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Maria Salinas
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: **Reply Comments of San Diego Gas & Electric Company on Draft Resolution E-4489**

Dear Ms. Salinas:

San Diego Gas & Electric ("SDG&E") submits the following reply comments¹ regarding Draft Resolution E-4489 (the "RAM DR"), which approves with modifications Pacific Gas & Electric's advice letter 4000-E and addresses additional issues that impact the Renewable Auction Mechanism ("RAM") for all three Investor Owned Utilities ("IOUs").

SDG&E's reply comments address opening comments regarding the RAM DR proposal that would allow the IOUs to unilaterally terminate when transmission upgrade costs increase by more than 10% beyond study estimates provided during bid selection. Specifically, SDG&E shares the concern that a unilateral termination right after upgrades are constructed may pose a significant challenge for developers obtaining financing. However, proposed "fixes" that would allow developers to pay for upgrades to avoid termination should be rejected as such proposals will likely result in artificially inflating the power purchase agreement ("PPA") price.

SDG&E supports the concept that an IOU have the right to terminate if a bidder provides Phase 1 estimates, is selected to sign a PPA based on those numbers, and then later receives Phase 2 estimates that exceed the Phase 1 estimates by 10%. However, IOUs should not have the right to terminate after upgrades have already been constructed. Clarifying this termination right in the final Resolution will help to address the financing concerns raised by parties in opening comments². SDG&E agrees that it would be difficult to finance a project with a PPA that provides a termination right after the upgrades have been built. In this scenario, the developer would have already made a significant investment for these upgrades, but since the contract has been terminated and no project has been built, the developer would not be reimbursed by ratepayers. It is unlikely that a lender would risk lending money to a project where this scenario could occur. To mitigate this risk, the PPA should provide that the termination right occur earlier in the process as SDG&E proposes.

¹ Energy Division email dated April 10, 2012: Energy Division is exercising its discretion to authorize Reply Comments to Draft Resolution E-4899

² Comments of Solar Energy Industries Association and the Large-Scale Solar Association to Draft Resolution E-4889 filed April 9, 2012, ("Joint Parties' Comments") p.4.; Comments of Interstate Renewable Energy Council Inc., to Draft Resolution E-4889 filed April 9, 2012, ("IREC Comments") p.3.

SDG&E does not support the proposal that would allow developers to pay for these upgrades in order to avoid termination. Parties suggested that developers should be able to take on the full upgrade cost, instead of getting reimbursed by ratepayers, in the case where upgrade costs exceed estimates³. This could result in developers including this contingency in their bid price, but they most likely would not end up having to spend this extra money; a result that would increase the PPA price for no reason.

In light of this concern, SDG&E recommends that the Commission amend the RAM DR to clarify that the IOUs' unilateral termination right with respect to transmission costs is limited to scenarios where a bidder provides Phase 1 estimates, is selected to sign a PPA based on those numbers, and then later receives Phase 2 estimates that exceed the Phase 1 estimates by 10%.

Respectfully Submitted,

Clay Faber
Director, Regulatory Affairs

cc: President Michael R. Peevey
Commissioner Mark J. Ferron
Commissioner Timothy A. Simon
Commissioner Michel P. Florio
Commissioner Catherine J.K. Sandoval
Edward Randolph, Director of Energy Division
Adam Schultz, Energy Division
Paul Douglas, Energy Division
Karen Clopton, Chief Administrative Law Judge
Frank Lindh, General Counsel
Service List attached to DR E-4489

³ Joint Parties' Comments, p.5; Comments of Clean Coalition to Draft Resolution E-4889 filed April 9, 2012, p.6