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November 7, 2011

ADVICE LETTER 2300-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: FILING OF SDG&E'S 2011 RPS SHORTLIST REPORT IN COMPLAINCE WITH APPENDIX B OF DECISION (D) 11-04-030

PURPOSE

In compliance with the California Public Utilities Commission's ("CPUC" or "Commission") Decision Conditionally Accepting 2011 Renewables Portfolio Standard Procurement Plans and Integrated Resources Plan Supplements issued on April 14, 2011 (D.11-04-030), San Diego Gas & Electric Company ("SDG&E") files it's Evaluation Criteria and Selection Process Report and Independent Evaluator's Preliminary Report ("2011 RPS Shortlist Report").

Appendix B of D.11-04-030 requires SDG&E to file its 2011 RPS Shortlist Report through a Tier 2 Advice Letter with the CPUC's Energy Division:

7. IOUs file by Tier 2 advice letter (a) Evaluation Criteria and Selection Process Report and (b) Independent Evaluator's Preliminary Report.

BACKGROUND

In accordance with the direction provided in Ordering Paragraph 2.a of D.11-04-030, SDG&E filed its Final 2011 Renewables Portfolio Standard ("RPS") Procurement Plan (the "Plan") on May 4, 2011:

> 2.a. Within 14 days of the date this order is mailed, San Diego Gas & Electric Company shall each file and serve a Final 2011 Renewables Portfolio Standard Procurement Plan that is consistent with all the orders in this decision, plus all guidance in this decision with which the utility agrees, and simultaneously file a copy with the Director of the Energy Division.

As outlined in the Plan, SDG&E issued its 2011 RPS Solicitation on May 12, 2011. SDG&E completed its bid evaluation and submitted its final shortlist to the Commission on September 7, 2011. The attached 2011 RPS Shortlist Report describes the evaluation methodology that SDG&E used to determine the shortlist and summarizes key statistics from the Request for Offers ("RFO").

CONFIDENTIALITY

Confidential treatment of specific material is being requested. The information and reason(s) for confidential treatment is consistent with the showing required by D.06-06-066, as modified by D.07-05-032 and D.08-04-023.

As directed by the CPUC's Energy Division, confidential information submitted in support of the D.11-04-030 is provided in the Confidential Attachments listed below:

Attachment C: 2011 RPS Shortlist Report.
Attachment D: 2011 RPS RFO Shortlist Worksheet.
Attachment F: Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources.

These attachments contain market sensitive information protected pursuant to Commission Decisions D.06-06-066, *et seq*., as detailed in the concurrently-filed declaration. The following table presents the type of information contained within the confidential attachments and the matrix category under which D.06-06-066 permits the data to be protected.

Type of Information	D.06-06-066 Confidential Matrix Category
2011 RPS Shortlist Report	VIII.A and VIII.B
2011 RPS RFO Shortlist Worksheet	VIII.A and VIII.B
Independent Evaluator Report	VIII.A and VIII.B

EFFECTIVE DATE

In accordance with D.11-04-030 and GO 96-B, SDG&E believes that this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval). SDG&E respectfully requests that this filing become effective on December 7, 2011, which is 30 days from the date filed.

PROTEST

Anyone may protest this advice letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impacts, and should be submitted expeditiously. The protest must be made in writing and received by November 27, 2011, 20 days of the date this advice letter was filed with the CPUC. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian (jnj@cpuc.ca.gov) and Maria Salinas (mas@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. (858) 654-1879
E-mail: mcaulson@semprautilities.com

NOTICE

In accordance with General Order No. 96-B, a copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in A.08-07-017 and R.11-05-005, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1879 or by e-mail at SDG&ETariffs@semprautilities.com.

CLAY FABER
Director - Regulatory Affairs

(cc list enclosed)

ATTACHMENTS:

Attachment A: Confidential Declaration
Attachment B: 2011 RPS Shortlist Report (Public Version)
Attachment C: 2011 RPS Shortlist Report (Confidential Version)
Attachment D: 2011 RPS RFO Shortlist Worksheet (Confidential Version only)
Attachment E: Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources (Public Version)
Attachment F: Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources (Confidential Version)

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:
☒ ELC ☐ GAS
☐ PLC ☐ HEAT ☐ WATER

Contact Person: Joff Morales
Phone #: (858) 650-4098
E-mail: JMorales@semprautilities.com

EXPLANATION OF UTILITY TYPE
ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2300-E

Subject of AL: Filing of SDG&E's 2011 RPS Shortlist Report in Compliance with Appendix B of Decision (D) 11-04-030

Keywords (choose from CPUC listing): Procurement

AL filing type: ☐ Monthly ☒ Quarterly ☐ Annual ☐ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D.11-04-030

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

Does AL request confidential treatment? If so, provide explanation:

Resolution Required? ☐ Yes ☒ No Tier Designation: ☐ 1 ☒ 2 ☐ 3

Requested effective date: 12/7/11 No. of tariff sheets: 0

Estimated system annual revenue effect: (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
mas@cpuc.ca.gov and jnj@cpuc.ca.gov

San Diego Gas & Electric
Attention: Megan Caulson
8330 Century Park Ct, Room 32C
San Diego, CA 92123
mcaulson@semprautilities.com

[1] Discuss in AL if more space is needed.

General Order No. 96-B
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission
DRA
D. Appling
S. Cauchois
J. Greig
R. Pocta
W. Scott
Energy Division
P. Clanon
S. Gallagher
H. Gatchalian
D. Lafrenz
M. Salinas
CA. Energy Commission
F. DeLeon
R. Tavares
Alcantar & Kahl LLP
K. Harteloo
American Energy Institute
C. King
APS Energy Services
J. Schenk
BP Energy Company
J. Zaiontz
Barkovich & Yap, Inc.
B. Barkovich
Bartle Wells Associates
R. Schmidt
Braun & Blaising, P.C.
S. Blaising
California Energy Markets
S. O'Donnell
C. Sweet
California Farm Bureau Federation
K. Mills
California Wind Energy
N. Rader
CCSE
S. Freedman
J. Porter
Children's Hospital & Health Center
T. Jacoby
City of Chula Vista
M. Meacham
E. Hull
City of Poway
R. Willcox
City of San Diego
J. Cervantes
G. Lonergan
M. Valerio
Commerce Energy Group
V. Gan
Constellation New Energy
W. Chen
CP Kelco
A. Friedl
Davis Wright Tremaine, LLP
E. O'Neill
J. Pau
Dept. of General Services
H. Nanjo
M. Clark
Douglass & Liddell
D. Douglass
D. Liddell
G. Klatt
Duke Energy North America
M. Gillette
Dynegy, Inc.
J. Paul
Ellison Schneider & Harris LLP
E. Janssen
Energy Policy Initiatives Center (USD)
S. Anders
Energy Price Solutions
A. Scott
Energy Strategies, Inc.
K. Campbell
M. Scanlan
Goodin, MacBride, Squeri, Ritchie & Day
B. Cragg
J. Heather Patrick
J. Squeri
Goodrich Aerostructures Group
M. Harrington
Hanna and Morton LLP
N. Pedersen
Itsa-North America
L. Belew
J.B.S. Energy
J. Nahigian
Luce, Forward, Hamilton & Scripps LLP
J. Leslie
Manatt, Phelps & Phillips LLP
D. Huard
R. Keen
Matthew V. Brady & Associates
M. Brady
Modesto Irrigation District
C. Mayer
Morrison & Foerster LLP
P. Hanschen
MRW & Associates
D. Richardson
OnGrid Solar
Andy Black
Pacific Gas & Electric Co.
J. Clark
M. Huffman
S. Lawrie
E. Lucha
Pacific Utility Audit, Inc.
E. Kelly
R. W. Beck, Inc.
C. Elder
School Project for Utility Rate Reduction
M. Rochman
Shute, Mihaly & Weinberger LLP
O. Armi
Solar Turbines
F. Chiang
Sutherland Asbill & Brennan LLP
K. McCrea
Southern California Edison Co.
M. Alexander
K. Cini
K. Gansecki
H. Romero
TransCanada
R. Hunter
D. White
TURN
M. Florio
M. Hawiger
UCAN
M. Shames
U.S. Dept. of the Navy
K. Davoodi
N. Furuta
L. DeLacruz
Utility Specialists, Southwest, Inc.
D. Koser
Western Manufactured Housing Communities Association
S. Dey
White & Case LLP
L. Cottle
Interested Parties in:
A.08-07-017
R.11-05-005

San Diego Gas & Electric Advice Letter 2300-E
November 7, 2011

ATTACHMENT A

DECLARATION OF MARIA BOLDYREVA REGARDING CONFIDENTIALITY OF CERTAIN DATA

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF MARIA I. BOLDYREVA REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Maria I. Boldyreva, do declare as follows:

1. I am Energy Procurement Advisor in the Electric & Fuel Procurement Department for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the following materials being provided to the CPUC regarding SDG&E's 2011 RPS Shortlist Report ("2011 RPS Shortlist"):

- 2011 RPS Shortlist Report (Attachment B);
- 2011 RPS RFO Shortlist Worksheet, excel spreadsheet titled "SDG&E 2011 RFO Shortlist Worksheet.xlsx"(Attachment D);
- Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources (Attachment F).

In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066[1/] and D.08-04-023 to demonstrate that the confidential information ("Protected Information") provided in the 2009 RPS Shortlist submitted concurrently herewith (described below) falls within the scope of data protected as confidential pursuant to the IOU Matrix

[1/] As amended by D.07-05-032.

attached to the Commission's confidentiality decision, D.06-06-066 (the "IOU Matrix") and/or under relevant statutory provisions.[2/]

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities ("IOUs") and energy service providers ("ESPs"). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.[3/]

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where "it matches a Matrix category exactly . . . or consists of information from which that information may be easily derived."[4/] In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
2) Which category or categories in the Matrix the data correspond to,

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[2/] The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (*See* D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (*See Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

[3/] *See*, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.

[4/] *See, Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).

3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,

4) That the information is not already public, and

5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.[5/]

5. SDG&E's Protected Information: The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

2011 RPS Shortlist Report

Description of Data	Matrix Category	Period of Confidentiality
Attachment B *2011 RPS Shortlist Report, Section 3* • Section II.a.vi • Section II.c.i & iii	V.C	Front three years of forecast data confidential.
Attachment B *2011 RPS Shortlist Report, Section 3* • Section II.e • Section D, E.1&E.4 • Section III.C & E • Section IV B,C&F	VII.H	Score sheets, analyses, evaluations of proposed PRS Projects confidential for three years.
Attachment B *2011 RPS Shortlist Report, Section 4* • Section 1 & 2 • Chart 1 • Section 4 b. • Section 5 & 6	VIII.A	Raw Bid Data – Always confidential. Summaries of bids total MW, MWH, technology types, etc) are confidential until final contracts are submitted to CPUC for approval.
Attachment B *2011 RPS Shortlist Report,* • *Section 4* Section 1 & 2 • Chart 1	VIII.B	Confidential for three years after winning bidders selected.

[5/] D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

• Section 4 b. • Section 5 & 6		
Attachment D *2011 RPS RFO Shortlist Worksheet, excel spreadsheet titled "SDG&E 2011 RFO Shortlist Worksheet.xlsx".*	VII.H	Score sheets, analyses, evaluations of proposed PRS Projects confidential for three years.
Attachment D *2011 RPS RFO Shortlist Worksheet, excel spreadsheet titled "SDG&E 2011 RFO Shortlist Worksheet.xlsx".* Bid Information including, but not limited to: - Bidder and Project Name - Quantities (MW, MWH) - Levelized bid prices - Start date - Term - Technology - Capacity factor - RPS Percentage	VIII.A	Raw Bid Data - Always confidential. Summaries of bids total MW, MWH, technology types, etc) are confidential until final contracts are submitted to CPUC for approval.
Attachment D *2011 RPS RFO Shortlist Worksheet, excel spreadsheet titled "SDG&E 2011 RFO Shortlist Worksheet.xlsx".* Least-Cost Best-Fit Elements including, but not limited to: - Shortlisting and Rejecting Rational ("Why", "Why Not") - LCBF Rank - Begin/End Affects Adder - TOD Adjustment Adder - TRCR Adder - RA Capacity Credit - Congestion Adder - Bid Ranking Price - Viability Scores	VIII.B	Confidential for three years after winning bidders selected.
Attachment F *Preliminary Report of the Independent Evaluator on the*	VIII.A	Raw Bid Data – Always confidential. Summaries of bids total MW, MWH,

2011 Request for Offers from Eligible Renewable Resources • Paragraph 4.2 • Paragraph 4.3 • Paragraph 4.7 • Paragraph 4.8 • Paragraph 4.9.1-4.9.2 • Paragraph 4.10		technology types, etc) are confidential until final contracts are submitted to CPUC for approval.
Attachment F *Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources* • Paragraph 2.3 • Paragraph 2.5 • Paragraph 3.2.5 • Paragraph 3.3 • Paragraph 3.3.2 • Paragraph 3.3.3 • Paragraph 3.3.5 • Figure 1	VIII.B	Confidential for three years after winning bidders selected.

6. The Commission previously considered and approved application of IOU Matrix confidentiality protection to project development status data in its *Administrative Law Judge's Ruling Granting San Diego Gas & Electric Company's May 21, 2007 Amendment to April 3, 2007 Motion and May 22, 2007 Amendment to August 1, 2006 Motion*, issued June 28, 2007 in R.06-05-027.

7. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

8. I am not aware of any instance of public disclosure of the Protected Information.

9. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Energy Division.

10. As an alternative basis for requesting confidential treatment, SDG&E submits that the project status information provided in the 2011 RPS Shortlist is material, market sensitive, electric procurement-related information protected under§§ 454.5(g) and 583, as well as trade secret information protected under Govt. Code § 6254(k), and that the disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.[6/]

11. Public Utilities Code § 454.5(g) provides:

> The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports, or any combination, provided that the Office of Ratepayer Advocates and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

12. General Order 66-C protects "[r]eports, records and information requested or required by the Commission which, if revealed, would place the regulated company at an unfair business disadvantage."

[6/] This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

13. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.[7/] Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

14. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.[8/]

15. If disclosed, the Protected Information could provide parties with whom SDG&E is currently negotiating insight into SDG&E's procurement options, which would unfairly undermine SDG&E's negotiation position and could ultimately result in increased cost to ratepayers. In addition, if developers mistakenly perceive that SDG&E is not committed to assisting their projects, disclosure of the Protected Information could act as a disincentive to developers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

16. In accordance with the statutory provisions described herein, SDG&E hereby requests that the information set forth in the 2011 RPS Shortlist be protected from public disclosure.

