils contamination includes contamination known to SDG&E at the time of the closing of the plant sale, and contamination discovered within 15 years of the closing that is demonstrated by clear and convincing evidence to have existed at closing. The Port District would be responsible for all decommissioning and

any remediation beyond industrial standards. The Port District would also be responsible for all existing and future hazardous material contamination and soil and groundwater contamination at the LNG site and the transmission property. Prior to the closing of the sale, the Port District must demonstrate to SDG&E that it, or an authorized agent of the Port District, has the power plant experience and operational expertise necessary to obtain government and regulatory approvals and demonstrate financial ability to close the deal.

With respect to the divestiture of its ownership interest in SONGS, SDG&E would not retain any environmental liabilities associated with the facility. Instead, all of SDG&E's responsibility for decommissioning SONGS, together with all of SDG&E's accumulated nuclear decommissioning funds (over \$400 million), would be passed to the buyer upon its sale (SDG&E, 1998). According to SDG&E, this approach is consistent with the CPUC's Preferred Policy Decision (D.95-12-063, as modified by D.96-01-009), which states:

In the event that a nuclear plant changes ownership, the existing trust fund balances would follow the asset to the new owner. The new owner would be obliged to comply with Nuclear Regulatory Commission regulation to continue funding for decommissioning.

Stringent Nuclear Regulatory Commission criteria would ensure that the buyer of SDG&E's SONGS ownership interest has the financial means to continue full funding for decommissioning.

2.3.3 DESCRIPTIONS OF THE ASSETS TO BE SOLD

As described previously, SDG&E's proposed divestiture includes the sale of both tangible and intangible assets. The tangible assets include physical facilities owned, operated, maintained, and controlled by SDG&E. More specifically, these assets include the Encina Power Plant, the South Bay Power Plant, the 17 additional CTs, and the 24th Street Terminal Refueling Facility. The intangible assets include financial contract rights held by SDG&E. The intangible assets for sale include SDG&E's ownership interest in SONGS and its 11 long-term power supply contracts. These contract rights allow SDG&E to acquire a prescribed level of power output but do not entitle SDG&E to any operational control over the underlying generating facility. The general characteristics of each of the assets for sale are described below.

TANGIBLE ASSETS

Fossil-Fueled Power Plants

The general characteristics of each plant to be sold are presented in Table 2.1 and are described below.

Encina Power Plant

The Encina Power Plant, SDG&E's largest fossil-fueled power plant, is located on a 671-acre site at 4600 Carlsbad Boulevard in the City of Carlsbad. The area in the vicinity of the plant is highly developed, consisting principally of residential areas and associated shopping centers.

TABLE 2.1
DESCRIPTIONS OF SAN DIEGO GAS & ELECTRIC COMPANY POWER PLANTS TO BE DIVESTED

Facility Name	Unit ^a	Design Capacity (MW)	Annual Natural Gas Use (MMcf) ^b	Annual Fuel Oil Use (gallons) ^b	Annual Net Generation (GWh) ^b	Type	Start-up Year	Fuel (Primary, Back-up)	Capacity Factor (%) ^{c,d}	
ENCINA POWER PLANT		965 MW								
	1	107 MW	797	0	63	Steam turbine	1954	Natural gas, residual fuel oil	6.7	
	2	104 MW	1,069	0	90	Steam turbine	1956	Natural gas, residual fuel oil	9.9	
	3	110 MW	1,914	124,110	138	Steam turbine	1958	Natural gas, residual fuel oil	14.3	
	4	300 MW	7,046	3,924,340	702	Steam turbine	1973	Natural gas, residual fuel oil	26.7	
	5	330 MW	9,607	5,625,214	1,006	Steam turbine	1978	Natural gas, residual fuel oil	34.8	
	CT1	14 MW	6.89	3,247	0.25	Combustion turbine	1966	Natural gas, diesel fuel oil	2.0	
SOUTH BAY POWER PLANT		706 MW								
	1	146 MW	6,133	192,192	608	Steam turbine	1960	Natural gas, residual fuel oil	47.5	
	2	150 MW	6,700	321,902	674	Steam turbine	1962	Natural gas, residual fuel oil	51.3	
	3	175 MW	6,541	0	638	Steam turbine	1964	Natural gas, residual fuel oil	41.6	
	4	222 MW	835	1,080,842	70	Steam turbine	1971	Natural gas, residual fuel oil	3.5	
	CT1	13 MW	0.04	20,286	0.18	Combustion turbine	1966	JP-5 jet fuel, natural gas	2.0	

- ^a SDG&E owns Units 1 through 4 at the Encina Power Plant. Unit 5 at the plant is owned by PSEG Resources, Inc., but is currently leased back to SDG&E for operation. PSEG Resources, Inc. has agreed to continue the lease-back arrangement with the new owner after divestiture.
- ^b Averaged over a three-year period (1994-1996). MMcf = millions of cubic feet; GWh = gigawatt-hours.
- ^c Averaged over a five-year period (1993-1997).
- ^d Capacity factor is the ratio of energy actually produced by a generating unit to the maximum energy it could possibly produce (that is, its rated generating capacity) in the same time period.

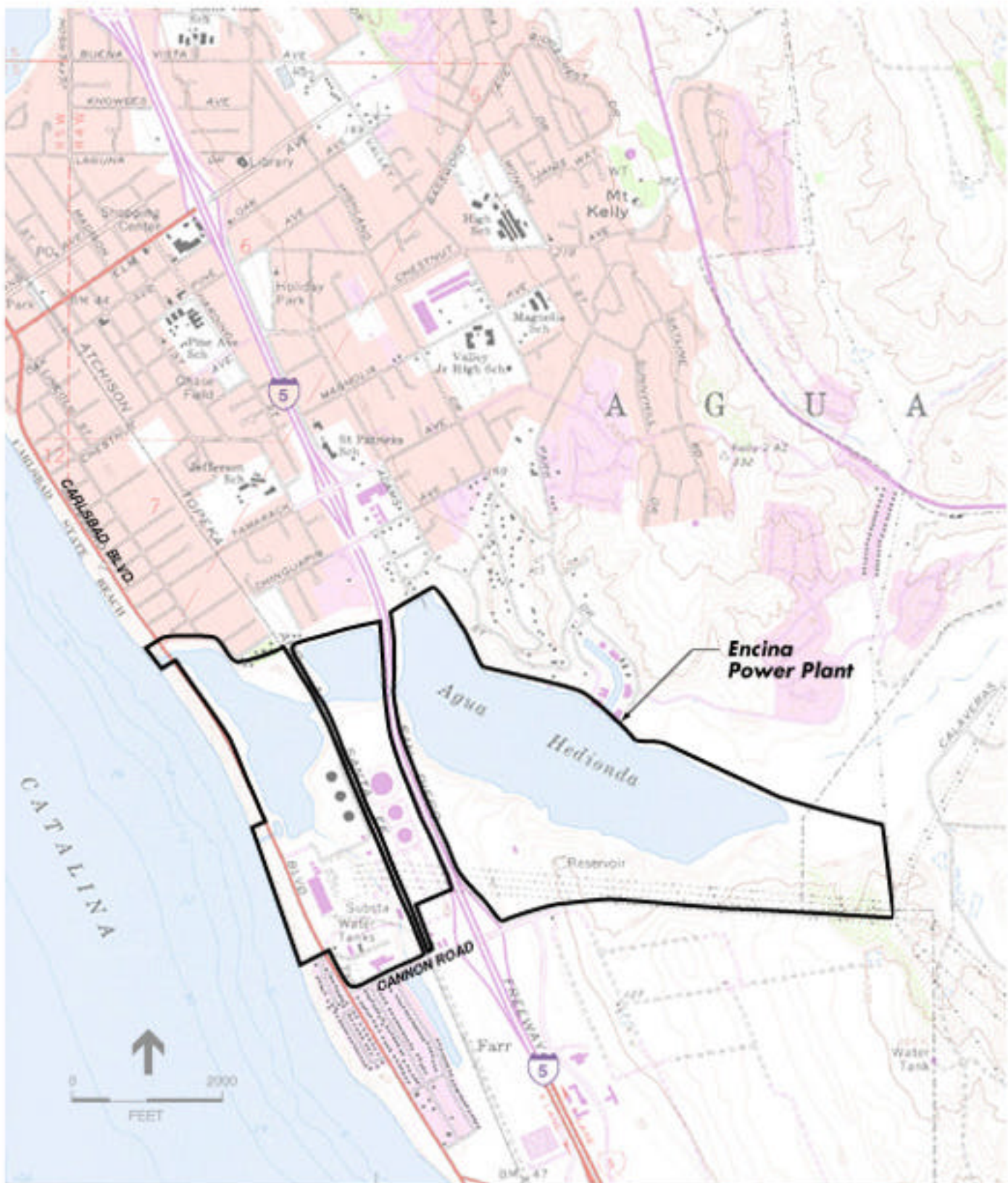
SOURCE: SDG&E, *Application of San Diego Gas and Electric Company (U 902-E) for Authorization to Sell Electric Generation Facilities and Power Contracts (Application No. 97-11-039)*, December 12, 1997; and, SDG&E, *Proponent's Environmental Assessment: San Diego Gas and Electric Company's Proposed Sale of Its Electrical Generation Facilities and Power Contracts*, December 19, 1997.

Figure 2.3 shows the location of the Encina Power Plant. The portion of the site targeted for sale, consisting of approximately 386 acres, includes all of SDG&E's lands used for generation purposes, and substantially all of the three Agua Hedionda lagoons. SDG&E would retain approximately 291 acres of the site. Figure 2.4 delineates the approximate boundaries of the property either being sold or retained. Surrounding land uses include residential uses to the north; residential, commercial, and industrial uses to the south; open space to the east; and the Pacific Ocean to the west. Popular recreational and fishing areas are in the immediate vicinity of the plant.

