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February 13, 2013

ADVICE LETTER 2459-E
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REQUEST FOR APPROVAL OF AMENDED RENEWABLE POWER PURCHASE AGREEMENT WITH COVANTA DELANO INC.

I. Introduction

A. Identify the purpose of the advice letter

San Diego Gas & Electric Company ("SDG&E") hereby seeks approval from the California Public Utilities Commission ("CPUC" or "Commission") to enter into a proposed amendment (the "Proposed Agreement") to an existing power purchase agreement (the "Original PPA") with Covanta Delano, Inc. ("Covanta"). The Proposed Agreement modifies the Original PPA by increasing the price to be paid by SDG&E for the generation from the 49 megawatt ("MW") Covanta facility located in Delano, California. The price increase was requested by Covanta in the second quarter of 2012 in response to the loss of $15 per MWh in revenue that was being paid to Covanta in the form of Supplemental Energy Payments, formerly administered by the California Energy Commission. [1] The increased price to be paid by SDG&E in the Proposed Agreement will allow Covanta to continue operating the facility and to recover its costs and earn a fair return. In exchange for the price increase, SDG&E was given the right to terminate the Original PPA earlier than its current expiration date of December 31, 2017 upon appropriate notice to Covanta.

By this Advice Letter filing, SDG&E requests that the Commission find that the terms and conditions of the PPA, as amended by the Proposed Agreement, are reasonable, that procurement under the PPA, as amended by the Proposed Agreement, is eligible to count toward SDG&E's compliance with the Renewables Portfolio Standard ("RPS"), and that all payments from SDG&E to Covanta under the PPA, as amended by the Proposed Agreement, may be recovered in SDG&E's rates.

B. Identify the subject of the advice letter, including:

1. Project name: Delano Energy

[1] Under prior provisions of the Renewable Portfolio Standard ("RPS") Program, SEPs were awarded by the CEC to cover renewable energy procurement costs that exceeded the relevant market price referent ("MPR"). *See* Senate Bill ("SB") 1078 (Stats. 2002, Ch. 516). SB 1036 modified administration of the RPS program by transferring the authority to award funds to cover above-MPR costs from the CEC to the Commission. *See* SB 1036 (Stats. 2007, Ch. 685).

2. Technology (including level of maturity): Biomass (mature, operating facility)

3. General Location and Interconnection Point: 31500 Pond Road, Delano, California 93215, interconnecting at the Pandol substation (SCE).

4. Owner(s) / Developer(s)

a. Name(s): Covanta Delano Inc.
b. Type of entity(ies) (e.g. LLC, partnership): Corporation
c. Business Relationship (if applicable, between seller/owner/developer): Covanta Delano Inc. is the current owner and operator of the Covanta facility. Covanta Delano Inc. is in turn a low level subsidiary whose ultimate parent is Covanta Holding Corporation. Covanta purchased the project from AES in 2007.

5. Project background, e.g., expiring QF contract, phased project, previous power purchase agreement, contract amendment

The Original PPA with SDG&E commenced deliveries on January 1, 2008 for a term of 10 years.

6. Source of agreement, i.e., RPS solicitation year or bilateral negotiation

The Proposed Agreement is the result of bilateral negotiations between Covanta and SDG&E.

C. General Project(s) Description

Project Name	Covanta Delano
Technology	Biomass
Capacity (MW)	49
Capacity Factor	76.4%
Expected Generation (GWh/Year)	343 GWh/Yr (80%)
Initial Commercial Operational Date	1990 (Unit 1) and 1993 (Unit 2)
Date contract Delivery Term begins	The existing and approved Original PPA began deliveries on January 1, 2008. The Proposed Agreement amends it beginning January 1, 2012
Delivery Term (Years)	Balance of (10 year) term
Vintage (New / Existing / Repower)	Existing
Location (city and state)	Delano, California
Control Area (e.g., CAISO, BPA)	CAISO

Nearest Competitive Renewable Energy Zone (CREZ) as identified by the Renewable Energy Transmission Initiative (RETI)[2]	N/A, existing facility
Type of cooling, if applicable	Water

D. Project location

1. Provide a general map of the generation facility's location

http://maps.google.com/maps?hl=en&ll=37.269174,-119.306607&spn=13.502373,28.45459&t=m&z=6

2. For new projects describe facility's current land use type (private, agricultural, county, state lands (agency), federal lands (agency), etc.)

The project is located and currently operating on private land owned by Covanta.

E. General Deal Structure

Describe general characteristics of contract, for example:

1. Required or expected Portfolio Content Category of the proposed contract

The Original PPA is grandfathered under D.11-12-052 because it was executed prior to June 1, 2010.[3] Under Cal. Pub. Util. Code Section 399.16(d)(3), the Proposed Agreement retains grandfathered status because the Proposed Agreement does not increase the nameplate capacity or expected generation, and does not substitute electricity from another source.

2. Partial/full generation output of facility

SDG&E will continue to purchase the full generation output of the facility, along the associated Green Attributes. The contract has been amended to allow for termination prior to the end of the delivery term.

3. Any additional products, e.g. capacity

The project will also continue to provide capacity to SDG&E for use in its Resource Adequacy compliance.

4. Generation delivery point (e.g. busbar, hub, etc.)

Power will continue to be delivered at the point of interconnection with SCE facilities.

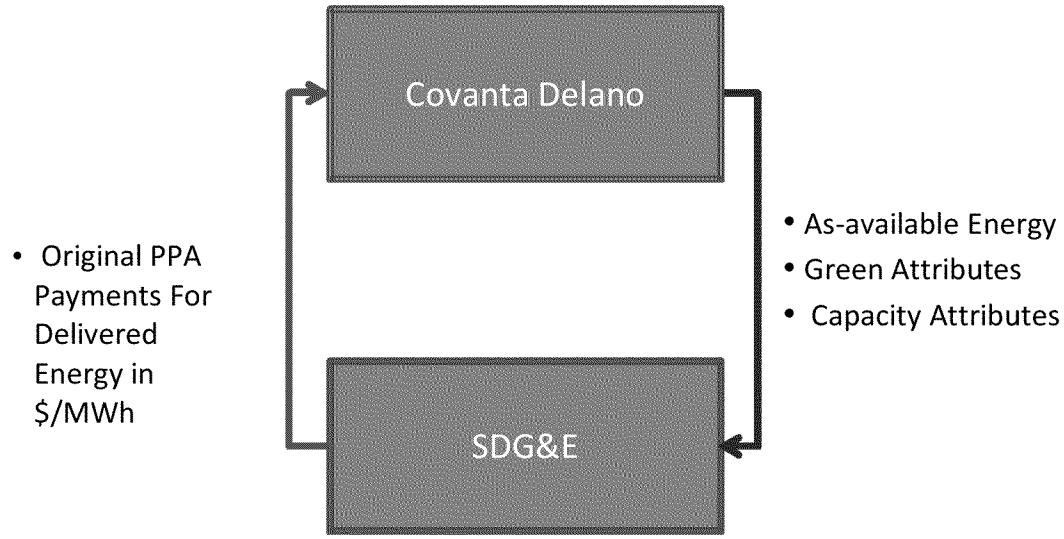
5. Energy management (e.g. firm/shape, scheduling, selling, etc.)