7/ *See also* Govt. Code § 6254.7(d).
8/ *See*, D.06-06-066, *mimeo*, pp. 26-28.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 7th day of November, 2011, at San Diego, California.

Maria I. Boldyreva
Energy Procurement Advisor

San Diego Gas & Electric Advice Letter 2300-E

November 7, 2011

ATTACHMENT B

2011 RPS SHORTLIST REPORT

PUBLIC VERSION

3. LCBF Template: IOU Written Description of RPS Bid Evaluation and Selection Process and Criteria

I. Introduction

A. Note relevant language in statute and CPUC decisions approving LCBF process and requiring LCBF Reports

In accordance with Section 399.14(a)(2)(B) of the Public Utilities Code, the Commission established in D.04-07-029 a process for evaluating "least-cost, best-fit" ("LCBF") renewable resources for purposes of IOU compliance with Renewable Portfolio Standard ("RPS") program requirements. In D.06-05-039, the Commission observed that "the RPS project evaluation and selection process within the LCBF framework cannot ultimately be reduced to mathematical models and rules that totally eliminate the use of judgment."[1] It determined, however, that each investor-owned utility ("IOU") should provide an explanation of its "evaluation and selection model, its process, and its decision rationale with respect to each bid, both selected and rejected," in the form of a report to be submitted with its short list of bids (the "LCBF Report"). In D.11-04-030, the Commission's decision approving SDG&E's 2011 RPS Procurement Plan ("RPS Plan"), the Commission directed each IOU to submit its LCBF report via a Tier 2 advice letter.[2] SDG&E's LCBF Report is set forth below.

B. Describe goals of IOU's bid evaluation and selection criteria and processes

The goal of SDG&E's bid evaluation was to evaluate and select bids: (i) using an approach consistent with SDG&E's Commission-approved 2011 RPS plan; (ii) in a fair and least-cost, best fit manner; (iii) taking into account SDG&E's commitments related to approval of the Sunrise Powerlink transmission line; and (iv) incorporating the impacts of adoption of Senate Bill x1 2 ("SB 2")[3] and Commission approval of SDG&E's Rim Rock Settlement ("RRS").

In consultation with its Independent Evaluator ("IE") and Procurement Review Group ("PRG"), SDG&E took the following approach to bid evaluation and selection in its 2011 RPS request for offers ("RFO") process:

- *Issued the solicitation to the public.* SDG&E posted all relevant materials on the SDG&E's Internet site. Questions were invited and answered both through Q&A documents posted on SDG&E's website and during two Bidders Conferences (one in San Diego and one in El Centro), which were widely attended by industry participants (approximately 220 renewable developers) and one of which included a webcast.

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1 D.06-05-039, *mimeo*, p. 42.
2 D.11-04-030, Appendix B.
3 Senate Bill (SB) x1 2 (Stats. 2011, Ch. 1).

- *Defined the specifics of the assessment methodology and need calculation.* Before bids were due, SDG&E, together with the IE for the solicitation, developed the bid assessment methodology and need calculation to be consistent with the RPS Plan and recent legislative/regularly changes.
- *IE and SDG&E separately evaluated bids using the same methodology.* When bids were due, these were downloaded and evaluated (following the agreed upon methodology) separately by SDG&E and the IE. Both checked their data-sets and results interactively until both came up with the results. This process is explained in more detail in Section III below.
- *Consulted with PRG regarding proposed shortlist.* Before the shortlist was issued on August 19, three meetings were held with SDG&E's PRG to discuss the specifics of the Least-Cost-Best-Fit ("LCBF") assessment process followed; judgments made, and proposed shortlist structure and content.

1. Describe how "need" was determined for this solicitation. Comment specifically on whether, and to what extent, you considered other procurement options (e.g. UOG, solar PV program, feed-in tariffs, RAM, etc.) to meet IOU's overall need stated in its Procurement Plan.

Consistent with its RPS Plan, SDG&E launched the 2011 RFO with the goal of attracting bids from existing and developing renewable projects to deliver RPS-eligible renewable energy in order to enable SDG&E to continue to be compliant with State RPS requirements. With respect to determining need, SDG&E stated in its RPS Plan its intent to:

- Comply with applicable Commission and California Energy Commission ("CEC") RPS program requirements;
- Issue a renewable-only RFO in 2011 for projects that can deliver renewable power beginning in years 2011-2015; and
- Procure in excess of near-term annual RPS procurement goals in order to account for unanticipated project failures, delays or under-deliveries.[4]

SDG&E calculated its need in the 2011 RFO by first estimating its procurement requirements under SB 2.[5] Determining the impact of SB 2 on SDG&E's need involved consideration of the effect of elimination of flexible compliance mechanisms that SDG&E had relied on in the past to achieve RPS compliance, as well as the implications of the new portfolio content categories established in SB 2. Although the Commission had not yet issued its decision defining the transactions that fit within each such category, SDG&E sought to categorized each contract in its portfolio based on its understanding of

[4] RPS Plan, pp. 4, 9 – 11. *See also* RPS Plan, pp. 3-4 ("In the event that such compliance flexibility is removed from the RPS program . . . SDG&E would, in such a case, seek to procure as many short-term offers as needed in order to achieve RPS compliance . . . ")

[5] The Commission is in the process of adopting rules implementing SB 2 in R.11-05-005, For purposes of calculating its need for the 2001 RPS RFO, SDG&E assumed that SB 2 procurement requirements are: 20% of retail sales, on average, between 2011-2013 for Compliance Period 1 ("CP1"); 25% by 2016 for Compliance Period 2 ("CP2"); and 33% by 2020 for Compliance Period 3 ("CP3").

SB 2. It was necessary for SDG&E to categorize its contracts as grandfathered, Category 1, Category 2, or Category 3 in order to determine how much additional space it had for procurement in both Category 2 and Category 3.

SDG&E's 2011 RFO need analysis also incorporated requirements included in the Settlement Agreement ("SA") adopted in A.10-07-017, which resolved SDG&E's Rim Rock application. Specifically, in the Rim Rock SA, SDG&E commited to limiting until 2017 its procurement of out-of-state resources to the same terms and limits as were imposed under D.10-03-021, regardless of any future change of law.[6]

Taking into account the impacts of SB 2 and of the Rim Rock SA, SDG&E's need analysis assumed (i) an increased need for near-term procurement in order to comply SB 2 Compliance Period 1 requirements; and (ii) a need to avoid procurement of the out-of state resources covered by SDG&E's Rim Rock SA.

Once SDG&E determined its procurement requirements under SB2, SDG&E then subtracted from its estimated SB 2 procurement obligation (i) the anticipated deliveries from its portfolio as it existed immediately before bids were due (*i.e.*, deliveries from all executed RPS contracts – including delivering, approved under-development, and awaiting approval); (ii) anticipated deliveries from a project associated with a future potential tax equity investment; and (iii) anticipated deliveries from Commission programs such as the renewable auction mechanism ("RAM").

Based on this analysis, SDG&E identified three types of need: (i) "Nominal Need" was calculated assuming that all executed contracts came online and delivered the contracted renewable generation; (ii) the "Probability-weighted Need" was calculated by assuming an individual probability of success for each of the non-delivering projects in SDG&E's RPS portfolio; and (iii) the "Contingent Need" was calculated by applying a probability of success to the prospective contracts that SDG&E would have to procure in order to meet the probability weighted need.

After receiving and assessing RFO bids, SDG&E produced a shortlist which was ultimately endorsed by the IE and favorably reviewed by the PRG. On August 19, shortlist letters were sent to successful bidders. The shortlisted bidders in the "nominal need" group were sent a letter that required exclusivity and conveyed the expectation that

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[6] It should be noted that although the deliveries from SDG&E's out-of-state contracts will exceed the TREC cap established by D.10-03-021, that decision also provided for "grandfathering" of contracts signed prior to March 11, 2010 wherein the deliveries from such contracts would count in full, but any deliveries under contracts signed after that date would be ineligible for compliance if they caused the utility to exceed the 25% cap. Thus, while existing agreements, including the Rim Rock contract, will count in full towards compliance, any new contracts would be unable to meet the requirements without exceeding the D.10-03-021 limit.

SDG&E, if negotiations are successful, will consummate a transaction with the bidders. By contrast, the shortlisted bidders in the "contingent need" group were sent a letter that did not require exclusivity and made clear that SDG&E may not proceed to a transaction with the counterparty, depending on certain factors outside the negotiation. This structure was put in place to allow SDG&E some flexibility, dependent upon the changes on its RPS portfolio and evolving regulatory and market conditions.

2. Explain any assumptions made regarding expiring projects, projects under contract but not online, projects still shortlisted from previous solicitations, bilaterals under negotiation, and distributed generation programs (e.g. RAM, solar PV program, etc.).

SDG&E's need calculation assumed that:

i. Expiring projects will not be renewed;
ii. Projects under contract but not online will be approved and come online as anticipated delivering 100% of the contracted energy in the "nominal need" case, but delivering a portion – based on the assumed probability of success – in the probability-weighted need;
iii. There were no previously shortlisted projects still under negotiation at the time of the RFO and ongoing bi-lateral negotiations were terminated and the developers were asked to submit the projects into the RFO; and
iv. Procurement from one new tax equity deal, the RAM and the Solar PV program will come to fruition.

II. Bid Evaluation and Selection Criteria

A. Description of Criteria

1. List and discuss the quantitative and qualitative criteria used to evaluate and select bids. This section should include a full discussion of the following:

a. Market Valuation:

SDG&E's market valuation is based on the calculation of a Bid Ranking Price. The Bid Ranking Price is comprised of the following components:

i. Capacity and Energy Prices

Offered capacity and energy prices were included in the Bid Ranking Price, subject to Time of Delivery Adjustment as described below.

ii. Time of Delivery ("TOD") Adjustment

For bids that request TOD Adjustment to the bid price, SDG&E multiplies the proposed energy price by SDG&E's TOD factors for each MWh the project delivers during each delivery hour over the term of the agreement based upon a delivery profile supplied by the bidder. The total cost is summed and then divided by energy delivered. A present value figure is calculated for the payment and energy streams and an overall levelized bid cost on a $/MWh basis is calculated. This TOD adjusted cost is referred to as the Levelized Contract Cost ("LCC").

iii. Above Market Cost ("AMC")

The Above Market Cost is computed from the difference between the Levelized Contract Cost and the Project-specific Price Referent ("PSPR") as computed by SDG&E using the 2009 MPR Model ("2011 SDG&E MPR") and the calculation methods in the Commission's AMF Calculator. The PSPR is intended to show the cost of a natural gas fired combined-cycle generating facility as a conventional power alternative to RPS projects, and was computed from the 2009 MPR Model as approved by the Commission with updated NYMEX natural gas prices and California basis adjustments from June 8, 2011 to July 8, 2011. No other adjustments were made to the MPR Model.

iv. Transmission Upgrade Costs/Credits

Please see Section II(A)(1)(b) below.

v. Deliverability Adder

The purpose of the Deliverability Adder is to illustrate the costs of building new generation to meet potential resource adequacy (RA) deficits in future years due to renewable projects being unable or unwilling to provide Full Deliverability under the CAISO tariff. Deliverability is a prerequisite for any resource to be counted towards the resource adequacy requirements of a load-serving entity ("LSE").

This calculation is based upon the PSPRs using the 2011 SDG&E MPR calculation and two different sets of TOD multipliers, the "All-In" TOD multipliers and the "Energy-Only" TOD multipliers as shown in SDG&E' RPS Plan. Total costs of the project deliveries based upon MPR prices are calculated using the All-In multipliers, which incorporate costs of capacity; the same costs are then computed using the Energy-Only multipliers, which are based only on energy costs and do not incorporate capacity costs. The Energy-Only costs are subtracted from the All-In costs for each TOD period; for periods where this results in a negative value (when Energy-Only costs exceed the All-In costs), this difference is adjusted to zero. These adjusted differences are then added and prorated over the project's lifetime deliveries to produce a "Maximum Deliverability Adder".

The Deliverability Adder (either the System Deliverability Adder or the Maximum Deliverability Adder as discussed below) is assessed whenever a project is expected to provide less than full local RA to SDG&E due to deliverability constraints known at the time of RFO issuance. These constraints are:

- Project is interconnected outside of SDG&E's current service territory
- Project is located outside of the California ISO and subject to ISO import counting limits
- Project has selected "energy-only" for its CAISO generation interconnection, or has not committed to performing Deliverability Studies

For projects expecting to provide Full Deliverability that are within CAISO but are not interconnected within SDG&E's service territory, a System Deliverability Adder is assessed which is 40% of the Maximum Deliverability Adder. The System Deliverability Adder is also applied to projects which are interconnected to CAISO outside of CAISO's import ties, or to a California balancing authority other than CAISO, where CAISO import limits may result in a reduction of a project's RA value.

Projects with energy-only interconnections, or without a first point of interconnection with a California balancing authority, cannot provide deliverability under the CAISO counting rules at present and are assessed the Maximum Deliverability Adder.

vi. Short-Term/Long-Term Adder

This adder was first designed to distinguish short-term versus long-term options within SB 2 Compliance Period 1 ("CP1")[7] to encapsulate the displacement cost of potentially choosing a long-term project with COD in CP1 but more expensive than options in Compliance Period 2 ("CP2")[8] in order to reach compliance in CP1.

[redacted]

vii. Congestion Cost Adders

Congestion adders were calculated independently by SDG&E's transmission planning team and provided to the IE and the RFO team. These were computed by grouping projects into congestion "clusters" based upon point of delivery. Congestion analysis was performed using a model which provides hourly Locational Marginal Prices ("LMP") for specific years for proxy projects expecting to deliver at or near the points of interconnection of the bids in the 2011 RPS RFO. Congestion costs ($/MWh) was calculated based on the difference between the hourly LMP at each proxy generator's injection point and the hourly LMP values for SDG&E's Load Aggregation Point

[7] Bids with online dates before June of 2013 are considered CP1 bids.
[8] Bids with online dates between July 2013 and December 2015 are considered CP2 bids.

("LAP"). The LMP values in the LAP was weighted for all bus points within SDG&E's service territory using approved CAISO allocation factors.