The Encina Power Plant consists of five steam turbines, five boilers, one CT, and associated facilities (e.g., a switchyard where the plant interconnects with the transmission grid, an administration building, and fuel oil storage tanks). SDG&E owns all of the generating equipment at the plant, except Unit 5, which is currently owned by PSEG Resources, Inc. (PSEG recently purchased the unit from Bank of America.) PSEG currently leases the unit back to SDG&E for operation and has agreed to continue that lease-back arrangement with the new owner after divestiture. Figure 2.5 shows the layout of these facilities on the plant site. All of the steam turbine units use natural gas as their primary fuel, but are capable of burning residual fuel oil (i.e., No. 6 fuel oil) when natural gas is unavailable or uneconomic. Residual fuel oil use in the steam turbines is partially controlled by annual emission limits established by the San Diego Air Pollution Control District (SDAPCD). (See Section 4.5, Air Quality, for a discussion of applicable air quality regulations and emission limits.) Combined, the five steam turbines have a generating capacity of roughly 951 MW and are capable of providing about 30 to 40 percent of San Diego County's total energy requirements. The CT has a generating capacity of roughly 14 MW of electricity. The CT is used to facilitate the start-up of the steam turbine units in the case of a system blackout ("black start" capability) and for peaking purposes. The CT uses natural gas as its primary fuel, but is capable of burning diesel fuel. The total generating capacity of the plant is 965 MW. The general characteristics of the Encina Power Plant units are described in Table 2.1.

The Encina Power Plant also includes a residual fuel oil and petroleum storage facility. The fuel storage area consists of 11 above-ground storage tanks. Seven of the tanks contain back-up residual fuel oil. Of the remaining tanks, one contains displacement oil, while the other three contain diesel fuel for operating the CT. Combined, the 11 tanks have a total storage capacity of 71.6 million gallons. All of these tanks are included in the sale. An offshore marine terminal, consisting of seven buoys and a pipeline to the tank storage area, was developed to receive bulk residual fuel oil and displacement oil via barge or ship at the site. The marine terminal is included in the sale of the plant. Diesel fuel for the CTs is brought to the site via trucks. The residual fuel oil and petroleum storage facility is included in the area being divested. Natural gas is delivered to the site via SDG&E's natural gas transmission and distribution system.

Other facilities in the area being sold include a guard station, an administration building, a machine shop, various water tanks, a multi-use structure, a shop/office building, and parking facilities. SDG&E would retain the switchyard property, facilities and equipment and would reserve an easement to access, maintain and operate such facilities and equipment and other areas used for transmission and distribution purposes.



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E 1980084 ■

Figure 2.3
Location of the
Encina Power Plant

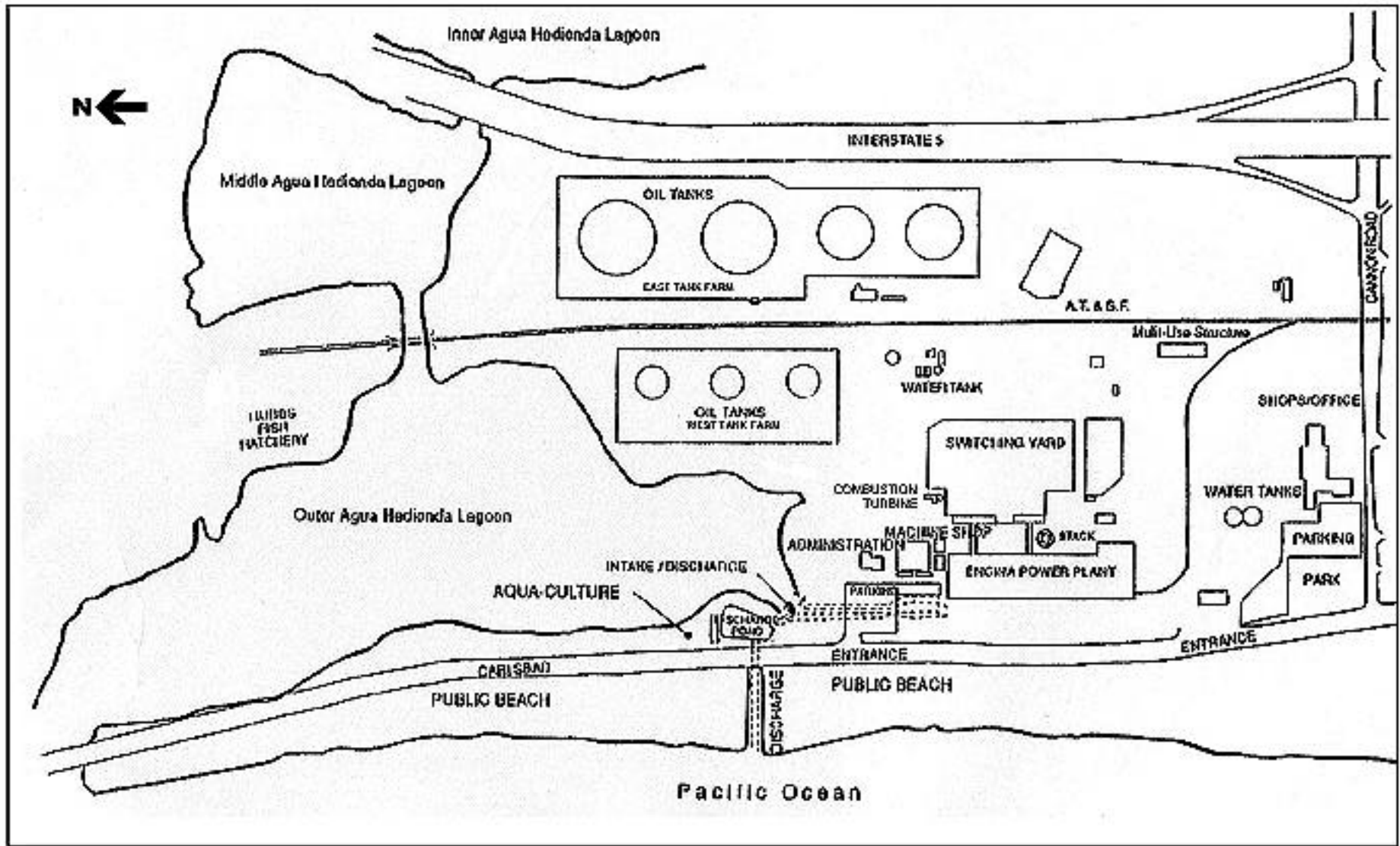


- Property to be sold.
- Property to be retained by SDG&E.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.4
Property Lines for the
Encina Power Plant



2-15

SOURCE: SDG&E

Divestiture of Assets by SDG&E / 990084 ■

Figure 2.5
Encina Power Plant Facility Layout Map

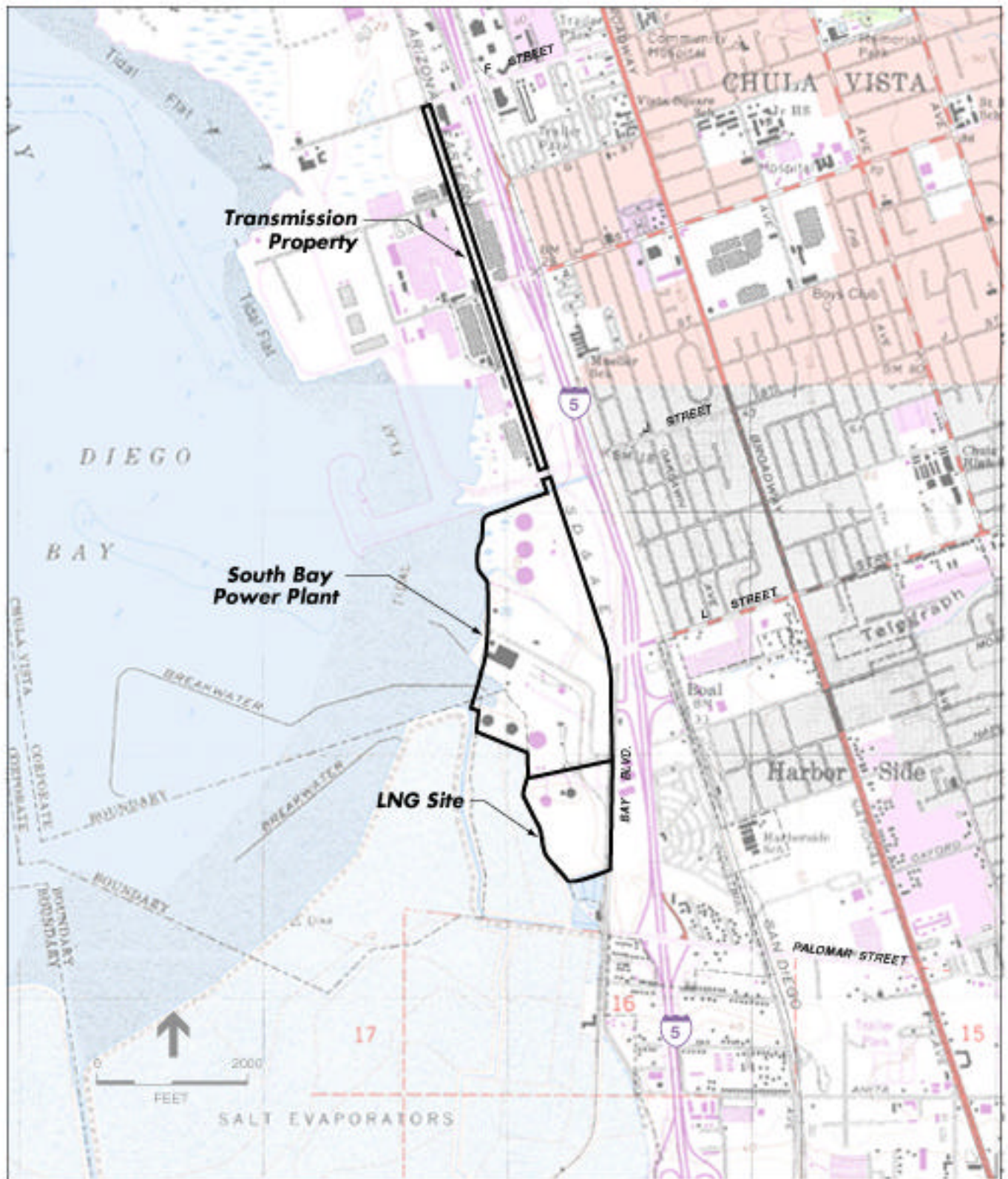
SDG&E proposes to reparcelize the lands on which the Encina Power Plant is located in order to separate the power generation assets from the power transmission and distribution assets. This action would involve a modification of lot lines through a lot line adjustment process. The lot line adjustment process would relocate existing property lines, but would not create new lots. SDG&E has stated that the lot line adjustments would conform to all jurisdictional zoning requirements, including development standards for street frontage, minimum lot area, and width.

