

TURN DATA REQUEST-023
SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: MARCH 2, 2018
DATE RESPONDED: MARCH 19, 2018

Subject: SDG&E-16, Electric Generation

Please provide a copy of SDG&E's Power Purchase and Tolling Agreement (PPTA) with Calpine for the capacity and energy from the Otay Mesa Energy Center (OMEC) cited at p. DSB-5, lines 11-13, of Exhibit SDG&E-16, including all amendments.

Utility Response 01:

1. Please see the files identified below:

- A. Amended and Restated Purchase Power Agreement file "TURN Data Request-023 Q1 - 2007-05-01 OMEC – Amended & Restated PPA.pdf" is the agreement between SDG&E and OMEC for the capacity and dispatch rights and the payment obligations.
- B. 2011-09-21 OMEC – Assignment of SDG&E to pay GHG Costs, included as file "TURN Data Request-023 Q1 - 2011-09-21 OMEC – Agreement SDG&E to pay GHG Costs.pdf."
- C. 2013-03-22 OMEC – Amendment 1 to Restated PPA Changing Definition of Force Majeure, included as file "TURN Data Request-023 Q1 - 2013-03-22 OMEC – Amendment 1 to Restated PPA Changing Definition of Force Majeure.pdf."

See also, *which include CONFIDENTIAL information pursuant to PU Code Section 583, General Order 66-D and D.17-09-023:*

- D. Ground Sublease and Easement Agreement "TURN Data Request-023 Q1 – 2007-05-01- Ground Sublease & Easement Agreement-CONFIDENTIAL.pdf" is the agreement between Calpine and OMEC for the sublease of the property. The agreement outlines the terms of the lease between the parties among other things and the Put/Call Option with SDG&E.
- E. Recognition Agreement "TURN Data Request-023 Q1 – 2007-02-14 – Recognition Agreement.pdf." is the agreement between the land owner, OMEC and SDG&E in which the parties agreed to enter into the Put/Call Option.

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2. Please state whether Calpine is compliant with its various obligations specified in the OMEC PPTA cited at p. DSB-5, lines 11-13, of Exhibit SDG&E-16, including all amendments to the PPTA, particularly those that might constitute events of default. If Calpine is not so compliant, please state whether such lack of full compliance provides any reasonable basis for declaring Calpine in default on the PPTA. Include citations to the relevant sections of the PPTA.

Utility Response 02:

2. OMEC is currently in compliance with the terms of the PPA and is not in default.

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3. Please state the timetables, including deadlines, for parties to the OMEC PPTA to take the following actions related to the OMEC PPTA's Put and Call options discussed at pp. DSB-6 and DSB-6 of Exhibit SDG&E-16. Include citations to the relevant sections of the PPTA.

- a. The timetable for Calpine to exercise its Put option to sell the plant to SDG&E, including all actions that Calpine and SDG&E must take to effectuate the Put option should Calpine decide to exercise it, and
- b. The timetable for SDG&E to exercise its Call option to buy the plant from Calpine, including all actions that SDG&E and Calpine must take to effectuate the Call option should SDG&E decide to exercise it.

Utility Response 03:

3.a. The timetable for Calpine to exercise its Put Option is specified in Sections 4.2(b) and 4.2(c) of the Ground Sublease and Easement Agreement (referenced in response to Question 1 above):

- The latest date of written notice from Calpine to SDG&E would be April 3, 2019. This date is 180 days after the 9th Anniversary of the Commercial Operation Date ("COD") of October 3, 2009.
- The latest date of closing of the Put Option would be October 3, 2019. This date is the 10th Anniversary of the COD.

3.b. The timetable for SDG&E to exercise its Call Option is specified in Sections 4.1(b) and 4.1(c) of the Ground Sublease and Easement Agreement (referenced in response to Question 1 above):

- The latest date of the written notice from SDG&E to Calpine would be October 3, 2018. This date is the 9th Anniversary of the COD of October 3, 2009.
- The latest date of closing of the Call Option would be October 3, 2019. This date is the 10th Anniversary of the COD.

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4. Please state the basis for the following dates regarding the OMEC PPTA cited at p. DSB-5, lines 11-13 of Exhibit SDG&E-16:
- a. Contract effectiveness date of October 3, 2009, and
 - b. Contract termination date of October 2, 2019.