SDG&E subtracted the LMPs for each proxy generator's injection point from the LMPs in SDG&E's LAP and multiplied the differences by the proxy generator's hourly production profile (MWh). Bids were then assigned these values for congestion cost based upon the closest major congestion cluster to the bid project's point of interconnection.

viii. TRECs

This was the first RFO in which solicitation of tradable renewable energy credits ("TRECs") was permitted. TRECs were assumed delivered either as vintage TRECs (TRECs generated in the last three years but not already used towards RPS compliance by another retail seller) or as future TRECs (to be generated by existing or developing RPS projects). In order to compare TREC offers with PPA offers, TRECs were ranked in order with the Bid Ranking Prices of bundled PPA contracts as described above, under the following rules:

- Any TREC costs are automatically considered Above Market Costs. TRECs do not convey energy or capacity attributes and cannot be used to meet the needs of the utility's need for electricity.
- TRECs are assumed to have zero congestion costs and are ineligible for TOD pricing. Because TRECs are already "stripped" from the underlying energy, they can be recombined with other energy deliveries at other times and locations within the electrical system. Thus, they do not impose congestion costs on the electrical system and do not require differentiation on a Time of Delivery basis.

As discussed above, the Rim Rock SA limits SDG&E's procurement of out-of-state unbundled RECs.

For clarity, the market valuation did not include "Integration Costs".

b. Transmission Cost Adders

i. Discuss how much detailed transmission cost information the IOU requires for each project

SDG&E calculated costs for transmission network upgrades or additions, using the information provided through the Commission-approved Transmission Ranking Cost Report ("TRCR"). To be as inclusive as possible, SDG&E used TRCR-based transmission costs even for offers that were not submitted to the TRCR rather than considering those offers to be non-conforming. SDG&E also used TRCR costs for offers that claimed to have results from a CAISO cluster study in order to provide an equal competitive basis between all bids.

ii. ***Discuss how much detailed transmission cost information the IOU requires for each project***

SDG&E did not require detailed transmission cost information for each project. For the 2011 RPS RFO, all project costs for CAISO upgrades were assessed based upon TRCR report estimates. For projects outside of the CAISO, SDG&E assumed that such costs would be addressed by the developer and passed through to SDG&E through their contract price (as all bidders were advised in the RFO that contract costs must include cost of delivery to CAISO including network upgrade costs from the host utility). Projects which did not include such costs in their contract price were considered nonconforming and rejected.

iii. **Discuss whether cost adders are always imputed for projects in transmission-constrained areas, or whether and how costs for alternative commercial transactions (i.e. swapping, remarketing) are substituted.**

Cost adders for transmission in transmission-constrained areas were based upon TRCR estimates. Cost adders were not used for alternative commercial transactions; bidders were informed prior in RFO documents and bid conference materials that any out-of-state projects that did not incorporate the full cost of delivery to California would be found nonconforming and rejected.

c. Portfolio Fit

SDG&E's "best fit" analysis was impacted by SB2 compliance targets, the Rim Rock SA, and SDG&E's Sunrise commitment, all of which are described below.

i. **SB 2 Compliance Targets**

Projects that fit SDG&E's portfolio needs best were in-state projects that would provide energy deliveries within the years 2011, 2012, and 2013 to help SDG&E reach a 20% average compliance target in that period. Although SDG&E received a large number of bids in the 2011 RPS RFO, many of these bids were for projects that were either too small or had commercial operation dates after June 2013 that limited the deliveries from these projects in CP1 and would have required the shortlisting of many more bids than could have been submitted for Commission approval between mid-2011 and the end of 2013. Due to the Commission's limited number of hearing dates prior to the end of 2013 and the substantial need for near-term deliveries to meet the SB 2 Compliance Period 1 target, SDG&E determined that: [redacted].

ii. Rim Rock Settlement

As explained above, all projects that did not comply with the procurement restrictions inlcuded in the Rim Rock SA were not considered.

iii. Sunrise Commitment

SDG&E has committed to maintain a sufficient volume of deliveries from projects that would flow on the Sunrise Powerlink in order to achieve a goal of 100% deliveries of renewable energy over that transmission project by 2015. SDG&E continues to treat its Sunrise commitments as a high priority and any Sunrise-connected project which fails to achieve completion must be replaced by another Sunrise-connected project.

Based on these three portfolio fit selection criteria. These criteria are consistent with SDG&E's RPS Plan, as the Plan provides for consideration of best-fit considerations and qualitative factors. In addition, they were reviewed by the Independent Evaluator and PRG prior to the finalization of the shortlist. It is important to note that SDG&E's portfolio need evolves over time, and that SDG&E's 2011portfolio fit analysis is not an indication of how SDG&E will select projects in future years.

d. Credit and Collateral Requirements

Each 2011 RFO respondent was required to complete, execute and submit a credit application as part of its offer. The application requested financial and other relevant information needed to demonstrate creditworthiness. However, SDG&E does not analyze creditworthiness as part of its bid evaluation process. If a project is shortlisted, a respondent's credit worthiness will be evaluated during contract negotiations if the bidder is asking for special credit and collateral considerations in a power purchase agreement.

e. Project Viability

SDG&E considered project viability as a qualitative factor and relied on the Energy Division's Project Viability Calculator and self-scores from the bidders. f there are material changes to project circumstances that would alter bid viability scores, or if previously unknown information is uncovered during negotiations that would require a change of the original viability score. SDG&E reserves the right to produce alternate viability scores for a project if it disagrees with a bidder's self-produced viability scores. SDG&E expects to prioritize shortlist negotiations based on project viability after appropriate discussions with the IE and the PRG on this subject have taken place.

f. Other Qualitative Criteria / Preferences

As stated in its 2011 RPS Plan, SDG&E could also consider other qualitative factors, including:

- Location
- Benefits to minority and low income areas
- Resource diversity
- Environmental stewardship, which may include the environmental impacts of Respondent' proposed facility on California's water quality, use, and water resource management consistent with the CPUC's Water Action Plan.

B. If a weighting system is used, please describe how each LCBF component is assigned a quantitative or qualitative weighting compared to other components. Discuss the rationale for the weightings.

SDG&E does not use a weighting system as part of its LCBF formula.

C. Describe role of quantitative and qualitative factors on the LCBF ranking process.

The quantitative factors established the ranking of each bid from lowest to highest Bid Ranking Price. SDG&E used qualitative factors as a screen to filter out bids that would not meet SDG&E's need under the new SB2 compliance framework and to differentiate between similarly priced offers.

D. Discuss how the evaluation process differs, if at all, for out-of-state projects (e.g. incorporating costs of delivering energy from out-of-state facilities).

The evaluation method did not differ for out-of-state projects; the same method was used to evaluate in-state offers versus out-of-state offers. However, many out-of-state project bids were declared non-conforming or were rejected on a qualitative basis for the following reasons:

- Bidder did not provide for cost of delivery to California in their bid pricing (a prerequisite for conformance under the RFO);
- Bidder stated that delivery would be made through dynamic transfers, but did not provide any documentation of arrangements being made with the CAISO to enable dynamic pricing for the specific project;
- Bids relying on "firming and shaping" arrangements that did not provide sufficient information to quantify the nature and costs of the delivery arrangements, and such costs were not included in the bid pricing;

- Bids with firming and shaping arrangements through Four Corners, as such arrangements would require reliance upon coal-fired generation from the Four Corners or San Juan power stations for periods exceeding five years, which would be contrary to California's Emissions Performance Standard adopted in D.07-01-039;
- Bids without direct interconnections to delivery points to California balancing authorities, which would be considered an incremental procurement of out-of-state tradable RECs under Commission decision D.10-03-021 and which are prohibited under SDG&E's Rim Rock Settlement Agreement.

[redacted]

E. Evaluation of utility-owned, turnkey, buyouts, and utility-affiliate projects

1. Describe how utility-owned projects are evaluated against PPAs

[redacted]

2. Describe how turnkey projects are evaluated against PPAs

SDG&E did not solicit turnkey projects in this RFO.

3. Describe how buyout projects are evaluated against PPAs

SDG&E did not solicit buyout projects in this RFO.

4. Describe how utility-affiliate projects are evaluated against non-affiliate projects

Affiliate projects are evaluated using the same method as non-affiliate projects. The IE conducted the LCBF scoring of all bids, including all affiliate bids. [redacted]

III. Bid Evaluation and Selection Process

A. What is the process by which bids are received and evaluated, selected or rejected for shortlist inclusion, and further evaluated once on the shortlist?

1. Save offers and all incoming documents to a restricted, secured server.

2. Document each offer received in an Excel spreadsheet summarizing key characteristics such as: respondent name, alternative type, offer number, technology, price, type of facility, product type (as available, unit firm, peaking, or baseload), offer amounts (MW), contract terms (10 year,15 year, 20 year), etc.

3. File hardcopies of each bid in fireproof, locked cabinets. In this RFO, however, the volume of hardcopy documentation is so large that SDG&E is unable to provide sufficient filing cabinet space; these hardcopies at present are kept in a locked fileroom with limited access.

4. Follow-up with respondents who have not submitted hardcopies.

5. Review each offer and populate the LCBF model.

6. Contact bidders for additional information if necessary.

7. Meet with the Independent Evaluator at least on a weekly basis. In practice, SDG&E spoke to the IE every day since the IE populated the LCBF model.

8. Brief the PRG on a monthly basis.

B. What is the typical amount of time required for each part of the process?

The duration of the processing period is typically two weeks. The duration of the evaluation period is typically six to eight weeks. For the 2011 RFO, however, processing required approximately four weeks due to the large volume of bid submissions. Because of the lessons learned from previous RFOs, however, SDG&E had made advance preparation for this RFO, and once sufficient processing was completed to enable evaluation, preliminary evaluation was completed within four weeks and shortlisted bidders were notified within the timeframes established within the RPS Plan and schedule published in the RFO.

C. Were any bids rejected for non-conformance? If so, how many and what were the non-conforming characteristic(s)?

[redacted]

[redacted]

[redacted]

D. Describe involvement of the Independent Evaluator.

In order to affirm the fairness of the process, the IE provides feedback on every aspect of the RFO process, from the manner in which bids were collected, to the design of the LCBF model, to the calculation of SDG&E's need, to the manner in which a shortlist was selected. SDG&E is inclusive of the IE's views and perspectives regarding the RFO process. For 2011, the IE ran a separate LCBF evaluation based upon SDG&E's methodology (co-developed with the IE) and bid data in parallel with SDG&E's evaluation. SDG&E held meetings every few days with its IE to discuss the progress and method of bid processing and evaluation, as well as to resolve differences that would appear between SDG&E and the IE during the processing and evaluation stages.

E. Describe involvement of the Procurement Review Group (PRG).

SDG&E briefed its PRG during the course of RFO planning, bid review and LCBF analysis. SDG&E presented a proposed shortlist its PRG for review before submitting the final shortlist to the CPUC and solicited feedback from PRG members regarding both the shortlisted offers that had been submitted through the RFO process and shortlisted offers that had been submitted bilaterally to SDG&E during the same period. [redacted]

F. Discuss whether and how feedback on the solicitation process is requested from bidders (both successful and unsuccessful) after the solicitation is complete.

Although SDG&E does not specifically request feedback regarding the solicitation process, bidders are welcome to, and typically do, provide feedback by telephone or email. SDG&E's RFO inbox remains accessible to bidders even after the solicitation is closed. SDG&E rolled out a survey asking bidders about their satisfaction with the bidders conferences. The results were excellent and the ideas provided by the bidders will be taken into account in SDG&E's planning for upcoming RFOs.

IV. Final Shortlist

A. How was the size of the shortlist determined?

As discussed above, SDG&E conducted a need determination prior to issuance of the RFO in June 2011 and provided it to the Independent Evaluator.

The shortlist included as many projects as were needed to fulfill SDG&E's Nominal Need, Probability Weighted Need and Contingent Need for CP1 as described in Section 1.B above. Given the CP2 position of SDG&E ahead of the RFO and the number of long term projects with CODs in CP1 needed to get to CP1 compliance, SDG&E also meets CP2 requirements based on this shortlist. For clarity, SDG&E does not necessarily anticipate that it will contract with all the projects included on the shortlist. Contracting will be a function of how successfully the existing RPS portfolio develops and evolving market conditions.

B. Describe how certain project characteristics (e.g. online date, location, and project size) factor in to your shortlisting decisions as to which projects contribute towards meeting your determined need (or net short).

As explained above, in order to comply with SB 2 and the Rim Rock SA, and to accommodate the limited number of Commission meeting dates for approval of contracts between the remainder of 2011 and the end of 2013, SDG&E determined that projects had to be able to provide more [redacted]

C. Describe how project viability affected your shortlist results. Did LCBF rankings or your proposed shortlist change based on project viability and/or project viability scores?

[redacted]

D. Describe what role price had in determining your proposed shortlist. Were bid prices examined relative to other bids or other procurement options? Was there a certain price point cut off? Was rate impact considered for individual bids or

on a portfolio or shortlist level? What were the primary reasons for not shortlisting a project (e.g. price, online date, viability, environmental concerns, seller concentration, non-conforming, other)?

There was no price point cutoff in the 2011 RPS RFO, nor was rate impact considered for individual bids on either a portfolio or shortlist level. The primary reasons for not shortlisting projects were inability to provide sufficient deliveries during CP1 to meet SDG&E's need, and inability to deliver bundled energy to California from out-of-state projects under either the SB 2 or Rim Rock SA criteria.

E. Describe how bids' locations affected your proposed shortlist. Was being located in or near RETI CREZs a factor in your decisions? Was being located in the Tehachapi or Sunrise transmission areas a factor in your decisions? How were adders or costs incorporated to take into account a project's location (e.g. firming/shaping costs, adder for Sunrise region, etc.)

As discussed herein, out-of-state projects that did not have first points of interconnection with a California balancing authority were assumed to be considered unbundled REC deliveries under both SB 2 and the Rim Rock Settlement, which would have resulted in any such deliveries being discounted as being in excess of established limits on unbundled REC deliveries. Projects outside of the SDG&E service territory were assessed a deliverability adder due to being unable to provide local resource adequacy and capacity attributes for SDG&E. No other adders or costs were incorporated based upon location.

F. Describe any policy issues or other strategies (e.g. seller concentration, technology diversity, etc.) that affected your proposed shortlist.

Seller concentration was initially considered in shortlisting projects if a given developer represented more than 20% of the shortlist. [redacted]

Offers with firming and shaping through the Four Corners hub were rejected due the preponderance of coal-fired power from the San Juan and Four Corners power plants at that location. SDG&E will not enter into any agreement that will require deliveries from coal-fired facilities (either directly, or indirectly for firming and shaping purposes) for a term of greater than five years. [redacted]

No other policy or strategy issues were considered in the shortlist other than those already listed in this report concerning compliance with SB 2 and the Rim Rock SA, and the

limited number of advice letters that can be filed with the Commission between 2011 and 2013.

