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February 17, 2012

**ADVICE LETTER 2258-E-A
(U 902-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: SUPPLEMENT TO ADVICE LETTER REQUESTING APPROVAL OF AN
AMENDED RENEWABLE POWER PURCHASE & SALE AGREEMENT FOR THE
MOUNT SIGNAL SOLAR PROJECT**

I. PURPOSE

San Diego Gas & Electric Company (“SDG&E”) hereby submits to the California Public Utilities Commission (the “Commission” or the “CPUC”) this supplemental filing to Advice Letter 2258-E,¹ which requested approval to amend the Commission-approved *Master Power Purchase & Sale Agreement (Bethel Solar 1 Facility)* (“PPA”) for the purchase of Category 1² renewable power from a newly constructed facility to be located near El Centro, California. Since that Advice Letter was filed, SDG&E and the counterparty have agreed to further amend the PPA via the *Amendment Addressing Pricing And Other Issues* (“Pricing Amendment”) which, among other things, (i) adjusts the contract price, (ii) adds a milestone to require a portion of the project be placed in-service early, thus increasing the quantity of Compliance Period 1 renewable energy provided by the project, and (iii) revises the project name from “*Mount Signal Solar*” to “*Campo Verde Solar*.”³ This supplemental filing describes the Pricing Amendment and requests that the Commission approve both the Restated 4th Amendment & the Pricing Amendment (collectively the “Amendments”). Approval of the Amendments will preserve Imperial Valley renewable procurement anticipated from the PPA inasmuch as the project is one of the original Sunrise Powerlink projects.

II. BACKGROUND

The PPA resulted from an offer into an SDG&E Eligible Renewable Resources solicitation and was approved by the Commission in Resolutions E-4073, E-4176, and E-4271. The Restated 4th Amendment between SDG&E and USS Energy Star 2 LLC, and its associated Advice Letter (2258-E) were filed on June 9, 2011. The instant Pricing Amendment was subsequently executed on February 14, 2012 and is the reason for filing this supplement to Advice Letter 2258-E-A.

¹ Advice Letter 2258-E sought Commission approval of the *Amended & Restated Fourth Amendment* (“Restated 4th Amendment”) executed on January 31, 2011.

² As discussed further in Appendix D, the PPA contemplates the purchase of a product that meets the requirements of Public Utilities Code §399.16(b)(1) (Category 1).

³ This project will be referred to herein as “Campo Verde Solar.”

III. REQUEST FOR CONFIDENTIAL TREATMENT

As directed by the CPUC's Energy Division, confidential information in support of this Pricing Amendment is provided in Confidential Appendices A through D as listed below:

- Appendix A: Summary of Pricing Amendment and Revised Pricing Evaluation
- Appendix B: Supplemental Project-Specific Independent Evaluator Report
- Appendix C: Copy of the Pricing Amendment
- Appendix D: Up-Front Showing Requirements for Category 1 Products

The appendices contain market sensitive information protected, pursuant to Commission Decision D.06-06-066, as amended, as detailed in the concurrently-filed declaration. The following table presents the type of information within the confidential appendices 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
Analysis and Evaluation of Proposed RPS Projects	VII.G
Contract Terms and Conditions	VII.G
Raw Bid Information	VIII.A
Quantitative Analysis	VIII.B
Net Short Position	V.C
IPT/APT Percentages	V.C

IV. REQUESTED RELIEF

SDG&E respectfully requests that the Commission approve the Amendments through the adoption of a Resolution approving this Advice Letter, as supplemented herein, no later than April 19, 2012.

As detailed in Advice Letter 2258-E and this supplement thereto, SDG&E's entry into the Amendments and the terms of such Amendments are reasonable; therefore, all costs associated with the Amendments, including energy, green attributes, and resource adequacy should be fully recoverable in rates.

The Amendments are conditioned upon "CPUC Approval." SDG&E, therefore, requests that the Commission include the following findings in its Resolution approving the Amendments:

1. The amended PPA is consistent with SDG&E's CPUC-approved RPS Plan and procurement from the amended PPA will contribute towards SDG&E's RPS procurement obligation.
2. SDG&E's entry into the Amendments and the terms of such Amendments are reasonable; therefore, the Amendments are approved in their entirety and all administrative and procurement costs associated with the amended PPA, including for energy, green attributes, and resource adequacy, are fully recoverable in rates over the life of the amended PPA, subject to Commission review of SDG&E's administration of the amended PPA.

3. Generation procured pursuant to the amended PPA constitutes generation from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewable Portfolio Standard program (Public Utilities Code §§ 399.11, et seq. and/or other applicable law) and relevant Commission decisions.
4. Deliveries made pursuant to the amended PPA will contribute to SDG&E's minimum quantity requirement established in D.07-05-028.
5. Expected project deliveries are eligible for any applicable RPS flexible compliance mechanisms.
6. The electricity product received pursuant to the amended PPA is an eligible renewable energy resource electricity product that meets the requirements of Public Utilities Code §399.16(b)(1) ("RPS portfolio content Category 1").

V. PROTEST

The filing of a supplement does not automatically continue or reopen the protest period or delay the effective date of the advice letter.⁴ The Energy Division may, on its own motion or at the request of any person, issue a notice continuing or reopening the protest period. Any new protest shall be limited to the substance of the supplemental filing.

If the protest period is reopened, the protest must state the grounds upon which it is based and should be submitted in accordance with the direction provided by the Energy Division. 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 should also be sent via e-mail to the attention of Honesto Gatchallian (jnj@cpuc.ca.gov) and Maria Salinas (mas@cpuc.ca.gov) of the Energy Division. It is also requested that a copy of the protest be sent via electronic mail and facsimile to SDG&E on the same date it is mailed or delivered to the Commission (at the addresses shown below).

