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**ADVICE LETTER 2154-E
(U 902-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: REQUEST FOR APPROVAL OF RENEWABLE POWER PURCHASE WITH
CALPINE ENERGY SERVICES, L.P.**

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 a moderately short-term Power Purchase Agreement (“PPA”) with Calpine Energy Services, L.P. (“CES”). The proposed PPA between SDG&E and CES is for geothermal energy purchases of less than five years from an existing plant with a delivery start date of March 2, 2010. Due to the issuance of Commission Decision No. 10-03-021 regarding the use of Tradable Renewable Energy Credits, the Parties amended the contract on March 26, 2010 to include the mandated standard terms and conditions (STCs) regarding the use of TRECs. Although the contract is for bundled energy and not TRECs, the Commission required the inclusion of these STCs. This Advice Letter requests approval of the contract as amended.

B. SUBJECT OF THE ADVICE LETTER

1. PROJECT NAME:

Calpine Geysers

2. TECHNOLOGY (INCLUDING LEVEL OF MATURITY):

Geothermal/geysers (mature technology).

3. GENERAL LOCATION AND INTERCONNECTION POINT:

The Calpine Geysers are located approximately 100 miles north of San Francisco, California. The power will be produced from 17 geothermal units that have fifteen (15) interconnection points to the CAISO grid throughout the Calpine Geysers Known Geothermal Resource Area in eastern Sonoma County and western Lake County within the Western Electricity Coordinating Council (WECC).

4. OWNER(S) / DEVELOPER(S):**a. NAME(S):**

Calpine Corporation ("Calpine," developer)
Calpine Geysers Power Company, LLC (Calpine Geysers owner and operator)
Calpine Energy Services, L.P. ("CES") PPA counterparty)

b. TYPE OF ENTITY(IES) (E.G. LLC, PARTNERSHIP):

Limited Partnership

c. BUSINESS RELATIONSHIPS BETWEEN SELLER/OWNER/DEVELOPER:

Geysers Power Company, LLC and CES are both affiliates of Calpine.

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

Calpine is the nation's largest renewable geothermal power producer. The Calpine Geysers project, owned and operated by the Calpine Geysers Power Company, LLC – with headquarters in Middleton, CA, consists of 725 MW of geothermal generation comprising 17 generator units spread across a 40 square mile area. The Calpine Geysers units, some of which have been in operation since the 1970's, have provided a significant portion of California's renewable electric generation. Marketing services for the Calpine Geysers are provided by Calpine Energy Services, L.P., a power and gas marketing Calpine affiliate. Calpine Corporation is parent to both Calpine Geysers Power Company, LLC and CES.

Calpine and its affiliates have been counterparties to the California IOUs on numerous transactions related to the Geysers. In addition, Calpine owns and markets the output of numerous conventional power plants in California and is an experienced operator of both conventional and geothermal resources. Consequently, Calpine is well known to the Commission and to the industry.

Calpine was founded in 1984 and today is one of the largest independent power producers with 77 power plants totaling nearly 25,000 MW of capacity providing electricity in more than 16 states.

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

The PPA is a product of bilateral discussions between SDG&E and CES that began in April 2009. SDG&E compared the unsolicited proposal from CES to all projects submitted to the 2009 Renewable RFO. The project is very competitive on a least-cost best-fit basis and would have been shortlisted had it been proposed in response to the RFO. In fact, the PPA compares favorably to offers submitted in the 2008 RFO, and would have been shortlisted if it has been submitted in 2008 as well.

C. GENERAL PROJECT(S) DESCRIPTION

PROJECT NAME	Calpine Geysers
TECHNOLOGY	Geothermal
CAPACITY (MW)	25
CAPACITY FACTOR	97%
EXPECTED GENERATION (GWH/YEAR)	212
INITIAL COMMERCIAL OPERATIONAL DATE	N/A (Existing facility)
DATE CONTRACT DELIVERY TERM BEGINS	March 2, 2010
DELIVERY TERM (YEARS)	~ 4 years and 10 months
VINTAGE (NEW / EXISTING / REPOWER)	Existing
LOCATION (CITY AND STATE)	Sonoma and Lake Counties, CA
CONTROL AREA (E.G., CAISO, BPA)	CAISO
NEAREST COMPETITIVE RENEWABLE ENERGY ZONE (CREZ) AS IDENTIFIED BY THE RENEWABLE ENERGY TRANSMISSION INITIATIVE (RETI)¹	Not within specific CREZ, the closest zone is CREZ 8 (Solano)
TYPE OF COOLING, IF APPLICABLE	Cooling tower water
PRICE² RELATIVE TO MPR (I.E. ABOVE/BELOW)	Above 2009 MPR

D. GENERAL DEAL STRUCTURE

CHARACTERISTICS OF CONTRACTED DEAL (I.E. PARTIAL/FULL OUTPUT OF FACILITY, DELIVERY POINT (E.G. BUSBAR, HUB, ETC.), ENERGY MANAGEMENT (E.G. FIRM/SHAPE, SCHEDULING, SELLING, ETC.), DIAGRAM AND EXPLANATION OF DELIVERY STRUCTURE

The contract calls for the delivery of 25 MW of firm energy and green attributes during each hour from a portfolio of Calpine Geysers units. CES will schedule the energy for delivery to the CAISO and allocate to SDG&E the hourly quantities of energy and green attributes from the designated units. SDG&E will coordinate its load schedules to take into account the 25 MW supplied by CES. For each hour, SDG&E will pay CES the contract price minus the index price paid to CES from the CAISO for the energy. In addition to the energy and green attributes, CES will provide SDG&E with 25 MW of resource adequacy capacity beginning in May 2010 through the end of the contract term. Because the Calpine Geysers units are located within the CAISO, no firming or shaping is required; that is, generation and consumption occur simultaneously.

¹ Information about RETI is available at: <http://www.energy.ca.gov/reti/>

² Refers to the maximum price under the contract; based on a calculation of a 5 year MPR for deliveries commencing in 2010. Further details on the pricing related to the proposed PPA are included in Confidential Appendix A.

E. 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.

The PPA with the Calpine Geysers is consistent with and contributes towards RPS goals which require SDG&E to annually increase its RPS procurement by approximately 1% of its retail sales. SDG&E's APT increases dramatically between 2009 and 2010 and this transaction is one of a very few incremental opportunities for SDG&E to contribute towards its 2010 goals on a deliverable basis.

The PPA conforms to SDG&E's Commission-approved 2009 RPS procurement plan. In the plan, SDG&E said, "SDG&E will avail itself of the flexibility mechanisms permitted under the RPS program, including: (1) the ability to sign bilateral agreements."

Although the transaction was unsolicited, it complies with RPS program requirements, meets the portfolio needs outlined by the 2009 RPS Plan and is competitive when compared to the most recent 2009 RFO offers.

Of note, this PPA, with a delivery term of approximately five years, relates to existing facilities, thereby avoiding all project development risk. The PPA also serves to add renewable energy to SDG&E's RPS procurement portfolio in the very near term, bridging the gap until later resources are brought online.

The PPA is a fixed price contract for the entire duration, and therefore represents a cost effective contribution to SDG&E's approved hedging program.

F. 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.

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

- Appendix A: Consistency with Commission decisions and Rules and Project Development Status
- Appendix B: Solicitation Overview
- Appendix C: Final RPS Project-Specific Independent Evaluator Report
- Appendix D: Contract Summary
- Appendix E: Comparison of Contract with Utility's Pro Forma Power Purchase Agreement
- Appendix F: Power Purchase Agreement
- Appendix G: Project's Contribution Toward RPS Goals

The appendices contain market sensitive information that can be protected, pursuant to Commission Decision D.06-06-066, as detailed in the concurrently-filed declaration.