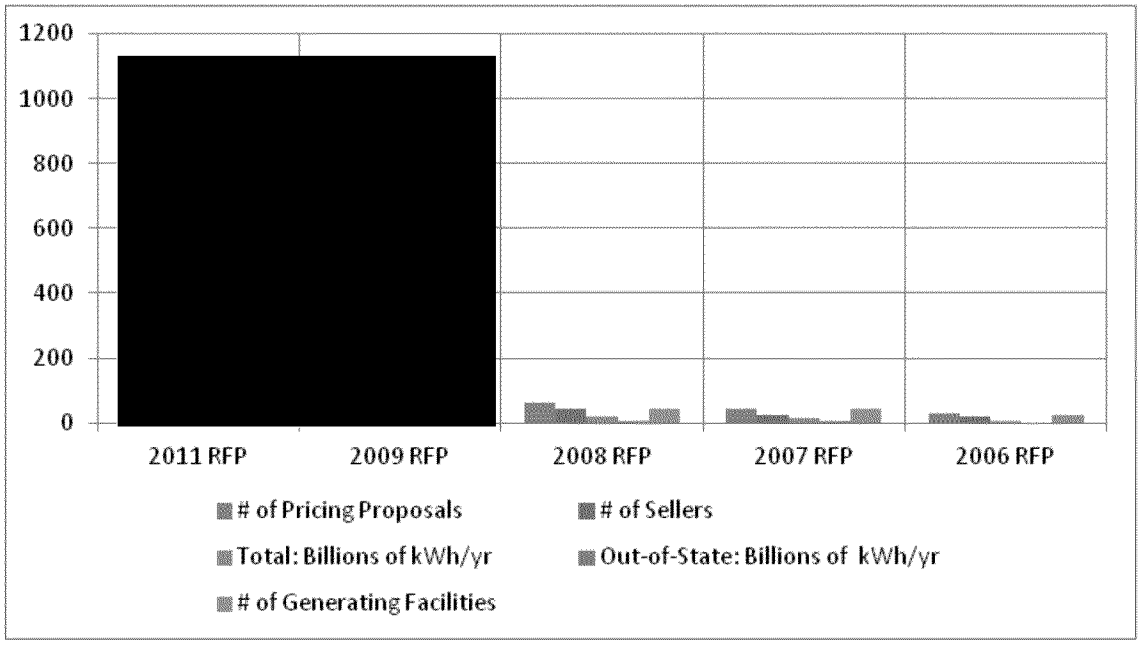
4. Shortlist Workpapers Narrative

1. **Provide a brief narrative of the bids received in the most recent RFO including any of the following items listed below. In the narrative, please keep comments focused on major trends identified in the RFO that impacted your decision-making process in determining the shortlist.**

    - **Number of offers**
    - **Number of bidders**
    - **Number of distinct projects**
    - **MW and GWh received by technology**
    - **Summary of Out-of-state offers**
    - **Summary of REC offers**[9]

Over the past 5 years, SDG&E has witnessed exponential growth in the number developers, projects, and pricing proposals for the sale of renewable project generation. Between 2009 and 2011, [redacted] Shown below is a chart representing the growth in turnout over the past 5 years. The market space is becoming increasingly competitive and so have been pricing proposals.

Chart 1 – RPS RFO Turnout Over the Past Five Years



This year, SDG&E received [redacted] offers in response to its 2011 RPS RFO. That [redacted] the amount of offers received as part of the 2009 RFO. There

[9] RECs as described in SB 2.

were more than [redacted] bidders; [redacted] offered the output of [redacted] distinct projects from every state and province in the WECC region.

Chart 2 - Diversity of Resources Offered into the 2011 RFP

In response to the RFO, SDG&E received [redacted] offers sourcing generation from out-of-state projects (most of which were Northwest wind facilities in and small hydro) totaling [redacted] generation as 2009.

Of the out-of-state there were [redacted] REC-only offers received. SDG&E only received [redacted] n-state REC-only offers. Most out-of-state bids (although competitively priced) did not meet SDG&E's screening criteria.

Recent pricing trends and increased competitiveness lead SDG&E to believe that the market space is nearing complete saturation and that next year will not yield the same exponential growth in pricing proposals and offered generation.

2. **Please briefly describe the general trends that occurred from the 2009 solicitation to the 2011 solicitation. Include in the summary any of the items listed below. This list is not exhaustive but is to act only as a guide. What were some of the most telling trends that affected your procurement decisions for 2011? Does the data indicate any major shifts in the market that may affect future procurement decisions?**

    - **Number of bids - discuss the number of bids that were not selected, withdrawn, and short-listed**
    - **Bid prices**

[redacted]

    - **Types of technologies and sizes of projects**

[redacted]

    - **Project locations (e.g. IOU's territory, Imperial Valley, California, Pacific Northwest, etc.)**

[redacted]

[redacted]

- **Project commercial online dates**

[redacted]

- **Project viability**

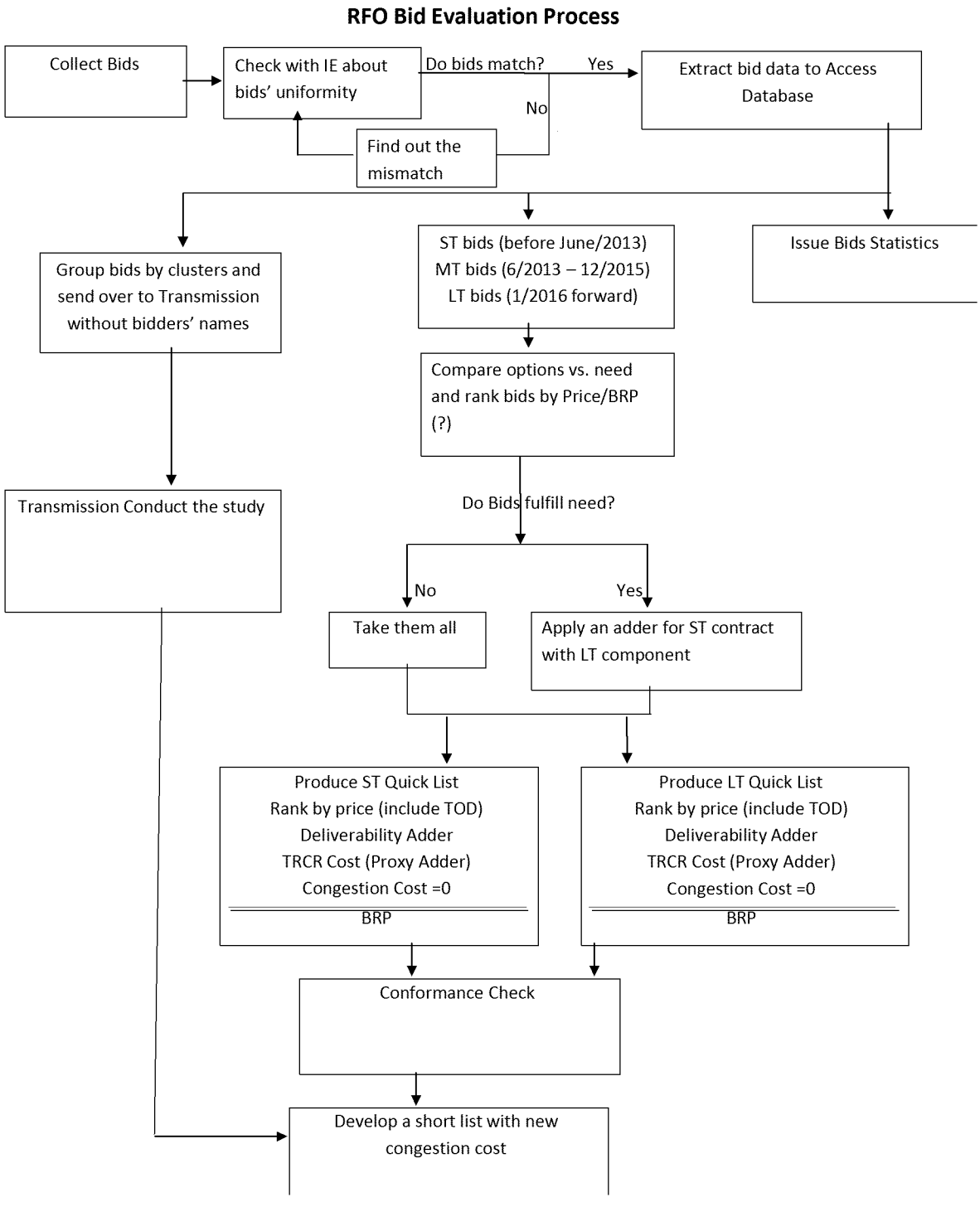
[redacted]

- **New market, regulatory, operational constraints or issues that influenced your 2011 short listing process or may effect future procurement decisions**

This was the first RFO to solicit TRECs. There were several projects offered in this RFO as both bundled PPA offers and TREC offers; due to SDG&E's expected future deliveries of unbundled RECs from pre-2011 contracts and the caps on allowed TREC procurement, it appears unlikely that SDG&E will be able to procure TRECs under long-term agreements without changes to the RPS regulatory framework or SDG&E's expected portfolio.

Other market, regulatory, and operational constraints influencing the 2011 RPS RFO are described elsewhere herein.

3. **Please provide an overview the LCBF methodology utilized to determine the 2011 shortlist. Include in the explanation a flowchart of the shortlisting process utilizing the IOU's LCBF practices. Please describe all the critical steps on the flowchart utilized in the shortlisting process. Be very explicit in your explanation.**



4. Please answer the following questions related to managing the pricing risk of long lead-time projects that may be shortlisted.

a. Component pricing is decreasing in the renewable energy market. If the IOU is procuring resources in 2011 for contracts with CODs of

2015 or greater, what is the IOU's strategy in hedging against price risk associated with long lead-time, long duration contracts? Is the IOU concerned about paying higher 2011-2012 pricing over a 20 year period for a contract with a COD of 2015, when it is likely that component pricing will be lower in 2013-2014?

[redacted] SDG&E will only sign long-term contracts with fixed prices, and all long-term contracts signed by SDG&E must be compared with the latest RFO to ensure that such contracts are price competitive. SDG&E is confident that, in the event that a long lead-time contract has a price significantly higher than the prices contained in the latest RFO, the PRG will advise SDG&E on the need to negotiate contract amendments with more favorable pricing terms before the Commission will approve such contracts (as has already been done with several contracts in 2011).

b. **Projects with CODs of 2015 or greater are likely to be not as far developed as projects with more near-term CODs and thus less viable due to achieving few key project development milestones. Does the preliminary data from the 2011 solicitation support this assumption? If so, has the procurement team considered the potential for issues (i.e. interconnection, site location, permitting) that could delay project development, significantly increase the need for contract amendments, and increase the potential for delays in the CPUC evaluation process when choosing projects for its shortlist? If so, what is the IOU's strategy for mitigating any of these potential issues with procuring resources with mid- to later-term CODs?**

[redacted]

SDG&E's procurement team has traditionally sought to mitigate issues regarding development delays and the necessity of contract amendments by shortlisting more projects than its nominal need, in the expectation that some of the shortlisted offers will not achieve sufficient progress to enable serious consideration for approval by the Commission.

5. **Describe any qualitative factors used to finalize your proposed shortlist. How were they used (e.g. tie-breaker, cut-off, exclusion measures, etc.) and how did the shortlist change?**

Qualitative factors used to finalize the proposed shortlist are described elsewhere in this report. [redacted]

6. **On the "shortlist data" worksheet in column X, each IOU is required to identify which product bucket (1, 2 or 3) each shortlisted project falls into. Because the CPUC has not yet defined the product categories, each IOU is tasked with interpreting the language in the statute to choose the product bucket for each shortlisted project. Please define the product buckets based on the IOU's interpretation of the statute. For this exercise, each product bucket must be distinct and clearly defined with no overlap in interpretation between any one product category.**

San Diego Gas & Electric Advice Letter 2300-E

November 7, 2011

ATTACHMENT E

PRELIMINARY REPORT OF THE INDEPENDENT EVALUATOR ON THE 2011 REQUEST FOR OFFERS FROM ELIGIBLE RENEWABLE RESOURCES

PUBLIC VERSION

San Diego Gas & Electric Co.

Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources (2011 Renewable RFO)

November 7, 2011

San Diego Gas & Electric Co.

Preliminary Report of the Independent Evaluator on the 2011 Request for Offers from Eligible Renewable Resources (2011 Renewable RFO)

November 7, 2011

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FOREWORD

PA Consulting Group, Inc. (PA) has served as the Independent Evaluator (IE) of San Diego Gas & Electric Co.'s (SDG&E's) 2011 Request for Offers from Eligible Renewable Resources (2011 Renewable RFO). This is PA Consulting Group's Preliminary Report. It addresses the conduct and evaluation of San Diego Gas & Electric Company's 2011 Renewables RFO through the selection of its preliminary short list. This document has been formatted in accord with a template provided by Cheryl Lee of the CPUC Energy Division in an email dated Sept. 14, 2011.

This report contains confidential and/or privileged materials. Review and access are restricted subject to PUC Sections 454.5(g), 583, D.06-06-066, GO 66-C and the Confidentiality Agreement with the CPUC.

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1. ROLE OF THE INDEPENDENT EVALUATOR (IE)

Template language: "Describe the IE's role."

This chapter describes the history of the requirements for Independent Evaluators at the Federal level and in California. It includes a list of the roles of the IE as well as a summary of PA's activities in fulfilling those roles.

1.1 THE IE REQUIREMENT

Template language: "Cite CPUC decisions requiring IE participation in RPS solicitations: D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8)."

Regulatory requirements for an IE of resource procurement can be traced to the Federal Energy Regulatory Commission's (FERC's) "Opinion and Order … Announcing New Guidelines for Evaluating Section 203 Affiliate Transactions" (108 FERC ¶ 61,081 (2004)). That decision addressed ways to demonstrate that a utility's procurement of power from an affiliate was not abusive or unfair, under the standards of the *Edgar* decision (55 FERC ¶ 61,382 (1991)). FERC provided a set of guidelines, which presumably would be sufficient to demonstrate that the utility had not unfairly favored its affiliate. One of those guidelines was that "an independent third party should design the solicitation, administer bidding, and evaluate bids prior to the company's selection." FERC proposed not just independent evaluation but independent conduct of all aspects of the solicitation (except, presumably, the need determination).

The California Public Utilities Commission (CPUC) referenced those guidelines in its December 2004 decision on long-term resource procurement.[1] The CPUC stated that although it had not previously required the use of an IE for resource procurement, it would "require the use of an IE in resource solicitations where there are affiliates, IOU-built, or IOU-turnkey bidders" from that point forward.[2] The CPUC's intention was clearly that the IE should ensure that the utility did not favor itself, its affiliates or its shareholders (shareholders would earn a return on "ownership projects" – IOU-built or turnkey – but not on independent PPAs). The CPUC stated explicitly that it would not require the IE to conduct or administer the solicitation, nor would it "allow the IEs to make binding decisions on behalf of the utilities." Under this decision the role of the IE is to provide advice to the utility in "the design, administration, and evaluation aspects of the RFO" and to observe the utility's procurement and evaluation process in order to provide a fairness opinion.