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

VI. EFFECTIVE DATE

This Advice Letter should be classified as Tier 3 (effective after Commission approval) pursuant to GO 96-B. The Commercial Operation Deadline and additional deliveries in Compliance Period 1

⁴ General Order 96-B. § 7.5.1.

are contingent upon timely Commission approval and issuance of a Resolution regarding the Amendments. Accordingly, SDG&E respectfully requests approval of Advice Letter 2258-E, as supplemented, no later than April 19, 2012.

VII. 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 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 to SDG&ETariffs@semprautilities.com.

Clay Faber
Director – Regulatory Affairs

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) #: 2258-E-A

Subject of AL: Supplement to Advice Letter Requesting Approval of an Amended Renewable Power Purchase and Sale Agreement for the Mount Signal Solar Project

Keywords (choose from CPUC listing): Procurement, Power Purchase Agreement

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: None

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: None

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 4/19/2012

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: _____

Service affected and changes proposed¹: No re

Pending advice letters that revise the same tariff sheets: None

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

S. Cauchois
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. Cameron

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

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham

City of Poway

R. Willcox

City of San Diego

J. Cervantes
G. Lonergan
M. Valerio

Commerce Energy Group

V. Gan

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

Dynergy, 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

Pacific Gas & Electric Co.

J. Clark
M. Huffman
S. Lawrie
E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

San Diego Regional Energy Office

S. Freedman
J. Porter

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. 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:

R.11-05-005

San Diego Gas & Electric Advice Letter 2258-E-A
February 17, 2012

ATTACHMENT A

DECLARATION OF THOMAS C. SAILE REGARDING CONFIDENTIALITY OF CERTAIN DATA

**BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA**

**DECLARATION OF THOMAS C. SAILE
REGARDING CONFIDENTIALITY OF CERTAIN DATA**

I, Thomas C. Saile, do declare as follows:

1. I am an Energy Contracts Originator for San Diego Gas & Electric Company (“SDG&E”). I have reviewed Advice Letter 2258-E-A, requesting approval of an amended renewable Power Purchase & Sale Agreement (PPA) with USS Energy Star 2 LLC (with attached confidential and public appendices), dated February 17, 2012 (“Advice Letter”). 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, as modified by D.07-05-032, and D.08-04-023, to demonstrate that the confidential information (“Protected Information”) provided in the Advice Letter submitted concurrently herewith, falls within the scope of data protected pursuant to the IOU Matrix attached to D.06-06-066 (the “IOU Matrix”).^{1/} In addition, the Commission has made clear that information must be protected where “it matches a Matrix category exactly or

^{1/} 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 Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

consists of information from which that information may be easily derived.”^{2/}

3. I address below each of the following five features of Ordering Paragraph 2 in D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix to which the data corresponds,
- That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.^{3/}

4. SDG&E’s Protected Information: As directed by the Commission, SDG&E demonstrates in table form below that the instant confidentiality request satisfies the requirements of D.06-06-066:^{4/}

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p><i>Bid Information</i>⁵</p> <p>Locations:</p> <p>1. Confidential Appendix A</p> <p><input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (Portfolio Fit) – embedded SDG&E’s LCBF Ranking for the 2011 RPS RFO on p.10;</p>	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p>	<p>The data provided is non-public bid data from SDG&E’s Renewable RFOs.</p>
	<p>Identify the Matrix category or categories to which the data corresponds</p>	<p>This information is protected under IOU Matrix category VIII.A.</p>

^{2/} 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/} D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

^{4/} See, Administrative Law Judge’s Ruling on San Diego Gas & Electric Company’s Motions to File Data Under Seal, issued April 30 in R.06-05-027, p. 7, Ordering Paragraph 3 (“In all future filings, SDG&E shall include with any request for confidentiality a table that lists the five D.06-06-066 Matrix requirements, and explains how each item of data meets the matrix”).

⁵ The confidential information referenced has a GREEN font color / has a green box around it in the confidential appendices.

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p>2. Confidential Appendix B – embedded project specific IE Report on p. 15.</p>	<p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data</p>	<p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential until the final contracts from each of the RFOs have been submitted to the CPUC for approval.</p>
	<p>Affirm that the information is not already public</p>	<p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>
	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.</p>	<p>SDG&E cannot summarize or aggregate the bid data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.</p>
<p>Specific Quantitative Analysis⁶</p> <p>Location:</p> <p>1. Confidential Appendix A</p> <ul style="list-style-type: none"> <input type="checkbox"/> Introduction section, paragraph I – bulleted points summarizing the contract amendment on p.3; <input type="checkbox"/> Consistency with Commission Decisions and Rules section, paragraph III (last paragraph) – discussion about the timing of negotiations on p.5; <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.a (Bid Scores) – Project Score Details 	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p>	<p>This data is SDG&E’s specific quantitative analysis involved in scoring and evaluating renewable bids. Some of the data also involves analysis/evaluation of proposed RPS projects.</p>
	<p>Identify the Matrix category or categories to which the data corresponds</p>	<p>This information is protected under IOU Matrix categories VII.G and/or VIII.B.</p>
	<p>Affirm that the IOU is complying with the limitations on</p>	<p>In accordance with the limitations on confidentiality set forth</p>

⁶ The confidential information referenced has a **BLUE** font color / has a blue box around it in the confidential appendices

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p><i>columns in rows B thru H in Bid Score table on p.6;</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.a (Bid Scores) – Project Score Details footnotes 2 & 3 p.6;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.b (Portfolio Fit) – embedded SDG&E’s LCBF Ranking for the 2011 RPS RFO on p.10;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.b (Portfolio Fit) – items i., ii., and iii discussing relative ranking positions on p.10;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.c (MPR) – discussion of project-specific MPR on p.10;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.d (AMFs) – paragraph discussing AMF Calculator results on p.10;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.f (AMFs) – “(\$/MWh)” column in table displaying AMF Calculator results on p.11;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.g (AMF Calculator) – embedded file containing the AMF Calculator on p.12;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.h (Screen Shot) – screen shot of the AMF Calculator Results Tab on p.13;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.i (Rate Impact) – embedded file containing the Rate Impact Calculator on p.14;</i> 	<p>confidentiality specified in the Matrix for that type of data</p>	<p>in the IOU Matrix, SDG&E requests that this information be kept confidential for three years.</p>
	<p>Affirm that the information is not already public</p>	<p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>
	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.</p>	<p>SDG&E cannot summarize or aggregate the evaluation data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.</p>