II. CONSISTENCY WITH COMMISSION DECISIONS

SDG&E's RPS procurement process complies with the Commission's RPS-related decisions.

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.**

On September 15, 2008 SDG&E filed its initial 2009 RPS Plan with the Commission in accordance with the Administrative Law Judge's rulings issued on June 20, 2008 and August 12, 2008. On June 8, 2009, the CPUC issued D.09-06-018 ("the Decision") conditionally approving SDG&E's 2009 Renewable Procurement Plan (the "2009 RPS Plan"). In compliance with the direction set forth in the Decision, SDG&E filed a revised 2009 RPS Plan to roll in conditions required by the Commission. 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 June 29, 2009 SDG&E issued the RFO.

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

The 2009 RPS Plan expresses SDG&E's commitment to over-procure its mandated annual procurement targets in the near term and to deliver 33% of its retail sales from renewable resources by 2020. SDG&E's goal is to develop and maintain a diversified renewable portfolio, selecting from offers using the Least-Cost, Best-Fit (LCBF) evaluation criteria. The RFO, approved as part of the 2009 RPS Plan, sought offers from all technologies of renewable projects that meet the requirements for eligible facilities as specified in applicable statute and as established by the CEC. The 2009 RFO sought unit firm or as-available deliveries starting in 2010, 2011, 2012, or 2013. The 2009 RPS Plan also states that, to the extent an unsolicited bilateral offer complies with RPS program requirements, fits within SDG&E's resource needs, is competitive when compared against recent RFO offers and provides benefits to SDG&E customers, SDG&E will pursue such an agreement.

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 PPA conforms to SDG&E's most recent Commission-approved RPS procurement plan by delivering bundled energy and associated Green Attributes that fill a portion of SDG&E's RPS net short position. The PPA also provides resource adequacy capacity. Although the transaction was unsolicited, it complies with RPS program requirements, meets the portfolio needs outlined by the 2009 RPS Plan and is competitive when compared to the bids submitted to the 2009 RFO.

4. THE PROJECT MEETS REQUIREMENTS SET FORTH IN THE SOLICITATION.

The minimum requirements established in the RFO were as follows:

- a. Deliveries must begin in 2010, 2011, 2012 or 2013
- b. The project must be RPS-eligible.
- c. The Net Contract Capacity must be $\geq 1.5\text{MW}$, net of all auxiliary and station parasitic loads; (if within SDG&E service area)
- d. The Net Contract Capacity must be $\geq 5\text{MW}$, net of all auxiliary and station parasitic loads; (if outside of SDG&E service area)

The PPA fulfills these minimum requirements.

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 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.”³ On June 19, 2009, the Commission issued D.09-06-050 establishing price benchmarks and contract review processes for very short term (less than four years), moderately short term (at least 4 years, less than 10 yrs) and bilateral RPS contracts. Below, SDG&E reviews the Least Cost Best Fit evaluation used in the 2009 RPS RFO. The same analysis was performed on this PPA and the results were compared to the RFO results.

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

Competitive RFOs are not the only means of procurement. SDG&E's ability to consider bilateral offers will widen the scope of resources available to SDG&E. The WECC has a well-established, liquid bilateral market. SDG&E, for the benefit of its ratepayers, can make full use of this valuable source of renewable supply. Not only is the bilateral market an important tool for procurement, it is available year-round. RPS RFOs, by contrast, are an annual batch-processing of commercial arrangements. The Commission approved SDG&E's 2009 RPS Plan, which would seek approval for bilateral renewable contracts.

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

CES approached SDG&E with the proposed transaction in early 2009. With the uncertainty surrounding when the 2009 RFO would be issued and SDG&E's desire to begin delivery as soon as possible in 2010, it was decided to commence negotiations with CES. As such, the bilateral discussions have been ongoing since April 2009. The PPA was negotiated bilaterally to avoid continuing the delay by waiting for the next SDG&E solicitation. In fact, the comparison evaluation of the PPA's cost and value contained in Confidential Appendix D shows that this PPA compares favorably to offers received by SDG&E for both the 2008 and the 2009 RFOs. Additionally, the facts that this is an existing project and that Calpine Geysers

³ D.06-10-019, mimeo, p. 31

has a favorable operating history added to its viability. These factors, along with attractive pricing relative to other procurement options provided a compelling case for SDG&E to enter into the PPA outside of a solicitation.

C. LEAST COST BEST FIT (LCBF) METHODOLOGY AND EVALUATION – IF APPLICABLE

1. THE SOLICITATION WAS CONSISTENT WITH SDG&E’S COMMISSION-APPROVED REQUEST FOR OFFERS (RFO) BIDDING PROTOCOL.

As specified by the Commission-approved RFO bidding protocol, the 2009 RFO was issued on June 29, 2009. Responses for projects not served by the Sunrise Powerlink were due August 25, 2009. Responses for projects that would flow on the Sunrise Powerlink were due September 8, 2009. SDG&E solicited bids from all RPS-eligible technologies.

SDG&E sought proposals for peaking, baseload, dispatchable (unit firm) or as-available deliveries. Such proposals could include capacity and energy from:

- a) Re-powering of existing facilities;
- b) Incremental capacity upgrades of existing facilities;
- c) New facilities;
- d) Existing facilities that are scheduled to come online during the years specified in the RFO that have excess or uncontracted quantities of power for a short time frame;
- e) Existing facilities with expiring contracts; or
- f) Eligible resources currently under contract with SDG&E. SDG&E shall consider offers to extend terms of or expand contracted capacities for existing agreements.

SDG&E solicited three types of projects:

- a) Power purchase agreements for short-term deliveries of less than ten years and long-term deliveries for ten years or more.
- b) A power purchase agreement with an option price for SDG&E to acquire the facility along with all environmental attributes, land rights, permits and other licenses, thus enabling SDG&E to own and operate the facility at the end of the PPA term.
- c) Turnkey projects to develop, permit, and construct new, RPS-eligible generating facilities to be acquired by SDG&E.

SDG&E established an open, transparent and competitive playing field for the procurement effort. The following protocols were established within its solicitation:

- a) An RFO website was created, allowing respondents to download solicitation documents, participate in a Question and Answer forum and see updates or revisions associated with the process;

- b) Internet upload capabilities were available to accept electronic offers;
and,
c) SDG&E adhered to the following RFO schedule:

DATE	EVENT
April, 2009	CES approached SDG&E with proposed resources
June 29, 2009	RFO Issued
August 5, 2009	Pre-Bid Conference (in San Diego, California)
August 12, 2009	Pre-Bid Conference (in El Centro, California)
August 25, 2009	Offers Due (projects not flowing on Sunrise Powerlink)
September 8, 2009	Offers Due (projects flowing on Sunrise Powerlink)
September 25, 2009	Briefed PRG on all offers received, preliminary LCBF ranking, preliminary list of highest ranked offers and preliminary shortlist.
October 23, 2009	Briefed PRG and sought PRG feedback on SDG&E's need determination, selection criteria based on the need, final LCBF ranking and final shortlist based on the selection criteria.
November 23, 2009	Notified Energy Division of final shortlist.
December 4, 2009	Final LCBF Report to the CPUC
February 26, 2010	PPA Executed

2. **THE LCBF BID EVALUATION AND RANKING WAS CONSISTENT WITH COMMISSION DECISIONS ADDRESSING LCBF METHODOLOGY; INCLUDING SDG&E'S APPROACH TO/APPLICATION OF:**

All offers were evaluated in accordance with the LCBF process outlined in D.03-06-071, D.04-07-029 and SDG&E's approved 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."⁴ 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").