D. 04-12-048 did not require IEs for procurements in which there were no affiliate or ownership bids. But in its decision approving the utilities' plans for 2006 Renewable Portfolio Standard (RPS) solicitations, the CPUC determined that Independent Evaluators would be required for these and "all future solicitations" (it is unclear whether this means only all future

[1] California Public Utilities Commission, Decision (D.) 04-12-048, May 26, 2006, p. 135f and Findings of Fact 94-95 on pp. 219-220.

[2] D. 04-12-084, p. 135f and Ordering Paragraphs 26i and 28 on p. 245.

RPS solicitations).[3] The role of the IE is still not to conduct or administer the solicitation but to "separately evaluate and report on the IOU's entire solicitation, evaluation and selection process".[4] The Decisions that approved the utility RPS solicitation plans for 2007 and 2008[5] did not further elaborate on the IE role but took the participation of an IE as a given.

D. 09-06-018, which approved the utility RPS solicitation plans for 2009, contained additional requirements related to the use of Project Viability Calculators and directed "that project-specific project viability information should be included in the confidential appendices to advice letters and validated by the IE in the confidential versions of IE reports."[6] The reference to the Project Viability Calculator has been incorporated by Energy Division in its template language for Section 7, which is only completed in the final IE report submitted with each contract Advice Letter.

1.2 PA'S ROLE AS INDEPENDENT EVALUATOR

Template language: "B. Description of key IE roles: IEs provide an independent evaluation of the IOU's RPS bid evaluation and selection process:

"1. Did the IOU do adequate outreach to potential bidders and was the solicitation robust?

"2. Was the IOU's LCBF methodology designed such that all bids were fairly evaluated?

"3. Was the IOU's LCBF bid evaluation and selection process fairly administered?

"4. Did the IOU make reasonable and consistent choices regarding which bids were brought to CPUC for approval?"

In April 2006, SDG&E retained PA to be the Independent Evaluator for an All-Source Request for Offers (All-Source RFO). SDG&E anticipated that there might be affiliate bids in that RFO, as in fact there were. The CPUC Energy Division, as well as the rest of SDG&E's Procurement Review Group (PRG), participated in the decision to select PA. PA's contract was subsequently amended to include the independent evaluation of additional SDG&E procurement activities.

When PA was contracted as IE for the All-Source RFO, PA and SDG&E agreed on an interpretation of the IE role that would not include a complete LCBF evaluation or full replication of the utility's computations, although PA would spot-check them. PA's role would be that of an observer and an adviser as needed. PA subsequently served as Independent Evaluator for SDG&E's 2006 Renewable RFO, the Local Peaker RFO (conducted in 2006-7),

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[3] California Public Utilities Commission, Decision (D.) 06-05-039, May 26, 2006, p. 46, Finding of Fact 20b on p. 78, Conclusion of Law 3e(2) on p. 82 and Ordering Paragraph 8 on p. 88.

[4] D. 06-05-039, p. 46.

[5] California Public Utilities Commission, Decision (D.) 07-02-011, Feb. 15, 2007 and Decision (D.) 08-02-008, Feb. 15, 2008. The decisions actually only conditionally approved the plans but the conditions were not connected with the use of IEs.

[6] California Public Utilities Commission, Decision (D.) 09-06-018, June 8, 2009, p. 24.

and the 2006, 2008 and 2009 Renewable RFOs. In each case, PA and SDG&E used the above interpretation of the IE role, and it was adopted for the 2011 Renewables RFO.

PA's emphasis has been on issues of fairness and equity. PA reviews the reasonableness of SDG&E's evaluation criteria and algorithms and spot-checks the calculations but does not enforce a single standard of evaluation. While PA may have an opinion about the "best" way to value certain attributes or even to conduct a multi-attribute evaluation, its role as IE has not been to judge SDG&E's evaluation against a standard, but rather to determine that SDG&E's evaluation has not unfairly favored affiliates or ownership bids, or favored SDG&E and its shareholders in any other way[7].

For the 2009 RFO, SDG&E also asked PA to conduct the quantitative LCBF evaluation of bids, except for the congestion adder computation. This was a direct response to experience of past RFOs, and the efforts that SDG&E had to make to avoid any appearance of conflict in its evaluation of affiliate bids. PA also determined the TRCR clusters, and hence TRCR costs, in cases where the bidder had not specified them. PA's approach to conducting this evaluation was consistent with its approach to reviewing SDG&E's evaluation: the criteria to be applied were SDG&E's, not PA's, the spreadsheet model used to apply those criteria had been developed by SDG&E, and PA ensured that the criteria and model were reasonable and then applied them. PA did not itself determine the evaluation standards but PA did advise SDG&E on the definition and refinement of the evaluation criteria.

For the 2011 RFO, PA similarly conducted the LCBF evaluation, except that PA did not use SDG&E's spreadsheet model (which was linked to an Access database) but its own version (that was not linked to SDG&E's database).

1.3 PA'S ACTIVITIES

Template language: "Description of activities undertaken by the IE to fulfill the IE's role (i.e. attended negotiation meetings, reviewed Request for Proposals materials, attended pre-bid conference, evaluated proposals and/or reviewed evaluation process and results, etc.) and reporting/consultation with CPUC, PRG and others."

PA and SDG&E began to discuss plans for the 2011 RFO in December, 2009. SDG&E provided PA the draft RPS plan for review prior to its filing, and PA responded with a number of specific comments based on past experience. SDG&E and PA discussed several of these areas at length, most notably the use of a measure of avoided energy cost and the treatments of duration equivalence and capacity value. SDG&E adopted several of PA's suggestions and declined to adopt others. In all these cases SDG&E's decisions were reasonable (even if they were to disagree with PA).

PA was provided access to all the SDG&E staff involved in the evaluation of the Renewables RFO. PA met with SDG&E to review the evaluation criteria and reviewed the LCBF model constructed by SDG&E.

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[7] E.g., it would have been unfair for SDG&E to design an evaluation method that favored a category of bidders on whose behalf SDG&E would have to make extensive rate-based transmission or distribution investments.

PA was present at both pre-bidder conferences: in San Diego on June 2, 2011 and in El Centro on June 8, 2011. PA was provided all questions submitted by bidders either at the bidder conference or submitted by the July 1 deadline. PA met with SDG&E to discuss some questions received and how to best answer questions in a fair and concise manner. PA got a copy of all of SDG&E's answers and they are posted on the website. PA received the electronic bids from SDG&E in San Diego on the day bids were due.

PA was in regular contact with the SDG&E evaluation team and was provided all the data in the evaluation process. PA was responsible for interpreting all bids in order to conduct the LCBF evaluation. PA also reviewed questions put by SDG&E to bidders, and bidders' answers. PA advised SDG&E on judgments that certain bids did not conform to RFO requirements. PA participated in Procurement Review Group (PRG) meetings during the evaluation period. SDG&E discussed the short list with PA as well as with the PRG.

SDG&E in no way prevented PA from observing its process and analyzing its methods, and did not interfere with PA's conduct of the LCBF evaluation.

1.4 CONFIDENTIALITY AND ADDITIONAL COMMENTS

Template language: "Any other relevant information or observations."

It is PA's understanding that confidential treatment of the information in an IE report is obtained through procedures defined in CPUC Rulemaking (R.) 05-06-040.[8] Under that Ruling a person or party that serves testimony, supplies data or files an advice letter requests confidential treatment of some data within that submittal and must accompany the data by a declaration under penalty of perjury that justifies the claim of confidentiality.

PA delivers its IE report to SDG&E and SDG&E in turn submits it to the CPUC. It is PA's understanding that each utility separately submits its IE's report and requests confidential treatment for parts of that report. Because it is the utility that identifies confidential data and provides the associated declaration, PA believes that it is the utility's right to determine which data in the report is confidential and the utility's responsibility to defend that determination. SDG&E's view of confidentiality may be more or less expansive than PA's. While PA has in the past provided recommendations to SDG&E about which parts of its IE reports should be held confidential, in general PA takes a "minimal redaction" (redaction only of information about identifiable bids) view. SDG&E always makes the ultimate determination of data to redact.

[8] "Administrative Law Judge's Ruling Clarifying Interim Procedures for Complying with Decision 06-06-066", August 22, 2006.

2. ADEQUACY OF OUTREACH AND ROBUSTNESS OF THE SOLICITATION

Template language: "Did the IOU do adequate outreach to bidders and was the solicitation robust?"

This chapter describes the information provided by the utility to potential bidders, and the utility's efforts to stimulate a wide and robust response to the RFO.

2.1 SOLICITATION MATERIALS

Template language: "Were the solicitation materials clear and concise to ensure that the information required by the utility to conduct its evaluation was provided by the bidders?"

PA reviewed SDG&E's RFO and supporting forms. PA's opinion was that the RFO was clear and supporting forms were generally well-designed and would elicit appropriate information except for the "Capacity Buildout" table. This was an additional table, not present in previous years' bid forms, which SDG&E thought would help represent bids that came online in phases. After concluding the evaluation we do not believe that this table was useful in its present form.

SDG&E held two pre-bid conferences, in San Diego and El Centro, and also posted on its website answers to questions submitted by bidders. Even so, not all bidders entered data correctly and completely, but PA does not believe this was the fault of the forms.

2.2 ADEQUACY OF OUTREACH

California's Renewable Procurement Standard and its utilities' attempts to meet that standard have been widely publicized. The investor-owned utilities have conducted annual RFOs for renewable resources for several years. Because of the publicity, it should not have been necessary for SDG&E to take on the responsibility of informing bidders that California has a renewables program or that utilities would be contracting with renewable suppliers. Furthermore, it was well-known in the California energy industry that at the time of the adoption of the RPS, SDG&E was the furthest of the three utilities from satisfying the RPS (least renewable energy relative to retail sales). It would have been adequate for SDG&E to advertise the RPS solicitation on its website and to a sizable email list.

In PA's opinion, SDG&E did adequate outreach. SDG&E provided PA with a list of 877 email addresses, associated with 655 separate organizations, to which it sent the RFO. Some of those addresses are consultants probably not working with any particular bidder. In addition, SDG&E publicized the RFO with a press release and notices appeared in *Platt's MW Daily* and *California Energy Markets*.

2.3 SOLICITATION ROBUSTNESS

PA judges the robustness of the solicitation by the number of bids received. In PA's opinion, the solicitation engendered a robust response. [redacted] separate organizations responded to the solicitation with a total of [redacted] project proposals having [redacted] pricing options. That is [redacted] times as many projects, and [redacted] times as many pricing options, as were submitted in SDG&E's 2009 RFO.

The CPUC has encouraged SDG&E to do specific outreach to the Imperial Valley and, more generally, the SPL area. [redacted] project proposals were submitted from the SPL area, with [redacted] pricing options, from a total of [redacted] separate bidders.[9]

2.4 FEEDBACK

Template language: "Did the IOUs seek adequate feedback about the bidding/bid evaluation process from all bidders after the solicitation was complete?"

SDG&E did not formally seek bidder feedback.

2.5 ADDITIONAL ISSUES

Template language: "Any other relevant information or observations"

SDG&E originally filed its Renewables Procurement Plan on Dec. 18, 2009. The CPUC review of the utilities' plans was lengthy and plans had to be brought into compliance with new policies such as those regarding Tradable RECs and buyer-directed economic curtailment. The three IOUs filed various revisions and amendments to their plans, with the last utility amendment having been filed in June, 2010. The Commission issued Decision (D.) 11-04-030 conditionally accepting the plans on April 20, 2011, and SDG&E made its compliance filing on May 4.

In the time between SDG&E's initial RPS Plan filing and the actual release of the RFO on May 12, 2011, SDG&E's perception of its RPS need changed somewhat. Partly this was due to the failure of several previously signed contracts, such as Tessera Imperial Valley Solar, but the most significant impact on SDG&E's thinking (as explained to PA) was the enactment of the Renewable Energy Resources Act (SBX1-2). Previously, section 399.14(a)(2)(C)(i) of the Public Utilities Code had required the CPUC to have rules that allowed utilities to "apply … inadequate procurement in one year to no more than the following three years." The CPUC's approach was to permit utilities to "earmark" later deliveries from specific contracts to be applied against a renewables procurement deficit. SBX1-2 deleted that language.

[redacted] It interpreted SBX1-2 as prohibiting that strategy, and shared this interpretation with the PRG. SDG&E was therefore faced with a greater-than-anticipated need for renewable energy in 2012 and 2013, which it planned to meet by buying Renewable Energy Credits and emphasizing, in its 2011 RFO, contracts with significant deliveries before December 31, 2013.

In its May 4 compliance filing, SDG&E made minimal changes to its plan and attachments (including the draft RPS RFO), only as directed by D.11-04-030. Adding a statement to the RFO emphasizing early delivery would not have been a compliance change. It was therefore necessary for SDG&E to communicate this emphasis to bidders more directly. At PA's suggestion, SDG&E sat for an interview with *California Energy Markets* to describe its

[9] For each bid, PA determined (if possible) the TRCR "cluster" to which it corresponded. "SPL bids," as counted here, are those PA identified as belonging to clusters SDGE2 and SDGE3.

renewable procurement strategy.[10] SDG&E held two bidder conferences, on June 2 in San Diego and on June 8 in El Centro, at which it described its emphasis on delivery in 2012 and 2013.

[redacted] of the [redacted] proposed projects [redacted] included [redacted] that would provide deliveries in CP1. [redacted] the submitted projects would not come online by 2013. This probably reflects a tendency among bidders to bid projects that are early in the development cycle, several years away from commercial delivery. The supply of projects that could deliver by 2013 appears not to have been very deep, and some of those projects might only be available because negotiations with another utility had broken down. For example, section 4.10 references the [redacted] which SDG&E had been intending to shortlist – we now assume that [redacted] had only submitted the bid in case its [redacted]

While SDG&E staff have said they felt they strongly expressed their preference both in the bidder conferences and in answers to subsequent questions, bidders may not have attended to it. PA recommends that in the future any supplemental information expressing SDG&E's product preferences be issued as a formal addendum to the RFO; that it be emailed (if possible) to all parties that had already downloaded the RFO; and that all respondents be required to acknowledge receipt of any amendments to the RFO.

[10] PA does not subscribe to *California Energy Markets* so we cannot comment on the article that was or was not published based on that interview.

3. SDG&E'S METHODOLOGY FOR BID EVALUATION AND SELECTION

Template language: "Was the IOU's LCBF methodology designed such that bids were fairly evaluated?"