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p>2. Confidential Appendix B – embedded project specific IE Report on p. 15.</p> <p>3. Confidential Appendix D</p> <ul style="list-style-type: none"> <input type="checkbox"/> Upfront Showing for Category 1 Products – Column with the heading “Explanation of How Product Meets Criteria” <input type="checkbox"/> Upfront Showing for Category 1 Products – Column with the heading “Expected Product Category” <input type="checkbox"/> Upfront Showing for Category 1 Products – Column with the heading “Other Product Category” 		
<p><i>Contract Terms</i>⁷</p> <p>Locations:</p> <p>2. Confidential Appendix A</p> <ul style="list-style-type: none"> <input type="checkbox"/> Summary of Pricing Amendment section, paragraph II.a (Contract Pricing) – paragraph discussing Contract Pricing on p.3; <input type="checkbox"/> Summary of Pricing Amendment section, paragraph II.b (Early Renewable Energy Deliveries) – paragraph discussing Early Renewable Energy Deliveries on p.4; <input type="checkbox"/> Summary of Pricing Amendment section, paragraph II.c (COD) – paragraph discussing Commercial Operation 	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p> <p>Identify the Matrix category or categories to which the data corresponds</p> <p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data</p> <p>Affirm that the information is not already public</p>	<p>This data includes specific contract terms.</p> <p>This information is protected under IOU Matrix category VII.G.</p> <p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential for three years.</p> <p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>

⁷ The confidential information referenced has a RED font color / has a red box around it in the confidential appendices

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p><i>Deadline including footnote 1 on p.4;</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>Summary of Pricing Amendment section, paragraph II.d (Contract Language) – five paragraphs discussing Conforming and Clarifying Contract Language on p.4;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.a (Bid Scores) – Project Score Details columns in row A in Bid Score table on p.6;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.b (Application of TOD Factors) – pricing table on p.7;</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.e (LCC) – “Price” column in table at top of p.11</i> <input type="checkbox"/> <i>Revised Pricing Evaluation section, paragraph IV.f (AMFs) – “Notes” column of row “Levelized TOD-Adjusted Total Contract Cost” in table at bottom of p.11</i> <p>3. Confidential Appendix C</p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>Embedded file containing Copy of Pricing Amendment on p.16;</i> 	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.</p>	<p>In order to include as much detail as possible, SDG&E has provided specific contract terms instead of summaries. SDG&E has provided summaries of certain contract terms in public portions of the testimony.</p>

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p><i>Analysis and Evaluation of Proposed RPS Projects</i>⁸</p> <p>Locations:</p> <p>1. Confidential Appendix A</p> <ul style="list-style-type: none"> <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (Application of TOD Factors) – paragraphs discussing Application of TOD Factors on p.6 & 7; <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (STLT Adder) – paragraphs discussing Short-Term Long-Term Adder on p.7 & 8; <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (Deliverability Adder) – paragraphs discussing Deliverability Adder on p.8 & 9; <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (Transmission Adder) – paragraphs discussing Transmission Adder on p.9; <input type="checkbox"/> Revised Pricing Evaluation section, paragraph IV.b (Qualitative Factors) – paragraphs discussing Qualitative Factors on p.9; <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p>	<p>The Commission has concluded that Actual Procurement Percentage data must be protected in order to avoid disclosing SDG&E’s Bundled Retail Sales data.^{9/}</p>
	<p>Identify the Matrix category or categories to which the data corresponds</p>	<p>This information is protected under IOU Matrix category VII.G.</p>
	<p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data</p>	<p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that the “front three years” of this information be kept confidential.</p>
	<p>Affirm that the information is not already public</p>	<p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>
	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.</p>	<p>It is not possible to provide this data point in an aggregated, redacted, summarized or masked fashion.</p>

⁸ The confidential information referenced has a VIOLET font color / has a violet box around it in the confidential appendices

^{9/} Id.

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<p><i>IPT/APT Percentage</i>¹⁰</p> <p>Locations:</p> <p>1.</p>	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p>	<p>The Commission has concluded that since APT Percentage is a formula linked to Bundled Retail Sales Forecasts, disclosure of APT would allow interest parties to easily calculate SDG&E's Total Energy Forecast – Bundled Customer (MWH).^{11/} The same concern exists with regard to IPT percentage.</p>
	<p>Identify the Matrix category or categories to which the data corresponds</p>	<p>This information is protected under IOU Matrix category V.C.</p>
	<p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data</p>	<p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that the “front three years” of this information be kept confidential.</p>
	<p>Affirm that the information is not already public</p>	<p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>
	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that</p>	<p>It is not possible to provide these data points in an aggregated, redacted, summarized or masked fashion.</p>

¹⁰ The confidential information referenced has a AQUA font color / has a aqua box around it in the confidential appendices

^{11/} 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; *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.

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
	allows partial disclosure.	

5. As an alternative basis for requesting confidential treatment, SDG&E submits that the Power Purchase Agreement enclosed in the Advice Letter 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). Disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.¹¹⁷

6. 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.

¹¹⁷ 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.”)

7. 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.”

8. 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.^{12/} 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.

9. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.^{13/}

10. If disclosed, the Protected Information could provide parties, with whom SDG&E is currently negotiating, insight into SDG&E’s procurement needs, 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.

11. Developers’ Protected Information: The Protected Information also constitutes confidential trade secret information of the developer listed therein. SDG&E

^{12/} See also Govt. Code § 6254.7(d).