⁴ See D.06-05-039, *mimeo*, p. 42.

A. MODELING ASSUMPTIONS AND SELECTION CRITERIA

To incorporate a “best-fit” element into evaluation of offers, instead of simply comparing prices for all offers (“least-cost”), SDG&E calculated an “All-In Bid Ranking Price” for each offer. Elements of the All-In Bid Ranking Price are described below.

The All-In Bid Ranking Price of the PPA, as calculated and presented in Confidential Appendix A compared favorably versus the All-In Price of other bids and fell within the shortlist range.

SDG&E compared bids by sorting all projects by the All-In Bid Ranking Price, from lowest to highest. Those projects with the lowest All-In Bid Ranking Price and passed through qualitative filters for location and viability were short listed. From a “best-fit” perspective for 2009, projects which fit SDG&E’s portfolio needs best were in-state projects that would flow on the Sunrise Powerlink. SDG&E takes seriously the Commission requirement and SDG&E’s commitment to replace failed Imperial Valley projects with projects that would flow on the Sunrise Powerlink.

B. QUANTITATIVE FACTORS

- i. Market valuation (the “All-In Bid Ranking Price”) – The following discussion describes how SDG&E calculates an all-in price in its LCBF process that includes the factors listed. Included in confidential Appendix D is a detailed description of how each of these factors applies to the CES specific calculation of an all-in price.
 - a. Bundled energy prices. The offered bundled energy prices are included in the All-In Price, as modified below.
 - b. Time of Delivery (“TOD”) cost adjustment. SDG&E accounts for differences in the value of various delivery profiles. To properly assess the value of the deliveries from an intermittent resource, SDG&E divides the proposed energy price by SDG&E’s Time-of-Delivery factors for each MWh the project delivers during each delivery hour over the term of the agreement. The total cost is summed and divided by energy delivered. A present value figure is calculated for the payment and energy streams and an overall levelized TOD Adjusted Bid Price on a \$/MWh is calculated. The difference between the levelized TOD Adjusted Bid Price and an unadjusted levelized bid price represents the TOD Adjustment Adder. Projects that provide a greater proportion of their annual deliveries in summer on-peak, winter on-peak, and summer semi-peak periods will receive a credit that will effectively reduce the project bid price, whereas projects that provide a greater proportion of annual deliveries in summer and winter off-peak periods will receive a debit that will increase the project bid price. Baseload units deliver equally in all hours, which results in a net TOD Adjustment Adder at or close to zero.
 - c. Transmission Cost Adder. SDG&E calculated costs for transmission network upgrades or additions, using the information provided through the Transmission Ranking Cost Report (“TRCR”) approved by the CPUC. To be as inclusive as possible, SDG&E used TRCR-based transmission costs even

for offers that were not submitted to the TRCR, rather than considering those offers to be non-conforming. The total amount of contemplated generation interconnections studied in the TRCR always exceeded the amount of generating capacity that SDG&E would ever consider shortlisting.

- d. Resource Adequacy ("RA"). All bids received a credit based on the amount of Resource Adequacy ("RA") benefits provided by each bid. The RA benefit (in MW) of a wind or solar resource is a fraction of its capacity, derived from the Net Qualifying Capacity values that CAISO has assigned to resources of that technology. The RA credit for MW from potentially dispatchable resources equals the MPR fixed cost component while RA credits for other resources are computed using a benefit per MW equal to the estimated value for local and/or system RA.
- e. Congestion cost adders. Congestion analysis was performed using a model which provides hourly Locational Marginal Prices ("LMP") for specific years for each of the bids. Congestion costs (\$/MWh) was calculated based on the difference between the hourly LMP at each generator's injection point and the hourly LMP values for SDG&E's Load Aggregation Point ("LAP"). The LMP values in the LAP were weighted for all bus points within SDG&E's service territory using approved CAISO allocation factors. SDG&E subtracted the LMPs for each generator's injection point from the LMPs in SDG&E's LAP and multiplied the differences by the generator's hourly production profile (MWh). The congestion adder for each bid is the weighted average of the differences.
- f. Duration equalization adders ("Begin Effects" and "End Effects"). SDG&E used weighted average bid prices from its 2008 shortlist as market replacement costs to normalize bids of different starting periods and terms. SDG&E assumed the same level of generation for each project as replacement energy during the Begin and End Effects. SDG&E then levelized each bid from 2009 through the end of the evaluation period, putting all projects on equal terms.

A. PORTFOLIO FIT

SDG&E's plan stated that SDG&E does not have a preference for a particular product or technology type and that SDG&E has latitude in the resources that it selects. However, as explained above, time of delivery factors, transmission cost, congestion costs and resource adequacy adjustment were evaluated to determine the impact to SDG&E's portfolio. These factors were included in the economic comparison of options in order to ensure the least-cost projects were also best-fit selections for the portfolio.

See the section entitled "Least Cost Best Fit" in Confidential Appendix A for details on the PPA's costs and benefits in the context of SDG&E's portfolio needs.

B. TRANSMISSION ADDER

Since the Calpine Geysers are already online, there are no transmission cost adders associated with them.

C. APPLICATION OF TIME OF DELIVERY FACTORS (TODS)

SDG&E utilized TOD factors in its LCBF evaluation via the aforementioned TOD Cost Adjustment. The average all-in bid price was adjusted to reflect the relative value of projected energy deliveries during peak, semi-peak and off-peak periods. The projected delivery profiles were provided by the respondents. Application of the TOD's to in the evaluation of the PPA is explained in Confidential Appendix A.

The TOD Cost Adjustments were derived from the TOD factors shown below:

	<u>SUMMER</u> July 1 – October 31	<u>WINTER</u> November 1 – June 30
On-Peak	Weekdays 11am – 7pm 1.6411	Weekdays 1pm - 9pm 1.1916
Semi-Peak	Weekdays 6am – 11am; Weekdays 7pm - 10pm 1.0400	Weekdays 6am – 1pm; Weekdays 9pm – 10pm 1.0790
Off-Peak*	All other hours 0.8833	All other hours 0.7928
*All hours during NERC holidays are off-peak.		

D. OTHER FACTORS CONSIDERED

No other quantitative factor was considered.

C. QUALITATIVE FACTORS (E.G., LOCATION, BENEFITS TO MINORITIES, ENVIRONMENTAL ISSUES, ETC.)

As stated in the RFO, SDG&E differentiates offers of similar cost or may establish preferences for projects by reviewing, if applicable, qualitative factors including the following:

- a) Project viability
- b) Local reliability
- c) Benefits to low income or minority communities
- d) Resource diversity
- e) Environmental stewardship

D. COMPLIANCE WITH STANDARD TERMS AND CONDITIONS**1. THE PROPOSED CONTRACT COMPLIES WITH D.08-04-009 AND D.08-08-028**

The PPA complies with D.08-04-009 and D.08-08-028. The PPA contains standard terms and conditions as authorized by the Commission in D.04-06-014 issued on June 9, 2004 and R.06-02-012 issued on October 29, 2008. Commission decision D.04-06-014 originally adopted standard contract terms and conditions for use in the RPS and more recently updated the requirements in D.08-04-009 and D.08-08-028. The decisions labeled some terms and conditions as being non-modifiable. Finally, D.03-10-021 added two new non-modifiable terms and conditions related to the use of tradable renewable energy credits, and required that they appear in both bundled and REC-only contracts. All non-modifiable terms and conditions remain intact in the PPA and are used in the appropriate context. A summary of major contract provisions is provided in Confidential Appendix D. Copies of the PPA and supporting documentation are also provided in Confidential Appendix F.

