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Ms. Connie Bruins
Compliance Project Manger
California Energy Commission
1516 Ninth Street, MS-2000
Sacramento, CA 95814

RE: Preliminary Staff Analysis of Proposed Amendment
Petition to Use Raw Water as a Backup Supply to Recycled
Water for the Palomar Energy Center (01-AFC-24C)

Dear Ms. Bruins:

Set forth below are initial comments submitted by San Diego Gas and Electric (SDG&E) on the Preliminary Staff Analysis concerning the Petition for Modification submitted by Palomar Energy LLC on January 11, 2006 to allow use of raw water as an emergency backup supply at the Palomar Energy Center. SDG&E assumed operational control of the facility on March 30, 2006 and will be submitting its formal Notice of Transfer effective as of that date on April 4, 2006. SDG&E's letter of support was included with the original Petition submitted by Palomar Energy.

SDG&E appreciates the efforts made by Commission Staff to evaluate the Petition and Staff's recognition that an emergency backup water supply is needed. However, some of the proposed conditions would negate the reliability benefit of the backup supply. Others would inappropriately insert SDG&E into the active management and financing of the City of Escondido Hale Avenue Resource Recovery Facility

At the outset we want to clarify that SDG&E, like Palomar before it, has no desire to use raw water, except in unusual circumstances. We see our ability to utilize the City's planned backup for its recycled water customers as merely prudent insurance, not our first preference. The Palomar Energy Center was designed to operate exclusively with recycled water. We gain nothing by using raw water more than absolutely necessary. However, providing the backup does provide an additional measure of energy security to the over three million electrical consumers served by SDG&E in the San Diego region.

We share the desire of staff that the HARRF operate reliably. Staff appears to assume that little has been done to evaluate problems encountered by HARRF in ramping up its production of recycled water in late December 2005, and that the HARRF has many more improvements to make. The workshop will provide a useful opportunity for Mr. Pat Thomas, Director of the City's Department of Public Works, to provide information concerning what happened, what has been done, and the current and future reliability of the HARRF's tertiary treatment processes. A summary of this information is attached. In short, the studies requested by staff have largely been done.

We are confident that the City will cooperate with Commission staff to provide other information should that be necessary. Note that the Palomar Energy Center operated at near full capacity for ten days at the end of February using exclusively recycled water. Thus, we do not believe that the City needs to be directed through Palomar to undertake further studies or to work to improving the HARRF. The City is aware of its responsibility and is acting to meet it.

Staff concludes that the occasional use of raw water as a backup to HARRF recycled water supplies would not significantly impact other regional or local users. However, staff states that, in the event of a severe drought, use of backup raw water could possibly affect some users in the Escondido area. We will further address those concerns at the workshop. We believe that the analysis must take regional imported raw water supplies into account rather than be limited to solely the past City water demand, since the raw water supply available to temporarily support backup water use is provided by the regional San Diego County Water Authority, not just the City. In short, we do not believe that the use of raw water as an emergency backup supply will cause a significant environmental impact justifying the imposition of additional mitigation measures. Staff's analysis also does not take account of the impact of operating older plants, such as Encina and South Bay -- which use 70% more fuel per megawatt, have significantly higher air emissions, and use once through cooling -- in the event Palomar is unable to utilize emergency backup water.

SDG&E's more specific comments on the Alternatives A and B presented by staff are set forth below.

Alternative A is simply unworkable for SDG&E since it conflicts with the very purpose of the Palomar Energy Center. The project is not a merchant project. The cost is borne by customers and regulated by the California Public Utilities Commission. The Palomar Energy Center is planned by SDG&E to operate as a Reliability Must Run (RMR) facility. Therefore, anything that limits the Cal-ISO's use of the plant for grid reliability jeopardizes the primary role of the facility. Note that RMR contracts merely allocate costs among ratepayers. They do not provide a "lucrative" benefit to shareholders. RMR facilities need to be part of our operating portfolio before an energy shortage strikes, not afterwards. As noted, if SDG&E is prevented from operating such facilities during a period of emergency backup water use, the other older facilities will be dispatched and used by the Cal-ISO. The heat rate differential for these plants yields a cost margin to SDG&E customers that could easily amount to hundreds of thousand dollars per day. Further, the relative amount of air emissions from the older plants is a quantum leap above that produced at Palomar. For these reasons, we cannot accept the limitations proposed in Alternative A.

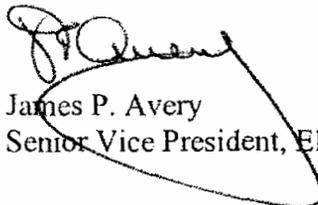
Much of Alternative B is workable for the Palomar Energy Center and is similar to the Palomar/SDG&E proposal and conditions for other combined cycle plants. We have concerns about the basis for a water conservation program fee, but are willing to discuss this at the workshop. It should be noted that any use of backup water would need to be supported by facts that such use is actually necessary. The decision to provide such water will always be the City's not, SDG&E's. The CPM will always retain control to limit use beyond the stated limit. Thus, we do not believe there is any practical prospect for abuse of the backup water availability.