[2] Information about RETI is available at: http://www.energy.ca.gov/reti/

[3] *See* D.11-12-052, *mimeo*, p. 62 (noting that the limitations on use of procurement in each of the three portfolio content categories do not apply to procurement from contracts signed prior to June 1, 2012, as long as the qualifying conditions are met).

The energy will continue to be delivered to CAISO without any firming or shaping. The seller is the scheduling coordinator for the facility.

6. Diagram and explanation of delivery structure



F. RPS Statutory Goals & Requirements

1. Briefly describe the Project's consistency with and contribution towards the RPS program's statutory goals set forth in Public Utilities Code §399.11. These goals include displacing fossil fuel consumption within the state; adding new electrical generating facilities within WECC; reducing air pollution in the state; meeting the state's climate change goals by reducing emissions of greenhouse gases associated with electrical generation; promoting stable retail rates for electric service; a diversified and balanced energy generation portfolio; meeting the state's resource adequacy requirements; safe and reliable operation of the electrical grid; and implementing state's transmission and land use planning activities.

   The Original PPA, which is in SDG&E's existing portfolio, displaces ~49 MW of fossil fuel generation in each operating hour, and complies with State policies regarding greenhouse gases by burning urban wood waste and agricultural byproducts that would otherwise produce landfill methane. The contract's fixed rates for each contract year promote stability for electricity prices and rates. The facility's baseload mode of operation allows SDG&E to count its capacity toward SDG&E's system resource adequacy requirement. Because the plant has been in operation since 1990, the Proposed Agreement does not affect the transmission system or local land use planning.

   Nothing in the Proposed Agreement alters any of the above characteristics of the Original PPA.

2. Describe how procurement pursuant to the contract will meet IOU's specific RPS compliance period needs.

   The Original PPA is already in SDG&E's RPS portfolio. The Proposed Agreement allows SDG&E to continue to rely on over 300 GWh annually of baseload renewable power at a fixed price, which adds price stability and a predictable number of MWh of renewable generation to SDG&E's

compliance needs. The amended contract allows SDG&E to optimize its renewables portfolio and minimize ratepayer costs, particularly in Compliance Period 2 ("CP2").

G. Confidentiality

Explain if confidential treatment of specific material is requested. Describe the information and reason(s) for confidential treatment consistent with the showing required by D.06-06-066, as modified by D.08-04-023.

SDG&E requests that Part 2 of this Advice Letter filing, Confidential Appendices A through G, which contain confidential information such as contract terms, contract analysis, SDG&E's net short position, and other information specifically protected by D.06-06-066, as modified by subsequent decisions, be kept confidential by the Commission. The confidential material is not found in Part 1, the public version of the filing. This request for confidential treatment is supported by an accompanying Declaration.

II. Consistency with Commission Decisions

A. RPS Procurement Plan

1. Identify the Commission decision that approved the utility's RPS Procurement Plan. Did the utility adhere to Commission guidelines for filing and revisions?

   SDG&E filed its 2012 RPS Procurement Plan (the "2012 Plan") on November 29, 2012, shortly before the Proposed Agreement was executed.[4] The Commission had approved SDG&E's 2012 Plan in D.12-11-016 and directed SDG&E to modify the plan. The conformed plan was filed on November 29, 2012 and amended on December 13, 2012.

   SDG&E's approved 2012 Plan provides that SDG&E will seek to procure resources to:

- Assure that it has enough RPS energy to meet the RPS program requirements;
- Look for opportunities to maximize ratepayer value through banking, sales and short term purchases; and
- Diversity its RPS portfolio in order to mitigate risks.

2. Describe the Procurement Plan's assessment of portfolio needs.

   N/A - The Proposed Agreement does not add to SDG&E's expected RPS energy volumes, and therefore has no impact on need.

3. Discuss how the Project is consistent with the utility's Procurement Plan and meets utility procurement and portfolio needs (e.g. capacity, electrical energy, resource adequacy, or any other product resulting from the project).

[4] Discussions that led to the negotiation and execution of the Proposed Agreement began earlier in 2012, when SDG&E was procuring under its 2011 RPS Procurement Plan.

The Commission previously determined in Resolution E-4070 (April 7, 2007) that procurement of generation from the Project was consistent with SDG&E's Procurement Plan. The Proposed Agreement complies with SDG&E's approved Plan by allowing an existing project in SDG&E's RPS portfolio to continue operating and help to meet SDG&E's compliance challenges during Compliance Period 1. At the same time, the Proposed Agreement provides SDG&E to optimize its RPS portfolio during CP1 and CP2, and minimize ratepayer costs. Compliance with D.12-11-016 is discussed in greater detail in Part 2 of this Advice Letter

Finally, as a baseload resource, the Covanta facility also contributes to SDG&E's capacity and resource adequacy needs.

4. Describe the project characteristics set forth in the solicitation, including the required deliverability characteristics, online dates, locational preferences, etc. and how the Project meets those requirements.

NA – existing facility already under contract and generating.

5. For Sales contracts, provide an analysis that evaluates selling the proposed contracted amount vs. banking the RECs towards future RPS compliance requirements (or any reasonable other options.

NA - not a sales agreement.

B. Bilateral contracting – if applicable

1. Discuss compliance with D.06-10-019 and D.09-06-050.

In D.06-10-019, the Commission concluded that bilateral contracts used for RPS compliance must be submitted for approval via advice letter and, while not subject to the MPR, must contain pricing that is "reasonable."[5] In D.09-06-050, the Commission established price benchmarks and contract review processes for very short term (< four years), moderately short term (at least 4 years, less than 10 yrs.) and bilateral RPS contracts. The Proposed Agreement conforms to the price benchmarking requirements of D.06-10-019 and D.09-06-050. The pricing ranks favorably with contracts recently executed by SDG&E, as well as with recent competitive offers in the RAM. The comparison with other agreements is discussed in more detail in Part 2, Confidential Appendix A.

2. Specify the procurement and/or portfolio needs necessitating the utility to procure bilaterally as opposed to a solicitation.

Covanta approached SDG&E early in 2012 to discuss the financial impacts of the termination of Supplemental Energy Payments on December 31, 2011. Because the matter dealt with an existing contract that was already producing energy as part of SDG&E's portfolio, it made sense to pursue the negotiation around pricing and other terms as a bilateral project rather than having Covanta "bid" the requested price

[5] D.06-10-019, *mimeo*, p. 31.

adjustment into the RFO. It was important for SDG&E not to potentially lose the energy from the Covanta facility, which was critical to SDG&E's RPS compliance for CP1. Over the ensuing months, Covanta and SDG&E negotiated over a number of different amendments and proposals to meet the needs of each party. The resulting amendment, the Proposed Agreement, was executed prior to the issuance of the 2012 RFO.

3. Describe why the Project did not participate in the solicitation and why the benefits of the Project cannot be procured through a subsequent solicitation.

N/A – amendment to an existing, approved contract .

C. Least-Cost, Best-Fit (LCBF) Methodology and Evaluation

1. Briefly describe IOU's LCBF Methodology

SDG&E's LCBF methodology evaluates each offer on the basis of energy value, capacity value, price, congestion costs, transmission upgrade costs, deliverability, and integration costs. The specific analysis of the Proposed Agreement is found in Part 2, Confidential Appendix A.