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

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

Non-Modifiable Term	PPA Page Number (and section number)
CPUC Approval	Page 2, section 1.21
RECs and Green Attributes	Page 7, section 1.58
Eligibility	Page 26, section 10.1(j)
Applicable Law	Page 30, section 10.11
Confidentiality	Page 28, section 10.6
REC Definition*	Page 26, section 10.1(j)
WREGIS Tracking*	Page 17, section 3.5(c)

*See Amendment No. 1 dated March 26, 2010.

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

A redline of the PPA against SDG&E's Commission-approved pro forma RPS contract is provided in Confidential Appendix E of this advice letter. Modifiable terms are highlighted in green and non-modifiable terms are highlighted in pink.

E. UNBUNDLED RENEWABLE ENERGY CREDIT (REC) TRANSACTIONS

The PPA is for the purchase of bundled energy and RECs.

F. MINIMUM QUANTITY
MINIMUM CONTRACTING REQUIREMENTS APPLICABLE TO SHORT TERM CONTRACTS WITH EXISTING FACILITIES

1. THE PROPOSED CONTRACT DOES TRIGGER THE MINIMUM QUANTITY REQUIREMENT SET FORTH IN D.07-05-028.

In D.07-05-028, the Commission indicated that the ability to count short term contracts (less than ten years) toward SDG&E's RPS Compliance goal will be dependent upon satisfying Commission-established requirements for minimum quantities of long-term contracts (with new or existing facilities) and/or short-term contracts with newer facilities.

This short term contract triggers the minimum quantity requirement because the Calpine Geysers commenced deliveries before 01/01/2005. The Calpine Geysers started delivering energy as early as December 1971 (see section G below for all units' on-line dates).

2. THE EXTENT TO WHICH SDG&E HAS SATISFIED THE MINIMUM QUANTITY REQUIREMENT

SDG&E has not executed any long term contracts in 2010. However, in past years, SDG&E executed long-term contracts (with new or existing facilities) that delivered in excess of the annual 0.25% threshold. As allowed in D.07-05-028, SDG&E has banked the excess and is therefore using the bank to comply with this requirement.

The tables below illustrate SDG&E's compliance with the 0.25% threshold

ILLUSTRATING COMPLIANCE WITH D.07-05-028'S 0.25% THRESHOLD

Minimum Annual Quota

	2006	2007	2008	2009	2010
Retail Sales (MWh)	16,846,888	17,056,023	17,409,884	16,993,688	
Minimum Quantity: 0.25% of prior year Retail Sales (MWh)	---	42,117	42,640	43,525	42,484

Signed RPS Contracts

	2006	2007	2008	2009	2010
Long term MWH (new or existing facilities)	---	0	724,760	1,213,293	0
Short term MWH (COD on or after 01/01/2005)	---	0	0	0	0
Total MWH eligible to count toward threshold	---	0	724,760	1,213,293	0
Met Minimum Quantity? (Y/N)	---	N	Y	Y	Y
How Minimum Quantities Met	---	0	signed contracts	signed contracts	banked MWHs

Contribution to Banked Minimum Quantity (MWH)	---	0	682,120	1,169,768	-42,484
Cumulative total of Banked Minimum Quantity (MWH)	---	0	682,120	1,851,888	1,809,404

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

SDG&E is not seeking approval via a tier 2 and the “fast track” process set forth in D.09-06-050.

1. THE FACILITY IS IN COMMERCIAL OPERATION.

The Calpine Geysers consists of the following existing 17 units:

#	Unit's Name	On-line date
1.	Aidlin	June 1989
2.	BearCanyon	May 1989
3.	Sonoma/Calpine	December 1983
4.	West Ford Flat	March 1989
5.	Calpine Geothermal 5	December 1971
6.	Calpine Geothermal 6	December 1971
7.	Calpine Geothermal 7	November 1972
8.	Calpine Geothermal 8	November 1972
9.	Calistoga	April 1984
10.	Calpine Geothermal 11	May 1975
11.	Calpine Geothermal 12	March 1979
12.	Calpine Geothermal 13	May 1980
13.	Calpine Geothermal 14	September 1980
14.	Calpine Geothermal 16	October 1985
15.	Calpine Geothermal 17	December 1982
16.	Calpine Geothermal 18	February 1983
17.	Calpine Geothermal 20	October 1985

2. CONTRACT MODIFICATIONS TO THE COMMISSION-APPROVED SHORT-TERM PRO FORMA CONTRACT.

The proposed short-term contract had modifications to the short-term pro forma included within SDG&E's 2009 and approved by the Commission pursuant to D.09-06-018. The modifications are identified and explained in Confidential Appendix E.

H. MARKET PRICE REFERENCE (MPR)

1. CONTRACT PRICE RELATIVE TO THE MPR.

The contract price is above 2009 MPR. The contract price and how it compares to the MPR is discussed in more detail within confidential Appendix D.

2. **TOTAL COST RELATIVE TO THE MPR.**

This PPA has pricing that is above the MPR, however, it is still within the competitive range of the LCBF evaluation methodology. The total contract costs and how it compares to the MPR is discussed in more detail within confidential Appendix D.

I. **ABOVE MARKET FUNDS (AMFs)**

1. **ELIGIBILITY FOR AMFs UNDER PUBLIC UTILITIES CODE 399.15(D) AND RESOLUTION E- 4199**

The PPA is a bilateral short-term contract and is therefore not eligible for AMFs.

2. **THE STATUS OF THE UTILITY'S AMFs LIMIT.**

SB 1036 establishes five explicit criteria for the award of AMFs and states that once AMFs reach a cap that is equal to the maximum SEPs that would have been allotted to SDG&E, SDG&E is no longer required to procure renewable energy at above MPR prices. SDG&E's Commission approved contracts have exhausted SDG&E's AMFs and, therefore, SDG&E is no longer required to procure renewable energy at above MPR prices⁵.

3. **EXPLAINING WHETHER SDG&E VOLUNTARILY CHOOSES TO PROCURE AND INCUR THE ABOVE-MPR COSTS.**

SDG&E will voluntarily incur the above MPR costs of this PPA only if recovery all such costs are approved by the Commission. Discussions regarding SDG&E's procurement of above MPR contracts and related considerations regarding above market costs, if applicable, are contained in confidential Appendix D.

J. **INTERIM EMISSIONS PERFORMANCE STANDARD**

COMPLIANCE WITH D.07-01-039, WHERE THE COMMISSION ADOPTED A GREENHOUSE GAS EMISSIONS PERFORMANCE STANDARD (EPS) APPLICABLE TO CONTRACTS FOR BASELOAD GENERATION, AS DEFINED, WITH DELIVERY TERMS OF FIVE YEARS OR MORE.

1. **EXPLAIN WHETHER OR NOT THE CONTRACT IS SUBJECT TO THE EPS.**

This PPA is not subject to the EPS as it is has a delivery term of less than five years.

2. **HOW THE CONTRACT IS IN COMPLIANCE WITH D.07-01-039**

N/A, not subject to the EPS.

3. **HOW SPECIFIED BASELOAD ENERGY USED TO FIRM/SHAPE MEETS EPS REQUIREMENTS**

⁵ On May 28th, 2009 SDG&E received a letter from the CPUC's Energy Division (Ms. Julie Fitch) stating that SDG&E's AMF balance is zero.

(ONLY FOR PPAs OF FIVE OR MORE YEARS AND WILL BE FIRMED/SHAPED WITH SPECIFIED BASELOAD GENERATION.)