^{13/} See, D.06-06-066, *mimeo*, pp. 26-28.


is required pursuant to the terms of its original Power Purchase Agreement as amended to protect non-public information. Some of the Protected Information in the original Power Purchase and Sale Agreement as amended and my supporting declaration (including confidential appendices), relates directly to viability of the respective projects.

Disclosure of this extremely sensitive information could harm the developers' ability to negotiate necessary contracts and/or could invite interference with project development by competitors.

12. In accordance with its obligations under its Power Purchase and Sale Agreement and pursuant to the relevant statutory provisions described herein, SDG&E hereby requests that the Protected Information be protected from public disclosure.

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

Executed this 17th day of February, 2012, at San Diego, California.



Thomas C. Sibley
Energy Contracts Originator
Electric and Fuel Procurement
San Diego Gas & Electric

San Diego Gas & Electric Advice Letter 2258-E-A

February 17, 2012

ATTACHMENT B

SUPPLEMENTAL TO ADVICE LETTER REQUESTING
APPROVAL OF AN AMENDED
RENEWABLE POWER PURCHASE AND SALE AGREEMENT FOR
THE MOUNT SIGNAL PROJECT

PUBLIC VERSION

(Distributed to Service List R.11-05-005)

PART 2 – CONFIDENTIAL APPENDICES OF SUPPLEMENTAL ADVICE LETTER

- Appendix A: Summary of Pricing Amendment and Revised Pricing Evaluation
- Appendix B: Project-Specific Independent Evaluator Report
- Appendix C: Copy of the Pricing Amendment
- Appendix D: Up-Front Showing Requirements for Category 1 Products

PROTECTED INFORMATION WITHIN PART 2 OF THIS SUPPLEMENTAL ADVICE LETTER IS IDENTIFIED WITH COLOR FONTS AND CATEGORIZED IN ACCORDANCE WITH THE CONFIDENTIALITY CODE SHOWN BELOW:

CONFIDENTIALITY KEY

VIOLET FONT = ANALYSIS AND EVALUATION OF PROPOSED RPSP ROJECTS (VII.G)

RED FONT = CONTRACT TERMS & CONDITIONS (VII.G)

GREEN FONT = BID INFORMATION (VIII.A)

BLUE FONT = SPECIFIC QUANTITATIVE ANALYSIS (VIII.B)

BROWN FONT = NET SHORT POSITION (V.C)

AQUA FONT = IPT/APTP PERCENTAGES (V.C)

 **= BID INFORMATION (VIII.A) AND SPECIFIC QUANTITATIVE**

Confidential Appendix A

**Summary of Pricing Amendment
and
Revised Pricing Evaluation**

I. Introduction

For the reasons set forth in original Advice Letter 2258-E, as well as those set forth below, SDG&E urges the Commission to approve the Amendments.

- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]

II. Summary of Pricing Amendment

The Pricing Amendment, which was initially undertaken in order to address renewable solar market changes that have evolved since the contract was signed, ultimately addressed five contract areas:

- a. [REDACTED]

b.

[Redacted]

c.

[Redacted]

[Redacted]

d.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

e. Facility Name Change

In Pricing Amendment Section 1.2, the name of the facility is changed from *Mount Signal Solar* to the new Facility Name of *Campo Verde Solar*. This change conforms to how the project is known to the CAISO and reduces confusion in the renewable community, as there is another developing project that uses the Mount Signal moniker.

III. Consistency with Commission Decisions and Rules

On April 14, 2011, the Commission issued Decision 11-04-030 conditionally approving SDG&E's 2011 RPS procurement plan and ordering that a renewable Request for Offers ("RFO") be issued by SDG&E within seven days of filing a conforming RPS procurement plan. SDG&E issued the 2011 RPS RFO on May 12, 2011 and received bids from participants until July 11, 2011.

[REDACTED]

IV. Revised Pricing Evaluation

a. The Project's Bid Scores Under SDG&E's Approved LCBF Evaluation Criteria

2011 LCBF Criteria / Component (\$/MWh)		Project Score/Details	
		Restated 4 th Amendment AL 2258-E	Pricing Amendment AL 2258-E-A
A	Levelized Contract Cost	[REDACTED]	[REDACTED]
B	Project Specific Price Referent	[REDACTED]	[REDACTED]
C = A - B	Above Market Price	[REDACTED]	[REDACTED]
D	Short-Term/Long-Term Adder	[REDACTED]	[REDACTED]
E	Deliverability Adder	[REDACTED]	[REDACTED]
F	Congestion Cost	[REDACTED]	[REDACTED]
G	Transmission Adder	[REDACTED]	[REDACTED]
H = C + D + E + F + G	Bid Ranking Price	[REDACTED]	[REDACTED]

b. How the Project Compares with Other Bids Received in the Solicitation

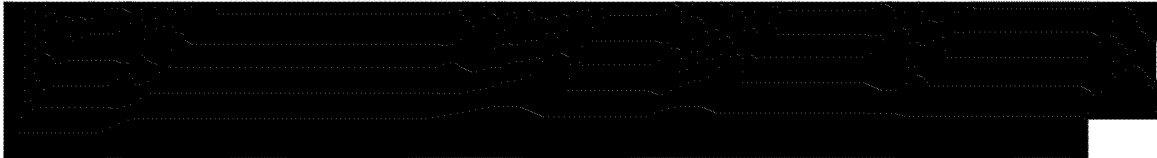
Various quantitative and qualitative factors describing "portfolio fit" have been evaluated. These are each individually described below in this Section IV(b):

Application of Time-of-Day Factors ("TOD")

[REDACTED]