2. Indicate when the IOU's Shortlist Report was approved by Energy Division

SDG&E submitted the final 2011 RFO Shortlist to Energy Division on August 31, 2012.

D. Compliance with Standard Terms and Conditions (STCs)

1. Does the proposed contract comply with D.08-04-009, D.08-08-028, and D.10-03-021, as modified by D.11-01-025?

The Non-Modifiable STCs are contained within the Original PPA and the Proposed Agreement, with the exception of the "REC-only" STCs. Those are not included because neither the Original PPA nor the Proposed Agreement are REC purchases.

2. Using the tabular format, provide the specific page and section number where the RPS non-modifiable STCs are located in the contract.

Non-Modifiable Term	Contract Section Number	Contract Page Number
STC 1: CPUC Approval	1.65 of *Original* Cover Sheet	8 of *Original*
STC 2: Green Attributes and RECs	1.66 of *Original* Cover Sheet	8 of *Original*

STC 6: Eligibility	10.2(xiii) of *Original* Cover Sheet	13 of *Original*
STC 17: Applicable Law	3e of Amendment	3 of Amendment
STC REC 1: Transfer of RECs	N/A – not a REC contract	
STC REC 2: WREGIS Tracking of RECs	N/A – not a REC contract	
STC REC 3: CPUC Approval	N/A – not a REC contract	

3. Provide a redline of the contract against the utility's Commission-approved pro forma RPS contract as Confidential Appendix E to the filed advice letter. Highlight modifiable terms in one color and non-modifiable terms in another.

   See Part 2, Confidential Appendix E

E. Portfolio Content Category Claim and Upfront Showing (D.11-12-052, Ordering Paragraph 9)

1. Describe the contract's claimed portfolio content category

   N/A. The PPA was not assigned a content category since it was executed prior to June 1, 2010 and therefore "grandfathered" under Pub. Util. Code Sec. 399 (d). The Proposed Agreement meets the criteria set forth in Sec 399(d)(3), thus the "grandfather" status is retained.

2. Explain how the procurement pursuant to the contract is consistent with the criteria of the claimed portfolio content category as adopted in D.11-12-052

   N/A – please see response to E.2, above..

3. Describe the risks that the procurement will not be classified in the claimed portfolio content category

   If the PPA were to be further amended in a manner that eliminated the applicability of Sec. 399(d), the PPA would become subject to portfolio content category limitations.

4. Describe the value of the contract to ratepayers if:

   a. Contract is classified as claimed

      If the contract continues to be grandfathered, ratepayers will benefit from the flexibility SDG&E will have in managing any additional procurement, since the Covanta generation will not be

counted in any of the Categories set forth in the RPS legislation and program. Ratepayers will continue to receive the value they have paid for.

b. Contract is not classified as claimed

If the contract classification were changed to Category 1, it could have some value to ratepayers because it is competitive with other recent offers and recently executed contracts that offer the same contract structure, product and delivery, i.e., in-state bundled energy and green attributes.

If the contract classification were to be changed to a Category 3, then ratepayers will still receive the energy benefit from the project, but their costs for RPS compliance will be higher than they would have been if, for instance, SDG&E had simply purchased TRECs. This answer assumes that the Proposed Agreement would receive a Category 3 classification instead of Category 1.

F. Minimum Quantity

Minimum contracting requirements apply to short term contracts less than 10 years in length

1. Explain whether or not the proposed contract triggers the minimum quantity requirement

   N/A- the Proposed Agreement is an amendment to an existing 10-year agreement.

2. If the minimum quantity requirement applies, provide a detailed calculation that shows the extent to which the utility has satisfied the minimum quantity requirement. If the requirement has not yet been satisfied for the current year, explain how the utility expects to satisfy the quantity by the end of the year to count the proposed contract for compliance.

   N/A

G. Tier 2 Short-term Contract "Fast Track" Process

1. Is the facility in commercial operation? If not in commercial operation, explain the IOU's basis for their determination that commercial operation will be achieved within the required six months.

   N/A- contract was negotiated bilaterally and is ineligible for Fast Track.

2. Describe and explain any contract modifications to the Commission-approved short-term pro forma contract.

   N/A- contract was negotiated bilaterally and is ineligible for Fast Track.

H. Interim Emissions Performance Standard

In D.07-01-039, the Commission adopted a greenhouse gas Emissions Performance Standard (EPS) which is applicable to an electricity contract for baseload generation, as defined, having a delivery term of five years or more.

1. Explain whether or not the contract is subject to the EPS.

   The Original PPA, a 10-year contract with a capacity factor exceeding 60%, was subject to the EPS.

2. If the contract is subject to the EPS, discuss how the contract is in compliance with D.07-01-039.

   The Original PPA was "Pre-Approved" under D.07-01-039, and is thus in compliance with the EPS. Nothing in the Proposed Agreement affects that determination.

3. If the contract is not subject to EPS, but delivery will be firmed/shaped with specified baseload generation for a term of five or more years, explain how the energy used to firm/shape meets EPS requirements.

   N/A – no firming and shaping is involved.

4. If the contract term is five or more years and will be firmed/shaped with unspecified power, provide a showing that the utility will ensure that the amount of substitute energy purchases from unspecified resources is limited such that total purchases under the contract (renewable and non-renewable) will not exceed the total expected output from the renewable energy source over the term of the contract.

   N/A – no firming and shaping is involved.

5. If substitute system energy from unspecified sources will be used, provide a showing that:

   a. the unspecified energy is only to be used on a short-term basis; and

      N/A – no substitute energy is involved.

   b. the unspecified energy is only used for operational or efficiency reasons; and

      N/A – no substitute energy is involved.

   c. the unspecified energy is only used when the renewable energy source is unavailable due to a forced outage, scheduled maintenance, or other temporary unavailability for operational or efficiency reasons; or

      N/A – no substitute energy is involved.

   d. the unspecified energy is only used to meet operating conditions required under the contract, such as provisions for number of start-ups, ramp rates, minimum number of operating hours.

      N/A – no substitute energy is involved.

I. Procurement Review Group (PRG) Participation

1. List PRG participants (by organization/company).

SDG&E's PRG is comprised of over fifty representatives from the following organizations:

a. California Department of Water Resources
b. California Public Utilities Commission – Energy Division
c. California Public Utilities Commission – Division of Ratepayers Advocates
d. The Utility Reform Network
e. Union of Concerned Scientists
f. Coalition of California Utility Employees

2. Describe the utility's consultation with the PRG, including when information about the contract was provided to the PRG, whether the information was provided in meetings or other correspondence, and the steps of the procurement process where the PRG was consulted.

SDG&E first notified its PRG at the February 17, 2012 meeting about Covanta's interest in increasing the pricing under the contract. Throughout the course of the negotiations, the PRG was kept updated on the status of negotiations and the issues under discussion, and PRG feedback was taken into account during subsequent negotiations. The Proposed Agreement was discussed at the following PRG meeting dates:

February 17, 2012
August 17, 2012
September 21, 2012
October 19, 2012
November 16, 2012

3. For short term contracts, if the PRG was not able to be informed prior to filing, explain why the PRG could not be informed.