This PPA is less than five years in duration and, as an internal CAISO resource, will not require any firming and shaping energy.

4. **UNSPECIFIED POWER USED TO FIRM/SHAPE WILL BE LIMITED SO THE TOTAL PURCHASES UNDER THE CONTRACT (RENEWABLE AND NONRENEWABLE) WILL NOT EXCEED THE TOTAL EXPECTED OUTPUT FROM THE RENEWABLE ENERGY SOURCE OVER THE TERM OF THE CONTRACT.** (ONLY FOR PPAs OF FIVE OR MORE YEARS.)

This PPA will not require any firming and shaping energy.

5. **SUBSTITUTE SYSTEM ENERGY FROM UNSPECIFIED SOURCES**

- a. **A SHOWING THAT THE UNSPECIFIED ENERGY IS ONLY TO BE USED ON A SHORT-TERM BASIS**

All contract energy must be provided from the Calpine Geysers, as verified by meter reads. Therefore, the PPA will not use substitute system energy from unspecified sources.

- b. **THE UNSPECIFIED ENERGY IS ONLY USED FOR OPERATIONAL OR EFFICIENCY REASONS:**

All contract energy must be provided from the Calpine Geysers, as verified by meter reads. Therefore, the PPA will not use substitute system energy from unspecified sources for any reason.

- 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**

All contract energy must be provided from the Calpine Geysers, as verified by meter reads, therefore the PPA will not use substitute system energy from unspecified sources for any reason.

- 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.**

All contract energy must be provided from the Calpine Geysers Portfolio as verified by meter reads. Therefore, the PPA will not use substitute system energy from unspecified sources for any reason.

- K. **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. California Utility Employees Union

2. WHEN THE PRG WAS PROVIDED INFORMATION ON THE CONTRACT

SDG&E introduced the Calpine Geysers PPA to the PRG as early as on May 21, 2009 and reviewed the PPA again in an updated report on August 20th, 2009 during a regularly scheduled PRG meeting. The PRG was provided with a summary of the Calpine Geysers PPA negotiations along with summaries of major commercial terms and conditions. The slides presented to the PRG are attached as Confidential Appendix A.

The proposed PPA also appeared on SDG&E's projected RPS Status charts in various PRG meetings (September 25, 2009 and the October 23, 2009).

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

SDG&E briefed its PRG on May 21, 2009 and on August 20, 2009 on the proposed PPA terms. The following transaction details were provided for both meetings: quantity, term, price, settlement, product, facility, delivery points and credit information.

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

N/A. The PRG was thoroughly briefed as described above.

L. 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

PA Consulting Group has been heavily involved in all aspects of SDG&E's 2009 RPS RFO process including, but not limited to: reviewing RFO document development and creation of evaluation criteria, reviewing and monitoring of all received bids, involvement in bid evaluation for conformance and ranking, conducting the LCBF analysis, monitoring of all communications and negotiations with affiliated parties. Besides being involved in the process, the IE independently presented to the PRG on the progress/evaluation of

RFOs and expressed its opinions on negotiations. An independent IE report was issued on the PPA and is attached as Appendix C.

SDG&E closely worked with its IE during the evaluation of the PPA. The IE has reviewed the major contract terms and SDG&E's method of comparing the projects to bids received from the 2008 and 2009 RFO and has spot-checked relevant calculation.

3. IE MADE ANY FINDINGS TO THE PROCUREMENT REVIEW GROUP

Not applicable, as no findings were presented to the PRG by the IE.

4. PUBLIC VERSION OF THE PROJECT-SPECIFIC IE REPORT

See Appendix H.

III. CONTINGENCIES AND/OR MILESTONES

A. MAJOR PERFORMANCE CRITERIA AND GUARANTEED MILESTONES.

All of the Calpine Geysers units are existing, and so there are no project development milestones.

B. OTHER CONTINGENCIES AND MILESTONES (I.E. 500 KV LINE, INTERCONNECTION COSTS, GENERATOR FINANCING, PERMITTING)

The Calpine Geysers units in this PPA are already existing. Development contingencies and milestones are not applicable; however, the effectiveness of this PPA is contingent upon Commission approval.

IV. PROCEDURAL MATTERS

A. REQUESTED RELIEF

SDG&E respectfully requests that the Commission review and approve the PPA through the issuance of a resolution no later than 7/29/2010. This one-hundred thirty-five (135) day review period is critical to ensuring that 1) the bundled renewable energy available from the project is maximized during calendar year 2010, 2) the uncertainty that surrounds the early delivery of this PPA (as described in confidential Appendix A) is resolved as quickly as possible.

The PPA is conditioned upon "CPUC Approval." SDG&E, therefore, requests the following Commission findings in its approval of the PPA:

1. The proposed agreement, as amended, is consistent with SDG&E's CPUC-approved RPS Plan and procurement from the proposed agreement will contribute towards SDG&E's APT starting in 2010.⁶ As detailed in this Advice Letter, SDG&E's entry into the proposed agreement and the terms of such agreement are reasonable; therefore, all costs of the purchase associated with energy, green attributes, resource adequacy, and load uplift included in the proposed agreement should be fully recoverable in rates.
2. Approval of the proposed agreement, as amended, in its entirety, including approval of full cost recovery in rates through the Energy Resource Recovery Account (ERRA) mechanism of all payments to be made by SDG&E from the commencement of deliveries forward in association with this contract subject to Commission review of SDG&E's administration of the Proposed Agreement⁷.
3. Issuance of a finding that any generation procured pursuant to the proposed agreement constitutes generation from an eligible renewable energy resource for purposes of determining SDG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard program (Public Utilities Code §§ 399.11, et seq. or other applicable law) and relevant Commission decisions.

⁶ If SDG&E, by way of output from other RPS-eligible resources, already meets its APT, SDG&E will bank all output from the Proposed Agreements for use in future years.

⁷ *Id.* R. 06-02-012, at p.

4. Recovery of any costs that should accrue to SDG&E should any part of this structure be classified as a derivative subject to mark-to-market treatment under FASB Statement 133; and
5. Issuance of a finding that any energy and green attribute deliveries made prior to or after final CPUC approval will count fully toward SDG&E's RPS goals.

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 within 20 days of 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 Honesto Gatchallian (jnj@cpuc.ca.gov) and Maria Salinas (mas@cpuc.ca.gov) of the Energy Division. It is also requested that a copy of the protest be sent via electronic mail and facsimile to SDG&E on the same date it is mailed or delivered to the Commission (at the addresses shown below).

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. 858-654-1788
E-Mail: Mcaulson@semprautilities.com

C. EFFECTIVE DATE

SDG&E believes that this Advice Letter is subject to Energy Division disposition and should be classified as Tier 3 (effective after Commission approval) pursuant to GO 96-B. SDG&E respectfully requests an Effective Date for this PPA of March 2, 2010 and that the Commission issue a resolution approving this advice letter on or before July 29, 2010.

D. NOTICE

In accordance with Section III.G of General Order No. 96-A, a copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in R.08-08-009, 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) 654-1788 or by e-mail to SDG&ETariffs@semprautilities.com.

RON VAN DER LEEDEN
Director – Rates, Revenues and Tariffs

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) #: 2154-E

Subject of AL: Request for Approval of Renewable Power Purchase with Calpine Energy Services, L.P.

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

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

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

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: Yes. Contains confidential procurement information. See attached declaration.

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 3/2/2010

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: 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

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

San Diego Gas & Electric

Attention: Megan Caulson

8330 Century Park Ct, Room 32C

San Diego, CA 92123

mcaulson@semprautilities.com

¹ Discuss in AL if more space is needed.