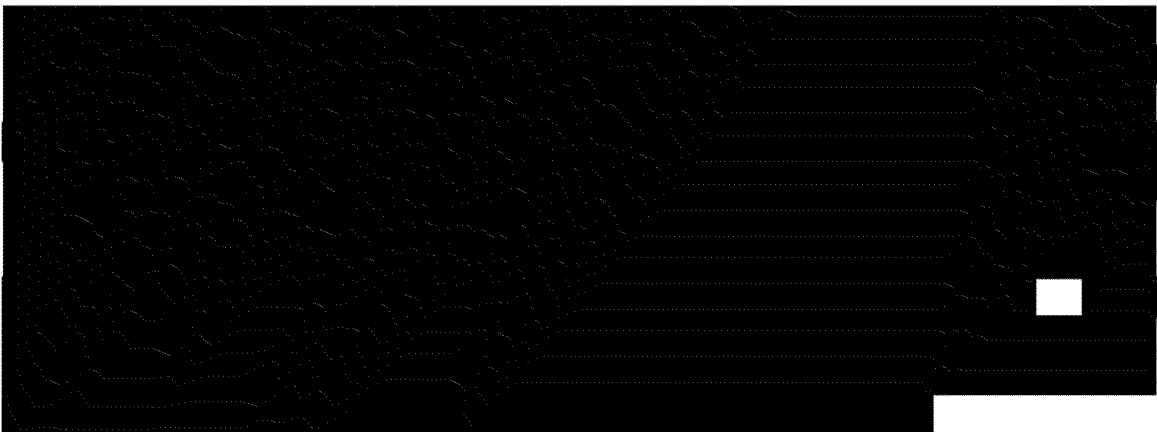
2
3

[REDACTED]



Contract Year	Summer On-Peak	Summer Semi-Peak	Summer Off-Peak	Winter On-Peak	Winter Semi-Peak	Winter Off-Peak
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						

Short-Term/Long Term Adder



⁴ Senate Bill (SB) x1 2 (Stats. 2011, Ch. 1).

[REDACTED]

[REDACTED]

Deliverability Adder

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Redacted]

[Redacted]

Transmission Adder

[Redacted]

Qualitative Factors

[Redacted]

[Redacted]

[Redacted]

5 [Redacted]

6 [Redacted]

Portfolio Fit

Attached below is SDG&E's LCBF Ranking for the 2011 RPS RFO with this Pricing Amendment included for the Campo Verde Solar project:



Additionally, several comparisons to other available offers are provided below:

- i. Compared to other bids in the solicitation



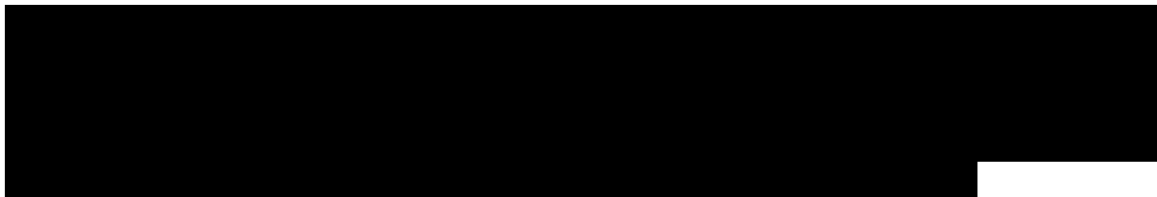
- ii. Compared to other bids in the relevant solicitation using the same technology,



- iii. Compared to recently executed contracts



c. MPR



d. AMFs



e. The Levelized Contract Cost Using SDG&E's Before Tax Weighted Average Cost of Capital Discount Rate is Indicated Below.

	PRICE	NOTES
LEVELIZED CONTRACT COST (LCC) – INITIAL (\$/MWH)	██████████	Post-TOD LCC from Restated 4 th Amendment filed with original AL 2258-E
LEVELIZED CONTRACT COST (LCC) – FINAL (\$/MWH)	██████████	Post-TOD LCC from Pricing Amendment filed with this SAL 2258-E-A
TOTAL SUM OF CONTRACT PAYMENTS	██████████	Nominal sum of payments over 20 years

f. Results from the Energy Division's AMFs Calculator

	(\$/MWH)	NOTES
LEVELIZED TOD-ADJUSTED CONTRACT PRICE	██████████	As per AMF Calculator
LEVELIZED TOD-ADJUSTED TOTAL CONTRACT COST (CONTRACT PRICE + FIRING AND SHAPING)	██████████	██████████
LEVELIZED MPR	\$93.76	2011 MPR Base for 2012
LEVELIZED TOD-ADJUSTED MPR	██████████	As per AMF Calculator
ABOVE-MPR COST (\$/MWH)	██████████	As per AMF Calculator
TOTAL SUM OF ABOVE-MPR PAYMENTS (\$)	██████████	As per AMF Calculator