South Bay Power Plant

The South Bay Power Plant is located on a 116-acre site located at 990 Bay Boulevard in the City of Chula Vista. In addition to the South Bay Power Plant site, SDG&E owns a roughly 33-acre site just south of the power plant that includes a now-decommissioned liquid natural gas (LNG) storage facility and a 16-acre transmission corridor that runs north of the power plant and adjacent to a railroad right-of-way. If the plant is sold to the Port District, SDG&E would sell all the physical facilities on the power plant site to the Port District and would donate all of the land from the power plant site, the former LNG site and the transmission corridor to the Port District (a total of approximately 165 acres of land). Figure 2.6 shows the location of the South Bay Power Plant, as well as other SDG&E property that would be donated to the Port District if the plant is purchased by the Port District. Figure 2.7 delineates the approximate boundaries of the property that would be donated to the Port District if the plant is purchased by the Port District. Figure 2.7 also shows the approximate boundaries of the property that would be sold or retained should the agreement between SDG&E and the Port District be terminated and the auction of the South Bay Power Plant be recommenced. The site is zoned industrial and is within the area of Chula Vista's Bayfront Redevelopment Project. Surrounding land uses include industrial and recreational uses to the north; industrial uses to the south; commercial and industrial uses to the east; and San Diego Bay to the west.

The South Bay Power Plant consists of four steam turbines, four boilers, one CT, and associated facilities (e.g., a switchyard, a control building, and fuel oil storage tanks). Figure 2.8 shows the layout of these facilities on the plant site. All of the steam turbine units use natural gas as their primary fuel, but are capable of burning residual fuel oil when natural gas is unavailable or uneconomic. Residual fuel oil use in the steam turbines is partially controlled by annual emission limits established by the SDAPCD. (See Section 4.5, Air Quality, for a discussion of applicable air quality regulations and emission limits.) Combined, the four steam turbines have a generating capacity of roughly 693 MW and are capable of providing about 20 to 30 percent of San Diego County's total energy requirements. The CT has a generating capacity of roughly 13 MW. The CT is used to facilitate the start-up of the steam turbine units in the case of a system blackout (black start capability) and for peaking purposes. The CT uses JP-5 jet fuel as its primary fuel, and uses natural gas only as a startup assist fuel. The total generating capacity of the plant is 706 MW. The general characteristics of the South Bay Power Plant units are described in Table 2.1.

The South Bay Power Plant also includes a residual fuel oil and petroleum storage facility. The fuel storage area consists of nine above-ground storage tanks. Seven of the tanks contain residual fuel oil. The two remaining tanks contain displacement oil and JP-5 jet fuel. Combined,



SOURCE: SDG&E Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.6
Location of the South Bay Power Plant,
LNG Site and Transmission Property

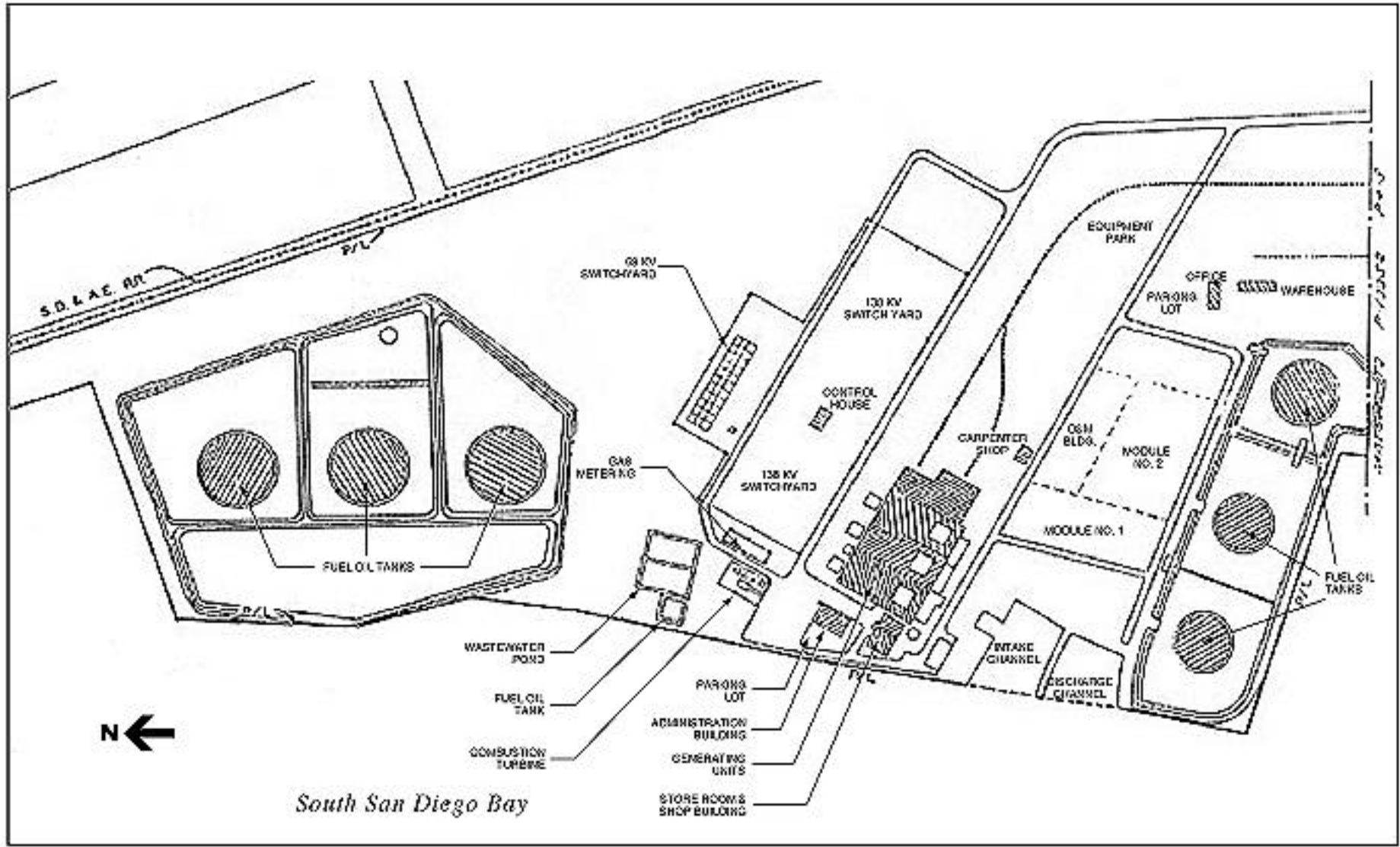


- Property to be transferred to the Port District, if it purchases the facility.
- Property to be sold, if auction process is recommended.
- Property to be retained by SDG&E, if auction process is recommended.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.7
Property Lines for the South Bay Power Plant,
LNG Site, and Transmission Property



2-19

SOURCE: SDG&E

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.8
South Bay Power Plant Facility Layout Map

the nine tanks have a total storage capacity of 75.2 million gallons. All of these tanks are included in the sale. JP-5 jet fuel is brought to the site via trucks. Residual fuel oil is brought to the site via an eight-inch pipeline that connects the plant's residual fuel oil storage facility to SDG&E's 24th Street Terminal Refueling Facility in National City; the pipeline connecting the two facilities is roughly five miles long. (See discussion below under 24th Street Terminal Refueling Facility for a detailed description of the facility.) Displacement oil may also be delivered to the site from the 24th Street Terminal Refueling Facility or by truck. The 24th Street Terminal Refueling Facility and the pipeline connection to the 24th Street Terminal Refueling Facility are being sold in conjunction with the South Bay Power Plant. Natural gas is delivered to the site via SDG&E's natural gas transmission and distribution system.

Other facilities included in the area being sold include a guard station, an administration building, various engineering buildings and trailers, water tanks, and parking facilities.