NA – not a short term contract

J. Independent Evaluator (IE)

The use of an IE is required by D.04-12-048, D.06-05-039, 07-12-052, and D.09-06-050

1. Name of IE

SDG&E's IE for renewable projects is PA Consulting.

2. Describe the oversight provided by the IE.

The IE works collaboratively with SDG&E to design the RFO and the LCBF process. The IE also performs an independent ranking of the RFO bids and double checks that SDG&E is applying the LCBF process appropriately and that the SDG&E shortlist matches the IE shortlist. The IE monitors the progress of contract negotiations and, finally, prepares an independent report on the fairness of the negotiations and the value of the Proposed Agreement.

3. List when the IE made any findings to the Procurement Review Group regarding the applicable solicitation, the project/bid, and/or contract negotiations.

   SDG&E does not keep minutes of the PRG meetings, but the IE did concur with the results of SDG&E's analysis of the Proposed Agreement as presented to the PRG. The IE's specific analysis and recommendations are included in the project-specific IE Report.

4. Insert the public version of the project-specific IE Report.

   The public version of the project-specific IE Report appears at the end of Part 1 of this Advice Letter.

III. Project Development Status

N/A – Section omitted for existing project

IV. Contingencies and/or Milestones

Describe major performance criteria and guaranteed milestones, including those outside the control of the parties, including transmission upgrades, financing, and permitting issues.

NA – existing project

V. Procedural Matters

A. Requested Relief

SDG&E respectfully requests that the Commission expedite its review and approval of the Proposed Agreement through the issuance of a resolution no later than April 30, 2013.

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

The Proposed Agreement is conditioned upon Commission Approval. SDG&E, therefore, requests that the Commission include the following findings in its Resolution approving the Proposed Agreement:

1. The PPA, as amended by the Proposed Agreement, is reasonable and consistent with SDG&E's Commission-approved RPS Plan and; procurement from the PPA, as amended by the Proposed Agreement, will contribute towards SDG&E's RPS procurement obligation.

2. SDG&E's entry into the Proposed Agreement and the terms of such Proposed Agreement are reasonable; therefore, the Proposed Agreement is approved in its entirety and all costs of the purchase associated with the PPA, as amended by the Proposed Agreement, including for energy, green attributes, and resource adequacy are fully recoverable in rates over the life of the PPA, as amended by the Proposed

Agreement, subject to Commission review of SDG&E's administration of the PPA, as amended by the Proposed Agreement.

3. Generation procured pursuant to the PPA, as amended by the Proposed Agreement, constitutes generation from eligible renewable energy resources 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. The PPA, as amended by the Proposed Agreement, will contribute to SDG&E's minimum quantity requirement established in D. 12-06-038.

B. Protest

Anyone may protest this advice letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received no later than March 5, 2013, which is 20 days from the date this advice letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

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

Copies should also be sent via e-mail to the attention of the Energy Division at EDtariffUnit@cpuc.ca.gov. 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

C. Effective Date

This Advice Letter is classified as Tier 3 (effective after Commission approval) pursuant to GO 96-B. SDG&E respectfully requests that the Commission issue a final Resolution approving this Advice Letter on or before April 30, 2013.

D. 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

(cc list enclosed)

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) #: 2459-E

Subject of AL: Request for Approval of Amended Renewable Power Purchase Agreement with Covanta Delano Inc.

Keywords (choose from CPUC listing): 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 AL[1]: N/A

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

Resolution Required? ☒ Yes ☐ No

Tier Designation: ☐ 1 ☐ 2 ☒ 3

Requested effective date: 4/30/2013

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: None

Service affected and changes proposed[1]: None

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

San Diego Gas & Electric Advice Letter 2459-E
February 13, 2013

CONFIDENTIAL DECLARATION

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF THEODORE E. ROBERTS REGARDING CONFIDENTIALITY OF CERTAIN DATA

I, Theodore E. Roberts, do declare as follows:

1. I am the Origination Manager for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the attached Advice Letter No. 2459-E, including Confidential Appendices A, B, C, D, E, F, and G (the "Confidential Appendices"), and am personally familiar with the facts and representations in this Declaration. 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 Responses 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 consists of information from which that information may be easily derived."[2/]

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.

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. 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, The instant confidentiality request satisfies the requirements of D.06-06-066[4/] because the information contained in the Confidential Appendices provided by SDG&E is of the type of information protected by the Matrix as follows:

Confidential Appendix A – Bid Information, Category VIII.A.; Specific Quantitative Analysis, Category VIII.B.; Contract Terms and Conditions, Category VII.G.; Total Energy Forecast, Category V.C.

Confidential Appendix B - Bid Information, Category VIII.A.; Specific Quantitative Analysis, Category VIII.B.

Confidential Appendix C - Bid Information, Category VIII.A.; Specific Quantitative Analysis, Category VIII.B.; Contract Terms and Conditions, Category VII.G.; Total Energy Forecast, Category V.C; Utility Bundled Net Open (Long or Short) Position for Energy (MWh), Category VI.B.

Confidential Appendix D - Contract Terms and Conditions, Category VII.G.; Specific Quantitative Analysis, Category VIII.B.

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").

Confidential Appendix E - Contract Terms and Conditions, Category VII.G.

Confidential Appendix F - Contract Terms and Conditions, Category VII.G.

Confidential Appendix G – Total Energy Forecast, Category V.C, Specific Quantitative Analysis, Category VIII.B

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.[1]/

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.

---

[1]/ 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.[5/] 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.[6/]

10. If disclosed, the Protected Information could provide parties, with whom SDG&E is currently negotiating, insight into SDG&E's procurement strategies, which would give them an unfair negotiating advantage 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

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

is required pursuant to the terms of the PPA to protect non-public information. Some of the Protected Information in the PPA relates directly to the viability of the project. Disclosure of this extremely sensitive information could harm the developer's ability to negotiate necessary contracts and/or could invite interference with project development by competitors.

12. In accordance with its obligations under its PPA 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 13th day of February, 2013 at San Diego, California.

Theodore E. Roberts
Origination Manager
Electric & Fuel Procurement
San Diego Gas & Electric

Part 2 – Confidential Appendices of Advice Letter

[REDACTED FROM PUBLIC VERSION]

San Diego Gas & Electric Advice Letter 2459-E
February 13, 2013

Public Version of the Project Specific IE Report

San Diego Gas & Electric Co.

Preliminary Report of the Independent Evaluator on Amendment No. 1 to the Covanta Delano contract, relative to the shortlist from the 2011 Request for Offers from Eligible Renewable Resources (2011 Renewable RFO)

February 12, 2013

San Diego Gas & Electric Co.

Preliminary Report of the Independent Evaluator on Amendment No. 1 to the Covanta Delano contract, relative to the shortlist from the 2011 Request for Offers from Eligible Renewable Resources (2011 Renewable RFO)

February 12, 2013

Prepared by: Jonathan M. Jacobs
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Version: 1.1

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 December 2012 Amendment No. 1 to the contract between San Diego Gas & Electric Company (SDG&E) and Covanta Delano, Inc. (formerly AES Delano, Inc.) for the delivery of energy and associated attributes from a 49 MW biomass project. The original contract was dated Dec. 21, 2006.