Utility Response 04:

4.a. The contract effectiveness date of October 3, 2009 is based on Commercial Operation Date of October 3, 2009. As defined in the Amended and Restated Purchase Power Agreement of May 1, 2007 (PPA), Article One, Section 1.1., included as a file to TURN-023 Q1 response, the Commercial Operation Date is the date on which Commercial Operation has been achieved. Additionally Section 2.1 of the PPA states: This Agreement will be effective immediately upon its execution and delivery. Delivery of Capacity, Energy and Ancillary Services by Seller under this Agreement shall commence on the later of May 1, 2009 and the Commercial Operation Date ("Delivery Start Date"). As evidence of the Commercial Operation Date of October 3, 2009, please refer to the attached October 3, 2009 letter from OMEC to SDG&E, "TURN-023 Q4.a. – Memo of commercial operation achievement.pdf".

4.b. The contract termination date of October 2, 2019, is based on the Delivery Term, which commenced on the October 3, 2009 Delivery Start Date and continues up to the day before the 10th Anniversary of the Delivery Start Date, as referenced in the PPA, Article Two, Section 2.1.

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5. Please state why the Put and Call options prices are \$280 million and \$377 million, respectively, as stated at p. DSB-5, line 24 to p. DSB-6, line 2 of Exhibit SDG&E-16. If these stated prices are not specifically set forth in the OMEC PPTA, explain how the Put and Call prices were estimated, and provide data and workpapers use to develop such estimates. Provide any citations to the OMEC PPTA necessary to document SDG&E's answer to this question.

Utility Response 05:

5. The Put and Call Option prices of \$280 million and \$377 million, respectively, were negotiated prices. That said, see the following language from page 5 of D.06-09-021: “Under the price set for the Put Option, SDG&E would own the Otay Mesa plant in 2019 at a price that would be significantly below that of the Net Book Value of the Palomar Energy Center [footnote omitted] (Palomar) in 2019. . . The agreed upon price for Otay Mesa under the Call Option is slightly higher than the Net Book Value for Palomar in 2019 . . . “ The Put and Call Option prices are set forth in Section 4.10(a) of the May 1, 2007 Ground Sublease and Easement Agreement (attached above in response to Question 1).

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6. Please state why SDG&E believes it is an “unlikely event the plant is not put to SDG&E”, as stated at p. DSB-6, lines 7-8 of Exhibit SDG&E-16. Provide any documents, workpapers or other materials supporting this statement.

Utility Response 06:

6. Based on Calpine’s December 31, 2017 10K Notes to Consolidated Financial Statements (at page 139, or PDF page 257 of 302), Calpine owed \$294M as of December 31, 2017 on the OMEC project financing, which is due in 2019. Thus, Calpine will either put the plant to SDG&E to receive the funds to pay off the loan or will need to refinance the plant on its balance sheet. Given the lack of long-term contracts and the relative low margins in the California energy market, SDG&E believes it is likely Calpine will exercise the put.

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7. Please state whether Calpine would continue to own OMEC if Calpine does not exercise its Put option to sell OMEC and SDG&E does not exercise its Call option to purchase OMEC. If Calpine would not own OMEC in such circumstances, state which entity(ies) would own OMEC.

Utility Response 07:

7. SDG&E cannot speculate as to what Calpine would do with the OMEC Plant if it does not exercise its Put Option.

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8. Please provide the following operational data for the five generation plants discussed at pages DSB-18 to DSB-22 of Exhibit SDG&E-16 for the calendar years of 2013 to 2017.

- a. Hourly energy production,
- b. Hourly Locational Marginal Prices paid for energy identified in subpart 'a',
- c. Hourly provision of Ancillary Services,
- d. Hourly prices paid for such Ancillary Services identified in subpart 'c',
- e. Fuel use by hour (or smallest available time increment),
- f. Fuel costs by hour (or smallest time increment), and
- g. Full or partial plant outages, differentiated between forced and scheduled outages.

Utility Response 08:

8. SDG&E objects to this question as being beyond the scope of this proceeding. Notwithstanding this objection, please see the attached files, *which include CONFIDENTIAL information pursuant to PU Code Section 583, General Order 66-D and D.17-09-023:*