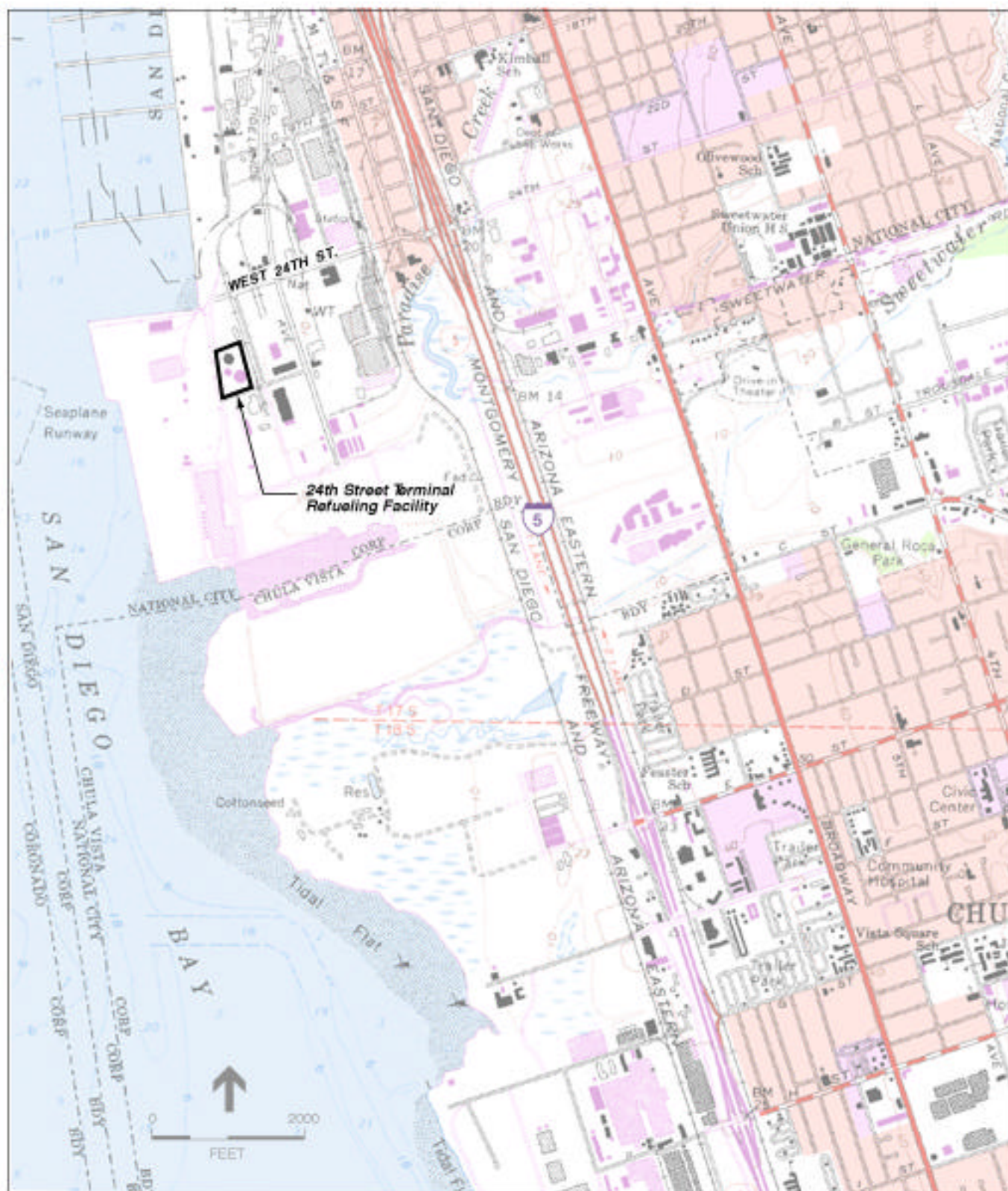
24th Street Terminal Refueling Facility

The 24th Street Terminal Refueling Facility is a receiving station for marine shipments of residual fuel oil destined for the South Bay Power Plant. Ships off-load fuel oil at the Port District's marine terminal that is then transferred to the 24th Street Terminal Refueling Facility for storage. The refueling facility is located on West 24th Street in National City, along the eastern shore of South San Diego Bay, and is on land leased to SDG&E. SDG&E's lease with the Port District has expired and is being extended on a month-to-month basis. SDG&E does not have the authority to assign the lease with the Port District to a new owner of the facility should the auction process be recommenced, but the Port District could enter into a new lease agreement with the purchaser.

The site is bound by West 24th Street, Quay Avenue, West 28th Street, and Terminal Avenue. Figures 2.9 and 2.10 show the location and an aerial view of the 24th Street Terminal Refueling Facility, respectively. Residual oil is pumped to the South Bay Power Plant via an eight-inch pipeline, approximately five miles in length. The 24th Street Terminal Refueling Facility has three fuel storage tanks with storage capacity of up to 12.4 million gallons of residual oil and 1.4 million gallons of displacement oil. Combined, the three tanks have a total storage capacity of roughly 13.9 million gallons. The displacement oil stored at the refueling facility is used to fill the pipeline between residual fuel oil shipments to the power plant. This procedure is required because residual fuel oil, which must be heated to flow, will solidify and clog pipelines at ambient temperatures. The 24th Street Terminal Refueling Facility is being sold in the same package as the South Bay Power Plant.

Combustion Turbines

SDG&E owns and operates 17 CTs (in addition to the CTs located at the Encina and South Power Plants), which have historically been operated only during times of peak energy demand, usually only during summer periods. The 17 CTs (and associated facilities) proposed for divestiture are located throughout the southwestern portion of SDG&E's service territory. Combined, the 17 CTs provide approximately 253 MW of total generating capacity. Each of



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.9
Location of the 24th Street Terminal
Refueling Facility



— Property to be sold.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.10
Aerial View of the 24th Street
Terminal Refueling Facility

these units has historically been operated less than 100 hours per year. However, following the commencement of the restructured electricity market in March 1998, the dispatch requirements from the ISO have required that the CTs run at significantly higher levels. The 17 CTs are being sold as a single package.

The general characteristics of each of the CTs are presented in Table 2.2 and described below. Natural gas is the primary fuel used in most of SDG&E's CTs. The Division Substation CT and one of the North Island Naval Air Station CTs burn only diesel. Natural gas used in the CTs is delivered to the sites via SDG&E's natural gas transmission and distribution system.

Division Substation CT

There is one 13 MW CT at SDG&E's Division Substation located at 3200 Harbor Drive in the City of San Diego. The unit was installed in 1966. Specific components being divested by SDG&E include the CT, a control cab for the CT, a 20,000-gallon water tank (used for oxides of nitrogen [NO_x] emission reduction), a water unloading area and water injection skid, compressed air (used for black starts of the CT), and a maintenance shed. Diesel fuel for the operation of the CT is delivered to the site via a pipeline that connects to the diesel storage tank at the nearby Naval Station CT site in the City of San Diego. Since the CT sites are being sold as a package, the new owner would have access and rights to the pipeline connecting the two sites. Figures 2.11 and 2.12 show the location and an aerial view of the Division Substation CT, respectively. The site is bordered by a Navy parking lot to the northwest and southwest, an SDG&E switchyard to the southeast, and Harbor Drive to the northeast. A chain-link fence surrounds the site.

El Cajon Substation CT

There is one 13 MW CT at SDG&E's El Cajon Substation located at 800 West Main Street in the City of El Cajon. The unit was installed in 1966. Specific components being divested by SDG&E include the CT, a control cab for the CT, three diesel storage tanks, a fuel skid, a 20,000-gallon water tank, a water injection skid, and a maintenance shed. The three above-ground storage tanks have a combined storage capacity of about 60,400 gallons. Figures 2.13 and 2.14 show the location and an aerial view of the El Cajon Substation CT, respectively. The site is fully developed for heavy commercial/light industrial uses. The site is bordered by SDG&E's Eastern Construction and Operations Center to the northwest and northeast, by residential areas to the southwest, and Johnson Avenue to the southeast. SDG&E's substation, which is not being divested, is located between the CT and residential areas to the southwest. A chain-link fence surrounds the site, except for the diesel storage tanks and fuel skid.

Kearny Construction and Operation Center CTs

There are nine CTs at SDG&E's Kearny Construction and Operation Center located at 5460 Overland Road in the City of San Diego. Eight of the units were installed in 1966 and the last CT was installed in 1972. The nine units are grouped into three power blocks on the site. Kearny Power Block One, consisting of one CT, is located at the east end of the center, while Power Blocks Two and Three, consisting of four units each, are located together on the west end of the site. Specific components being divested by SDG&E include the nine CTs, three control

TABLE 2.2
DESCRIPTIONS OF SAN DIEGO GAS & ELECTRIC COMPANY COMBUSTION TURBINES TO BE DIVESTED

Facility Name	Unit	Minimum Dependable Capacity ^a (MW)	Start-up Year	Fuel (Primary, Back-up)	Annual Fuel Oil Use ^b (gallons)	Annual Natural Gas Use (MMcf) ^c	Annual Net Generation ^b (MWh)	Capacity Factor (%) ^{b,d}
Division Substation	CT1	13 MW	1966	Diesel only	24,583	NA	174	0.15
El Cajon Substation	CT1	13 MW	1966	Natural gas, diesel	2,814	4.150	278	0.24
Kearny Construction and Operation Center	CT1	15 MW	1972	Natural gas, diesel	2,772	3.348	548	0.42
	CT2A	14 MW	1969	Natural gas, diesel	3,570	6.846	436	0.36
	CT2B	14 MW	1969	Natural gas, diesel	4,271	7.953	508	0.41
	CT2C	14 MW	1969	Natural gas, diesel	3,654	7.382	468	0.38
	CT2D	13 MW	1969	Natural gas, diesel	4,116	8.548	538	0.47
	CT3A	15 MW	1969	Natural gas, diesel	3,919	7.529	469	0.36
	CT3B	14 MW	1969	Natural gas, diesel	3,948	7.298	455	0.37
	CT3C	14 MW	1969	Natural gas, diesel	4,313	7.504	468	0.38
	CT3D	14 MW	1969	Natural gas, diesel	4,607	9.143	569	0.46
Miramar Yard	CT1A	17 MW	1972	Natural gas, diesel	3,347	20.461	1,252	0.84
	CT1B	16 MW	1972	Natural gas, diesel	3,557	21.757	1,332	0.94
North Island Naval Air Station	CT1	17 MW	1972	Diesel only	37,393	NA	326	0.22
	CT2	17 MW	1972	Natural gas, diesel	8,329	11.297	730	0.49
Naval Station	CT1	20 MW	1976	Natural gas, diesel	14,196	25.959	1,979	1.13
Naval Training Center	CT1	13 MW	1970	Natural gas, diesel	1,919	5.083	320	0.28

^a The minimum dependable capacity is based on inlet air of 95 degrees Fahrenheit to the turbines, which occurs in San Diego during summer and early fall months; minimum dependable capacity is somewhat higher during cooler months.

^b Averaged over a three-year period (1994-1996).

^c MMcf = millions of cubic feet.

^d Capacity factor is the ratio of energy actually produced by a generating unit to the maximum energy it could possibly produce (that is, its rated generating capacity) in the same time period.

