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**ADVICE LETTER 2483-E
(U 902-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: REQUEST FOR APPROVAL OF BUNDLED ENERGY SALES WITH EXELON GENERATION COMPANY, PILOT POWER GROUP, INC AND NOBLE AMERICA'S ENERGY SOLUTIONS LLC

I. INTRODUCTION

A. PURPOSE OF THE ADVICE LETTER

San Diego Gas & Electric Company ("SDG&E") seeks approval from the California Public Utilities Commission (the "Commission" or the "CPUC") for the following transaction:

- 1) Confirmation Agreement dated April 30, 2013 with Exelon Generation Company ("Exelon"), which incorporates the terms of the WSPP standard form agreement issued on March 3, 2013. Under this transaction, SDG&E is the seller of 600,000 MWh bundled renewable electricity and green attributes. This short-term proposed PPA between SDG&E and Exelon (the "Exelon Proposed Agreement") is for a twenty-four (24) month term and involves delivery from a list of wind, solar, biomass, biogas and/or geothermal operating California facilities. All of the facilities listed in the Exelon Proposed Agreement have been previously included in CPUC-approved SDG&E Advice Letters and are in SDG&E's current RPS Portfolio. The Exelon Proposed Agreement establishes a firm initial delivery date of January 1, 2014.
- 2) Confirmation Agreement dated February 28, 2013 with Pilot Power Group, Inc. ("Pilot"), which incorporates the terms of the EEI standard form agreement issued on March 25, 2000. Under this transaction, SDG&E is the seller of 380,000 MWh bundled renewable electricity and green attributes. This short-term proposed PPA between SDG&E and Pilot (the "Pilot Proposed Agreement") is for a thirty-six (36) month term and involves delivery from a list of wind, solar, biomass, biogas and/or geothermal operating California facilities. All of the facilities listed in the Pilot Proposed Agreement have been previously included in CPUC-approved SDG&E Advice Letters and are in SDG&E's current RPS Portfolio. The Pilot Proposed Agreement establishes a firm initial delivery date of January 1, 2014.
- 3) Confirmation Agreement dated February 22, 2013 with Noble Americas Energy Solutions LLC ("Noble"), which incorporates the terms of the WSPP standard form agreement issued on April 23, 2012. Under this transaction, SDG&E is the seller of 400,000 MWh bundled renewable electricity and green attributes. This short-term proposed PPA between SDG&E and Exelon (the "Noble Proposed Agreement") is for

a twenty-four (24) month term and involves delivery from a list of wind, solar, biomass, biogas and/or geothermal operating California facilities. All of the facilities listed in the Proposed Agreement have been previously included in CPUC-approved SDG&E Advice Letters and are in SDG&E's current RPS Portfolio. The Noble Proposed Agreement establishes a firm initial delivery date of January 1, 2014. .

This transaction will help facilitate SDG&E's satisfaction of its procurement requirement under California's Renewable Portfolio Standard ("RPS") program, especially in Compliance Period 2, at lower costs to its ratepayers as it optimizes value across compliance categories SDG&E has entered into these agreements on reasonable terms, as set forth in more detail below. The revenues, net of costs, from this transaction will be credited to SDG&E's customers via SDG&E's Energy Resource Recovery Account, helping to reduce overall procurement costs as well as the costs of the Renewables Portfolio Standard ("RPS") program. As set forth in greater detail in Part 2 of this Advice Letter, the Proposed Agreements provide greater value to SDG&E's customers than other options available to SDG&E in optimizing its RPS portfolio.

B. SUBJECT OF THE ADVICE LETTER

1. **PROJECT NAME:** Various projects certified by the California Energy Commission ("CEC") that are part of SDG&E's portfolio as being RPS-eligible located throughout California ("Projects") as follows:

Sales to Exelon, Pilot & Noble:

RPS Facility Name	Resource	Location	CEC RPS ID	Host Balancing Authority
AES Delano Inc	Biomass	Delano, CA	60431A	CAISO
AES Mt Signal 1 Solar	Solar PV	Imperial Valley, CA		CAISO
Arlington	Solar PV	Hassayampa, AZ		CAISO
Badger Filtration Plant	Conduit Hydro	Rancho Santa Fe, CA	60438E	CAISO
Bear Valley Hydro	Conduit Hydro	Escondido, CA	60439E	CAISO
Blue Lake Power, LLC	Biomass	Blue Lake, CA	60690A	CAISO
Borrego PV Solar I	Solar PV	Borrego Springs, CA	61211C	CAISO
Calpine Geysers	Geothermal	Sonoma & Lake County, CA	60002A	CAISO
			60003A	CAISO
			60004A	CAISO
			60005A	CAISO
			60006A	CAISO
			60007A	CAISO
			60008A	CAISO
			60009A	CAISO
			60012D	CAISO