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 6 and 7. 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.

PA

TABLE OF CONTENTS

1. ROLE OF THE INDEPENDENT EVALUATOR (IE)

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

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

1.1 THE IE REQUIREMENT

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

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

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

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

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

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

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

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

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?"

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

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

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

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

[6A] California Public Utilities Commission, Resolution E-4199, March 12, 2009.

[6B] CPUC Resolution E-4199 op. cit., p. 26.

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 way[7].

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

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

1.3 PA'S ACTIVITIES

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

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

PA 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.

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. 144 separate organizations responded to the solicitation with a total of 418 project proposals having 1066 pricing options. That is 2.6 times as many projects, and 3.7 times as many pricing options, as were submitted in SDG&E's 2009 RFO.

The CPUC has encouraged SDG&E to do specific outreach to the Imperial Valley and, more generally, the SPL area. 53 project proposals were submitted from the SPL area, with 153 pricing options, from a total of 31 separate bidders.[9]

2.4 FEEDBACK

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

SDG&E did not formally seek bidder feedback.

2.5 ADDITIONAL I SSUES

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, [redacted], 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]

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] included one or more options that would provide deliveries in CP1. [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 (NTLT) Adder

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

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

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

3.2.1 Above market cost (AMC)

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

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

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

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

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

AMC =

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

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

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

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

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

AMC (TREC) =

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

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

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 =

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

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

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

Delivery adder =

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

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

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

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

3.2.5 Near Term Long Term (NTLT) adder

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

- The *nominal need*, based on the assumption that all signed contracts succeed, was 620,000 MWh from 2011-2013
- The *probability-weighted need*, which assigns a nonzero failure probability to contracted plants not yet operational, was 3,587,000 MWh from 2011-2013
- The *contingent need*, based on adding a 25% contingency to the probability-weighted need, was 4,484,000 MWh 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 was zero
- The *probability-weighted need* for the single year 2016 was 177 MWh
- The *contingent need* for the single year 2016 was 222 MWh

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

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

cost" of [redacted] representing the renewability value of CP1 deliveries, and apportioned it over all the energy expected to be supplied:

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

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

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

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

a. PRIORITY ON CP1 NEED

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

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

b. OUT-YEAR IMPACTS OF FILLING CP1 NEED

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

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

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

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

c. STRUCTURE OF THE NTLT ADDER

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

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

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

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

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

[16] In fact the CP1 need was large, and the amount of shorter-term energy bid to SDG&E was less, so that even using the NTLT adder SDG&E shortlisted so many long-term contracts with online dates in CP1 that it had no additional need to be filled by later contracts.

3.2.6 Changes from the 2009 LCBF model

a. MPR AS A MEASURE OF VALUE

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

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

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

b. ABANDONMENT OF DURATION EQUALIZATION METHOD

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

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

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

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

c. COMPUTATION OF DELIVERABILITY ADDER

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

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

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

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

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

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

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

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

"6. Other."

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

We will address the points above in turn.

3.3.1 Market valuation

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

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

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

3.3.2 Evaluation of portfolio fit

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

SDG&E determined that it had much greater need in the first compliance period than in subsequent periods, based both on contracts already signed and the short time available in which to satisfy that CP1 need. The need analysis rests on SDG&E's assumption that because SBX1-2 removes the *requirement* that the CPUC allow something like earmarking, the Commission will no longer allow it. We cannot judge whether SDG&E is right in that, although the lack of disagreement from the PRG members is an indicator.

Because of that need judgment, SDG&E sought to fill its CP1 need before considering other compliance periods. Doing so would also fill its CP2 need. SDG&E sought to reserve some CP2 need for cheaper contracts using its NTLT adder. SDG&E did not attempt to fill any unmet CP3 need with new projects, but it is too soon to have tried to sign up new projects that are now ripe for development for the sake of the renewables target for the end of the decade – the project would be completed too soon and would be delivering at a cost that would exceed the expected cost of non-renewable power. All these actions are reasonable.

SDG&E's shortlist includes REC contracts, contracts with existing resources, and contracts with new resources for deliveries prior to their in-place RPS contracts. It is dominantly wind, with two solar projects. Although photovoltaics have gone down in price, wind appears to maintain a cost advantage over solar PV.

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. SDG&E bypassed several comparatively small bids, with low CP1 deliveries, in favor of larger but less highly ranked bids (it would accept bids with between 45,000 and 90,000 MWh of CP1 deliveries only if they were among the top five in the LCBF ranking, and would not accept any bids with less than 45,000 MW of CP1 deliveries). This is not "best practice" from a pure evaluation standpoint; however, 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

As a general rule, SDG&E did not consider Project Viability Calculator scores in its LCBF evaluation. This is consistent with the behavior that PA has observed in the past: SDG&E only takes into account factors related to viability when it has direct knowledge -- past

experience with a counterparty or that counterparty's partner, specific knowledge of site characteristics or transmission requirements. In this case, SDG&E eliminated several sets of bids from consideration:

[redacted]

identified.

[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. [redacted]

Figure 1 shows the bidders' submitted scores as well as PA's recomputed scores for those [redacted] Points below the dashed line indicate cases where the bidder's submitted PVC score was above the score PA computed. Almost all the bids are below the line, generally by less than 10 points. There are a few cases where bidders were more conservative in their scoring than PA. [redacted] Projects coming online in the later period (CP2) tend to be lower in viability than CP1 projects, probably because they are not as far along in development.

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

3.5 ADDITIONAL COMMENT ON THE METHODOLOGY

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

PA has nothing else to add to this chapter.

4. PROCEDURAL FAIRNESS OF THE BID EVALUATION

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

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

4.1 PRINCIPLES USED TO DETERMINE FAIRNESS OF PROCESS

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

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

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

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

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

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

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

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

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

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

4.2 ADMINISTRATION AND BID PROCESSING

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

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

- Affiliate and non-affiliate bids were treated identically. [redacted]
- Bidder questions were answered fairly and consistently.
- SDG&E did not ask for clarifications in such a way as to advantage any bidder.
- All bids were given equal credibility in the quantitative (LCBF) evaluation with the exception of those bids that were eliminated as described in 3.3.5.
- The "contingent need" target for CP1 would definitely give SDG&E a reasonable chance of meeting its RPS target. After discussion with PA, SDG&E did shortlist enough capacity to meet that target although it did not require exclusivity from all those bidders.
- 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).
- Very little use was made of qualitative factors except for the eliminations noted above.

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?"

Nonconforming bids were identified as such but not immediately discarded, with the exception of out-of-state bids with busbar pricing. As in previous renewables solicitation, the RFO stated that non-conformance "may disqualify [a] proposal from further consideration". SDG&E and PA interpreted this somewhat broadly and attempted to evaluate the nonconforming bids if possible.

In particular, because several bidders had difficulty uploading to SDG&E's system, SDG&E wanted to accept bids that were time stamped later than the bid deadline. Furthermore there was some confusion over the time stamping as it turned out that SDG&E's server was set to Central Time (e.g., bids that actually arrived at 11:30 AM were stamped 1:30 PM). SDG&E and PA reviewed all the late bids and PA recommended that they all be evaluated.

