Clay Faber
Regulatory Affairs
8330 Century Park Court
San Diego, CA 92123-1548

Tel: 858-654-3563
Fax: 858-654-1788
CFaber@semprautilities.com

July 7, 2011

Mr. Honesto Gatchalian
Ms. Maria Salinas
California Public Utilities Commission
Energy Division
505 Van Ness Avenue, Room 4005
San Francisco, CA 94102

RE: Reply of San Diego Gas & Electric Company to Protests to Advice Letter 2258-E (MMR Power Solutions, LLC)

Dear Mr. Gatchalian and Ms. Salinas:

In accordance with Section 7.4.3 of General Order ("GO") 96-B, San Diego Gas & Electric Company ("SDG&E") hereby responds to the Protests to Advice Letter ("AL") No. 2258-E filed by the Division of Ratepayer Advocates ("DRA"), The Vote Solar Initiative ("Vote Solar"), the North American Photovoltaic Developers Association ("NAPVDA"), and the Western Power Trading Forum ("WPTF") (together, the "Respondents"). SDG&E filed AL 2258-E requesting approval to amend an existing power purchase agreement ("PPA") for the Mount Signal Solar project ("Project"), a photovoltaic facility located near El Centro, California. The project is located in the Imperial Valley and would support the Sunrise Powerlink transmission line. The Proposed Amendment includes: (i) a technology substitution from CSP/Biomass hybrid to photovoltaic solar and (ii) an assignment to a different developer.

Respondents assert that the proposed changes to the pre-existing PPA effectively constitute a new project, and that the project should bid into the current solicitation rather than being submitted as an amendment to a CPUC-approved PPA. Although no protesting party other than DRA had access to confidential contract pricing information, they nevertheless assert on the basis of pure speculation that the project is not price-competitive in view of current market prices. Respondents' claims lack merit. As discussed below, Respondents' Protests should be rejected for three reasons:

A) The Respondents' major objection, the appropriateness of amending approved PPAs, is best dealt with as a general policy matter in the Long-Term Procurement Plan ("LTPP") LTPP and/or Renewable Portfolio Standard ("RPS") proceedings;

B) Apart from vague and inaccurate pricing references, there were no project-specific complaints or allegations that the project, as amended, was deficient in any manner; and
C) The project is competitive with offers submitted into SDG&E's most recent RFO as well as contemporaneous bilateral transactions and represents a good deal for ratepayers and should be approved on its own merits.

AMENDMENT PROCESS

Vote Solar notes that it is not challenging this amended project on its merits, but rather requests that the Commission initiate a proceeding to consider the issues it raises and develop policies to guide future development. NAPVDA acknowledges that an advice letter disposition is not an appropriate forum to address complex policy issues such as delineating the types of contract modifications that give rise to the treatment of a modified contract as a new contract. SDG&E agrees with the views expressed by these parties and believes that consideration of the issues raised by Vote Solar and NAPVDA should occur in the LTPP or RPS proceedings rather than in the context of an individual Advice Letter filing. Any such consideration should be forward-looking, however, and should not delay disposition of AL 2258-E.

While SDG&E agrees that project viability has been an issue throughout California since the early days of the RPS, every project is unique and a PPA amendment does not necessarily signify that a project is non-viable, as the Respondents suggest. In fact, SDG&E has terminated other PPAs for failing to meet their obligations. The instant amendment, however, is not such a case. There existed legitimate financial market conditions beyond the developer's control and issues unique to biomass projects which led to this latest amendment. A very capable developer with strong financial backing, solar PV expertise, and a fresh outlook came into the project and has agreed to maintain key project parameters such as site, pricing, and project size (as measured by MWh output) while enhancing many other aspects of the project. The project is actually **stronger** due to this amendment; so much so that the Independent Evaluator's ("IE") report notes that the fair negotiations resulted in an amended contract more favorable to the ratepayers than the previous version. Accordingly, the Commission should approve this amended PPA on its merits and address any general policy issues in the proper proceeding.

PRICING

Respondents assert that the amended PPA could not possibly be cost-effective because it had not been directly compared to the active 2011 RPS market solicitation – the results of which are not yet available and were obviously not available during negotiations or as of the date of the amended PPA's execution. The terms and conditions of the amended PPA were compared against the results of SDG&E's most recently completed RFO, including contemporaneous bilateral transactions, and to the current MPR. Such comparisons[1] clearly demonstrate that the project is fully competitive.

[1] Specific LCBF ranking positions relative to other projects are provided on pg. 63 of Part Two of the Advice Letter.

As further discussed in the Confidential Appendices A & D of the Advice Letter, particular care was taken to ensure that the reformulated Mount Signal Solar project had significant ratepayer protections, both as to pricing and financial penalties to the developer for failing to follow through on the project.

The AL demonstrates that the Mount Signal Solar project is competitively priced:

- The amended project's LCBF ranking price compared favorably to the 2009 RPS RFO results (the latest available at the time) If the amendment had been offered into that RFO, the project would have been shortlisted
- Mount Signal Solar also was consistent among the contemporaneous bilateral PPAs executed by SDG&E in the first several months of 2011
- The IE's report indicated that the Mount Signal Solar amended PPA remains competitive with the 2009 shortlist & merits approval

Respondents also claim that the fact that the contract pricing exceeds the market price referent ("MPR") establishes that the project is not cost-effective. This fact does not provide a basis for protests at this point, since the contract pricing table remains unchanged from the CPUC-approved second amendment pricing. Moreover, many RPS contracts are priced above the MPR. Thus, that fact alone is of little significance in determining the competitiveness of the project. Finally, Respondents' claim that the amendment was not priced correctly given the project changes – most notably the project "size" – is incorrect. As a practical matter, the project size has not changed. Given the capacity factor differences between PV Solar and the previous CSP/biomass hybrid technology, the two "projects" have equivalent first-year MWh output levels.

In sum, the Mt. Signal Solar project is competitively priced and represents a good deal for ratepayers. Any tangential issues related to the general question of how contract amendments should be dealt with should be addressed on a going-forward basis in the appropriate proceeding and not in the context of the instant Advice Letter. For all of these reasons, the protests should be denied.

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CLAY FABER
Director – Regulatory Affairs

Cc: Adam Browning, Vote Solar
Hank Dempsey, North American Photovoltaic Developers Association
Yuliya Shmidt, DRA
Cynthia Walker, DRA

Daniel Douglass, Douglass & Liddell (Attorney for WPTF)
Michael Peevey, CPUC President
Commissioner Timothy Simon
Commissioner Catherine JK Sandoval
Commissioner Mike Florio
Commissioner Mark Ferron
Frank Lindh, General Counsel
Service List R.11-05-005