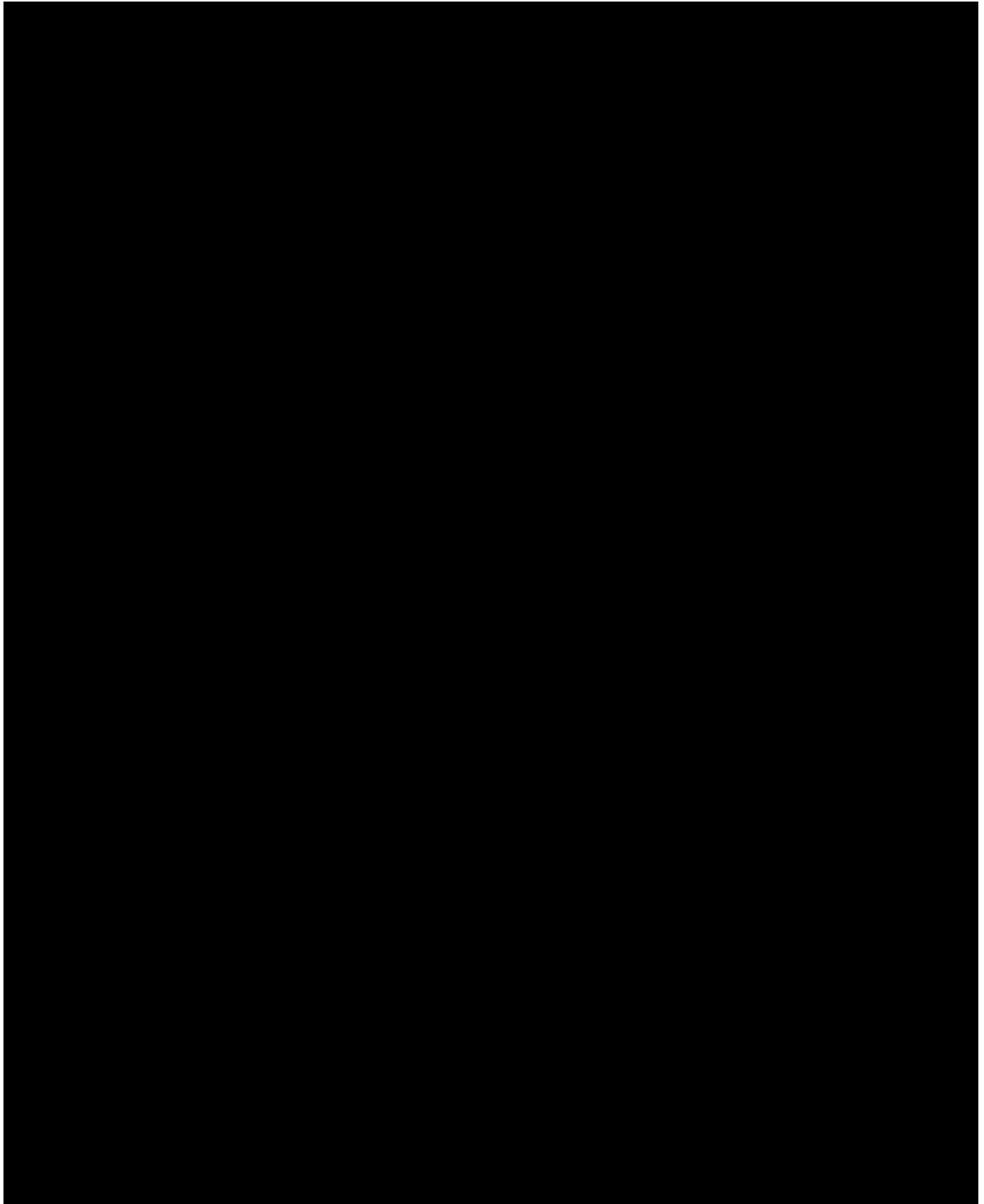
g. AMF Calculator

Attached here is a revised AMF Calculator reflecting the newly amended Campo Verde Solar project:



h. Screen Shot of AMF Calculator Results Page

(see below)



- i. **The Rate Impact of the Proposed Contract (Cents/KWh) Based on the Retail Sales for the Year Which the Project is Expected to Come Online.**



See the rate impact analysis attached below for the newly amended Campo Verde Solar project:



Confidential Appendix B

**Project-Specific
Independent Evaluator Report**



Confidential Appendix C

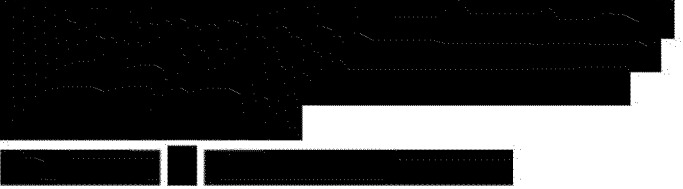

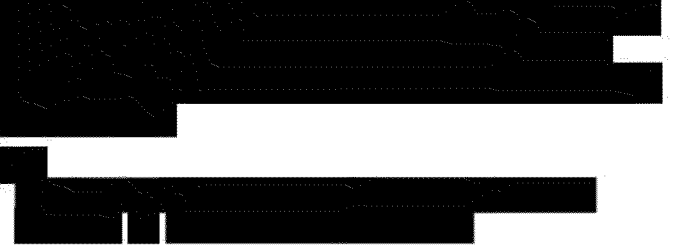


Copy of Pricing Amendment



Confidential Appendix D

Up-Front Showing Requirements for Category 1 Products

Up-Front Showing for Category 1 Products

Category 1 Criteria	Explanation of How Product Meets Criteria
<p>1. ERR first POI with (pg 40):</p> <ul style="list-style-type: none"> a. WECC Transmission System within CBA boundaries -OR- b. distribution system within CBA boundaries 	
<p>2. Prove the product is bundled</p>	
<p>3. If using hourly scheduling into CA without substitution – hourly schedule can be maintained, substitution is unlikely (pg 40)</p>	
<p>4. If using dynamic transfer (pg 41):</p> <ul style="list-style-type: none"> a. There is a dynamic transfer agreement b. Generation is included in agreement scope c. Agreement will be in operation for duration of contract 	
<p>5. Risk of actual deliveries not qualifying for expected product category</p>	

	<div style="background-color: black; width: 100%; height: 100%; min-height: 100px;"></div>
--	--

Value Analysis

	Expected Product Category	Other Product Category
Price Value, \$/MWh	<div style="background-color: black; width: 100%; height: 100%; min-height: 100px;"></div>	<div style="background-color: black; width: 100%; height: 100%; min-height: 100px;"></div>
RPS Compliance Value, including: a. Impact to product percentage limits b. Viability (ability to decrease uncertainty of compliance) c. Others?	<div style="background-color: black; width: 100%; height: 100%; min-height: 100px;"></div>	<div style="background-color: black; width: 100%; height: 100%; min-height: 100px;"></div>

San Diego Gas & Electric Advice Letter 2258-E-A
February 17, 2012

Public Version of the Project Specific IE Report

San Diego Gas & Electric Co.

Report of the Independent Evaluator on the
New Sixth Amendment to the Campo Verde
Solar contract relative to the shortlist from
the 2011 Request for Offers from Eligible
Renewable Resources (2011 Renewable
RFO)

February 15, 2012

San Diego Gas & Electric Co.