			60013D	CAISO
			60014C	CAISO
			60015C	CAISO
			60016C	CAISO
Gestamp Calipatria	Solar PV	Calipatria, CA		CAISO
GRS - Sycamore	Biogas	Santee, CA	60486A	CAISO
Kumeyaay Wind Energy Facility	Wind	Boulevard, CA	60432A	CAISO
Manzana Wind	Wind	Tehachapi, CA	61671C	CAISO
Mesa Wind Farm	Wind	Riverside County, CA	60370A	CAISO
MM Prima Deshecha Energy, LLC	Biogas	San Juan Capistrano, CA	60552A	CAISO
MM San Diego - Miramar	Biogas	San Diego, CA	60481A	CAISO
MMR Campo Verde	Solar PV	Imperial Valley		CAISO
Mountain View III	Wind	Riverside County, CA	60430A	CAISO
Mushroom Power - CRE (FIT)	Biomass	San Diego, CA		CAISO
Oasis Power Partners	Wind	Mojave, CA		CAISO
Oasis Power Partners, LLC	Wind	Mojave, CA	60489A	CAISO
Ocotillo Wind Energy Facility	Wind	Imperial Valley, CA	61400C	CAISO
Olivenhain Municipal	Conduit Hydro	Olivenhain, CA	60441E	CAISO
Otay Landfill I	Biogas	Chula Vista, CA	60433E	CAISO
Otay Landfill II	Biogas	Chula Vista, CA	60434E	CAISO
Otay Landfill V - CRE (FIT)	Landfill gas	San Diego, CA		CAISO
Otay Landfill VI - CRE (FIT)	Landfill gas	San Diego, CA		CAISO
Pacific Wind, LLC	Wind	Tehachapi, CA	61555C	CAISO
Phoenix West	Wind	Riverside County, CA	60445A	CAISO
RAM (To be added)	Solar PV	Various in SD County		CAISO
Rancho Penasquitos	Conduit Hydro	San Diego, CA	60470A	CAISO
Regenerate Seville	Solar PV	El Centro, CA		CAISO
Rugraw Lassen Lodge Hydro	Small Hydro	Lassen, CA		CAISO
San Francisco Peak Hydro Plant	Conduit Hydro	Oceanside, CA	60442E	CAISO
San Marcos Landfill	Biogas	San Marcos, CA	60435A	CAISO
SDG&E SEP (UOG)	Solar PV	Various in SD County		CAISO
SDG&E Sustainable	Solar PV	Various in SD County	Various	CAISO
Soitec Desert Green	Solar PV	Borrego Springs, CA		CAISO
Soitec Eastland	Solar PV	Boulevard, CA		CAISO
Soitec Rugged	Solar PV	Boulevard, CA		CAISO
Soitec TDS	Solar PV	Boulevard, CA		CAISO
Soitec Westland	Solar PV	Boulevard, CA		CAISO
Sol Orchard	Solar PV	San Diego County, CA (distributed)		CAISO

Solargen2	Solar PV	Imperial Valley, CA		CAISO
SunEdison Cascade	Solar PV			CAISO
Sycamore Landfill	Biogas	Santee, CA	60886A	CAISO
Tenaska South	Solar PV	Calexico, CA		CAISO
Tenaska West	Solar PV	Imperial Valley, CA		CAISO
Victor Mesa Linda B	Solar PV	Victorville, CA		CAISO
Western Antelope Dry Ranch	Solar PV	Lancaster, CA		CAISO
Zodiac Power Solar A - CRE (FIT)	Solar PV	Potrero, CA		CAISO
Zodiac Solar E - CRE (FIT)	Solar PV	Potrero, CA		CAISO

2. **TECHNOLOGY (INCLUDING LEVEL OF MATURITY):** The Projects that the Category 1 energy and RECs are being sold from consist of various renewable technologies including: biomass, biogas, and geothermal renewable resources – all mature and proven technologies.
3. **GENERAL LOCATION AND INTERCONNECTION POINT:** The Projects are all located within California and are all interconnected with the California Independent System Operator (“CAISO”) grid.
4. **OWNER(S) / DEVELOPER(S):**

a. **Name(s):** The owners of the Projects are listed above.

b. **Type of entity(ies) (e.g. LLC, partnership):**

The owners of the facilities providing the bundled renewable energy and RECs are all limited liability companies.

The Buyers are:

The first agreement, the Exelon Proposed Agreement, is with Exelon Generation Company. Exelon is an energy company engaged in the generation and marketing of electricity. It has a diversified electricity generation portfolio which comprises of fossil, hydro, nuclear and renewable generation facilities.

Headquartered in Chicago, Exelon has operations and business activities in 47 states, the District of Columbia and Canada. The company is one of the largest competitive U.S. power generators, with approximately 34,700 megawatts of owned capacity comprising one of the nation’s cleanest and lowest-cost power generation fleets. Its Constellation business unit provides energy products and services to approximately 100,000 business and public sector customers and approximately 1 million residential customers. Exelon’s utilities deliver electricity and natural gas to more than 6.6 million customers in central Maryland (BGE), Northern Illinois (ComEd) and Southeastern Pennsylvania (PECO).

Exelon’s subsidiary, Constellation NewEnergy, Inc., is one of the largest Energy Service Provider’s (ESP’s) in the State of California with service to direct access retail and commercial power consumers.

The second agreement, the Pilot Proposed Agreement, is with Pilot Power Group Inc. Pilot Power Group, Inc. is a leading Energy Service Provider in California offering custom energy solutions, portfolio management, and energy procurement strategies for commercial and industrial customers participating in deregulated energy environments

The third agreement, the Noble Proposed Agreement, is with Noble Americas Energy Solutions LLC. Noble Americas Energy Solutions is one of the top energy retailers in the US and California. They are a wholly owned subsidiary of the Noble group. The Noble Group is a market-leading global supply chain manager of agricultural and energy products, metals and minerals and was established 25 years ago.

c. Business Relationships between seller/owner/developer:

The renewable energy and green attributes to be delivered to Exelon, Pilot and Noble under the Agreements consist of bundled renewable generation from in-state facilities that are sold to SDG&E pursuant to Commission-approved PPAs with various developers.

5. PROJECT BACKGROUND, E.G., EXPIRING QF CONTRACT, PHASED PROJECT, PREVIOUS POWER PURCHASE AGREEMENT, CONTRACT AMENDMENT

All of the facilities involved in the proposed agreements are fully operational.

6. SOURCE OF AGREEMENT, I.E., RPS SOLICITATION YEAR OR BILATERAL NEGOTIATION

The proposed agreements were all the result of bilateral discussions and negotiations between the parties and not part of an RFO process.

C. GENERAL PROJECT(S) DESCRIPTION

Counterparty Name(s)	Exelon Generation Company, Pilot Power Group & Noble Energy Americas
Technology	See above
Capacity Factor	N/A
Expected Generation (GWh/Year)	Exelon: 300 GWh in 2014 300 GWh in 2015 Pilot: 105 GWh in 2014 115 GWh in 2015 160 GWh in 2016 Noble: 200 GWh in 2014 200 GWh in 2015

Initial Commercial Operation Date	Projects are all operational
Date Contract Delivery Term Begins	January 1, 2014
Delivery Term (Years)	Exelon: 2 Years Pilot: 3 years Noble: 2 years
Vintage (New/Existing/Repower)	Existing
Location (City and State)	All located in state California (see listing in Section I.B.1 above for specific locations)
Control Area (e.g., CAISO, BPA)	CAISO
Type of Cooling, if Applicable	Cooling tower water (geothermal only)

D. PROJECT LOCATION:

1. GENERAL MAP OF THE GENERATION FACILITIES LOCATION.

DUE TO THE NUMBER OF LOCATIONS A MAP WOULD NOT BE FEASIBLE.