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

cc: (w/enclosures)

Public Utilities Commission

DRA

D. Appling
S. Cauchois
J. Greig
R. Pocta
W. Scott

Energy Division

P. Clanon
S. Gallagher
H. Gatchalian
D. Lafrenz
M. Salinas

CA. Energy Commission

F. DeLeon
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

N. Rader

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

Pacific Gas & Electric Co.

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

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

San Diego Regional Energy Office

S. Freedman
J. Porter

School Project for Utility Rate Reduction

M. Rochman

Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander
K. Cini
K. Gansecki
H. Romero

TransCanada

R. Hunter
D. White

TURN

M. 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.08-08-009

San Diego Gas & Electric Advice Letter 2154-E
March 29, 2010

ATTACHMENT A

DECLARATION OF MARIA I. BOLDREVA REGARDING CONFIDENTIALITY OF CERTAIN DATA

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

**DECLARATION OF MARIA I. BOLDYREVA REGARDING
CONFIDENTIALITY OF CERTAIN DATA**

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

1. I am an Energy Procurement Advisor for San Diego Gas & Electric Company (“SDG&E”). I have reviewed Advice Letter 2154-E, requesting approval of the Power Purchase and Sale Agreement with Calpine Energy Services, L.P., (with attached confidential and public appendices, including First Amendment, dated March 26, 2010, and original Power Purchase and Sale Agreement, dated February 26, 2010, with Calpine Energy Services, L.P.), (“Advice Letter”). I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, as modified by D.07-05-032, and D.08-04-023, to demonstrate that the confidential information (“Protected Information”) provided in the Advice Letter submitted concurrently herewith, falls within the scope of data protected pursuant to the IOU Matrix attached to D.06-06-066 (the “IOU Matrix”).^{1/} In addition, the Commission has made

^{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.

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/}

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

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

Data at issue	D.06-06-066 Matrix Requirements	How moving party meets requirements
<i>Bid Information</i> ⁵ <i>Locations:</i> <i>1. Appendix A</i> <ul style="list-style-type: none"> ▪ <i>Section B: Bilateras on p.3;</i> ▪ <i>Section C: Least-Cost Best-Fit, Embedded slide SDG&E</i> 	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	The data provided is non-public bid data from SDG&E’s Renewable RFOs.
	Identify the Matrix category or categories	This information is protected under IOU

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

^{3/} D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

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

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

<p><i>LCBF Ranking (2009 RPS).xls, p.4;</i></p> <ul style="list-style-type: none"> ▪ <i>Section K:PRG Participation and Feedback, Embedded slides Confidential SDG&E PRG May 21 2009.docx and Confidential SDG&E PRG August 20 2009.docx, p.12;</i> ▪ <i>Project Development Status section, Technology: Resource and/or Availability of Fuel, p.12;</i> ▪ <i>Project Development Status section, Transmission Details Table, p.14;</i> ▪ <i>Viability of 2009 Bids by Technology graph, p.16;</i> ▪ <i>Viability of 2009 Shortlisted vs. Rejected Bids graph, p.17;</i> ▪ <i>Project Viability Calculator graph, p.18.</i> <p>2. Appendix B</p> <ul style="list-style-type: none"> ▪ <i>Embedded file Solicitation Overview.docx, p. 19.</i> <p>3. Appendix C</p> <ul style="list-style-type: none"> ▪ <i>Embedded file SDG&E 2009 Renewables RFO IE Report.pdf., p.20.</i> <p>4. Appendix D</p> <ul style="list-style-type: none"> ▪ <i>Section A: Address and Latitude and Longitude of the Project's Site, narrative on geographical coordinates, p.22;</i> ▪ <i>Section 10: Results from the Energy Division's AMF's Calculator, table on p.31-32;</i> ▪ <i>Embedded file AMFs Calculator Calpine.xlsx, p.32;</i> ▪ <i>RPS Solicitation Bid Supply Curve:2009 All Bids vs. Current Short List graph, p.33;</i> ▪ <i>2009 RFO Mean and Median Bid Price by Technology graph, p.34;</i> ▪ <i>RPS Contract Price Supply Curve: 2004-2009 All Executed Contracts graph, p.35.</i> 	to which the data corresponds	Matrix category VIII.A.
	Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data	In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential until the final contracts from each of the RFOs have been submitted to the CPUC for approval.
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	SDG&E cannot summarize or aggregate the bid data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.

<p>Quantitative Bid Analysis⁶</p> <p>Location:</p> <p>1. Appendix A</p> <ul style="list-style-type: none"> ▪ <i>Section C: Least-Cost Best-Fit, p.4-7;</i> ▪ <i>Project's PVC score narratives, p.15;</i> ▪ <i>Viability of 2009 Bids by Technology graph, p.16;</i> ▪ <i>Viability of 2009 Shortlisted vs. Rejected Bids graph, p.17.</i> <p>2. Appendix B</p> <ul style="list-style-type: none"> ▪ <i>Embedded file Solicitation Overview.docx, p. 19.</i> <p>3. Appendix C</p> <ul style="list-style-type: none"> ▪ <i>Embedded file SDG&E 2009 Renewables RFO IE Report.pdf., p.20.</i> <p>4. Appendix D</p> <ul style="list-style-type: none"> ▪ <i>Section 7: Table and narrative with the Estimates regarding direct or indirect contract cost, p.29-30;</i> ▪ <i>Section 13: Contract price e Comparison, p.35-36.</i> 	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	This data is SDG&E's specific quantitative analysis involved in scoring and evaluating renewable bids. Some of the data also involves analysis/evaluation of proposed RPS projects.
	Identify the Matrix category or categories to which the data corresponds	This information is protected under IOU Matrix categories VII.G and/or VIII.B.
	Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data	In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential for three years.
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	SDG&E cannot summarize or aggregate the evaluation data while still providing project-specific details. SDG&E cannot provide redacted or masked versions of these data points while maintaining the format requested by the CPUC.
<p>Contract Terms⁷</p> <p>Locations:</p> <p>1. Appendix A</p> <ul style="list-style-type: none"> ▪ <i>Section D: Standard Terms and Conditions, table on p.</i> 	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	This data includes specific contract terms.
	Identify the Matrix	This information is

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

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

<p>8- 10;</p> <ul style="list-style-type: none"> ▪ <i>Section E: Unbundled Renewable Energy Credit Transactions, p.11;</i> ▪ <i>Section E: Transmission, p.13.</i> <p>2. Appendix D</p> <ul style="list-style-type: none"> ▪ <i>Section C: Term and Conditions of Delivery, p.24;</i> ▪ <i>Section D: Major Contract Provisions, p.24-28;</i> ▪ <i>Section E: 8 and 9 Indirect Expenses and All-In Total Contract Price, p.30-31.</i> <p>3. Appendix E</p> <ul style="list-style-type: none"> ▪ <i>Embedded file containing comparison of CES PPA with SDG&'s Pro Forma PPA and narratives, p.37.</i> <p>4. Appendix F</p> <ul style="list-style-type: none"> ▪ <i>Embedded files –Executed Version of PPA and First Amendment with CES. (Cover, Confirmation, Exhibits, p.38.</i> 	<p>category or categories to which the data corresponds</p>	<p>protected under IOU Matrix category VII.G.</p>
	<p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data</p>	<p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that this information be kept confidential for three years.</p>
	<p>Affirm that the information is not already public</p>	<p>SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.</p>
	<p>Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.</p>	<p>In order to include as much detail as possible, SDG&E has provided specific contract terms instead of summaries. SDG&E has provided summaries of certain contract terms in public portions of the testimony.</p>
<p><i>Analysis and Evaluation of Proposed RPS Projects</i>⁸</p> <p><i>Location:</i></p> <p>1. Appendix D</p> <ul style="list-style-type: none"> ▪ <i>Section 14: The rate impact of the PPA and embedded spreadsheet with the rate impact calculation, p.36.</i> 	<p>Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix</p>	<p>The Commission has concluded that Actual Procurement Percentage data must be protected in order to avoid disclosing SDG&E's Bundled Retail Sales data.^{9/}</p>
	<p>Identify the Matrix category or categories to which the data corresponds</p>	<p>This information is protected under IOU Matrix category V.C.</p>
	<p>Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix</p>	<p>In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that</p>