This chapter describes SDG&E's quantitative evaluation methodology and PA's opinion of its application.

3.1 PRINCIPLES USED TO EVALUATE METHODOLOGY

Template language: "Identify the principles the IE used to evaluate the IOU's bid evaluation methodology. Example principles (each IE should include the specific principles he/she used in his/her evaluation):

"1. The IOU bid evaluation should be based only on information submitted in bid proposal documents.

"2. There should be no consideration of any information that might indicate whether the bidder is an affiliate.

"3. Procurement targets and objectives were clearly defined in IOU's solicitation materials.

"4. The IOU's methodology should identify quantitative and qualitative criteria and describe how they will be used to rank bids. These criteria should be applied consistently to all bids.

"5. The LCBF methodology should evaluate bids in a technology-neutral manner.

"6. The LCBF methodology should allow for consistent evaluation and comparison of bids of different sizes, in-service dates, and contract length."

PA has used the following principles to guide its evaluation. These principles were originally codified by PA in its report on SDG&E's 2006 RPS RFO:[11]

- The evaluation should only be based on those criteria requested in the response form. There should be no consideration of any information that might indicate whether the bidder is an affiliate.
- The methodology should identify how quantitative measures will be considered and be consistent with an overall metric.
- The approach should not be biased for or against specific technologies, solely based on the choice of technology (as opposed to, e.g., quantifiable differences between the value of peaking and baseload technologies).
- The methodology does not have to be the one that the IE would independently have selected but it needs to be "reasonable".

[11] Jacobs, Jonathan M., *Preliminary Report of the Independent Evaluator on the 2006 Request for Offers from Eligible Renewable Resources (Renewable RFO)*, PA Consulting Group, Los Angeles CA, January 16, 2007, p. 2-1.

These principles do not require the upfront identification of procurement targets, as those may depend on committed contract quantities and commitments may be made between release of the RFO and selection of the shortlist. They do not also specifically address "consistent" evaluation of bids of different sizes and timing because PA considers the fairness of such analysis to fall within the area of reasonableness; and it is conceivable that a consistent evaluation may not be the most reasonable.

3.2 SDG&E'S LCBF METHODOLOGY

Template language: "Briefly describe the IOU's LCBF methodology. Does the methodology incorporate the comparison of bids based on price, value, need and viability?"

In the final version of its 2011 Renewables Procurement Plan, SDGE characterized its LCBF methodology as being based on a Bid Ranking Price that included four quantitative factors:[12]

1. Above Market Cost (AMC), which equals the levelized amount by which the Contract Cost exceeds a measure of energy and capacity value
2. Transmission upgrade costs or credits
3. Estimated congestion costs
4. Deliverability adder

Shortly before bids were received, SDG&E and PA reviewed the bid evaluation model and discussed SDG&E's need forecast. At that time SDG&E indicated it intended to include another term in the Bid Ranking Price, applicable only to bids delivering in CP1:

5. Near Term Long Term (NTLT) Adder

SDG&E called it the "Short Term Long Term Adder" although, but PA noted some confusion among PRG members owing to that name. Therefore this report refers to it as a Near Term, rather than Short Term, adder.

The next five subsections describe the four numbered components of the Bid Ranking Price listed above. SDG&E abandoned the "duration equalization" approach from previous RPS RFOs, and incorporated an MPR proxy as a measure of value, and somewhat changed the way it computed a deliverability adder. The sixth subsection addresses the reasonableness of those changes; we address the appropriateness of the NTLT adder in section 3.2.5.

PA's opinion of the use of LCBF methodology is included in section 3.3.

3.2.1 Above market cost (AMC)

The benefit or value sought from RPS-qualified energy is in its renewability. The cost of that energy also includes "energy value" and "capacity value". The AMC component describes the cost of renewability, assuming that the contract provides both energy and capacity. It is computed as the amount paid for the contract, minus the cost of energy and capacity that

[12] San Diego Gas & Electric Company, *2011 Renewables Procurement Plan Compliance Filing*, May 4, 2011, Appendix C, p. 3.

could be avoided through purchase of the contracted energy. The deliverability adder (described below) corrects this in the case of contracts that do not provide full capacity value.

In its RPS RFOs SDG&E has consistently chosen not to compute an "avoided cost" or "market price" by hour or subperiod to be compared with contract costs. In 2011, SDG&E used a proxy for the approved Market Price Referent (MPR), along with its approved TOD factors, to estimate the avoided cost. SDG&E was unable to use an approved MPR, because the most recent MPR values were from 2009.[13] The proxy is the levelized price produced by the CPUC's MPR model, with updated commodity price assumptions.

Bidders were able to specify a uniform contract price throughout the year, or a price that was adjusted by TOD factors. The difference between contract payment and the weighted MPR was volume-weighted and levelized to produce this component of the ranking costs. The following equation describes the computation:

AMC =

$$\frac{\sum_{y=1}^{N}\left[CP_y Cap_y + \sum_{i=1}^{6}\left(p_y - TOD_i MPR(start,dur)\right)v_{y,i}\right]\Big/(1+d)^{-y}}{\sum_{y=1}^{N}\sum_{i=1}^{6} v_{y,i}\Big/(1+d)^{-y}} \quad \textit{for uniform pricing}$$

$$\frac{\sum_{y=1}^{N}\left[CP_y Cap_y + \sum_{i=1}^{6}\left(TOD_i p_y - TOD_i MPR(start,dur)\right)v_{y,i}\right]\Big/(1+d)^{-y}}{\sum_{y=1}^{N}\sum_{i=1}^{6} v_{y,i}\Big/(1+d)^{-y}} \quad \textit{for TOD-weighted pricing}$$

where p_y is the energy bid price in year *y*, CP_y is the capacity bid price in year *y*, TOD_i is SDG&E's current TOD factor for subperiod *i*, Cap_y is the projected contract capacity in year *y*, $v_{y,i}$ is the projected contract deliveries in year *y*, subperiod *i*, *MPR(start,dur)* is the proxy MPR for a contract of duration *dur* starting in year *start* (as computed by the CPUC's MPR model with updated assumptions), and *d* is the discount rate (SDG&E WACC).

These formulas applied to power purchase agreement bids. A TREC bid provides not energy and hence gets no avoided cost benefit. Therefore:

[13] 2011 MPR values were contained in CPUC Draft Resolution E-4442, as received by email Oct. 31, 2011, which has not yet been approved. After SBS1-2 becomes effective (Dec. 10, 2011) the CPUC may no longer compute the MPR.

AMC (TREC) =

$$\frac{\sum_{y=1}^{N}\sum_{i=1}^{6} p_y v_{y,i} \Big/ (1+d)^{-y}}{\sum_{y=1}^{N}\sum_{i=1}^{6} v_{y,i} \Big/ (1+d)^{-y}} \quad \textit{for uniform pricing}$$

$$\frac{\sum_{y=1}^{N}\sum_{i=1}^{6} TOD_i\, p_y v_{y,i} \Big/ (1+d)^{-y}}{\sum_{y=1}^{N}\sum_{i=1}^{6} v_{y,i} \Big/ (1+d)^{-y}} \quad \textit{for TOD - weighted pricing}$$

3.2.2 Estimated costs of transmission network upgrades or additions

For offers for new projects or projects proposing to increase the size of existing facilities, SDG&E's model calculated costs for transmission network upgrades or additions, using the information provided through the TRCRs. SDG&E considered using estimates from completed CAISO Phase II interconnection studies, but few projects submitted those estimates. Furthermore, recent interconnection estimates, especially for projects in the Imperial Valley and even the SDG&E local area, have been quite high. PA therefore recommended that the interconnection study cost estimates, which are really upper bounds on interconnection costs, were not appropriate for use for comparative evaluation. On the other hand, the TRCRs themselves were over 18 months old, having been submitted in January, 2010 -- there was no really good source of transmission upgrade cost information.

If a bidder identified the cluster to which a project belonged, the transmission cost corresponded to the cost of the first plant in that cluster according to the utility's TRCR. If the bidder had not identified the cluster, PA applied its judgment to determine the cluster based on the project location and interconnection information, and then sought SDG&E's input as a check.[14] Projects outside of the California ISO were expected to have internalized the cost of transmission to the ISO, as well as the cost of required transmission upgrades outside the ISO, into their bid price; they could still be assigned additional upgrade costs within California based on the TRCRs. For example, the cost estimate for cluster SDGE4 was used as the CAISO upgrade cost adder for projects delivering at Palo Verde.

3.2.3 Estimated congestion costs

Congestion impacts from the proposed point of delivery to SDG&E's load aggregation point were determined after LCBF rankings had been computed without congestion information. In this way SDG&E was able to reduce the number of projects for which congestion impacts were computed. PA agreed that it was reasonable for SDG&E's transmission planning group to conduct the study given the separation from the procurement group provided for under the

[14] SDG&E pointed out that PA had misinterpreted the definition of the SDGE2 cluster, thinking it had been comparable to a cluster in the 2009 TRCR.

FERC Code of Conduct. Congestion adders were all relatively small and therefore congestion costs did not affect the composition of the short list.

3.2.4 Deliverability adder

The deliverability adder represents the amount by which the avoided cost of the contract should have been reduced if it did not provide deliverable capacity; alternatively it is amount by which the AMC (section 3.2.1) should be increased for contracts that don't provide deliverable capacity. SDG&E computed it using its MPR proxy and the difference between "all-in" and "energy-only" TOD factors.

In previous years SDG&E had used "energy-only" TOD factors that represented only the relative value of energy in different subperiods. In 2009 the CPUC directed SDG&E to use "all-in" TOD factors in the future.[15] "All-in" factors account also for the additional capacity value associated with energy in peak hours. We have already noted that the (levelized) value of energy + capacity in a peak hour would be estimated as $TOD_{peak}MPR(start,dur)$. The value of energy alone would be estimated using an energy only (EO) TOD factor, as $TOD_{peak}^{EO}MPR(start,dur)$. The previous (2009) TOD factors were used as energy-only factors. Thus the "full capacity value" that was assumed to come from a contract was estimated as:

Full capacity value =

$$\frac{\sum_{y=1}^{N}\sum_{i=1}^{6}\max\left(0,TOD_i-TOD_i^{EO}\right)\cdot MPR(start,dur)v_{y,i}\Big/(1+d)^{-y}}{\sum_{y=1}^{N}\sum_{i=1}^{6}v_{y,i}\Big/(1+d)^{-y}}$$

The "max" function limits the value calculation to those periods where the all-in TOD factors exceed the energy-only factors.

The full capacity value is included in the "avoided cost" that is subtracted in calculating the AMC, and therefore must be added back to the extent the contract fails to be deliverable. SDG&E and PA agreed on the following rules.

Delivery adder =

0	For TRECs (no avoided cost)
0	For PPAs where the plant is in SDG&E territory or the Imperial Valley, and will have a CAISO full deliverability interconnection
40% of full capacity value	For PPAs where the plant is not in SDG&E territory or the Imperial Valley, but will have a CAISO full deliverability interconnection
40% of full capacity value	For PPAs where the plant is outside CAISO

[15] D. 11-04-030, pp. 46-47.

Full capacity value	For PPAs where the plant has a CAISO energy-only interconnection

These rules imply that a plant in California that does not have a full deliverability interconnection provides no capacity value, although plants outside California are assumed to have firm delivery to the border (and hence capacity value); and non-local plants are only 60% as valuable as local ones (like saying that system RA is only 60% of the value of local + system RA).

3.2.5 Near Term Long Term (NTLT) adder

Under SBX1-2, instead of having to achieve an annual renewables penetration level, utilities have to achieve that level on average over several years. For example, SDG&E has to obtain 20% of its total sales from 2011-2013 from renewable sources. SDG&E characterized its total need for additional renewable energy in that period in three ways:

- The *nominal need*, based on the assumption that all signed contracts succeed, was [redacted] from 2011-2013
- The *probability-weighted need*, which assigns a nonzero failure probability to contracted plants not yet operational, was [redacted] from 2011-2013
- The *contingent need*, based on adding a 25% contingency to the probability-weighted need, was [redacted] from 2011-2013.

SDG&E's intention was to shortlist enough projects to meet the contingent need, and contract with at least the probability weighted need.

On the other hand, SDG&E already had a number of additional contracts with plants slated to come on line after 2013, even though some of those contracts had not yet been approved by the CPUC. In estimating its need over the years 2014-2016 (for which the RPS target is 25% of sales) SDG&E focused on the year 2016 and determined that

- The *nominal need* for the single year 2016 [redacted]
- The *probability-weighted need* for the single year 2016 [redacted]
- The *contingent need* for the single year 2016 [redacted]

The need after 2013 is significantly less than the need in the first compliance period. It was therefore quite possible that by contracting to fill the need through 2013, SDG&E would eliminate the need for the next three years. SDG&E viewed this as undesirable, because its market view was at that renewables prices would continue to drop. SDG&E did not want entirely to miss its opportunity to contract at those lower prices, and therefore it sought to fulfill its near-term need through 2013 with shorter-term contracts, by penalizing long-term contracts that had large delivery volumes after 2013.

SDG&E defined a Near-Term Long-Term (NTLT) adder, which would only be added to the bid ranking prices of contracts delivering in CP1, by first determining what the cost of the "marginal" offer would be if it sought to meet the 2016 need without any CP1 contracts. That cost was called the Mid-Term Price Benchmark (MTPB). For a given offer, the adder computed the total contract cost over and above the MTPB, minus an "avoided renewables

cost" of $50/MWh (the TREC cost cap) representing the renewability value of CP1 deliveries, and apportioned it over all the energy expected to be supplied:

NTLT adder = [(AMC-MTPB)*(Post-2013 deliveries) – 50*(CP1 deliveries)]/Total deliveries

Effectively the adder scales with contract cost – the higher the cost the higher the adder – but is less for contracts that have a greater fraction of their deliveries in CP1. The goal of the adder was to skew the evaluation in favor of contracts with fewer post-2013 deliveries, but it is dominated by the contract cost effect (and hence did not have a great effect on the ranking of the shortlist).

This adder was the cause of considerable discussion in SDG&E's PRG. We believe that part of that discussion was just due to the confusing name of the adder, which is why we prefer to call it a *Near Term* Long Term adder. To determine whether it is reasonable to include such an adder, and whether the computation is reasonable, the following questions must be addressed:

- Is it reasonable for SDG&E to place a priority on CP1 need?
- Could the priority placed on meeting CP1 need create additional future ratepayer costs?
- Does the adder appropriately recognize those costs?

a. PRIORITY ON CP1 NEED

In constructing its shortlist, SDG&E first selected enough bids to cover its projected renewables need in 2011-13. Only then would SDG&E consider bids from projects with later online dates. This means that renewables need in the first compliance period was given an absolute priority over need in later periods: SDG&E would shortlist enough resources to meet CP1 need regardless of the cost, and regardless of whether significantly cheaper resources were available with later online dates. The alternative would have been to identify a target amount of renewable capacity or energy to procure, regardless of online date.