2. FOR NEW FACILITIES DESCRIBE FACILITIES CURRENT LAND USE.

N/A – all existing projects.

E. GENERAL DEAL STRUCTURE

DESCRIBE GENERAL CHARACTERISTICS OF CONTRACT.

SDG&E will sell to Exelon bundled renewable energy over a 24 - month period (January 1, 2014 – December 31, 2015). The energy will come from a portfolio of in-state, CEC-certified eligible renewable energy resources (“ERRs”) that are already commercially operational. The portfolio is deep enough that SDG&E can firm the annual quantities at a flat, hourly rate of delivery. SDG&E will deliver 300,000 MWh during the term ending December 31, 2014, and SDG&E will deliver 300,000 MWh during the term ending December 31, 2015. The delivery point is the SP-15 EZ Gen Hub, and the method of contracting is a Confirmation Agreement to the WSPP Agreement.

SDG&E will sell to Pilot bundled renewable energy over a 36 - month period (January 1, 2014 – December 31, 2016). The energy will come from a portfolio of in-state, CEC-certified eligible renewable energy resources (“ERRs”) that are already commercially operational. The portfolio is deep enough that SDG&E can firm the annual quantities at a flat, hourly rate of delivery. SDG&E will deliver 105,000 MWh during the term ending December 31, 2014. SDG&E will deliver 115,000 MWh during the term ending December 31, 2015 SDG&E will deliver 160,000 MWh during the term ending December 31, 2016 The delivery point is the SP-15 EZ Gen Hub, and the method of contracting is a Confirmation Agreement to the EEI Agreement

SDG&E will sell to Noble bundled renewable energy over a 24-month period (January 1, 2014 – December 31, 2015). The energy will come from a portfolio of in-state, CEC-certified eligible renewable energy resources (“ERRs”) that are already commercially operational. The portfolio is deep enough that SDG&E can firm the annual quantities at a flat, hourly rate of delivery. SDG&E will deliver 200,000 MWh during the term ending December 31, 2014. SDG&E will deliver 200,000 MWh during the term ending December 31, 2015. The delivery point is the SP-15 EZ Gen Hub, and the method of contracting is a Confirmation Agreement to the WSPP Agreement

F. RPS STATUTORY GOALS

THE PROJECT IS CONSISTENT WITH AND CONTRIBUTES TOWARDS THE RPS PROGRAM’S STATUTORY GOALS SET FORTH IN PUBLIC UTILITIES CODE §399.11.

Public Utilities Code § 399.11 declares that increasing California's reliance on eligible renewable energy resources is intended to displace fossil fuel consumption within the state, promote stable electricity prices, reduce greenhouse gas (“GHG”) emissions, improve environmental quality and promote the goal of a diversified and balanced energy generation portfolio. The proposed agreements involves renewable resources that will generate clean energy with zero fuel costs, will create zero need for foreign fuel imports, will produce little if any GHG emissions directly associated with energy production and will help to maintain a diversified and balanced energy generation portfolio.

G. CONFIDENTIALITY

CONFIDENTIAL TREATMENT OF SPECIFIC MATERIAL IS BEING REQUESTED. THE INFORMATION AND REASON(S) FOR CONFIDENTIAL TREATMENT IS CONSISTENT WITH THE SHOWING REQUIRED BY D.06-06-066, AS MODIFIED BY D.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

SDG&E’s RPS procurement process complies with the Commission’s RPS-related decisions as discussed in more detail in the following sections.

A. RPS PROCUREMENT PLAN

1. THE COMMISSION APPROVED SDG&E’S RPS PROCUREMENT PLAN AND SDG&E ADHERED TO COMMISSION GUIDELINES FOR FILING AND REVISIONS.

The Commission issued its Decision Conditionally Accepting SDG&E’s 2012 Renewables Portfolio Standard Procurement Plans and Integrated Resource Plan Off-Year Supplement (D.12-11-016) on November 8, 2012. In compliance with the direction set forth in this decision, SDG&E filed a revised version of its plan (the “2012 RPS Plan”) to incorporate changes required by the Commission and to initiate the

2012 RPS solicitation process.¹ The Decision authorized SDG&E to proceed with its amended Plan unless suspended by the Energy Division Director. No such suspension was issued by the Energy Division; therefore, on December 10, 2012 SDG&E issued the 2012 RPS RFO.

D. 12-11-016 makes clear that sale of excess RPS products through bilateral contracts is permitted. The 2012 RPS Plan allows SDG&E to enter into bilateral sales to optimize the value of its RPS portfolio.² All revenues received under the Exelon, Noble, and Pilot Proposed Agreements will be credited to the benefit of SDG&E's customers, consistent with the RPS Legislation.

2. **THE PROCUREMENT PLAN'S ASSESSMENT OF PORTFOLIO NEEDS.**

As discussed in its 2012 RPS Procurement Plan ("RPS Plan"), SDG&E intends to meet Compliance Period 1 ("CP1") goals by maintaining a 20% on average procurement level in 2011, 2012, and 2013.³ Based on deliveries from SDG&E's current portfolio of executed contracts, before and after applying any risk adjustment, SDG&E would be able to meet CP1 requirements without additional procurement. Because of project development uncertainty, fluctuating retail sales levels, and other variables discussed in the RPS Plan⁴, RPS procurement practices must include a margin of over-procurement. In an effort to mitigate the impact of over procurement to customers, SDG&E's RPS Plan allows for the sale of energy and/or green attributes to other entities,⁵ as well as transactions that optimize the relative value of different product categories across compliance periods⁶. The 2012 RPS Plan allows SDG&E to sell excess RPS products from Compliance Period Two period bilaterally.