- a.) Data for 8.a – 8.d was provided in the attached spreadsheet file “TURN Data Request-023 Q8 Energy & AS-CONFIDENTIAL.xlsx”. The data for each plant is provided on separate worksheets, and the data from each Miramar unit was split into separated spreadsheets. The energy and Ancillary Services awarded in the Day Ahead market receives different compensation from energy and Ancillary services dispatched in real time, so the volumes for Day Ahead and Real Time were separated. Day Ahead Volumes are in column C, and real time is in column E.
- b.) The Day Ahead LMPs are in column D, and the Real Time LMPs are in column F.
- c.) The Day Ahead Ancillary Services volumes are in column G, and the Real Time Ancillary Service volumes are in column I.
- d.) The Day Ahead prices paid for Ancillary Services are in column H, and the prices paid Real Time Ancillary Service volumes are in column J.
- e.) The data for 8.e and 8.f was provided in the attached spreadsheet file “TURN Data Request-023 Q8 Gas Burns and Prices-CONFIDENTIAL.xlsx”. The hourly fuel usage can be found on the tab “Hourly Fuel Usage”. Some data is missing and those cells have been grayed out. To help fill in the missing data daily fuel usage can be found on the tab “Daily Fuel Usage”
- f.) Gas cost do not change throughout the day, so the tab “Daily Fuel Cost” includes the applicable index price for each plant plus the transportation cost to deliver to the plants.
- g.) The plant outage information is included the spreadsheet file “TURN Data Request-023 Outages-CONFIDENTIAL.xlsx”. The information for each plant is included on separate tabs.

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9. Please provide the forecasted annual costs of operating OMEC for 2019 and 2020. If different, please separately provide the amount of annual costs included in SDG&E's GRC forecasts for 2019 and 2020.

Utility Response 09:

9. As set forth at pp. DSB-6 and 7 and in Table DSB-6 at p. DSB-18 of Exhibit SDG&E-16, the forecasted annual costs of operating OMEC in 2019 is \$22.796M. SDG&E has not forecasted the costs of operating OMEC in 2020.

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10. Please provide workpapers supporting SDG&E’s estimates of
- a. “[O]ngoing capital”, as discussed at p. DSB-6, lines 20-21 of Exhibit SDG&E-16. State whether these expenses are one-time expenses related to the acquisition of OMEC or whether they are expected to be recurring annual expenses.
 - b. “Ongoing O&M costs,” as discussed at p. DSB-6, line 22 to p. DSB-7, line 1 of Exhibit SDG&E-16.

Utility Response 10:

*Portions of the Response to Question 10.b Below are Considered to be Confidential Pursuant to
PU Code Section 583, General Order 66-D and D.17-09-023*

10.a. The OMEC ongoing capital costs of \$5.351M are recurring annual expenses, and are based on the 2019 Adjusted Capital Forecast for Generation Plant Palomar, which is most similar in size, power plant type and age to OMEC. Please refer to Table DSB-10 at p. DSB-28 of Exhibit SDG&E-16 and Exhibit SDG&E-16-Capital Workpapers, 00011B Otay Mesa Energy Center – Ongoing Capital, and 000090 Palomar Plant Operational Enhancements.

10.b. The forecasted annual costs of operating OMEC in 2019 is \$22.796M and is largely based on the 2019 Base Forecast for Generation Plant Palomar, which is most similar in size, power plant type and age to OMEC. See pp. DSB-6 and 7 and Table DSB-6 at p. DSB-18 of Exhibit SDG&E-16. As explained in SDG&E’s testimony and CONFIDENTIAL workpapers, SDG&E’s 2019 forecasted ground lease and property insurance costs for OMEC (which are subsumed in the \$22.796M forecast) are based on the CONFIDENTIAL 2016 financial statements of the Otay Mesa Energy Center, LLC. See Exhibit SDG&E-16 (p. 7, lines 2-3) and CONFIDENTIAL Exhibit SDG&E-16-WP (p. 34 of 65). See also the attached file “TURN Data Request-023 Q10.b. CONFIDENTIAL OMEC 2016 financial statements.pdf”, which includes the relevant portions of the OMEC 2016 financial statements and a schedule “TURN Data Request-023 Q10.b. CONFIDENTIAL Total OMEC Ground Lease and Prop. Ins. Costs.xlsx”, that identifies and lists the ground lease and property insurance costs from the OMEC 2016 financial statements. SDG&E’s 2019 forecasted ground lease costs also are generally consistent with Calpine’s CONFIDENTIAL actual and expected 2016-2018 ground lease payments: \$1,365,854 (2016), \$1,407,392 (2017), and \$1,452,157 (2018). Beyond 2018, ground lease payments will be adjusted pursuant to the terms of Section 4.2 of Exhibit B of the Ground Sublease and Easement Agreement, including 3% - 6% annual increases based on the Consumer Price Index. *The grey highlighted cost amounts above are considered to be Confidential Pursuant to PU Code Section 583, General Order 66-D and D.17-09-023.*

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11. Please provide any information SDG&E have developed or obtained regarding:
- a. Calpine's Operations and Maintenance costs at OMEC, and
 - b. Calpine's capital investments in OMEC.

Utility Response 11:

11.a. See response to Question 10.b above.

11.b. Not applicable.