SOURCE: SDG&E, *Proponent's Environmental Assessment: San Diego Gas & Electric Company's Proposed Sale of Its Electrical Generation Facilities and Power Contracts*, December 19, 1997.



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.11
Location of the Division Substation and
Naval Station Combustion Turbines



Division Substation
Combustion Turbine
Site

Naval Station
Combustion Turbine
Site

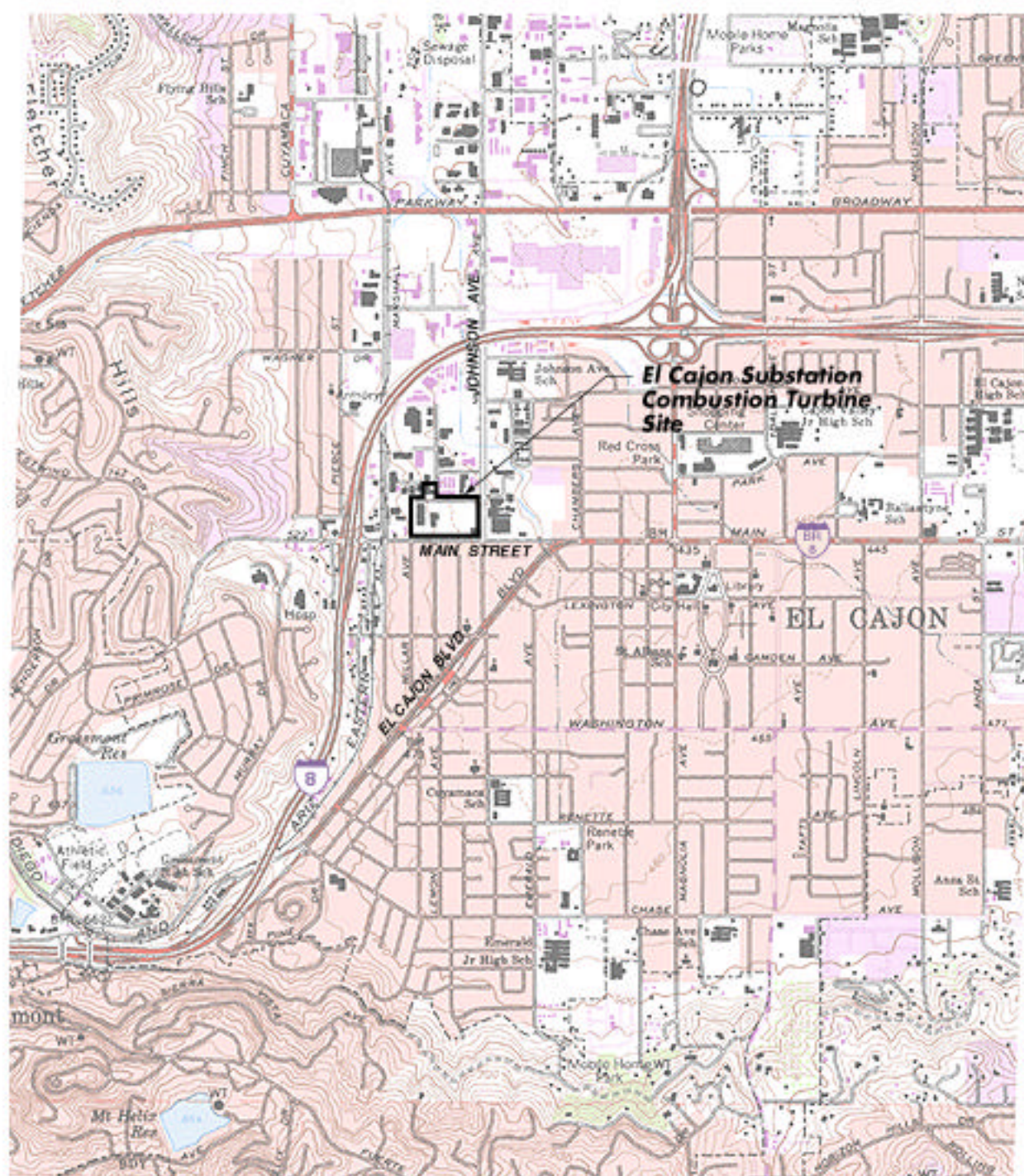


- — — — — Boundary of the combustion turbine site.
- - - - - Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.12
Aerial View of the Division Substation and
Naval Station Combustion Turbine Sites



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980684 ■

Figure 2.13
Location of the El Cajon Substation
Combustion Turbine



- Boundary of the combustion turbine site.
- - - Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980064 ■

Figure 2.14
Aerial View of the El Cajon Substation
Combustion Turbine Site

cabs (one for each power block), five above-ground diesel storage tanks, a fuel unloading area, a fuel skid, a fuel forwarding skid, a maintenance shop, an electrical instrumentation shop, various buildings for storage, a portable office trailer, and a lunchroom. Of the nine units at this location, six have capacities of 14 MW, two have capacities of 15 MW, and one has a capacity of 13 MW. Diesel used to fuel the nine units is stored in five diesel storage tanks with a combined storage capacity of 7.1 million gallons. Figures 2.15 and 2.16 show the location and an aerial view of SDG&E's Kearny Construction and Operation Center CTs, respectively. The site is fully developed for industrial uses and is surrounded by other commercial and industrial land uses. The site is bordered by Complex Street to the west, county office buildings to the north, Overland Drive to the east, and a neighboring business to the south. Power Block One is surrounded by a separate chain-link fence from the fence that surrounds Power Blocks Two and Three.

Miramar Yard CTs

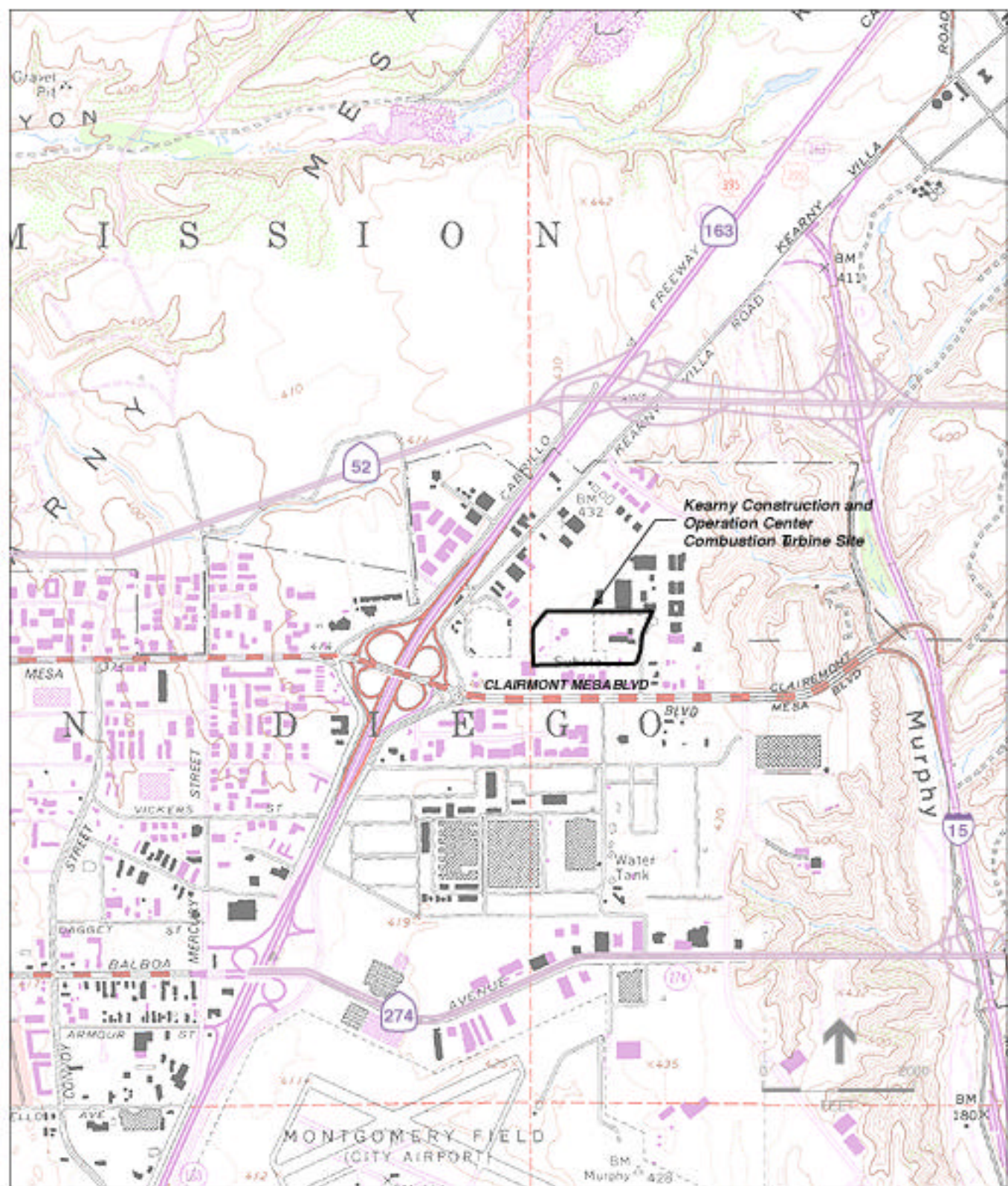
There are two CTs at SDG&E's Miramar Yard located at 6897 Consolidated Way in the City of San Diego. Both of the units at the site were installed in 1972. Specific components being divested by SDG&E include the CTs, a control cab for the CTs, a diesel storage tank, a fuel skid, a 40,000-gallon water tank, and a maintenance building. One of the units has a capacity of 17 MW and the other a capacity of 16 MW. Diesel used to fuel the two units is stored in an above-ground storage tank with a total capacity of roughly 236,000 gallons. Figures 2.17 and 2.18 show the location and an aerial view of SDG&E's Miramar Yard CTs, respectively. The site is fully developed for industrial uses. The site is bordered by SDG&E's industrial buildings to the north, an SDG&E open lot to the east, an SDG&E storage yard to the west, and by the Marine Corps (formerly Naval) Air Station Miramar to the south. A chain-link fence surrounds the site and other nearby equipment not included in the sale.