This is a reasonable approach. SDG&E faces separate SBX1-2 RPS requirements for each of three compliance periods (2011-2013, 2014-2016 and 2017-2020). Renewable deliveries in one period cannot substitute for deliveries in an earlier period. This was a particular concern to SDG&E because it interpreted SBX1-2 as having eliminated the "earmarking" regime under which 2014 deliveries could meet 2012 or 2013 need, and SDG&E already had several contracts with 2014 online dates.

b. OUT-YEAR IMPACTS OF FILLING CP1 NEED

SDG&E believes that renewable energy prices from plants with online dates of 2014 and later will be less than the prices offered by plants with earlier online dates. This may be true; certainly the bids seen in the 2011 RPS RFO bear that out, if developers are able to deliver at their bid prices. The assumption may be incorrect but it still behooves SDG&E to allow for the possibility that prices associated with later online dates will be lower.

On the other hand, SDG&E faces a significant need in 2012 and 2013. If SDG&E were to fill that needs by contracting only with new plants, which come online in the next two years, it would continue to receive deliveries well beyond the compliance regime defined in SBX1-2.

Given the contracts already signed, SDG&E may not have had to contract further with plants coming online after 2013, and would lose the opportunity to capture those lower prices.

Therefore it makes sense for SDG&E to try to fill its immediate need with shorter-term obligations, in particular with RECs and contracts with existing plants, and to try to reserve some of its later need for contracts with later online dates.[16] The NTLT adder represented an attempt to impact the sequencing of CP1 bids, in the construction of the shortlist, so as to favor bids that would account for less of the compliance period 2 need.

c. STRUCTURE OF THE NTLT ADDER

The NTLT adder was intended to compute the cost increase after 2013 due to choosing projects with online dates in 2012 and 2013 rather than those with later online dates. The computation began by determining the "opportunity value" of CP2 need. That opportunity value is the levelized contract cost of the most expensive bid that would have been chosen to meet CP2 need, if there were no deliveries from shortlisted contracts with earlier online dates. SDG&E called that opportunity cost the "Mid-Term Price Benchmark" (MTPB).

The opportunity cost of any contract with earlier delivery is then its own AMC, minus the MTPB. For example, if MTPB=$90 that would mean that CP2 need could be met by contracts with online dates after 2013, at an above-market cost of $30/MWh. If instead SDG&E were to sign a contract with a plant coming online in 2012 whose AMC is $45/MWh, then for every megawatthour delivered after 2013 SDG&E is "paying too much" and the amount by which it is overpaying is $45/MWh - $30/MWh = $15/MWh. The total excess cost is obtained by multiplying that value by the CP1 contract's expected post-2013 deliveries. This is an appropriate representation of the extra post-2013 cost attributable to this contract.

On the other hand, contracts delivering in CP1 do have value insofar as they meet CP1 need. The penalty cost for failing to meet RPS targets is $50/MWh; although it is paid by shareholders and not ratepayers it is still a good indication of the value of meeting RPS targets. Therefore, SDG&E subtracted from each contract's NTLT adder a "CP1 Renewability Value" of $50/MWh times the expected CP1 deliveries.

Members of the PRG objected to the use of this renewability value. The immediate cause of the objection was the observation that short-term TRECs, and any other contracts terminating before 2014, would have a negative adder (-$50/MWh). SDG&E therefore agreed to assign a zero adder to bids with no deliveries after CP1.

Upon further reflection we believe that the attribution of the CP1 Renewability Value was inappropriate for all contracts. That value was already implicitly recognized by priority given to CP1 need. PA recomputed the adders, removing the CP1 Renewability Value, and regenerated the shortlist. We determined that there was no change, that is, SDG&E would have arrived at the same shortlist. The only bids whose relative rankings changed were bids that were eliminated for qualitative reasons anyway.

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16 [redacted]

3.2.6 Changes from the 2009 LCBF model

a. MPR AS A MEASURE OF VALUE

In previous RFOs, SDG&E's bid evaluation method did not directly compare costs and benefits of individual contracts. Instead, SDG&E created an "adjusted price" metric for each contract, and compares contracts based on that metric rather than on a measure of net benefits or net costs. The adjusted price was computed by dividing the payment in each subperiod by the TOD factor that subperiod, and then dividing the total adjusted payment by the total projected deliveries. Note that if a bidder specified that it was to be paid a "TOD-adjusted" price, its payments would be based on the product of the bid price and the TOD factor; the subsequent division by TOD factor merely restored the bid price.

The "adjusted price" method is an example of a practice that PA would not have employed, but which is a reasonable approximation. Using the adjusted price meant that SDG&E did not have to compute or justify a 30-year projection of "avoided costs" or "market prices" by hour or subperiod to be compared with contract costs. It simplified the bid evaluation process but led to occasionally counterintuitive reporting: the difference between the nominal bid price and the adjusted price was reported as a "TOD adjustment adder", which, was zero for TOD-adjusted pricing (as noted above, the division by the TOD factor restored the nominal contract price in each period) and nonzero for uniform pricing (even of baseload energy).

In the 2011 RFO, SDG&E used an intermediate method: instead of forecasting avoided costs, SDG&E used the levelized MPR prices (actually the prices that would be produced by the MPR calculator with updated assumptions) as proxy avoided costs. PA and SDG&E discussed the use of this methodology when SDG&E put together its 2010 RPS plan, and PA supported the change. PA participated in a workshop and explained its belief that the changed method would be superior as it would eliminate the previous confusion and provide an identifiable standard of energy value.

b. ABANDONMENT OF DURATION EQUALIZATION METHOD

Contracts often have not a single price but a series of prices due to internal escalation factor; even a constant price should be interpreted as a series due to discounting. Quantitative evaluation methods have to reduce the series to a single value and there is no single accepted method for doing so.

It is often difficult to compare contract alternatives with different durations or starting dates. If two contracts have equal duration, but one starts (say) a year later than the other, then the later contract ought to have higher prices. Alternatively there is no obvious way to compare a 15-year contract and a 20-year contract on price alone, as the 5 years of benefits foregone by the shorter contract must be accounted for.

In past Renewables RFOs, SDG&E used a "duration equalization" approach to handle start and end effects. All contracts were put on an equal term basis by using an early start date (in principle, the earliest start date over all bids) and a late end date (in principle, the latest end date over all bids). The "pricing" for each contract prior to its start date and after its end date was based on a proxy. In earlier years the proxy was a value computed using the CPUC's MPR methodology applied to contemporary cost assumptions. For the 2009 RFO, SDG&E's evaluation model was constructed to use the average bid price of bids shortlisted in 2008 as a proxy instead of the MPR; all other aspects of the design were the same as before.

In the 2011 RFO SDG&E eliminated the duration equalization computation. This is not a totally satisfactory result. Because the value being levelized is only the above-MPR cost, eliminating duration equalization essentially implies that renewable power will not cost significantly more than non-renewable power. Many people do believe that the cost of renewable power will come down in the next decade but we consider it unlikely that it will match the cost of conventional power absent a carbon tax. On the other hand it is also unlikely that the value of renewability would be $50/MWh (the RPS penalty cost), and zero is probably a more reasonable value.

c. COMPUTATION OF DELIVERABILITY ADDER

In past RPS RFOs, deliverability or RA adders (or credits) were computed based on estimates of the value of local and system RA, and assumptions about the amount of Net Qualifying Capacity (NQC) that the California ISO would compute for different technologies. There was always a considerable amount of uncertainty in these assumptions – for example, there was very little history of ISO determinations of NQC for solar plants. The approach used in 2011, which is based on delivery profiles, CPUC-approved TOD factors, and MPR proxies, is much more defensible.

3.3 STRENGTHS AND WEAKNESSES OF SDG&E'S LCBF METHODOLOGY

Template language: "Using the principles identified in section III.A, evaluate the strengths and weaknesses of IOU's methodology in this solicitation:

"1. Market valuation. Were both price and value taken into consideration when projects were shortlisted? Did the IOU adequately take into consideration all financial benefits and costs of a project when determining the value of projects that were shortlisted? Did the IOU include the cost of transmission upgrades in the value calculation of projects that were shortlisted? In your opinion, were any costs or benefits that should have been included in the IOU's LCBF calculation not included?

"2. Evaluation of portfolio fit. This should include evaluating how a project meets the IOU's RPS generation need for each compliance period under SB 2. Did the IOU reasonable calculate its net short compliance period? Did the IOU adequately take into account a project's portfolio fit against the IOU's net short position in each compliance period? Does the shortlist conform to the needs of the IOU's portfolio?

"3. Evaluation of bids with varying sizes, in-service dates, and contract lengths. Did the IOU choose projects for the shortlist that provide the best overall value while meeting the needs of the IOU's three compliance periods? Could the IOU have incorporated a decision-making process that provided for a different portfolio of projects that provide better overall ratepayer value while meeting the IOU's RPS compliance needs?

"4. Evaluation of bids' transmission costs. Did the IOU rely more on TRCR studies than Phase I or Phase II studies to ascertain transmission costs? Did the IOU weigh the total cost of transmission upgrades for a project against the relative value in resource adequacy that the transmission upgrade will provide for each project? Did the IOU perform any data conformance checks related to transmission study results and cost information for projects before they were included on the shortlist?

"5. Evaluation of bids' project viability. Did the IOU (or IE or developer) reasonably measure the viability of each project in the bid evaluation process? Did the IOU perform conformance checks related to the accuracy of the projects' viability scores before the projects were included on the shortlist?

"6. Other."

Overall, PA believes that the SDG&E methodology is reasonable. This judgment is within the context of the principles set forth in 3.1. The LCBF model was computed directly from bidder response forms and took no notice of potential affiliation. It bears a rational, consistent relationship to cost and value, and was set out prior to any bids having been seen by SDG&E or PA. The 2011 LCBF model is superior to the models SDG&E used in previous RFOs, incorporating lessons learned. The model itself was not biased for or against any technologies ([redacted]

We will address the points above in turn.

3.3.1 Market valuation

The LCBF model accounted for both price and value of projects. Both energy and deliverability value were taken into account, by first subtracting energy and capacity value form the bid price, and then adding back some or all of the capacity value for projects that would not fully deliverable against SDG&E's capacity requirements (including local needs). The model did not account for some other costs SDG&E has in the past sought to include, such as debt equivalence or integration.

The MPR model produces proxy costs that depend on the year in which a project comes online, so that a project with a Dec. 31, 2013 online date sees an avoided cost that is significantly lower in every year than the avoided cost seen by a project with a Jan. 1, 2014 online date. PA suggests that SDG&E convert the MPR costs into a stream of subperiod price proxies that do not depend on commercial online dates.

SDG&E's method is based on the assumption that the developer has correctly estimated all its costs, including permitting. It would be useful, and would produce more viable bids, if the company were able to evaluate the reasonableness of developer cost estimates. In order to do so, though, SDG&E would need to request significantly more information from developers. The number of bids received in 2011, and the short timeframe for evaluation, would have made that impossible as part of the LCBF evaluation. Such an analysis would have to be limited to already-shortlisted bids in a brief period after shortlisting (but the shortlist would have to be to allow for dropping bids after this analysis).

3.3.2 Evaluation of portfolio fit

It is clear from the explanation in the template that by "portfolio fit" the CPUC does not mean the temporal profile of deliveries within the year or the risk profile of the entire contract portfolio (mix of contract durations) but specifically the three targets set by SBX1-2. We reviewed SDG&E's probabilistic determination of its need by compliance period and we consider it to be reasonable. SDG&E estimated success probabilities by contract, and appears to have been conservative in doing so.

SDG&E determined that it had much greater need in the first compliance period than in subsequent periods, based both on contracts already signed and the short time available in which to satisfy that CP1 need. The need analysis rests on SDG&E's assumption that because SBX1-2 removes the *requirement* that the CPUC allow something like earmarking, the Commission will no longer allow it. [redacted]

Because of that need judgment, SDG&E sought to fill its CP1 need before considering other compliance periods. Doing so would also fill its CP2 need. SDG&E sought to reserve some CP2 need for cheaper contracts using its NTLT adder. [redacted] All these actions are reasonable.

[redacted]

3.3.3 Evaluation of bids with various sizes, in-service dates and contract lengths

Once the bids had been ranked by the LCBF model, SDG&E chose bids for its shortlist. [redacted] SDG&E reports that it was told that the CPUC can generally only approve one of its contracts at each meeting. This limits the number of contracts SDG&E should pursue. SDG&E's rule of thumb is a reasonable response.

The duration equivalence scheme was abandoned for good reason, but it would still be useful to have a better way to compare projects that deliver in different sets of years. Levelized costs over the 2016-2035 period are not really comparable to levelized costs over 2013-2027. SDG&E should continue to investigate better ways to deal with diversity of start dates and contract duration.

3.3.4 Evaluation of bids' transmission costs

The transmission upgrade cost estimation was based on stale Transmission Ranking Cost Report estimates (over 18 months old), and the reports themselves are not really fit for their purpose (estimating upgrade costs of bids) because they do not cover all sites or CREZs and do not clearly explain how to determine the cluster appropriate to a given bid. On the other hand, ISO interconnection studies were unavailable for most bids and recent ISO cost estimates have been extremely high. At this point we have no suggestion for improvement.

3.3.5 Evaluation of bids' project viability

[redacted] This is consistent with the behavior that PA has observed in the past: [redacted]

[redacted] In this case, SDG&E eliminated several sets of bids from consideration:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

All these cases were reported to the PRG.

The Project Viability Calculators were self-scored by developers. SDG&E did not attempt to verify these scores. PA rescored the Project Viability Calculators for the top 30 CP1 bids. Of those, [redacted] for which project viability is not an issue. PA also rescored the Project Viability Calculators for the top 20 CP2 bids. Of those, [redacted] additional projects pricing options from CP1 bids.

Figure 1 shows the bidders' submitted scores as well as PA's recomputed scores for those [redacted] bids. Points below the dashed line indicate cases where the bidder's submitted PVC score was above the score PA computed. [redacted] There are a few cases where bidders were more conservative in their scoring than PA. [redacted]

3.4 FUTURE IMPROVEMENTS

Template language: "What future LCBF improvements would you recommend?"

PA has noted several potential improvements to the LCBF evaluation.