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

^{9/} *Id.*

	for that type of data	the “front three years” of this information be kept confidential.
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	It is not possible to provide this data point in an aggregated, redacted, summarized or masked fashion.
<p><i>IPT/APT Percentage¹⁰</i></p> <p><i>Locations:</i></p> <p><i>1. Appendix A – Project Development Status section, D: PTC/ITC, p.13;</i></p> <p><i>2. Appendix D - Section: The Project’s contribution to the SDG&E’s RPS Procurement Targets, p.23;</i></p> <p><i>3. Appendix G – Section: Project’s Contribution to RPS Goals, p.40.</i></p>	Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix	The Commission has concluded that since APT Percentage is a formula linked to Bundled Retail Sales Forecasts, disclosure of APT would allow interest parties to easily calculate SDG&E’s Total Energy Forecast – Bundled Customer (MWH). ^{11/} The same concern exists with regard to IPT percentage.
	Identify the Matrix category or categories to which the data corresponds	This information is protected under IOU Matrix category V.C.
	Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix	In accordance with the limitations on confidentiality set forth in the IOU Matrix, SDG&E requests that

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

^{11/} See, *Administrative Law Judge’s Ruling on San Diego Gas & Electric Company’s April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027; *Administrative Law Judge’s Ruling Granting San Diego Gas & Electric Company’s May 21, 2007 Amendment to April 3, 2007 Motion and May 22, 2007 Amendment to August 1, 2006 Motion*, issued June 28, 2007 in R.06-05-027.

	for that type of data	the “front three years” of this information be kept confidential.
	Affirm that the information is not already public	SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party.
	Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.	It is not possible to provide these data points in an aggregated, redacted, summarized or masked fashion.

5. As an alternative basis for requesting confidential treatment, SDG&E submits that the First Amendment and original 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.^{11/}

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

^{11/} 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.”)

Ratepayer Advocates and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

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

8. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.^{12/} Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

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

10. If disclosed, the Protected Information could provide parties, with whom SDG&E is currently negotiating, insight into SDG&E’s procurement needs, which would unfairly undermine SDG&E’s negotiation position and could ultimately result in increased cost to ratepayers. In addition, if developers mistakenly perceive that SDG&E is not committed to assisting their projects, disclosure of the Protected Information could act as a disincentive to developers. Accordingly, pursuant to P.U. Code § 583, SDG&E

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

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

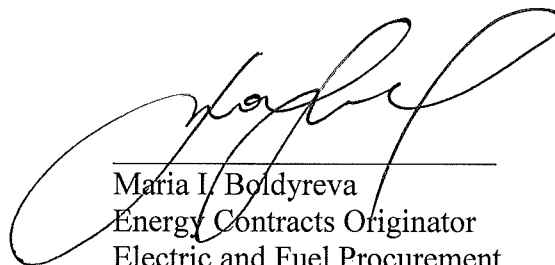
seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

11. Developers' Protected Information: The Protected Information also constitutes confidential trade secret information of the developer listed therein. SDG&E is required pursuant to the terms of its original Power Purchase Agreement as amended to protect non-public information. Some of the Protected Information in the original Power Purchase and Sale Agreement as amended and my supporting declaration (including confidential appendices), relates directly to viability of the respective projects. Disclosure of this extremely sensitive information could harm the developers' ability to negotiate necessary contracts and/or could invite interference with project development by competitors.

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

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

Executed this 29th day of March, 2010 at San Diego, California.



Maria I. Boldyreva
Energy Contracts Originator
Electric and Fuel Procurement
San Diego Gas & Electric

San Diego Gas & Electric Advice Letter 2154-E
March 29, 2010

CONFIDENTIAL ATTACHMENT B

**REQUEST FOR APPROVAL OF RENEWABLE POWER
PURCHASE WITH CALPINE**

PUBLIC VERSION
(Distributed to Service List)

PART 2 – CONFIDENTIAL APPENDICES OF ADVICE LETTER

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

CONFIDENTIALITY KEY

VIOLET FONT = ANALYSIS AND EVALUATION OF PROPOSED RPS PROJECTS (VII.G)

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

GREEN FONT = BID INFORMATION (VIII.A)

BLUE FONT = SPECIFIC QUANTITATIVE ANALYSIS (VIII.B)

BROWN FONT = NET SHORT POSITION (V.C)

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

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

Confidential Appendix A

Consistency with Commission Decisions and Rules and Project Development Status

THIS CONFIDENTIAL APPENDIX A

- 1. PROVIDES, WHERE APPROPRIATE, CONFIDENTIAL INFORMATION NECESSARY TO FULLY ANSWER ANY ITEMS IN PART 1 OF THE ADVICE LETTER.**
- 2. PROVIDE ANSWERS TO THE ADDITIONAL ITEMS INCLUDED IN THIS APPENDIX A. TO THE EXTENT SUCH INFORMATION IS NOT CONFIDENTIAL, IT IS INCLUDED IN THE PUBLIC VERSION OF THE ADVICE LETTER.**

CONSISTENCY WITH COMMISSION DECISIONS AND RULES

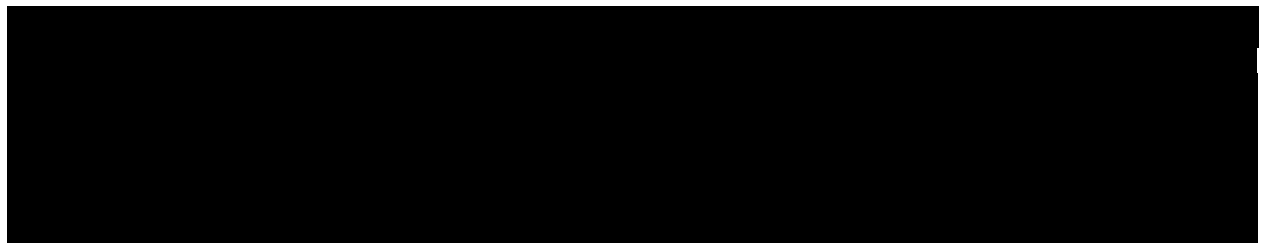
A. RPS PROCUREMENT PLAN

Part 1 of the Advice Letter provides a full and complete discussion of how this Proposed Agreement is consistent with SDG&E's 2009 RPS Plan.

B. BILATERALS

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."¹ On June 19, 2009, the Commission issued D.09-06-050 establishing 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. Below, SDG&E reviews the Least Cost Best Fit evaluation used in the 2009 RPS RFO. The same analysis was performed on this PPA and the results were compared to the RFO results.

Competitive RFOs are not the only means of procurement. SDG&E's ability to consider bilateral offers will widen the scope of resources available to SDG&E. The WECC has a well-established, liquid bilateral market. SDG&E, for the benefit of its ratepayers, can make full use of this valuable source of renewable supply. Not only is the bilateral market an important tool for procurement, it is available year-round. RPS RFOs, by contrast, are an annual batch-processing of commercial arrangements. The Commission approved SDG&E's 2009 RPS Plan, which would seek approval for bilateral renewable contracts.