Report of the Independent Evaluator on the
New Sixth Amendment to the Campo Verde
Solar contract relative to the shortlist from
the 2011 Request for Offers from Eligible
Renewable Resources (2011 Renewable
RFO)

February 15, 2012

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Version: 1.2

San Diego Gas & Electric Co. 2/15/12

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 Independent Evaluator (IE) Report analyzing, in the context of the results of San Diego Gas & Electric Company's 2011 Renewables RFO, the [REDACTED] Amendment to the contract between San Diego Gas & Electric Company (SDG&E) and USS Energy Star 2 LLC for a solar photovoltaic energy project, to have a capacity of either 123 MW or 139 MW (AC).

The project was initially submitted by Bethel Energy LLC into an SDG&E RFO in 2005 and a contract was approved by the CPUC in March 2007. The contract has been amended several times, was reassigned by Bethel to MMR and was subsequently reassigned by MMR to US Solar Holdings (USSH). The assignment to MMR was part of the First Amendment to the contract, which was the subject of an Independent Evaluator Report by Van Horn Consulting. The assignment to USSH was part of the Restated Fourth Amendment to the contract, which was the subject of an Independent Evaluator Report by PA, dated May 19, 2011. The Restated Fourth Amendment is still awaiting approval by the CPUC.

This report is based on PA Consulting Group's Preliminary Report on the 2011 RFO. The Preliminary Report addressed the conduct and evaluation of San Diego Gas & Electric Company's 2011 Renewables RFO through the selection of its preliminary short list. The Preliminary Report was 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 all the text of the Preliminary Report except for placeholder text in chapters 5 and 6. In the body of the report (that is, except for this Foreword), text from the Preliminary Report is in gray while new text is presented in black. This should help the reader identify the new text.

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.

1. Role of the Independent Evaluator (IE)

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 2008⁵ 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.

CPUC Resolution E-4199^{6A} clarifies the treatment of contract amendments that affect pricing. Proposed repricings should always be compared to the most recent MPR. The Commission is also expressly concerned that price amendments should only respond to changes in the developer’s costs, and not provide extra profits, and therefore the Commission requires the developer to provide cash flow models for the original contract and the repricing in order to allow Energy Division and the IE to verify that developer profits have not increased. In all other cases the IE is only supposed to opine upon the relationship of the contract to the market.^{6B}

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?”*

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.

^{6A} California Public Utilities Commission, Resolution E-4199, March 12, 2009.

^{6B} CPUC Resolution E-4199 op. cit., p. 26.

1. Role of the Independent Evaluator (IE)

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), 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 way⁷.

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."

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.

1. Role of the Independent Evaluator (IE)

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.

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

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

1. Role of the Independent Evaluator (IE)

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.

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]

The CPUC has encouraged SDG&E to do specific outreach to the Imperial Valley and, more generally, the SPL area. [REDACTED]

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 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. [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 (NLT) 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 NLT 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 =

$$\frac{\sum_{y=1}^N \sum_{i=1}^6 CP_y Cap_y + \sum_{i=1}^6 (p_y - TOD_i MPR(start, dur)) v_{y,i}}{\sum_{y=1}^N \sum_{i=1}^6 v_{y,i}} \frac{1}{(1+d)^y} \quad \text{for uniform pricing}$$

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

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 no 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) =

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

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

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 =

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

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 (NLT) 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 was [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 (NLT) 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

3. SDG&E's methodology for bid evaluation and selection

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:

$$\text{NLT adder} = \frac{[(\text{AMC-MTPB}) * (\text{Post-2013 deliveries}) - 50 * (\text{CP1 deliveries})]}{\text{Total deliveries}}$$

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 megawatt-hour 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.

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 leveled 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 reasonably calculate its net short compliance period? Did the IOU adequately take into account a project's portfolio fit against the IOU's net shortposition 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?"

3. SDG&E's methodology for bid evaluation and selection

"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

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 from 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.

3. SDG&E’s methodology for bid evaluation and selection

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. [REDACTED]

All these actions are reasonable.

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]

[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]

[REDACTED]

- [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] 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 [REDACTED]