3. **THE PROJECT IS CONSISTENT WITH SDG&E'S PROCUREMENT PLAN AND MEETS SDG&E'S PROCUREMENT AND PORTFOLIO NEEDS (E.G. CAPACITY, ELECTRICAL ENERGY, RESOURCE ADEQUACY, OR ANY OTHER PRODUCT RESULTING FROM THE PROJECT).**

The Exelon, Pilot and Noble Proposed Agreements are for the Sale of Bundled Category 1 renewable energy and RECs in the years 2014 through 2016. The agreements are consistent with SDG&E's portfolio needs and selling bundled energy and green attributes allows SDG&E to flexibly manage its RPS compliance position while securing ratepayer benefits. For details on SDG&E's RPS procurement needs for CP2, please refer to Appendix B.

The agreements are competitive with recent offers to sell Bundled Category One Energy and RECs received by SDG&E in its most recent solicitation, and provide benefits to SDG&E customers by helping to optimize SDG&E's renewables portfolio and reduce overall RPS compliance costs.

¹ San Diego Gas & Electric Company (U 902 E) 2012 Renewable Portfolio Standard Procurement Plan Compliance Filing, filed on November 29.

² *Id.* at p. 9.

³ San Diego Gas & Electric Company (U 902 E) 2012 Renewable Portfolio Standard Procurement Plan Compliance Filing, filed on November 29, 2012, pgs. 11.

⁴ *Id.* at pgs. 3 – 8.

⁵ *Id.* at pg. 9.

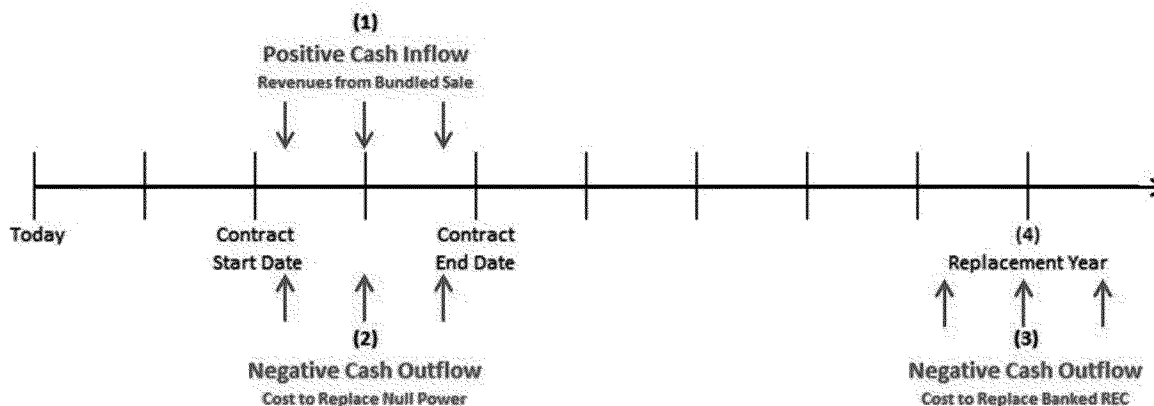
⁶ *Id.* at pg. 4.

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 THESE REQUIREMENTS.**

In accordance with its 2012 RPS Plan, SDG&E has negotiated these agreements bilaterally, and has compared them to the most recent solicitation data and other applicable market data.

5. **FOR SALE 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)**

In its analysis, SDG&E considered (1) revenue realized from the sale of renewable power, (2) the replacement cost of null power at the time of delivery coincident with the sale, (3) the replacement cost of any banked RECs that had been carried forward as a result of procurement in excess of the annual RPS targets, and (4) the year in which SDG&E's RPS procurement position (after banking) is less than the RPS procurement target. SDG&E compared the revenue realized from the sale in present day to the cost of replacing the RECs in the RPS replacement year. SDG&E then conducted a series of sensitivity studies using the Net Present Value ("NPV") valuation method to determine the value of the sale. SDG&E discounted the cash flow stream at the approved cost of capital to determine the validity and resilience of the results by which the decision was made to execute these transactions.



B. **BILATERAL CONTRACTING – IF APPLICABLE**

1. **THE CONTRACT COMPLIES WITH D.06-10-019 AND D.09-06-050.**

In D.06-10-019, the Commission held that load-serving entities (“LSEs”) may enter into bilateral contracts with RPS-eligible generators, as long as the contracts are at least one month in duration. The Commission stated that IOUs’ bilateral RPS contracts must be submitted to the Commission for approval by advice letter. In addition, the Commission held that bilateral contracts must be reasonable.

As discussed throughout this Advice Letter, the agreements comply with the requirements of D.06-10-019 and D.09-06-050. In particular, the agreements are at least one month in duration, SDG&E is submitting the contract for approval via an

advice letter, and the agreements are reasonable, given SDG&E's current procurement needs and the contract pricing, as described herein.

2. **THE PROCUREMENT AND/OR PORTFOLIO NEEDS NECESSITATING SDG&E TO PROCURE BILATERALLY AS OPPOSED TO A SOLICITATION.**

SDG&E's ability to enter into bilateral transactions provides SDG&E flexibility to respond to rapidly changing market conditions. The Commission expressly authorized sale of excess RPS products through bilateral transactions in D.12-11-016. In addition, the Commission approved SDG&E's 2012 RPS Plan, which allows for bilateral contracts for sale of RPS products.

3. **WHY THE PROJECT DID NOT PARTICIPATE IN THE SOLICITATION AND WHY THE BENEFITS OF THE PROJECT CANNOT BE PROCURED THROUGH A SUBSEQUENT SOLICITATION.**

The opportunities presented in the proposed agreements arose subsequent to the 2011 RPS solicitation and prior to the 2012 solicitation short list would be presented to the Commission for approval. Because SDG&E did not intend to solicit offers to sell bundled energy and green attributes from SDG&E as part of the 2012 RFO, the Exelon, Pilot and Noble Proposed Agreements could only be entered into bilaterally.