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

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

Prior to the receipt of bids, PA asked SDG&E for the index it intended to use in evaluating short-term bids. SDG&E said it would use a five-day average of ICE forward prices and produced a strip of monthly prices, [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

Two parties each placed more than one bid on SDG&E's preliminary shortlist: [redacted]

SDG&E decided this represented concentration risk [redacted] SDG&E viewed the last part of the shortlist as representing contracts that could be executed if existing contracts were not approved by the CPUC or failed, and would deal with the concentration issue at that point. [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

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

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

b. ACCEPTANCE OF LATE BIDS

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

c. TECHNICAL POINTS OF BID EVALUATION

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

- [redacted] Upon further analysis we determined that SDG&E had relied on the "Capacity Buildout" section of the response form. SDG&E agreed to use the "Pricing" and "Typical Profile" sections, as PA did.
- PA did not agree that SDG&E's initial proposal for computing the Deliverability Adder, which would have given a smaller adder to a bid proposing an energy-only interconnection if it were in SDG&E's local area. PA maintained this was inconsistent with the meaning of the adder, since a plant with an energy-only interconnection would be unable to deliver any capacity value no matter where it was located. SDG&E changed its approach to agree with PA's.
- SDG&E argued that PA [redacted] PA reviewed the TRCR report, decided that SDG&E was correct, and revised its assignment.
- PA and SDG&E disagreed on whether the [redacted] should be assigned a transmission upgrade cost adder, [redacted] Because the adder had no effect on the shortlist – it was less than the difference between this project and the next-best, and no other bids were similarly impacted – PA stated that it was acceptable to leave the issue unresolved.

d. BID ELIMINATION

Section 3.3.5 lists several bids that were eliminated. In some cases PA felt SDG&E provided insufficient information for its decisions. [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 T ERM BIDS

After bidding was closed, SDG&E informed PA that it received several bids for short-term renewable energy from portfolios of resources, and asked PA for its opinion as to whether it was appropriate to consider them simultaneously with the RFO, provided that they evaluated them consistent with the LCBF methodology. It would surely have been unacceptable to evaluate them with the short-term bid evaluation method referenced in 4.8.1 since that would have given SDG&E freedom to decide how much short-term capacity to accept independent of other bids.

PA considered the important issue to be whether these bilateral portfolio bidders had sought or would receive any inappropriate advantage relative to those bidders who had gone through the RFO. It seemed clear that their advantage would be that they had been able to observe and account for market developments that the RFO bidders had not. But, the RFO bidders were bidding a different product, specific renewable power plants, to which the market developments may not have been as important. In the LTPP process the CPUC has recognized the difference between short-term (portfolio) contracts and longer-term (unit-specific) by encouraging the use of RFOs for longer-term contracts while allowing ongoing rule-based procurement of shorter-term contracts. PA decided that it was reasonable to consider the bilateral bids. As an aside, PA remarked that SDG&E should consider including authorization for ongoing procurement of short-term contracts in its next Renewables Procurement Plan.

[redacted]

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

b. [redacted]

At the bidder conferences, SDG&E specifically stated that it would accept biogas contracts up to five years in duration, and that it would estimate the $/MWh cost of such contracts based on the gas cost and a heat rate of 7,500 BTU/kWh. Still, SDG&E did not receive many biogas bids involving in-state power plants. [redacted]

SDG&E also received [redacted] This would be a qualifying renewable resource under current rules. SDG&E was reluctant to accept the bid, possibly because it would not score well under the Project Viability Calculator [redacted]

PA urged SDG&E to accept the bid [redacted] and because it satisfied SDG&E's stated interest in short-term contracts available soon. [redacted]

[redacted]

[redacted]

4.9.3 Overall judgment

PA's judgment is that solicitation was fairly administered.

4.10 OTHER RELEVANT INFOR MATION

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

The Delano Energy biomass facility (also known as Covanta Delano) is a 49 MW power plant fueled by wood waste. Since Jan. 1, 2008 it has delivered an annual average of 330,000 MWh of RPS-qualified energy under a contract with San Diego Gas & Electric. Through 2011 the plant received approximation [redacted] in Public Goods Charge (PGC) funding from the California Energy Commission. The PGC expired at the end of 2011 and has not been reauthorized. [redacted]

In Nov. 2011, SDG&E informed PA that Covanta Delano had approached them about a contract amendment. Covanta Delano had told SDG&E that even with the [redacted] they would still experience negative net cash flows. [redacted], [redacted] Covanta Delano provided SDG&E with plant financial data and the parties negotiated for several months. [redacted]

At some point between April and August, SDG&E and Covanta Delano decided that it would be mutually beneficial to amend the contract to increase the price if SDG&E could be given an option to terminate early. [redacted]

5.1 PRINCIPLES OF EVALUATION

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

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 PRG.[18] 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).

[18] This negotiation was referenced in SDG&E's PRG meetings on Dec. 16 2011, Feb. 17 2012, Aug. 17 2012, Sept. 21 2012 (a followup email including a spreadsheet was sent Oct. 12), Oct. 19 2012, Nov. 16 2012, and Dec. 14 2012.

During the early stages of the negotiation – up to April 2012 – PA and SDG&E communicated several times about the contract and [redacted] During the ensuing lull in negotiations PA heard very little about Covanta Delano, and does not know which side initiated the discussion of the termination option; however, once the option was introduced, negotiations appear to have been quick and straightforward. The basic structure was agreed at the end of August.

PA has reviewed a series of email communications between SDG&E and Covanta, and drafts of the amendment. These do not show any signs of favoritism or other unfairness. It is PA's opinion that Amendment No. 1 reflects fair negotiations.

5.3 TERMS AND CONDITIONS

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

The most significant change was the introduction of the termination option. [redacted]. After the initial structure was agreed, the next most significant change was [redacted] There were also some more technical wording changes and a change in the balance between the price increase and the exercise date of the termination option.

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?"

To PA's knowledge there were no other similar negotiations.

5.5 ADDITIONAL ISSUES

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

PA has nothing to add here.

6. PROJECT-SPECIFIC RECOMMENDAT ION

PA agrees with SDG&E that this contract merits CPUC approval.