While the CPM notification identified in Alternative B, Soil and Water Condition 5, could be workable, we believe that the requirements in staff's Soil and Water conditions 8 and 9 are both unnecessary and again unworkable for SDG&E, as well as the City. The City is the owner and operator of the HARRF, not SDG&E. Thus, SDG&E does not have the authority to enter and conduct a study of the HARRF nor to require the City to implement any recommended improvements. Further, the City is not subject to Commission jurisdiction. SDG&E believes that the Commission must address any remaining concerns with the City management of the HARRF as an issue between separate units of government rather than attempt to regulate the City through license conditions issued to SDG&E.

Finally, assuming for purposes of analysis that remaining improvements are needed, SDG&E is already paying for whatever maintenance and process improvements may be necessary through capacity and water use charges under the existing recycled water agreement and other O&M assessments with the City and the Rincon Del Diablo Municipal Water District. Any additional payments would be surplus to SDG&E's existing financial obligation and would have to be unnecessarily borne by SDG&E ratepayers.

Thank you for considering these comments upon the Preliminary Staff Analysis and for scheduling a work shop to facilitate more detailed discussion of the issues. We look forward to arriving at modifications to Conditions of Certification that enable the Palomar Energy Center to operate as an important part of the SDG&E system to provide reliable and lower emitting electrical power resources to the San Diego region.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Avery", is written over a large, hand-drawn oval scribble.

James P. Avery
Senior Vice President, Electric

cc: Commissioner John Geesman
Commissioner James Boyd
Mr. B. B. Blevins
Mr. Terry O'Brien
Mr. Roger Johnson

Summary of Events at
Hale Avenue Resource Recovery Facility (HARRF)
Concerning Production of Recycled Water During December 2005 and Early 2006
April 4, 2006

The HARRF is a conventional sewage treatment plant, employing primary and secondary treatment using an activated sludge process to treat municipal sewage. In 2002, a tertiary treatment system was added and consisted of flocculation chambers, continuous up flow granular media filters and UV disinfection chambers.

Following the required testing procedures to establish the capacity of the system, the State restricted the flow rate through the UV disinfection system to 4 MGD. Subsequently, the City decided to employ chlorine contact chambers (CCC) rather than UV disinfection in order to increase the treatment capacity of the tertiary system. The installation of the CCC was completed in 2005 and recycled water was first treated in the CCC in early February of that year.

The tertiary system was added to achieve regional water conservation goals, but also to give the City the ability during exceptionally wet periods to discharge treated wastewater directly to Escondido Creek rather than to the City's 14 mile outfall to the Pacific Ocean. Constraints in the capacity of the outfall line led to unavoidable discharges of waste water to the Creek during the 1990's. The Regional Water Quality Control Board took enforcement actions against the City because of these discharges.

Use of recycled water for cooling by Palomar Energy Center ("PEC") removes about 3 MGD of flow from the ocean outfall line. This recycled water use during wet periods helps the City avoid any discharges to the Creek by effectively adding about 15% to the line's capacity. For these reasons, the City has important incentives, in addition to its contract obligations, to ensure reliable production of recycled water.

The tertiary system, while constructed in 2002, had not been previously operated at the capacity necessary to supply recycled water to the PEC until late December, 2005. The PEC requires approximately 4 MGD of recycled water meeting Title 22 requirements.

Prior to deliveries to the PEC in the Fall of 2005, HARRF was able to produce tertiary treated water using the UV system and later the CCC system. When the demand for recycled water increased in December 2005, HARRF personnel noted operational difficulties in meeting the turbidity limits and investigations with various vendors were initiated.

After detailed examination of the problem and testing of various responses, adjustments to the type and injection rate of treatment chemicals in early 2006 have enabled the HARRF to meet Title 22 requirements at the significantly higher flow rates required for the PEC. The principal activities undertaken by the City to address the problem encountered in producing recycled water in greater volume were as follows:

1) A field representative from the filter manufacturer was consulted, visited the facility and the following actions were taken.

- Confirmed proper air flow rates through the filters,

- Cleaned the filters using a “megalift” process; it was recommended that once a month the filters should be cleaned using this process.
- The manufacturer suggested that filtration may be enhanced with a deeper media bed or a smaller media size.

2) ERS Industrial Services Inc visited the HARRF in January and took a core media sample and confirmed that the media was within expected values for effective media size and uniformity coefficients.

3) Various chemical companies visited the site to optimize the chemical additives types and quantities. Ultimately, ChemTreat was able to meet desired Title 22 quality water using a dual additive system at increased injection rates. Use of two onsite existing pumps can achieve required injection rates for the interim; however, the City has placed an order to increase chemical additive pumping capacity.

In February, 2006, PEC demonstrated successful operation at maximum load conditions utilizing recycled water for a continuous period of ten days as required by the facility reliability test program. The PEC is currently operating with recycled water.