C. **LEAST COST BEST FIT (LCBF) METHODOLOGY AND EVALUATION – IF APPLICABLE THE LCBF BID EVALUATION AND RANKING WAS CONSISTENT WITH COMMISSION DECISIONS ADDRESSING LCBF METHODOLOGY; INCLUDING SDG&E'S APPROACH TO/APPLICATION OF:**

1. SDG&E evaluates all offers, including this bilateral offer from Exelon, Pilot and Noble in accordance with the LCBF process outlined in D.03-06-071, D.04-07-029, and its approved 2012 RPS Procurement Plan. The Commission established in D.04-07-029 a process for evaluating "least-cost, best-fit" renewable resources for purposes of IOU compliance with RPS program requirements. SDG&E has adopted such a process in its renewable procurement plan. In D.06-05-039, the Commission observed that "the RPS project evaluation and selection process within the LCBF framework cannot ultimately be reduced to mathematical models and rules that totally eliminate the use of judgment."⁷ It determined, however, that each IOU should provide an explanation of its "evaluation and selection model, its process, and its decision rationale with respect to each bid, both selected and rejected," in the form of a report to be submitted with its short list of bids (the "LCBF Report"). In addition, SDG&E authorized the Independent Evaluator to perform an independent LCBF analysis to determine the least-cost best-fit ranking of projects in the RFO.
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. The shortlist for the 2012 RFO has not yet been submitted.

D. **COMPLIANCE WITH STANDARD TERMS AND CONDITIONS**

1. **THE PROPOSED CONTRACT COMPLIES WITH D.08-04-009, D.08-08-028 AND D.11-01-025**

⁷ See D.06-05-039, *mimeo*, p. 42.

In D.04-06-014, the Commission established a number of “modifiable” and “non-modifiable” standard terms and conditions (“STC”) to be used by LSEs when contracting for RPS-eligible resources. In D.07-11-025, the Commission reduced the number of non-modifiable terms to four: (1) “CPUC Approval;” (2) “RECs and Green Attributes;”³ (3) “Eligibility;” and (4) “Applicable Law.” The remaining non-modifiable terms were converted to modifiable terms.⁴ In D.10-03-021, as modified by D.11-01-025, the Commission added two new non-modifiable terms for both bundled contracts and contracts for RECs only: (1) “Transfer of Renewable Energy Credits;” and (2) “Tracking of RECs in WREGIS.” The Commission also added a new version of the non-modifiable “CPUC Approval” term for REC-only contracts, and held that the non-modifiable “Applicable Law” term also applies to REC-only contracts. The agreements include the six non-modifiable standard terms and conditions for bundled contracts without change. The table below identifies the CPUC’s non-modifiable terms in the agreements:

2. **SPECIFIC PAGE AND SECTION NUMBER WHERE THE COMMISSION’S NON-MODIFIABLE TERMS ARE LOCATED IN THE PPA.**

The locations of non-modifiable terms in all three agreements are indicated in the table below:

NON-MODIFIABLE TERM	PPA SECTION; PPA PAGE #
STC 1: CPUC Approval	Article 2 Definitions; Pages 3-4
STC 2: Green Attributes & RECs	Article 2 Definitions; Pages 4-5 & Section 3.3 (a); Page 5
STC 6: Eligibility	Section 6.1(a) (i) & (ii) Representations, Warranties, and Covenants; Page 8
STC 17: Applicable Law	Section 8.2 Governing Law; Page 10
STC REC-1: Transfer of RECs	Section 6.1(b) Representations, Warranties, and Covenants; Page 8
STC REC-2: WREGIS Tracking of RECs	Section 6.1(c) Representations, Warranties, and Covenants; Page 8

3. **REDLINE OF THE CONTRACT AGAINST SDG&E’S COMMISSION-APPROVED PRO FORMA RPS CONTRACT.**

No red line is provided since the SDG&E Pro forma was not used. Instead a sales agreement was utilized.

E. UNBUNDLED RENEWABLE ENERGY CREDIT (REC) TRANSACTIONS

SDG&E will sell to Exelon, Pilot and Noble energy and associated renewable energy attributes (via WREGIS certificates) generated from California-based ERRs that have a first point of interconnection with the CAISO balancing authority. Accordingly, this is a product content category of 399.16(b)(1) (commonly referred to as “Category 1”) transaction.⁵ Furthermore, as defined under D.10-03-021, as modified by D.11-01-025, the agreements are bundled transactions since both renewable energy and its associated RECs are being sold together

F. MINIMUM QUANTITY

In D.12-06-038, the Commission adopted a threshold standard pursuant to SBX-1(2) that requires load serving entities to sign long-term contracts in each CP equivalent to at least 0.25% of their expected retail sales over that same CP before they may sign short-term contracts for deliveries in that same period. Since January 1, 2011, the beginning of CP 1, SDG&E has signed the following long term contracts which, collectively, are expected to serve 3.19% of SDG&E's retail sales during CP 1.

Name	Signed
NRG Borrego	1/25/2011
Pattern	2/1/2011
Otay Landfill II	2/22/2011
enXco Catalina	6/3/2011
Arlington	6/3/2011
Otay Landfill V - CRE (FIT)	12/27/2011
Otay Landfill VI - CRE (FIT)	12/27/2011
AES Mt Signal 1 Solar	2/10/2012
Manzana	2/14/2012
Con Dios Solar 33 - CRE (FIT)	11/2/2012

G. TIER 2 SHORT-TERM CONTRACT “FAST TRACK” PROCESS – IF APPLICABLE

The proposed agreements are short term contracts (less than 36 months) but SDG&E is not seeking Fast Track approval.

H. INTERIM EMISSIONS PERFORMANCE STANDARD

Pursuant to D.07-01-039 the proposed agreements are not subject to the EPS as they have delivery terms of less than five (5) years.

I. PROCUREMENT REVIEW GROUP (PRG) PARTICIPATION

1. 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. WHEN THE PRG WAS PROVIDED INFORMATION ON THE CONTRACT

SDG&E consulted with its PRG regarding the Exelon, Pilot and Noble transactions in January, February, and March of 2013.