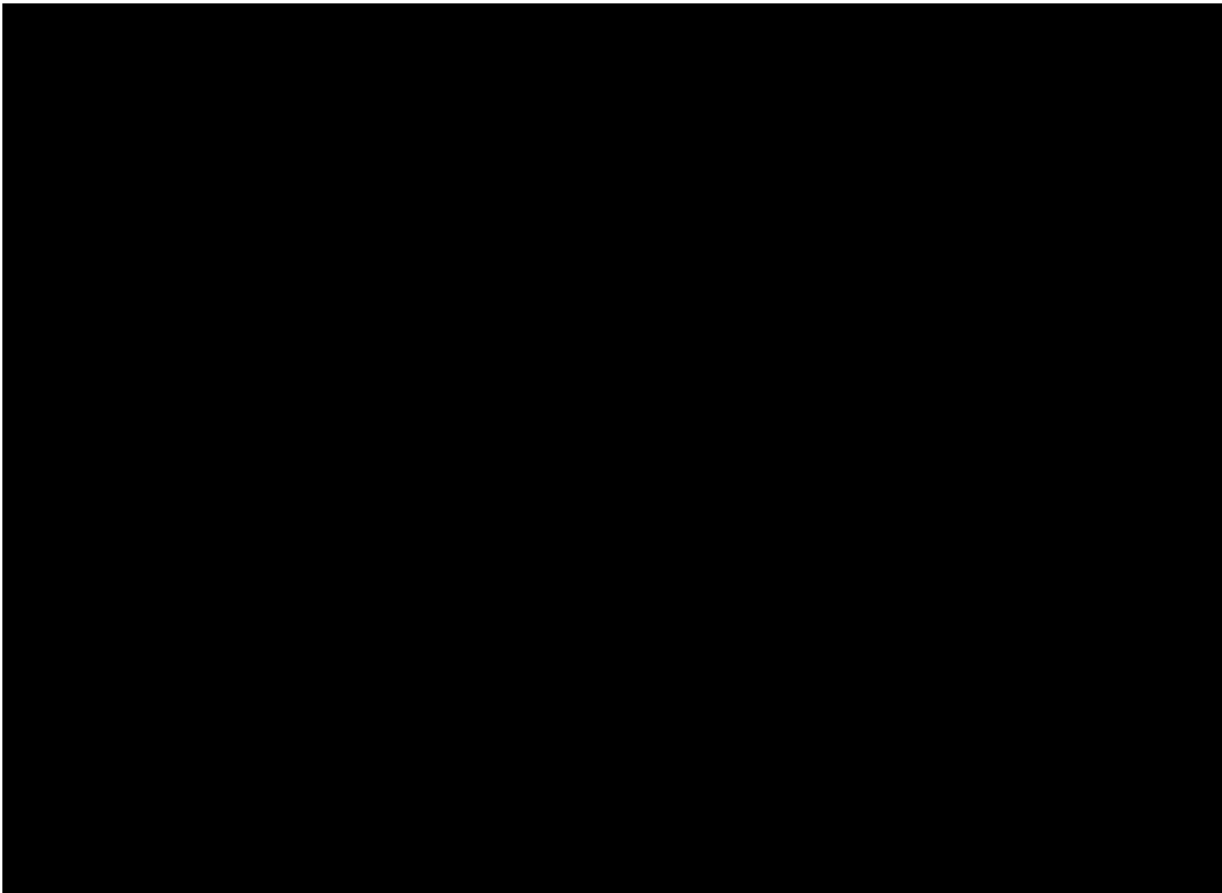


Figure 1. Project Viability Calculator Scores

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 LCBF model.

3. SDG&E's methodology for bid evaluation and selection

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 PROCES S

“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]

[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] 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 or 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. [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]

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

4. Procedural fairness of the bid evaluation

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. There 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. Specifically:

- [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]

d. BID ELIMINATION

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

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

4.9.2 PRG issues

a. ACCEPTANCE OF BILATERAL SHORT TERM BIDS

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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

b. BP BIOGAS

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]

[REDACTED]

[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 project has had a long history. The project was initially submitted by Bethel Energy LLC¹⁸ into an SDG&E RFO in 2005 as a 49.4 MW solar thermal proposal, and a contract was approved by the CPUC in March 2007. In October 2007 Bethel reassigned the contract to MMR. In March 2008, SDG&E and MMR agreed to amend the contract to augment the solar thermal arrangement with biofuel combustion, almost doubling the estimated output, and increase the energy price. Van Horn Consulting, which was the Independent Evaluator for SDG&E's contemporaneous 2007 RPS RFO, wrote an IE report which SDG&E submitted along with its Advice Letter 1975-E. The Advice Letter was approved in September 2008. There have been several subsequent amendments to extend the Commercial Online Dates and dates associated with several conditions precedent, and to charge MMR a Bid Fee.

The Restated Fourth Amendment changed the contract in several significant ways. These changes are the subject of PA's May 19, 2011, Independent Evaluator report. That Amendment remains in front of the CPUC for approval and we will not repeat the evaluation of those changes here, but we will summarize them.

[REDACTED]

[REDACTED]

[REDACTED]

5.1 PRINCIPLES OF EVALUATION

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

¹⁸ We believe that the contract was originally submitted by L.P. Daniel, which then changed its name to Bethel Energy.

The key questions are whether SDG&E showed favoritism to this or any other bidder, and whether SDG&E negotiated harder or less hard with them than with any other bidder. Note that in the context of negotiations, favoritism toward a bidder is not the same as favoritism toward a technology.

5.2 PROJECT-SPECIFIC NEGOTIATIONS

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

In general PA does not directly observe most contract negotiations, except for those with affiliates. PA follows negotiations through discussions with SDG&E, summaries of current proposals and SDG&E's reports to its Procurement Review Group. This is consistent with the original understanding of PA's role as IE, which was developed when PA and SDG&E negotiated their initial contract (with the participation of the PRG).

[REDACTED]

[REDACTED] It is PA's opinion that the New Sixth Amendment reflects fair negotiations.

5.3 TERMS AND CONDITIONS

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

[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

[REDACTED]

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."

PA has nothing to add here.

6. PROJECT-SPECIFIC RECOMMENDATION

PA agrees with SDG&E that the New Sixth Amendment merits CPUC approval (as does the Restated Fourth Amendment), [REDACTED]

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."*

CPUC Resolution E-4199 states that contract repricings should always be compared to the most recent MPR. As an IE, PA is responsible for comparing contracts to "the market", which is best represented by a recent RFO shortlist. PA has therefore evaluated the pricing of the New Sixth Amendment relative to the 2011 RPS RFO shortlist, which includes the comparison to a standard recently computed from the MPR model. The previous pricing had been compared with the 2009 RPS RFO shortlist in PA's IE Report on the Restated Fourth Amendment.

6.1.1 Relative pricing

[REDACTED]

- 1. [REDACTED]
- 2. [REDACTED]
- 3. [REDACTED]

- [Redacted]

Two important inputs to the LCBF model are the capacity factor and the assumed delivery

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

6.1.2 Project proforma

As noted in chapter 1, CPUC Resolution E-4199 states in the case of a contract repricing, the developer must provide cash flow models for the original contract and the repricing in order to allow Energy Division and the IE to verify that developer profits have not increased.

[REDACTED]

6.1.3 Project Viability Calculator

PA scored this project using the CPUC's Project Viability Calculator in its IE Report on the Restated Fourth Amendment. PA has not rescored the project.

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[REDACTED]



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."

PA agrees that this contract merits approval.

6.2 ADDITIONAL ISSUES

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

PA has nothing further to add here.