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. PA has therefore evaluated the pricing of Amendment No. 1 using the evaluation model that had been used for the most recent (2011) RPS RFO, and relative to the 2011 RPS RFO shortlist. PA interpreted the Amendment as if it were a new contract covering the last five years of deliveries (2013-2017), and has compared it with just the last five years of the current contract. [redacted]

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

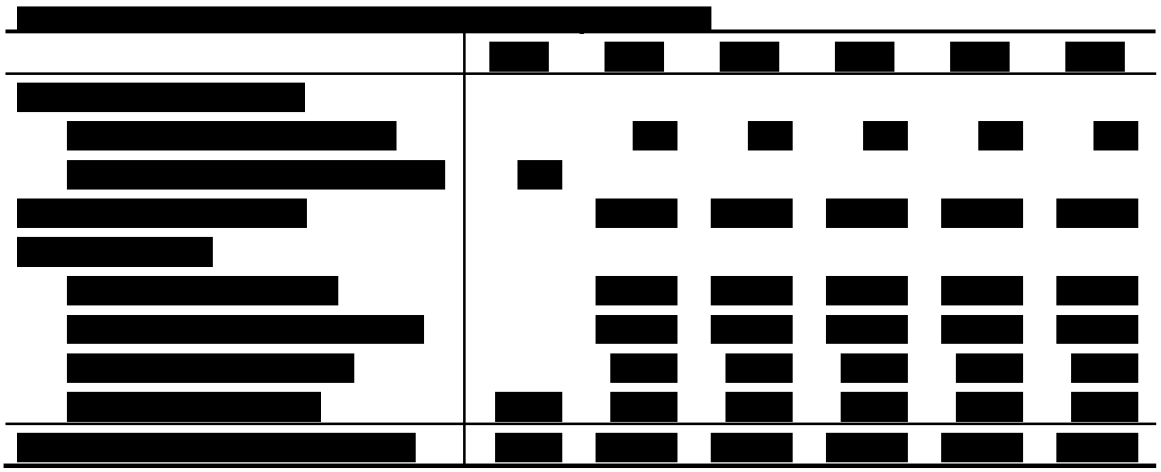
PA has also evaluated the Amendment on a stand-alone basis. As an IE, PA is responsible for comparing contracts to the market, and as a new RPS RFO is underway, the 2011 RFO shortlist is now a stale indicator. SDG&E has presented similar standalone analyses to the PRG and, we believe, in the Advice Letter transmitting this Amendment for approval.

6.1.1 Pricing

[redacted]

[redacted]

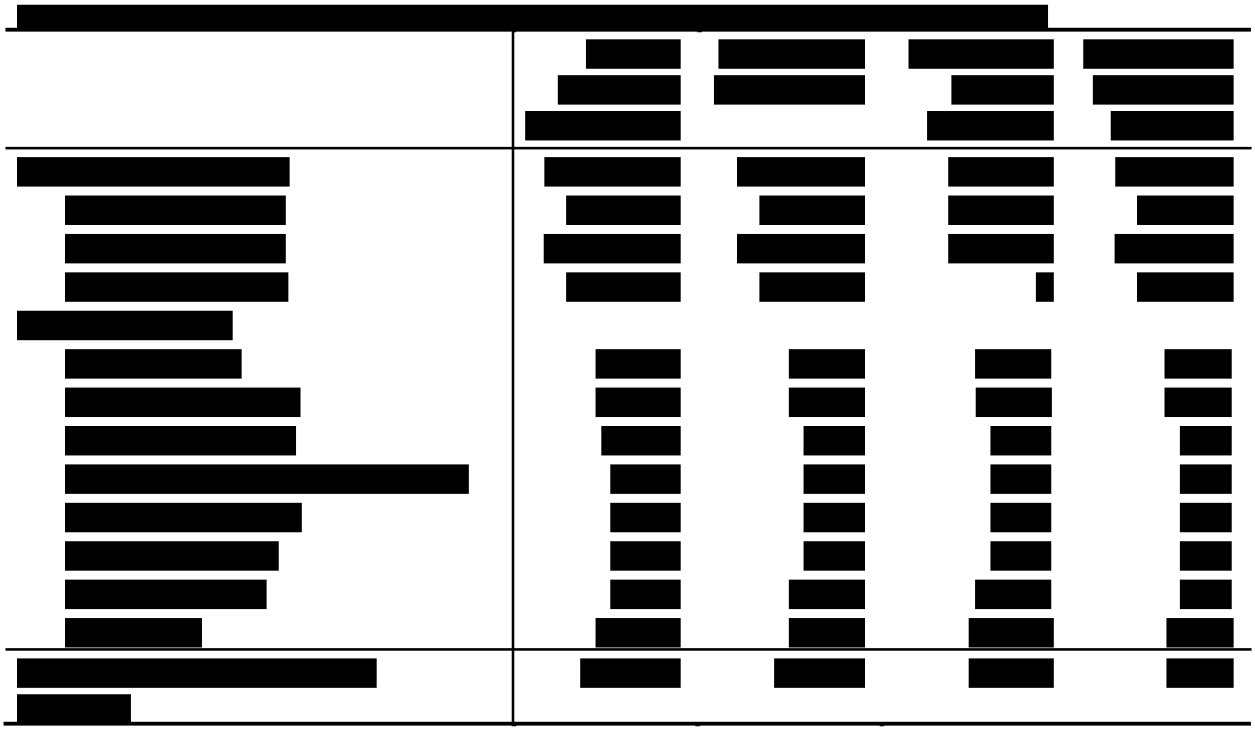
[redacted]



6.1.2 Evaluation relative to 2011 RFO scoring

PA evaluated the Amendment using the LCBF model that had been used for scoring bids in the 2011 RFO, including the NTLT adder. PA evaluated the contract in three different ways: (a) the original contract, unamended [redacted] (b) the amended contract running to its full term; (c) the amended contract assuming SDG&E exercised its right to terminate the contract at the earliest possible date; (d) [redacted]

The evaluation is presented in Table 2. The metric that was used to define the shortlist was the "Ranking Price including Adder". By that metric, if the full-term Amendment had been bid into the RPS RFO it would have been shortlisted, although it would have been near the bottom of the shortlist. No other project would have been removed from the shortlist, because the amendment just replaces the original Covanta Delano contract (meeting the same need). The Ranking Price for the Amendment assuming termination in 2014 is much more impressive: the Amendment would have been the top project on the RFO shortlist. If we assume only that the price [redacted] the Amendment is comparable to projects around the middle of the shortlist. The "Original Terms" case is better than either no-termination case. Relative to the 2011 RFO shortlist Amendment No. 1 appears desirable, [redacted]



6.1.3 Portfolio fit

The key portfolio fit criterion that SDG&E applied in the 2011 RFO was timing. The Near Term Long Term adder was intended to recognize the fact that SDG&E thought it needed renewable power in the first compliance period but not the second. It was SDG&E's intent to use the adder to penalize projects most of whose deliveries come after 2013. The adder certainly does so here. The difference in Ranking Price between the full-term estimates [redacted] and early termination [redacted] is attributable to the NTLT adder. It clearly indicates the value of early termination.

6.1.4 Stand-alone evaluation

The contracts coming out of the 2011 RPS RFO have been signed and approved. It is not appropriate at this point to evaluate the Amendment only as to whether it would have been selected in the RFO. PA considered the contracting decision on a stand-alone basis, that is, the merits of the Amendment as opposed to the status quo.

The value of the Amendment depends on the relationship between the cost of RPS credits that it provides, and the value of renewability. The cost of RPS credits is the contract cost less the avoided cost of the energy and Resource Availability (RA) it provides. The avoided cost of energy was estimated using SP-15 forward prices as of Jan. 2, 2013[19], while the avoided cost of RA was estimated based on the results of SDG&E's 2013 RA RFO as reported to the PRG on Oct. 19, 2012, informed by bids provided to earlier RA RFOs.

[19] The SP-15 forward price curve was obtained from SNL Energy (www.snl.com).