3. SDG&E CONSULTED WITH THE PRG REGARDING THIS CONTRACT

SDG&E consulted with the PRG regarding the Exelon, Pilot and Noble Proposed Agreements at the meetings cited above. The slides used at these Meetings are provided in Section J – PRG Participation and Feedback of the *Confidential Appendix A – Consistency with Commission Decisions and Rules* contained in this Advice Letter. .

4. WHY THE PRG COULD NOT BE INFORMED (FOR SHORT-TERM CONTRACTS ONLY)

Not Applicable.

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: PA Consulting Group**2. OVERSIGHT PROVIDED BY THE IE**

The IE for this transaction was PA Consulting. The IE reviewed emails exchanged by SDG&E and the counterparties, versions of the proposed contracts, and other documents exchanged by the parties. The IE also participated in the PRG review of the agreements. The IE did not provide any specific findings related to the agreements directly to the PRG. The IE Report is included as Appendix C, with Appendix A thereto included in confidential Appendix C.

3. IE MADE ANY FINDINGS TO THE PROCUREMENT REVIEW GROUP

The IE did not provide any specific findings related to the proposed agreements to the PRG.

4. PUBLIC VERSION OF THE PROJECT-SPECIFIC IE REPORT⁸

The Public Version of the project-specific IE Report follows the Confidential Appendices attached to this advice letter.

III. PROJECT DEVELOPMENT STATUS

Since the Projects are already commercially operational, this section is not applicable.

IV. CONTINGENCIES AND/OR MILESTONES**A. MAJOR PERFORMANCE CRITERIA AND GUARANTEED MILESTONES.**

See *Confidential Appendix D-Contract Summary* and *Confidential Appendix F-Power Purchase Agreement* for performance standards, contingencies, and milestones associated with the Proposed Agreements.

⁸ A full copy of this public IE Report is located at the end of Part 2 of this Advice Letter.

The terms of the agreements are conditioned on the occurrence of final "CPUC Approval," as it is described in the agreements. In order to satisfy that condition with respect to the agreements, SDG&E requests that the Commission issue a resolution no later than September 30, 2013, containing the relief described below.

V. PROCEDURAL MATTERS

A. REQUESTED RELIEF

SDG&E respectfully requests that the Commission approve the Proposed Agreements through the adoption of a final Resolution approving this Advice Letter no later than September 30, 2013.

The Proposed Agreements are conditioned upon CPUC Approval. Therefore, SDG&E requests that the Commission include the following findings in its Resolution:

1. The Proposed Agreement is consistent with SDG&E's CPUC-approved RPS Plan and the sale of the bundled renewable electricity and green attributes under the Proposed Agreement with Exelon is reasonable and in the public interest.
2. SDG&E's entry into the Proposed Agreement and the terms of such agreement is reasonable; therefore, the Proposed Agreement is approved in its entirety and all costs of the Proposed Agreement are fully recoverable in rates over the life of the Proposed Agreement, subject to Commission review of SDG&E's administration of the Proposed Agreement.
3. The total expected revenues of the Proposed Agreement are reasonable based on the estimated costs to SDG&E ratepayers and the Proposed Agreement's price relative to market data.
4. Payments received by SDG&E pursuant to the Proposed Agreement shall be credited to SDG&E ratepayers through SDG&E's Energy Resource Recovery Account over the life of the Proposed Agreement, subject to Commission review of SDG&E's administration of the Proposed Agreement.
5. Any other and further relief as the Commission finds just and reasonable

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 June 18, 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 Maria Salinas (mas@cpuc.ca.gov) of the Energy Division and to 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 July 31, 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)

PART 2 – CONFIDENTIAL APPENDICES OF ADVICE LETTER

Confidential Appendix A
Consistency with Commission Decisions and Rules and Project
Development Status

All information contained in the Confidential Appendices is considered Confidential except where printed in italics. Italicized information contained in the Confidential Appendices is also included in Part 1 of this Advice Letter.

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) #: 2483-E

Subject of AL: Request for Approval of Bundled Energy Sales with Exelon Generation Company, Pilot Power Group, Inc and Noble America's Energy Solution LLC

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 AL¹: N/A

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

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 7/31/2013

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 proposed¹: N/A

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

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill
J. Pau

Dept. of General Services

H. Nanjo
M. Clark

Douglass & Liddell

D. Douglass
D. Liddell
G. Klatt

Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

K. Campbell
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg
J. Heather Patrick

J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard
R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

OnGrid Solar

Andy Black

Pacific Gas & Electric Co.

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

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

School Project for Utility Rate
Reduction

M. Rochman

Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander

K. Cini

K. Gansecki

H. Romero

TransCanada

R. Hunter

D. White

TURN

M. Florio
M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi

N. Furuta

L. DeLacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing
Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

R.11-05-005

San Diego Gas & Electric Advice Letter 2483-E
May 29, 2013

CONFIDENTIAL DECLARATION

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

**DECLARATION E BRADFORD MANTZ REGARDING
CONFIDENTIALITY OF CERTAIN DATA**

I, E Bradford Mantz do declare as follows:

1. I am a Energy Contracts Originator for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the attached Advice Letter No. 2483-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

¹The 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.06-06-066¹¹ 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 VIIIA.; Specific Quantitative Analysis, Category VIILB.; Contract Terms and Conditions, Category VILG.; Total Energy Forecast, Category V.C.

Confidential Appendix B- Bid Information, Category VIIIA.; Specific Quantitative Analysis, Category VIILB.

Confidential Appendix C- Bid Information, Category VIIIA.; Specific Quantitative Analysis, Category VIILB.; Contract Terms and Conditions, Category VILG.; Total Energy Forecast, Category V.C; Utility Bundled Net Open (Long or Short) Position for Energy (MWh), Category VLB.

Confidential Appendix D- Contract Terms and Conditions, Category VILG.; Specific Quantitative Analysis, Category VIILB.

0.06-06-066, as amended by 0.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

¹¹ 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, SOG&E shall include with any request for confidentiality a table that lists the five 0.06-06-066 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.uJ!