North Island Naval Air Station CTs

There are two CTs at the U.S. Navy's North Island Naval Air Station located at Rogers Street and Quay Road in the City of Coronado. Both of the units at the site were installed in 1972. Specific components being divested by SDG&E include the CTs, a control cab for the CTs, a diesel storage tank, a fueling area, a 40,000-gallon water tank, a gas vessel, a natural gas compressor, a filter house, a hazardous waste storage area, and a maintenance shed. Each of the two units has a capacity of 17 MW. Diesel used to fuel the two units is stored in an above-ground tank with a total capacity of roughly 235,000 gallons. Figures 2.19 and 2.20 show the location and an aerial view of the North Island Naval Air Station CTs, respectively. The site is bordered by San Diego Bay to the north, Rogers Road to the east, and Navy facilities to the south and west. A chain-link fence surrounds the site and other nearby equipment owned by Energy Factors, Inc., which are not included in the sale.

Naval Station CT

There is one 20 MW CT at the Navy's Naval Station site located at Surface Navy Boulevard in the City of San Diego. The unit was installed in 1976. Specific components being divested by SDG&E include the CT, a control cab for the CT, a diesel storage tank, a fuel unloading area,



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.15
Location of the Keamy Construction and
Operation Center Combustion Turbines

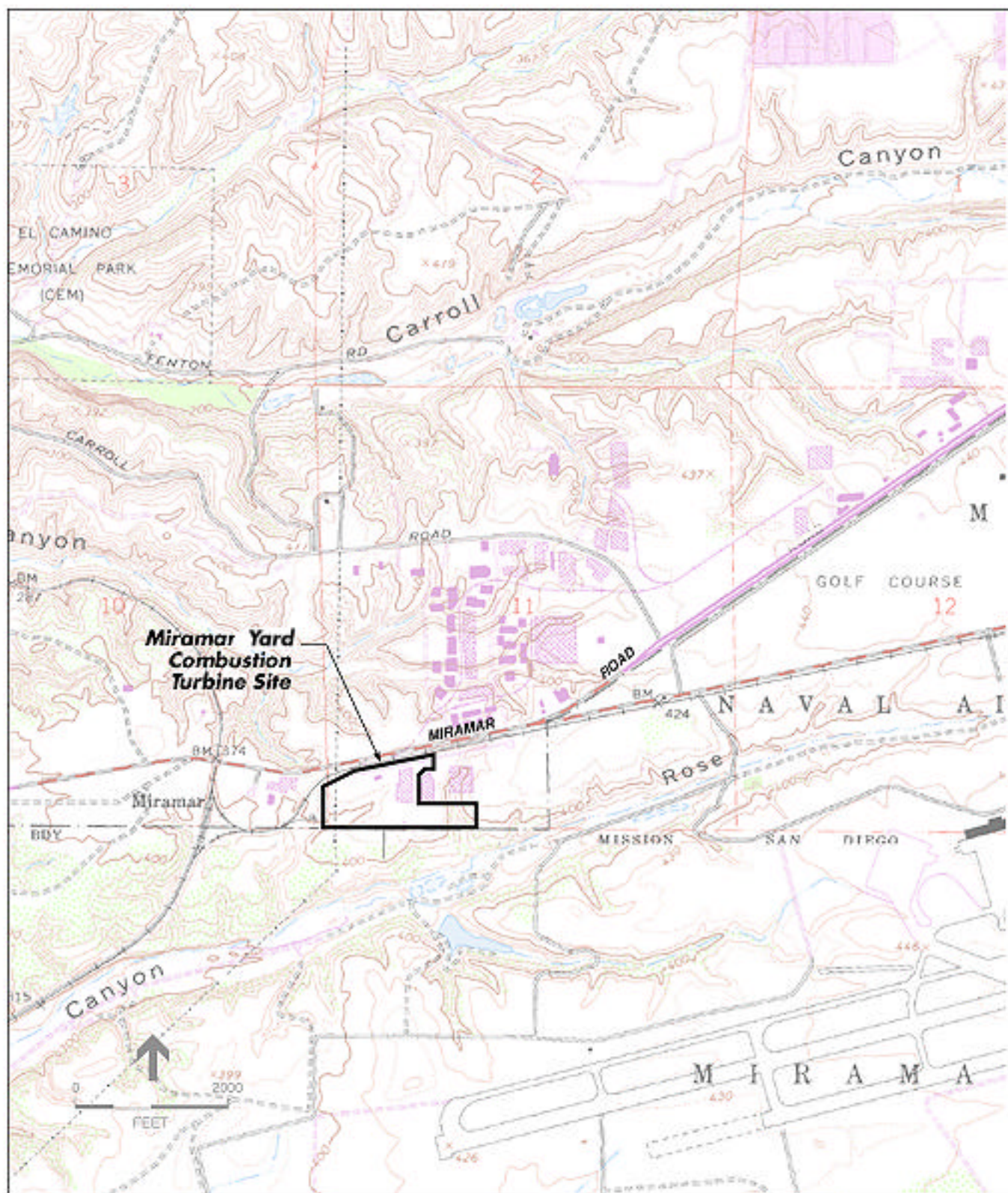


- Boundary of the combustion turbine site.
- - - Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.16
Aerial View of the Kearny Construction
and Operation Center Combustion
Turbine Site





SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.17
Location of the Miramar Yard
Combustion Turbines



-  Boundary of the combustion turbine site.
-  Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.18
Aerial View of the Miramar Yard
Combustion Turbine Site

SOURCE: Environmental Science Associates



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 1980/81 ■

Figure 2.19
 Location of the North Island Naval Air Station
 Combustion Turbines



- Boundary of the combustion turbine site.
- - - Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980064 ■

Figure 2.20
Aerial View of the North Island Naval
Air Station Combustion Turbine Site

and a 20,000-gallon water tank. The facilities being divested are actually located on two separate parcels of land. One parcel contains the CT, while the other contains the fuel storage tank. Diesel used to fuel the unit is stored in one above-ground tank with a total capacity of roughly 740,000 gallons. The diesel fuel stored at the site is also used to fuel the Division Substation CT and is delivered there via a pipeline. SDG&E leases one additional above-ground tank at the site to Energy Factors, Inc. Figures 2.11 and 2.12 show the location and an aerial view of the Naval Station CT, respectively. The site is bordered by a Navy dry dock to the north, Surface Navy Boulevard to the east, Arrowhead water operations to the south, and Navy facilities to the west. A chain-link fence surrounds the CT and fuel storage areas, as well as other nearby equipment owned by Energy Factors, Inc., which are not included in the sale.

Naval Training Center CT

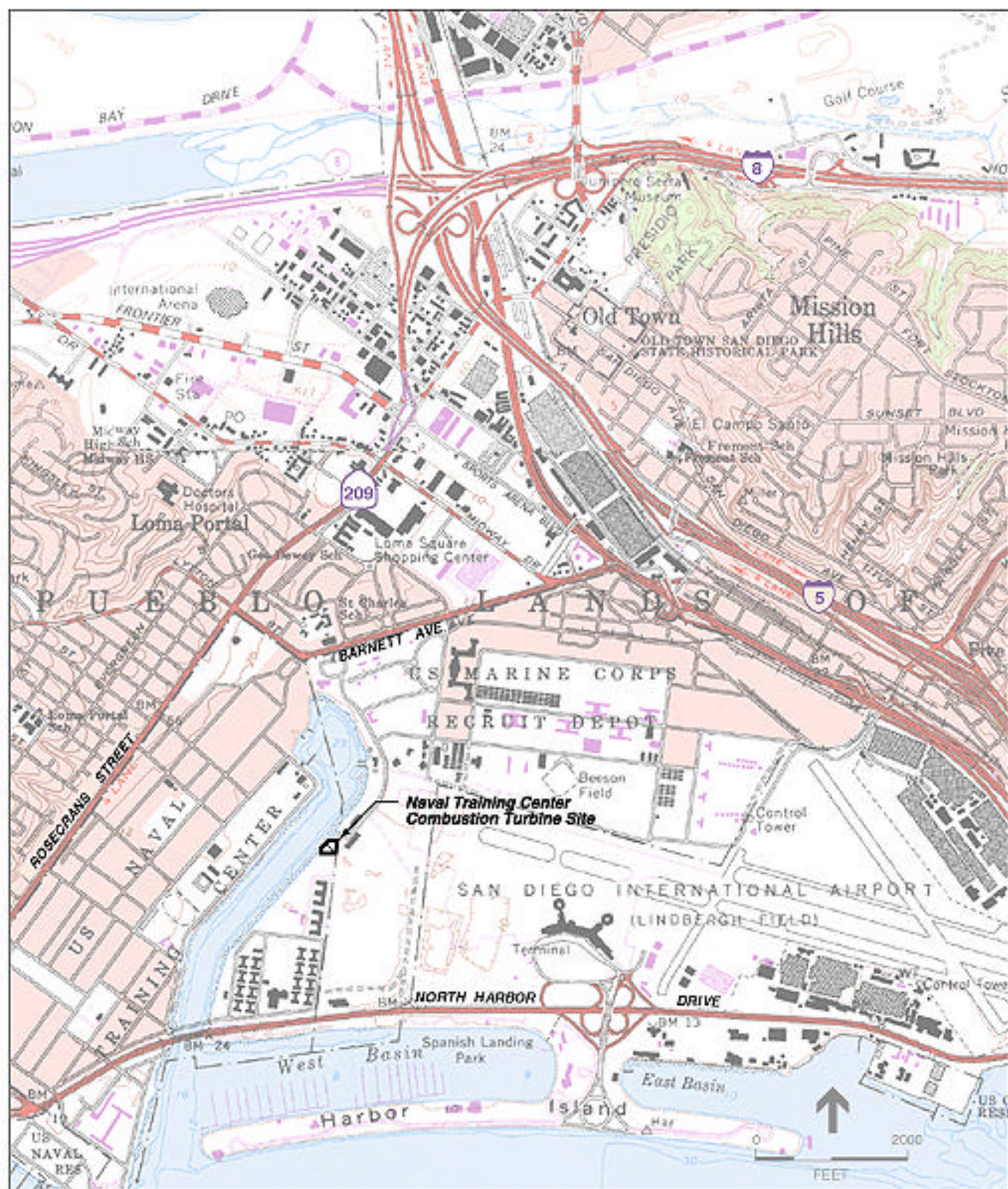
There is one 13 MW CT at the Navy's Naval Training Center located at Neville Road in the City of San Diego. The unit was installed in 1970. Specific components being divested by SDG&E include the CT, a control cab for the CT, three diesel storage tanks, a hazardous substance storage area, and a maintenance shop. Diesel used to fuel the unit is stored in three underground storage tanks with a combined storage capacity of roughly 58,000 gallons. Figures 2.21 and 2.22 show the location and an aerial view of the Naval Training Center CT, respectively. The site is bordered by a boat channel to the north and west, and U.S. Navy facilities to the south and east. A chain-link fence surrounds the site and other nearby equipment owned by Energy Factors, Inc., which are not included in the sale.