1. The use of the CPUC's MPR model to provide estimates of energy and capacity value is an improvement over past LCBF evaluations. It is not necessary to do a full market price forecast, but PA does recommend some "smoothing" of the MPR model outputs. The MPR model produces proxy costs that depend on the year in which a project comes online, so that a project with a Dec. 31, 2013 online date sees an avoided cost that is significantly lower in every year than the avoided cost seen by a project with a Jan. 1, 2014 online date. PA suggests that SDG&E convert the MPR costs into a stream of subperiod price proxies that do not depend on commercial online dates.
2. The model PPA for the 2011 was changed from previous years by explicitly including "Economic Dispatch Down" rights for SDG&E. SDG&E makes the seller whole for such curtailment, which means that SDG&E incurs a cost. The cost may depend on bid characteristics (delivery profile or location) so SDG&E should seek to represent it in the LCBR model.

3. The LCBF model is dependent on information provided by developers. It would be useful, and would produce more viable bids, if SDG&E were to evaluate the reasonableness of developer cost estimates. This "due diligence" would probably occur outside (and after) the LCBF process but after a couple of years' experience could be used to modify the model itself.
4. The duration equivalence scheme was abandoned for good reason, but it would still be useful to have a better way to compare projects that deliver in different sets of years.

3.5 ADDITIONAL COMMENT ON THE METHODOLOGY

Template language: "Any additional information or observations regarding the IOU's evaluation methodology (e.g. capacity valuation, congestion cost adder, etc."

PA has nothing else to add to this chapter.

4. PROCEDURAL FAIRNESS OF THE BID EVALUATION

Template language: "Was the LCBF bid evaluation process fairly administered?"

This chapter addresses the application or administration of the methodology described in chapter 3.

4.1 PRINCIPLES USED TO DETERMINE FAIRNESS OF PROCESS

"Template language: "Identify guidelines used to determine fairness of evaluation process. Example guidelines (each IE should identify the specific guidelines he/she used in his/her evaluation)

"1. Were all bids treated the same regardless of the identity of the bidder?

"2. Were bidder questions answered fairly and consistently and the answers made available to all bidders?

"3. Did the utility ask for "clarifications" that provided one bidder an advantage over others?

"4. Was the economic evaluation of the bids fair and consistent?

"5. Was there a reasonable justification for any fixed parameters that were a part of the IOU's LCBF methodology (e.g., RMR values; debt equivalence parameters)?

"6. What qualitative and quantitative factors were used to evaluate bids?"

As in the previous section, PA used principles originally codified by PA in its report on SDG&E's 2006 RPS RFO:[17]

- Were affiliate bids treated the same as non-affiliate?
- Were bidder questions answered fairly and consistently and the answers made available to all?
- Did the utility ask for "clarifications" that provided the bidder an advantage over others?
- Were bids given equal credibility in the economic evaluation?
- Was the procurement target chosen so that SDG&E would have a reasonable chance of meeting its target (taking into account contract failures)?
- Was there a reasonable justification for any fixed parameters that enter into the methodology (e.g., RMR values; debt equivalence parameters)?
- Were qualitative factors used only to distinguish among substantially equal bids?

[17] Jacobs, op. cit., p. 3-1.

4.2 ADMINISTRATION AND BID PROCESSING

Template language: "Utilizing the guidelines in Section IV.A, describe the IE methodology used to evaluate administration of the IOU LCBF process."

A complete description of PA's activities is in section 1.3. Based on PA's review of the solicitation and evaluation process:

- Affiliate and non-affiliate bids were treated identically. [redacted]
- Bidder questions were answered fairly and consistently.
- SDG&E did not ask for clarifications in such a way as to advantage any bidder.
- All bids were given equal credibility in the quantitative (LCBF) evaluation with the exception of those bids that were eliminated as described in 3.3.5.
- The "contingent need" target for CP1 would definitely give SDG&E a reasonable chance of meeting its RPS target. After discussion with PA, SDG&E did shortlist enough capacity to meet that target [redacted]
- PA reviewed with SDG&E the justification for any parameters that entered the computations. Most of them have been approved by the CPUC (e.g., the TOD factors) or are market indexes (e.g., the gas prices used in computing the proxy MPR cost).
- [redacted]

4.3 CONFORMANCE CHECK

Template language: "Did the utility identify, for each bid, the terms that deviate from the utility RFO? Did the IOU identify nonconforming bids fairly – fair both to the nonconforming bidders and to conforming bidders?"

[redacted]

In [redacted]

SDG&E's treatment of non-conforming bids was fair and reasonable.

4.4 PARAMETERS AND INPUTS FOR SDG&E'S ANALYSIS

Template language: "If the IOU conducted any part of the bid evaluation, were the parameters and inputs determined reasonably and fairly? What controls were in place to ensure that the parameters and inputs were reasonable and fair?"

The quantitative bid analysis was conducted by SDG&E and PA separately. In general PA used inputs taken directly from bid forms. Certain key parameters were supplied by SDG&E independent of any bids, including the TOD multipliers. Parameters and inputs for the congestion analysis were determined by SDG&E's transmission function independent of the procurement group.

4.5 PARAMETERS AND INPUTS FOR OUTSOURCED ANALYSIS

Template language: "If the IE or a third party conducted any part of the bid evaluation, what information/data did the utility communicate to that party and what controls did the utility exercise over the quality or specifics of the out-sourced analysis?"

PA conducted the quantitative LCBF analysis using its own spreadsheet model, developed based on SDG&E's methodology and parameters supplied by SDG&E. SDG&E and PA were in communication throughout the analysis, generally in order to compare results and verify that any interpretations of the data or model were consistent with the philosophy and approach that had been stated prior to receiving bids. SDG&E did not exercise control over the quality or specifics of the analysis.

Congestion impacts from the proposed point of delivery to SDG&E's load aggregation point were determined by a study conducted by SDG&E's transmission function. PA and SDG&E's procurement group discussed the locations and delivery profiles to be communicated to the transmission function for this analysis.

4.6 TRANSMISSION ANALYSIS

Template language: "Were transmission cost adders and integration costs properly assessed and applied to bids?"

For offers for new projects or projects proposing to increase the size of existing facilities, the model calculated costs for transmission network upgrades or additions, using the information provided through the TRCRs. PA identified clusters for projects whose bids did not contain that information. Projects outside of the California ISO were expected to have internalized the cost of transmission to the ISO, as well as the cost of required transmission upgrades outside the ISO, into their bid price; they could still be assigned additional upgrade costs within California based on the TRCRs. The transmission analysis is described in 3.2.2 and 3.3.4 above.

4.7 ADDITIONAL MEASURES

Template language: "Describe any additional measures the utility exercised in evaluating affiliate, buyout, and turnkey bids."

SDG&E did not use any special measures in evaluating affiliate, buyout and turnkey bids.

[redacted]

[redacted] SDG&E did not accept buyout or turnkey bids in this RFO.

4.8 ADDITIONAL CRITERIA OR ANALYSIS

Template language: "Describe any additional criteria or analysis used in creating its short list (e.g. seller concentration, online date, transmission availability, etc.). Were the additional criteria included in the solicitation materials?"

4.8.1 Short-term bid evaluation method

The RFO document included a special method for evaluating bids whose term was 4 years of less. It is basically equivalent to a method specified in the 2009 RFO for evaluating bids whose terms were 9 years or less. The method was not very precisely stated. First SDG&E would "assess price reasonableness" by comparing bids to a publicly available index plus, if necessary, a valuation of other attributes. Bids would be sorted from "most reasonably priced" to "least reasonably priced". SDG&E would then "short list the most reasonably priced offers that are most viable and reliable." PA had raised some concerns about this method when SDG&E was constructing the RFO, based on the fact that (a) a market index would be too low to be a reasonable standard for renewable offers and (b) there was no clear "need" criterion for the offer volume to accept.

Prior to the receipt of bids, PA asked SDG&E for the index it intended to use in evaluating short-term bids. SDG&E said it would use a five-day average of ICE forward prices and produced a strip of monthly prices, the greatest of which [redacted]. [redacted] Instead of the imprecisely defined short-term algorithm, SDG&E considered all bids using the LCBF algorithm. PA did not object.

4.8.2 Concentration risk

[redacted]

[redacted]

Consideration of concentration risk was not explicitly mentioned in the solicitation materials. The RFO lists six examples of qualitative criteria SDG&E could use, and the closest to concentration risk is "resource diversity"; however, the list is not presented as exhaustive. [redacted] was reasonable and fair.

4.9 RESULTS ANALYSIS

Template language:" 1. Please identify instances where the IE and the IOU disagreed in the LCBF evaluation process.

"a. Discuss any problems and solutions

"b. Identify specific bids if appropriate

"c. Does the IE agree that the IOU made reasonable and justifiable decisions to exclude, shortlist and or/ execute contracts with projects? If the IE did its own separate bid ranking and selection process and it differed from the IOU's results, then identify and describe differences.

"d. What actions were taken by the IOU to rectify any deficiencies associated with rejected bids?

"e. Other

"2. Overall, was the overall bid evaluation fairly administered?"

PA and SDG&E were in close and regular communication throughout the RFO process. In many cases when a ruling or judgment had to be made SDGE would first solicit PA's opinion, or would ask PA to make the judgment. In this section we describe several examples where SDG&E solicited PA's input, asked PA for a decision, or modified its conduct of the evaluation. Of these, the most important are the first one and the two in section 4.9.2.

4.9.1 Interactions between PA and SDG&E during bid evaluation

a. EMPHASIS ON THE NEAR TERM

We believe that one of the reasons SDG&E was willing generally to accept PA's judgments was that SDG&E's main goal, which was to acquire renewable energy in 2012-2013 without jeopardizing its ability to sign cheaper contracts for later delivery, was not threatened. SDG&E discussed its concerns with PA several times in the May-July timeframe.

PA did not feel competent to judge whether something like "earmarking" would be continued and was willing to accept SDG&E's opinion for the purpose of this solicitation. As we have noted before, the utilities are at risk of financial penalties if they fail to achieve their RPS targets. On the one hand this means that the utility should be able to follow a strategy which PA – but not the utility – thinks enhances the danger of missing its RPS target, since the utility is at risk. On the other hand, though, if a utility outlines a strategy that is motivated by a desire to avoid penalties – in other words when it follows the exact incentives the RPS program seeks to create – it should be able to adopt that strategy so long as it is implemented fairly and without creating extra benefits for the utility or its affiliates at the expense of ratepayers.

SDG&E explained to PA its main goal, noted above. SDG&E told PA that it intended to state at the bidder conferences its preferences for renewable power delivered in the near term. PA was initially unsupportive of adding objectives to the procurement that were not detailed in the RFO. PA came to agree with SDG&E's plan, because this strategy and objectives would be clearly explained to bidders at the bidder conferences, which occurred more than a month

before bids were due. As we noted earlier, these verbal presentations were accompanied by some statements in the media, but not by an RFO addendum or other written communication to all bidders.

Later, but prior to the bid evaluation, SDG&E described to PA its proposed Short Term Long Term (STLT -- NTLT in PA's nomenclature) adder. PA questioned SDG&E closely on the reasoning behind the adder and its computation. PA was convinced that the adder provided reasonable guidance to the "lost opportunity" cost and accepted its use.

b. ACCEPTANCE OF LATE BIDS

In section 4.3 we describe the late submissions. SDG&E asked PA to make the decision as to whether to accept late bids, or where to set the cutoff.

c. TECHNICAL POINTS OF BID EVALUATION

PA and SDG&E evaluated the bids separately. We conferred regularly to compare notes on intermediate results, and judgments that had been made in implementing the LCBF methodology. Three were a number of disagreements on specific aspects of the calculation. In almost all these cases we were able to convince SDG&E that we were correct, or more consistent with the philosophy of the RFO. In some cases, PA yielded to SDG&E, generally when SDG&E was able to demonstrate that PA was factually incorrect. [redacted]

d. BID ELIMINATION

Section 3.3.5 lists several bids that were eliminated. In [redacted] SDG&E

eventually backed away from that reasoning, but then presented an alternative rationale which PA accepted.

4.9.2 PRG issues

[redacted]

We believe that SDG&E's consideration of the short-term bilateral contracts was reasonable.

[redacted]

At the bidder conferences, SDG&E specifically stated that it would accept biogas contracts up to five years in duration, and that it would estimate the $/MWh cost of such contracts based on the gas cost and a heat rate of 7,500 BTU/kWh. [redacted]

[redacted]

4.9.3 Overall judgment

PA's judgment is that solicitation was fairly administered.

4.10 OTHER RELEVANT INFORMATION

Template language: "Any other relevant information or observations."

Please see section 2.5 for a discussion of SDG&E's emphasis on projects that could deliver significant amounts of renewable energy by 2013, how it communicated that emphasis to bidders, and the degree to which SDG&E succeeded in eliciting bids with early delivery. PA recommends that in the future any supplemental information expressing SDG&E's product preferences be issued as a formal addendum to the RFO; that it be emailed (if possible) to all parties that had already downloaded the RFO; and that all respondents be required to acknowledge receipt of any amendments to the RFO.

[redacted]

5. FAIRNESS OF PROJECT-SPECIFIC NEGOTIATIONS

This section will only be completed in the final IE report submitted with each contract Advice Letter.

5.1 PRINCIPLES OF EVALUATION

Template language: "A. Identify principles used to evaluate the fairness of the negotiations."

5.2 PROJECT-SPECIFIC NEGOTIATIONS

Template language: "Using the above principles (section V.A), please evaluate fairness of project-specific negotiations."

5.3 TERMS AND CONDITIONS

Template language: "Identify the terms and conditions that underwent significant changes during the course of negotiations."

5.4 RELATION TO OTHER NEGOTIATIONS

Template language: "Was similar information/options made available to other bidders, e.g. if a bidder was told to reduce its price down to $X, was the same information made available to others?"

5.5 ADDITIONAL ISSUES

Template language: "Any other relevant information or observations."

6. *PROJECT-SPECIFIC RECOMMENDATION*

This section will only be completed in the final IE report submitted with each contract Advice Letter.

6.1 EVALUATION

Template language: "A. Provide narrative for each category and describe the project's ranking relative to: 1) other bids from the solicitation; 2) other procurement opportunities (e.g. distributed generation programs); and 3) from an overall market perspective:

1. Contract Price, including transmission cost adders

2. Portfolio Fit

3. Project Viability

a. Project Viability Calculator score

b. IOU-specific project viability measures

c. Other (credit and collateral, developer's project development portfolio, other site-related matters, etc.)

4. Any other relevant factors."

6.2 RECOMMENDATION

Template language: "Do you agree with the IOU that the contract merits CPUC approval? Explain the merits of the contract based on bid evaluation, contract negotiations, final price, and viability."

6.3 ADDITIONAL ISSUES

Template language: "Any other relevant information or observations."