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.

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? 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.²¹

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

¹ See also Govt. Code § 6254.7(d).

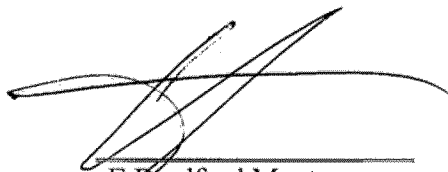
²¹ See, D.06-06-066, *mimeo*, pp. 26-28.

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. 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 29th day of May, 2013 at San Diego, California.

A handwritten signature in black ink, appearing to read 'E. Bradford Mantz', is written over a horizontal line. The signature is stylized with a large, sweeping flourish that extends to the left and then loops back to the right.

E. Bradford Mantz
Energy Contracts Originator
Electric & Fuel Procurement
San Diego Gas & Electric

San Diego Gas & Electric Advice Letter 2483-E
May 29, 2013

Public Version of the Project Specific IE Report

Subject REPORT OF THE INDEPENDENT EVALUATOR ON SDG&E'S
COMPLIANCE PERIOD 2 BUNDLED RENEWABLE ENERGY
SALE TO EXELON GENERATION, PILOT POWER AND
NOBLE AMERICAS

To INTERESTED PARTIES

From Jonathan M. Jacobs

Date May 16, 2013

SDG&E intends to file three bilateral sales contracts for delivery during Compliance Period 2 (CP2).

- ffi The first contract is a 2014-15 sale of 600,000 MWh of bundled RPS-qualified renewable energy. It will achieve net revenue of [REDACTED] which could be applied to the Energy Resource Recovery Account (ERRA).
- ffi The second contract is a 2014-16 sale of 380,000 MWh of bundled RPS-qualified renewable energy. It will achieve net revenue of [REDACTED] which could be applied to the Energy Resource Recovery Account (ERRA).
- ffi The third contract is a 2014-15 sale of 400,000 MWh of bundled RPS-qualified renewable energy in each year. It will achieve net revenue of [REDACTED] which could be applied to the Energy Resource Recovery Account (ERRA).

SDG&E intends to file the three CP2 sales in a single Advice Letter.

This memorandum is the Independent Evaluator report of PA Consulting Group (PA) on the Exelon Generation, Pilot Power and Noble Americas sales contracts. PA has been the Independent Evaluator of renewable procurements by SDG&E, including most recently the ongoing 2012-3 RPS Renewable Request for Offers (RFO), the 2011 RPS Renewable Request for Offers (RFO) and the first three SDG&E RAM solicitations. These contracts are pure bilateral contracts and were not bid into any of SDG&E's Renewable RFOs; since those RFOs are generally to purchase power, the sales could not have been bid into an RFO.

D. 09-06-050, which was primarily concerned with the definition of a "fast-track" procedure for selecting and approving short-term renewable contracts, also clarified the procedure for approving bilateral contracts. It specifies that "long-term bilateral contracts should be reviewed according to the same processes and standards as contracts that come through a solicitation. This includes review by the utility's Procurement Review Group (PRG) and its Independent Evaluator."¹ This section of the decision does not specify that a bilateral contract should be

¹ California Public Utilities Commission, Decision (D.) 09-06-050, June 19, 2009, p. 28f.

continued. . .

reviewed in the context of an RFO, although the IE report template, distributed by the Energy Division, only applies to RFOs.

These contracts do not really fit into the normal procurement framework, since they are intended to optimize and partly monetize SDG&E's portfolio of existing renewable contracts rather than to acquire additional renewable energy. The Commission has developed a "short form" template for IE reports, consisting of ten questions (although many of the questions do not apply to this contract). In this memorandum I will review the contracts, evaluate their economics and summarize the potential risks. I will then address the questions in the CPUC template, culminating with my recommendation that the Commission should approve the contract.

Description of the contracts

The first contract is with Exelon Generation Company, LLC, to whom SDG&E will sell a total of 300,000 MWh of bundled renewable energy in 2014 and 300,000 MWh in 2015, at a rate of delivery as determined hourly by SDG&E. [REDACTED] The energy is to be delivered at that hub.

The second contract is with Pilot Power Group Inc., to whom SDG&E will sell a total of 380,000 MWh of bundled renewable energy, during the off-peak periods of the three years 2014-2106. The contract provides that SDG&E will provide firm delivery of 27.3 MW during the offpeak hours of 2014, 29.9 MW during the offpeak hours of 2015 and 41.6 MW during the offpeak hours of 2016 (by my calculations that comes to 380,515 MWh but the agreement specifies a Contract Quantity of 380,000 MWh). [REDACTED]

The first contract is with Noble Americas Energy Solutions, LLC, to whom SDG&E will sell a total of 200,000 MWh of bundled renewable energy in 2014 and 200,000 MWh in 2015, at a rate of delivery as determined hourly by SDG&E. [REDACTED] The energy is to be delivered at that hub.

The contracts are consistent with SDG&E's goal of reducing rates by selling excess RPS-qualified energy. SDG&E believes that it has a long RPS position in Compliance Period 2 (CP2) and has conveyed to the PRG a desire to monetize some of that length. These transactions allow SDG&E to extract value from its CP2 position.