INTANGIBLE ASSETS

Ownership Interest in the San Onofre Nuclear Generating Station

The San Onofre Nuclear Generating Station (SONGS) is located on a roughly 90-acre site next to San Onofre State Beach on the Camp Pendleton U.S. Marine Corps Base in unincorporated San Diego County, just south of the City of San Clemente. SONGS has two active generating units (Units 2 and 3), with a combined net generating capacity of 2,150 MW, enough power to serve the needs of roughly 2.75 million households. Unit 2 has a net capacity of 1,070 MW, while Unit 3 has a net capacity of 1,080 MW. Units 2 and 3 were constructed in 1983 and 1984, respectively. Combined, the two units occupy approximately 53 acres of the site. Unit 1 was constructed in 1967 and retired, after 25 years of service, on November 30, 1992. Unit 1 had a net generating capacity of 436 MW and has since been decommissioned. Unit 1 was a Westinghouse pressurized water reactor, while Units 2 and 3 are both Combustion Engineering pressurized water reactors of identical design. Under their current licenses, Units 2 and 3 are authorized to operate through 2013. When the units are eventually decommissioned, the underlying land must be returned to the government in an unrestricted use condition.

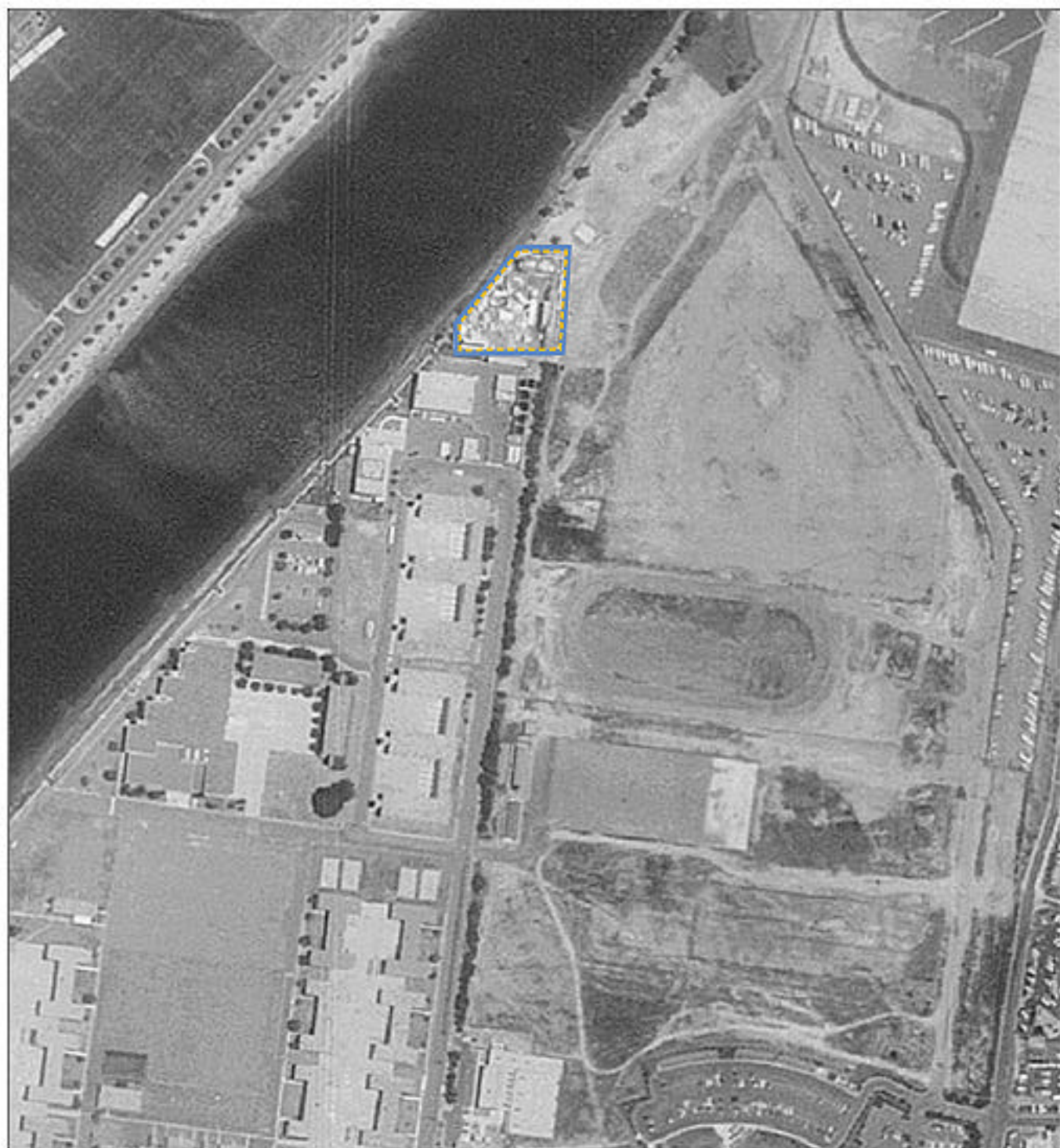
The SONGS facility is under joint ownership pursuant to a number of agreements, herein referred to as "SONGS Agreements." Under the SONGS Agreements, SDG&E, Edison, the City of Anaheim, and the City of Riverside are tenants-in-common with respect to SONGS Units 2 and 3, areas related to Units 2 and 3, and other common areas. Table 2.3 describes the



SOURCE: Environmental Science Associates

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.21
 Location of the Naval Training Center
 Combustion Turbine



- Boundary of the combustion turbine site.
- Property to be leased to new owner. Combustion turbines and associated equipment included in the sale are within this area.

Divestiture of Assets by SDG&E / 980084 ■

Figure 2.22
Aerial View of the Naval Training
Center Combustion Turbine Site

SOURCE: Environmental Science Associates

TABLE 2.3
UNDIVIDED INTEREST PER SONGS AGREEMENTS

Assets	Ownership Interest (expressed as a percentage of the asset)			
	SDG&E	Edison	City of Anaheim	City of Riverside
Units 2 and 3	20.00	75.05	3.16	1.79
Units 2 and 3 Area	20.00	75.05	3.16	1.79
Common Areas	20.00	75.87	2.64	1.49
SDG&E Switchyard Area	100.00	0.00	0.00	0.00
Edison Switchyard Area	0.00	100.00	0.00	0.00
Interconnection Facilities	50.00	50.00	0.00	0.00

SOURCE: SDG&E, *Proponent's Environmental Assessment: San Diego Gas and Electric Company's Proposed Sale of Its Electrical Generation Facilities and Power Contracts*, December 19, 1997.

various SONGS assets and the corresponding ownership interests. Under the SONGS Agreements, Edison, SDG&E, the City of Anaheim, and the City of Riverside are entitled to schedule and receive electric power output from Units 2 and 3 in proportion to their respective ownership interests. As shown in Table 2.3, SDG&E's share of SONGS' maximum output is a total of 214 MW from Unit 2 and 216 MW from Unit 3, or a combined output of 430 MW. In exchange, each party is obligated to pay its share of operation and maintenance expenses, capital improvements, and decommissioning, among other things, in proportion to its ownership interest.

Under the SONGS Agreements, Edison has been designated the Operating Agent. As such, Edison is solely responsible for operating and maintaining the SONGS facility, for conducting required capital improvements, arranging for nuclear fuel, and refueling of the units. Edison's responsibilities also include managing SONGS personnel, personnel training, procurement, quality assurance, ensuring that adequate support resources are available, and settling claims.

SDG&E, the City of Anaheim, and the City of Riverside do not have discretionary authority to operate SONGS, but may review and comment on major policy and operating decisions proposed by Edison. This is done through the Board of Review, which consists of a representative designated by each of the parties. Edison's representative serves as the chair. All decisions of the Board of Review require the unanimous consent of its members. A mechanism for resolving disputes is included in the SONGS Agreements, with binding arbitration as the ultimate means.

Edison, the City of Riverside, and the City of Anaheim each have contractual rights of first refusal to purchase SDG&E's ownership interest in the SONGS units and facilities. The SONGS Agreements require that SDG&E give Edison and the cities written notice, at least three years prior to the intended date of sale, of the terms of any proposed sale of its SONGS ownership

interest. This notice has not yet been given. Once notice has been given, Edison and the cities then have 180 days to decide whether or not to match the pending offer. Accordingly, the actual transfer of SDG&E's SONGS interest would necessarily take place long after the initial auction were completed, unless Edison and the cities agree to modify or waive their respective rights.