Table 3 shows how the cost of an RPS credit from Covanta Delano is computed under Amendment 1. [redacted]. Similarly, Table 4 shows how the cost of an RPS credit is computed under the pricing from the original Covanta Delano contract, [redacted]

Table 3. Computing RPS credit costs for Amendment No. 1

	2013	2014	2015	2016	2017	[redacted]
Delano deliveries (MWh)	[redacted]					
Contract price ($/MWh)	[redacted]					
SP15 price ($/MWh)	[redacted]					
RA cost in $/kW	[redacted]					
RA cost in $/MWh	[redacted]					
RPS credit cost ($/MWh)	[redacted]					

Table 4. Computing RPS credit costs for original Covanta Delano contract

	2013	2014	2015	2016	2017	[redacted]
Delano deliveries (MWh)	[redacted]					
Contract price ($/MWh)	[redacted]					
SP15 price ($/MWh)	[redacted]					
RA cost in $/kW	[redacted]					
RA cost in $/MWh	[redacted]					
RPS credit cost ($/MWh)	[redacted]					

As noted above, the value of this or any RPS contract depends on the relationship between the cost of RPS credits and their value to SDG&E. SDG&E believes that with its current contract portfolio including Covanta Delano, it will achieve its RPS goal for the 2011-2013 compliance [redacted][20] The CPUC has deferred consideration of penalties related to compliance with the new requirements of SB2(1X).[21]

On the other hand, SDG&E appears to be confident that it has more than enough renewable generation under contract to meet its requirements through 2018, as well as to build up banked credits that will last to 2021. Therefore we have assumed that RPS credits generated

[20] California Public Utilities Commission, Decision (D.) 03-06-071, June 19, 2003, Ordering Paragraph 23, as modified by Decision (D.) 03-12-065, December 18, 2003, Ordering Paragraph 1.g.

[21] California Public Utilities Commission, Decision (D.) 12-06-038, June 21, 2012, p. 3.

from 2014-2017 will have no immediate value, but will be banked for later use or immediately resold as bundled renewable energy.

a. BANKING ANALYSIS

Consider first the value of these contracts if SDG&E banks the RPS credits for later use. A reasonable assumption is that the credits generated in 2014 and 2015 will be banked until 2021, and those generated in 2016 and 2017 will be banked until 2022. It remains to develop an assumption for the value of an RPS credit in those years. [redacted]

Given these assumptions, Table 5 breaks down the net present value (as of Jan. 1, 2013) of the last four years of the original Covanta Delano contract and Amendment No. 1 under the same scenarios as in Table 2 ([redacted]

Table 5. Net present value, as of Jan. 1, 2013, of 4 versions of the Covanta Delano contract -- [redacted]

	Unamended (original contract)	*Amendment No. 1* To full term	Terminated	[redacted]
Extra cost of 2012 energy	[redacted]	[redacted]	[redacted]	[redacted]
Cost of deliveries 2013-2017	[redacted]	[redacted]	[redacted]	[redacted]
Benefit - avoided energy cost	[redacted]	[redacted]	[redacted]	[redacted]
Benefit - Avoided RA cost	[redacted]	[redacted]	[redacted]	[redacted]
Subtotal - Cost of RPS credits	[redacted]	[redacted]	[redacted]	[redacted]
Value of RPS credits used	[redacted]	[redacted]	[redacted]	[redacted]
Value of RPS credits banked	[redacted]	[redacted]	[redacted]	[redacted]
NET CONTRACT VALUE	$[redacted]	$[redacted]	$[redacted]	[redacted]

Based on the information in this Table, none of these options appear to provide positive value to SDG&E, and SDG&E would be best of finding a way to terminate the contract. However, SDG&E has taken the position that it is obligated to comply with the RPS irrespective of the penalty, meaning it will not seek to terminate the contract. In that case the best choice would be to amend the contract but seek to terminate as soon as possible. [redacted] On the other hand, if SDG&E were not to amend the contract, [redacted] SDG&E has taken any such outcome off the table.

[redacted]

Of the assumptions underlying this analysis, the one in which we can have the least confidence is the future value of banked credits. Therefore PA estimated the value of each contract option for different values of the future value of banked credits. The results are in Table 6. Amendment No. 1 [redacted]

Table 6. NPV of versions of the Covanta Delano contract for different assumptions of the future value of banked credits

Future value of banked credits ($/MWh)	Unamended (original contract)	*Amendment No. 1* To full term	[redacted]	[redacted]
0	[redacted]	[redacted]	[redacted]	[redacted]
10	[redacted]	[redacted]	[redacted]	[redacted]
20	[redacted]	[redacted]	[redacted]	[redacted]
25	[redacted]	[redacted]	[redacted]	[redacted]
30	[redacted]	[redacted]	[redacted]	[redacted]
35	[redacted]	[redacted]	[redacted]	[redacted]
40	[redacted]	[redacted]	[redacted]	[redacted]
50	[redacted]	[redacted]	[redacted]	[redacted]

b. RESALE ANALYSIS

Instead of banking the RPS credits, SDG&E could choose to resell the RPS received beginning in 2014. What SDG&E would more likely do would be to resell the energy received from Covanta Delano as bundled renewable energy, on an "index plus" basis. SDG&E told the January PRG meeting that the market pricing for bundled renewable energy for the second compliance ranges [redacted]

Table 7, similar to Table 5, breaks down the net present value (as of Jan. 1, 2013) of the last four years of the original Covanta Delano contract and Amendment No. 1, assuming resale of delivered RPS energy in 2014-2017. In this case the amended contract provides positive value to SDG&E, while allowing SDG&E to meet its RPS target for the first compliance period. The original contract would also provide positive value [redacted]

[redacted]

[redacted]

Table 7. Net present value, as of Jan. 1, 2013, of 4 versions of the Covanta Delano contract – [redacted]

	Unamended (original contract)	*Amendment No. 1* To full term	[redacted]	[redacted]
Extra cost of 2012 energy	[redacted]	[redacted]	[redacted]	[redacted]
Cost of deliveries 2013-2017	[redacted]	[redacted]	[redacted]	[redacted]
Benefit - avoided energy cost	[redacted]	[redacted]	[redacted]	[redacted]
Benefit - Avoided RA cost	[redacted]	[redacted]	[redacted]	[redacted]
Subtotal - Cost of RPS credits & bundled energy	[redacted]	[redacted]	[redacted]	[redacted]
Value of RPS credits used	[redacted]	[redacted]	[redacted]	[redacted]
Revenue from bundled energy sales	[redacted]	[redacted]	[redacted]	[redacted]
NET CONTRACT VALUE	[redacted]	[redacted]	[redacted]	[redacted]

6.1.5 Project viability

This is an operating project, there are no viability issues.

6.2 RECOMMENDATION

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

PA agrees with SDG&E that if the first compliance period's RPS target is not to be endangered, Amendment No. 1 merits CPUC approval. SDG&E has taken advantage of the situation to negotiate an improvement to a simple price increase, given its greater certainty that it will need RPS credits in compliance period 1, but not for 6-8 years thereafter. [redacted]. At this point it appears better to sell surplus bundled renewable energy than to bank it, but that choice can be deferred (as, in fact, can the decision to terminate the amended contract, if conditions change).

6.3 ADDITIONAL ISSUES

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

PA has nothing further to add here.