Economic evaluation

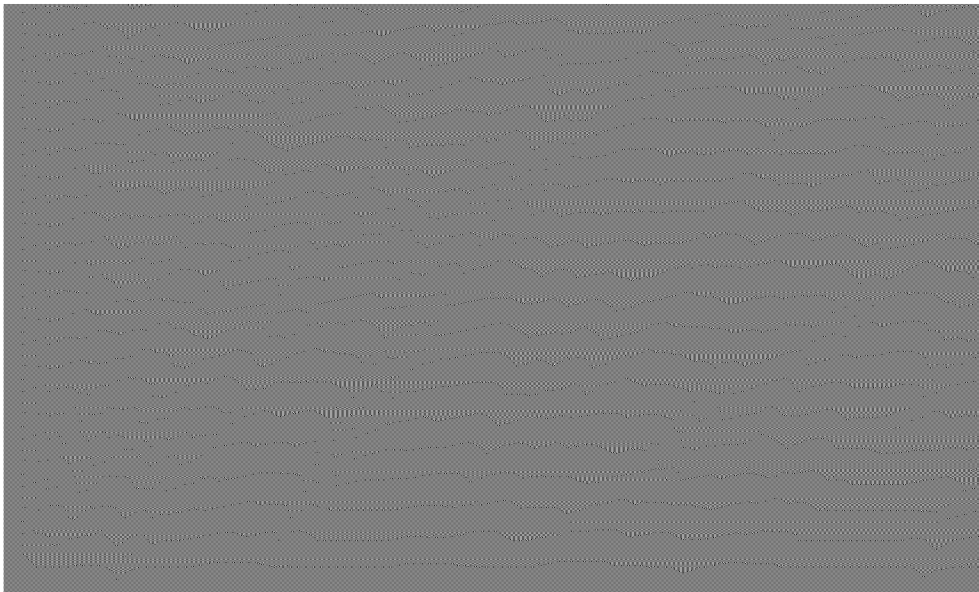
The three contracts are bundled energy contracts. By selling this energy SDG&E both reduces the credit balance available to meet its RPS target, and shortens its energy position. The SP15 hub is quite liquid and SDG&E should be able to buy back an equal quantity of "null energy" at index at SP15. Therefore the contracts may be analyzed as if its impact on SDG&E were (a) the sale of 300,000 MWh of renewable credits in 2014 for [REDACTED], plus 300,000 MWh of renewable credits in 2015 for [REDACTED]; (b) the sale of 105,000 MWh of renewable

continued . . .

credits in 2014 for [REDACTED], 115,000 MWh of renewable credits in 2015 for [REDACTED], and 160,000 MWh of renewable credits in 2016 for \$26/MWh; and (c) the sale of 200,000 MWh of renewable credits in 2014 for [REDACTED] plus 200,000 MWh of renewable credits in 2015 for \$21/MWh,

The economic impact of the contracts is that SDG&E accrues revenue of [REDACTED] in 2014, [REDACTED] in 2015 and [REDACTED] in 2016. Beginning in December 2012, SDG&E has reported to its PRG meetings market prices for CP2 bundled renewable energy as a margin over index. These prices are illustrated in the figure below, along with the pricing of the three contracts. The Exelon and Noble contracts are around the middle of the market as reported by SDG&E. The Pilot contract is above the high end of the market, but this is probably a premium for firm delivery. PA is not a participant in renewable credit markets and has no price information other than what SDG&E has reported. Based on the information that has been made available the contracts are reasonably priced relative to the market.

CP2 contract prices relative to market as reported to PRG



SDG&E may be able to bank the surplus renewable energy during CP2. [REDACTED]
[REDACTED] The value of such a surplus is somewhat speculative; technology improvements or emissions taxes could reduce the spread between renewable and conventional pricing. It therefore makes sense to sell the credits now for revenue certainty.

In my opinion these three contracts are economically beneficial to SDG&E's ratepayers.

Risks

I simulated SDG&E's contract portfolio based on the CP2 success probabilities assessed by SDG&E. Based on those probabilities, SDG&E has a 99.8% probability of meeting its 2014 RPS target after selling this energy; similar probabilities for 2015 and 2106 are 96.9% and

98.0%. The RPS requirement actually covers the total renewable supply in all three years; the simulation indicates a 98.7% probability of meeting the 3-year target. The contracts are tied to specific renewable projects, most of which are already operational, and it seems to be pretty certain that there will be enough production from those plants to cover the contract obligations. At this point the contracts almost surely pose no risk to SDG&E's achievement of its CP2 RPS requirement.

A second risk would be if SDG&E were unable to buy back energy at the SP15 index equal in volume to its sales. The SP15 hub is quite liquid and this risk also appears unlikely to materialize.

CPUC template questions

The following are the questions from the CPUC's short form IE template.

1. Describe in detail the role of the IE throughout the solicitation and negotiation process.

There was not really a solicitation; these contracts did not come from an RFO. SDG&E has reported to its PRG that it had been talking with several potential counterparties to optimize its RPS portfolio. The contracts themselves are very straightforward, and I did not observe any of the negotiations.

2. How did the IOU conduct outreach to bidders, and was the solicitation robust?

Not applicable.

3. Describe the IOU's Least Cost Best Fit (LCBF) methodology. Evaluate the strengths and weaknesses of the IOU's LCBF methodology. (This should include a thorough analysis of the RFO results.)

Not applicable, as there was no competitive bid evaluation. I have provided my analysis of the contract's economics.

4. Please evaluate the fairness of the IOU's bidding and selection process. (I.e. quantitative and qualitative methodology used to evaluate bids, consistency of evaluation methods with criteria specified in bid documents, etc.)

Not applicable (no selection process).

5. Describe project-specific negotiations. Highlight any areas of concern including unique terms and conditions.

I did not observe the negotiations; however, I don't see any unique conditions in this contract.

6. If applicable, describe safeguards and methodologies employed by the IOU to compare affiliate bids or UOG ownership proposals. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownership, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

continued. . .

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.

There were no affiliate or UOG ownership bids.

7. Based on the complete bid process, is (are) the IOU contract(s) the best overall offer(s) received by the IOU?

I have not reviewed any other offers that may have been received.

8. If the contract does not directly reflect a product solicited and bid in an RFO, is the contract superior to the bids received on the products solicited in the RFO? Explain.

There are not comparable RFO bids since SDG&E has not yet run a sale RFO.


9. Is the contract a reasonable way of achieving the need identified in the RFO?

Not quite applicable. These contracts are a reasonable way of meeting goals that SDG&E has articulated, outside the RFO process.

10. Based on your analysis of the RFO bids, the bid process, and the overall market, does the contract merit Commission approval? Explain.

I recommend that the Commission approve these contracts. My reasoning is given above, primarily under the heading "economic evaluation".

Regards


Jonathan M. Jacobs
Managing Consultant