Long-Term Power Purchase Contracts

SDG&E has 11 long-term power supply contracts available for auction, nine of them with Qualifying Facilities (QFs). The remaining two long-term power supply contracts are with non-QFs (utilities). Combined, the power supply contracts provide SDG&E with roughly 382 MW of additional electrical capacity.

Power Purchase Contracts with Qualifying Facilities

SDG&E has entered into a number of power purchase contracts with QFs. Together, the nine power purchase contracts provide SDG&E with up to 207 MW of guaranteed capacity. Table 2.4 provides the general characteristics of each of these contracts. Under these contracts, the owner/operator of the facility has agreed to maintain the availability of a specific firm capacity of power deliverable to SDG&E, subject to limited exceptions. The owner of the generating facilities is required to operate and maintain the generating facilities; to obtain, maintain, and comply with all necessary permits or approvals, including any required environmental studies for the construction, operation, and maintenance of the facilities; and to indemnify SDG&E against any losses or liabilities for any failure to do so. SDG&E has no dispatch rights, nor any discretionary operating authority under any of these contracts.

Other Power Purchase Contracts with Non-Qualifying Facilities

SDG&E has two long-term power purchase contracts with non-qualifying energy suppliers or independent power producer utilities. These two contracts are summarized below:

Agreement With Portland General Electric Company (Portland General). Under this contract, SDG&E is entitled to receive 15 percent of the net plant output of power (up to 75 MW) from Unit 1 at Portland General's Boardman Coal-Fired Power Plant in Boardman, Oregon. To the extent that SDG&E's 15 percent share of the net plant output falls short of its 75 MW entitlement, SDG&E may acquire additional power from other sources in the Portland General system, if available, or from third parties. If Portland General elects not to operate the Boardman Power Plant, SDG&E may require Portland General to provide Assured Delivery Power (up to 75 MW) or, under certain circumstances, power from the Portland General system. In addition, Portland General will provide SDG&E with marketing assistance for the purpose of acquiring up to 75 MW of power from the northwest.

SDG&E may elect to satisfy its 75 MW entitlement with Firm Displacement Power, when available, from Bonneville Power Administration. SDG&E is required to pay a capacity fee and an energy payment to Portland General Electric. Under this contract, the price of firm capacity is \$384.00/kW-Yr. In addition, SDG&E pays Portland General approximately \$131.60/kW-Yr for transmission and operations and maintenance (O&M)

TABLE 2.4
DESCRIPTIONS OF SAN DIEGO GAS & ELECTRIC COMPANY
LONG-TERM POWER SUPPLY CONTRACTS FOR QUALIFYING FACILITIES TO BE DIVESTED

Owner/Operator	Facility Name/Address	Firm Capacity (MW)	Facility Type	Fuel	Capacity Price (\$/kW-Yr)	Contract Termination Date
Applied Energy, Inc.	North Island North Island, Coronado	33.5 MW	Cogeneration	Natural Gas	\$152.50	November 30, 2019
	NTC/MCRD 3231 Barnett Avenue, San Diego	21.6 MW	Cogeneration	Natural Gas	\$152.50	November 30, 2019
	U.S. Naval Station 213 Ward Road, San Diego	46.5 MW	Cogeneration	Natural Gas	\$152.50	November 30, 2019
Central Plants, Inc.	Otay Landfill 1 1600 Maxwell Road, San Diego	1.8 MW	Bio-Gas	Landfill Gas	\$127.00	May 12, 2009
	Otay Landfill 2 1600 Maxwell Road, San Diego	0.8 MW	Bio-Gas	Landfill Gas	\$127.00	August 19, 2011
	San Marcos Landfill 1615 Quest Haven Road, Escondido	1.33 MW	Bio-Gas	Landfill Gas	\$130.00	May 30, 2011
Landfill Energy Partners	Sycamore Landfill 14494 Mast Boulevard, San Diego	1.33 MW	Bio-Gas	Landfill Gas	\$130.00	December 30, 2010
PE-Goal Line, Inc.	Goal Line L.P. 555 North Tulip Street, Escondido	49.9 MW	Cogeneration	Natural Gas	\$172.00	February 4, 2025
Yuma Cogeneration Associates	Yuma 280 North 27th Drive, Yuma, Arizona	50.0 MW	Cogeneration	Natural Gas	\$140.00	May 27, 2024

SOURCES: SDG&E, *Application of San Diego & Electric Company (U 902-E) for Authority to Sell Electric Generation Facilities and Power Contracts*, December 19, 1997; SDG&E, *Proponent's Environmental Assessment: San Diego Gas & Electric Company's Proposed Sale of Its Electrical Generation Facilities and Power Contracts*, December 19, 1997; and Supplemental and Restated Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Enter Into a Master Agreement and a Power Sale and Administration Agreement Relating to SDG&E Power Contract Obligations, September 15, 1998.

fees. The O&M fees are subject to adjustment based on actual operations of the Boardman Power Plant. SDG&E has no control over the operation of the plant. It is only entitled to schedule and receive power output under prescribed conditions at prescribed rates. The termination date for this contract is December 31, 2013.

Agreement With the Public Service Company of New Mexico (PNM). Under this contract, SDG&E is entitled to schedule delivery of up to 100 MW from the PNM power system. SDG&E, in turn, pays a capacity fee and an energy payment. The price of firm capacity under this contract is \$280.00/kW-Yr. SDG&E pays PNM for energy in accordance with the energy rate specified in its agreement with PNM that is based on PNM's system generation costs, including purchased power. SDG&E has no control over the operation of any portion of the PNM system. It is only entitled to schedule and receive power under prescribed conditions at prescribed rates. The termination date for this contract is April 30, 2001.

2.4 PURPOSE OF ENVIRONMENTAL REVIEW

Implementation of the proposed divestiture application entails discretionary decision-making by the CPUC. The CPUC is responsible for considering and making the determination as to what level of environmental review is required under the California Environmental Quality Act (CEQA). Furthermore, the CPUC is the lead agency under CEQA and is responsible for preparing this Initial Study, as defined in Section 15365 of the CEQA Guidelines, to determine if the proposed divestiture of SDG&E's fossil-fueled generating assets, refueling facility, ownership interest in SONGS, and the power supply contracts may have a significant effect on the environment. This Initial Study provides the CPUC with adequate information to determine whether an Environmental Impact Report (EIR) or a Negative Declaration should be prepared.

The CPUC Energy Division staff has recommended to the CPUC Commissioners that a Notice of Exemption under CEQA be prepared and filed with respect to the proposed sale by SDG&E of its intangible assets (i.e., SDG&E's ownership interest in SONGS and the long-term power supply contracts, discussed above). The three independent bases for such exemption from CEQA are as follows:

1. Approval by the CPUC of SDG&E's sale of the intangible assets would not be a "project" under CEQA because the transfer of such assets has no potential for resulting in a physical change (CEQA Guidelines Sections 15061[b][1] and 15378). The sale of the power contracts and the interest in SONGS would not change the underlying operations of the electricity generating facilities involved, since such operations would not be controlled by the new owner, and thus the transfer of the intangible assets would not produce any physical changes.
2. The sale of SDG&E's intangible assets would merely result in the continued operation of existing electricity generating facilities, involving negligible or no expansion of use of such facilities (CEQA Guidelines Section 15301).
3. There is no possibility that the transfer of the intangible assets may have a significant effect on the environment (CEQA Guidelines Section 15061[b][3]). Again, the sale of the power contracts and the interest in SONGS would not change the underlying operations of the

electricity generating facilities involved since they would not be controlled by the new owner. Thus, the transfer of the intangible assets could not result in significant environmental impacts.

Simultaneous with considering SDG&E's application for divestiture, the Commission will consider the recommendation of the CPUC Energy Division to file a Notice of Exemption as to the proposed sale of the intangible assets.

Even if CEQA were to apply to the sale of SDG&E's SONGS interest and power contracts, it is evident that the transfer of ownership of these assets would not result in changes to the physical environment. SDG&E does not now manage or control the operations of SONGS or of the electricity generating facilities that produce the power covered by the power supply contracts. The new owner of such assets would be in a position identical to that of SDG&E. Therefore, a mere change in ownership of these assets would have no physical consequences, and thus no environmental impacts. For this reason, the proposed sale by SDG&E of its intangible assets is not further explored in the detailed analyses provided in subsequent sections of this Initial Study.

2.5 PROJECT APPROVALS

SDG&E's proposed divestiture is subject to approval by the following agencies: the CPUC; the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and the Federal Trade Commission.

In addition, the proposed divestiture would require the transfer of permits or other entitlement rights and other regulatory approvals or consents for the sales to close. In some cases, the re-issuance of existing permits would be ministerial, and the permits would be reviewed in light of the operations of the buyer when they come up for renewal. Permit transfers or re-issuances for individual assets may trigger review or approval by responsible agencies. The following responsible agencies may have some approval authority:

- California Coastal Commission,
- California Department of Toxics Substances Control,
- California State Lands Commission,
- City of Carlsbad,
- City of Chula Vista,
- San Diego Regional Water Quality Control Board,
- San Diego Air Pollution Control District,
- San Diego Unified Port District,
- San Diego County Department of Health,
- San Diego Industrial Wastewater Department,
- United States Environmental Protection Agency, and
- United States Army Corps of Engineers.

REFERENCES – Project Description

SDG&E, *Application of San Diego Gas & Electric Company (U902-E) for Authorization to Sell Electric Generation Facilities and Power Contracts (Application No. 97-11-039)*, December 12, 1997a.

SDG&E, *Proponent's Environmental Assessment: San Diego Gas & Electric Company's Proposed Sale of Its Electrical Generation Facilities and Power Contracts*, December 19, 1997b.

SDG&E, *Direct Testimony of San Diego Gas & Electric Company in Support of Application for Authority to Sell Electrical Generation Facilities and Power Contracts*, February 26, 1998.

SDG&E and Office of Rate Payer Advocates (ORA), *Motion of the Office of Ratepayer Advocates and San Diego Gas & Electric Company (U 902-E) for Adoption of Procedural Schedule*, April 1, 1998.