Additionally, the facts that this is an existing project and that Calpine Geysers has a favorable operating history added to its viability. These factors, along with attractive pricing relative to other procurement options provided a compelling case for SDG&E to enter into the PPA outside of a solicitation.

¹ D.06-10-019, mimeo, p. 31

C. LEAST-COST BEST-FIT

1. THE PROJECT'S BID SCORES UNDER SDG&E'S APPROVED LCBF EVALUATION CRITERIA.

LCBF CRITERIA / COMPONENTS	PROJECT SCORE / DETAILS
LEVELIZED BID PRICE	[REDACTED]
BEGIN/END AFFECTS ADDER	[REDACTED]
TOD ADJUSTMENT ADDER	[REDACTED]
TRCR ADDER	[REDACTED]
TOTAL RESOURCE ADEQUACY CREDIT	[REDACTED]
TOTAL LCBF RANKING PRICE	[REDACTED]

2. HOW THE PROJECT COMPARES WITH OTHER BIDS RECEIVED IN THE SOLICITATION WITH REGARD TO EACH LCBF FACTOR AND WHY THE SUBMITTED CONTRACT RANKED HIGHER (QUANTITATIVELY AND/OR QUALITATIVELY) THAN THE OTHER BIDS USING THE LCBF CRITERIA.

- **PORTFOLIO FIT**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- **TRANSMISSION ADDER**

[REDACTED]

- APPLICATION OF TODS

[REDACTED]

- QUALITATIVE FACTORS

[REDACTED]

3. THE ADDERS APPLIED IN THE LCBF ANALYTICAL PROCESS AND THE IMPACT OF THOSE ADDERS ON THE PROJECT'S RANKING.

- [REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

- [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

4. HOW AND WHY THE PROJECT'S BID RANKING CHANGED AFTER NEGOTIATIONS.

Not applicable [REDACTED]

5. USING LCBF CRITERIA AND OTHER RELEVANT CRITERIA, EXPLAIN WHY THE SUBMITTED CONTRACT WAS PREFERRED RELATIVE TO OTHER SHORTLISTED BIDS OR OTHER PROCUREMENT OPTIONS.

[REDACTED]

D. STANDARD TERMS AND CONDITIONS

The table on the next page lists standard terms and conditions, discusses any changes and provides a rationale for the changes. A redline of the contract against SDG&E's Commission-approved pro forma RPS contract is provided in Confidential Appendix E of this advice letter. Modifiable terms are highlighted in green and non-modifiable terms are highlighted in pink.

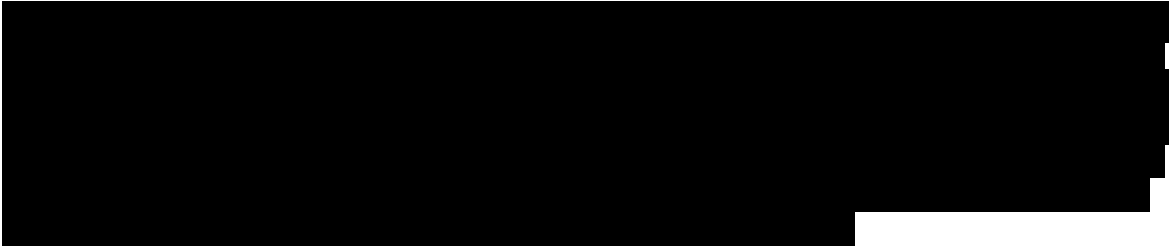
Modifiable? (Yes/No)	STC No.	STANDARD TERM AND CONDITION	Modified? (Yes/No)	Description of Change and Rationale
No	1	CPUC Approval	No	
	2	RECs and Green Attributes	No	
	6	Eligibility	No	
	17	Applicable Law	No	
No	REC-1	REC Definition	No	
■	■	■	■	
Yes	■	■	■	■
	■	■	■	■

				[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

		[REDACTED]		[REDACTED]
	■	[REDACTED]	■	[REDACTED]
	■	[REDACTED]	■	[REDACTED]
	■	[REDACTED]	■	[REDACTED]
	■	[REDACTED]	■	[REDACTED]

Note: Decision D.08-04-009 removed STC 3, stating:
"Given implementation of SB 1036, STC 3 has no continuing relevance and should be deleted from the current 14 STCs"

E. UNBUNDLED RENEWABLE ENERGY CREDIT TRANSACTIONS



F. MINIMUM QUANTITY (IF APPLICABLE)

Part 1 of the Advice Letter provides a full and complete discussion of how the Proposed Agreement does trigger the minimum quantity requirements set forth in D.07-05-028.

G. SHORT-TERM CONTRACT (IF APPLICABLE)

Not applicable. The Proposed Agreement is a short term contract, but SDG&E is not seeking Fast Track approval.

H. MPR

This contract has pricing that is above the MPR; however, it is still within the competitive range of the LCBF evaluation methodology.

I. AMFs

Pursuant to SB 1036 this contract is not eligible for AMFs because: 1) The contract has not been approved by the Commission and was not selected through a competitive solicitation; 2) The contract term is not at least 10 years in length; 3) The contract is not with a project that is a new or repowered facility commencing commercial operations on or after January 1, 2005; 4) The contract is not for the purchase of renewable energy credits. Therefore, this contract is a baseload bilateral, short-term contract and is not eligible for AMFs.

J. EMISSIONS PERFORMANCE STANDARD

Pursuant to D.07-01-039 this contract is not subject to the EPS as it is has a delivery term of less than five years.

K. PRG PARTICIPATION AND FEEDBACK

SDG&E briefed its PRG on May 21, 2009 and an update on August 20, 2009 on the proposed PPA terms. SDG&E does not keep transcripts of its PRG discussions; PRG members are able to provide their own feedback through their procedural rights to comment on this Advice Letter.



L. INDEPENDENT EVALUATOR

CPUC decision D.06-05-039 requires that an IE Report accompany any bilaterally-negotiated contract submitted for approval. The CES contract was evaluated by PA Consulting Group, who was asked by SDG&E to evaluate the contract for the conduct of negotiations and the overall ratepayer value. PA concluded that the price of contract is competitive and highly viable and that the contract merits CPUC approval. Since this PPA was negotiated bilaterally outside of the RFO process, PA based its report for this contract upon its IE report for the most recently completed RFO (2009). Please refer to Appendix C for the full version of IE Report.

PROJECT DEVELOPMENT STATUS

A. COMPANY/DEVELOPMENT TEAM

Not applicable. This project is constructed and already in operation.

B. TECHNOLOGY

1. TYPE AND LEVEL OF TECHNOLOGY MATURITY.

This contract is for off take from existing facilities.

2. RESOURCE AND/OR AVAILABILITY OF FUEL



C. DEVELOPMENT MILESTONES

1. SITE CONTROL

Not applicable; existing facility.

2. EQUIPMENT PROCUREMENT

Not applicable; existing facility.

3. PERMITTING STATUS

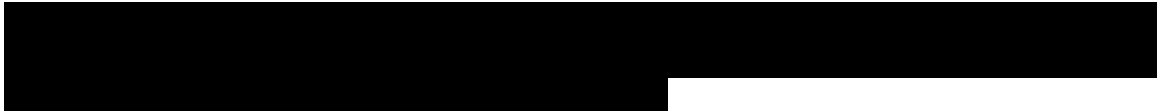
Not applicable; existing facility.

D. PTC/ITC



E. TRANSMISSION

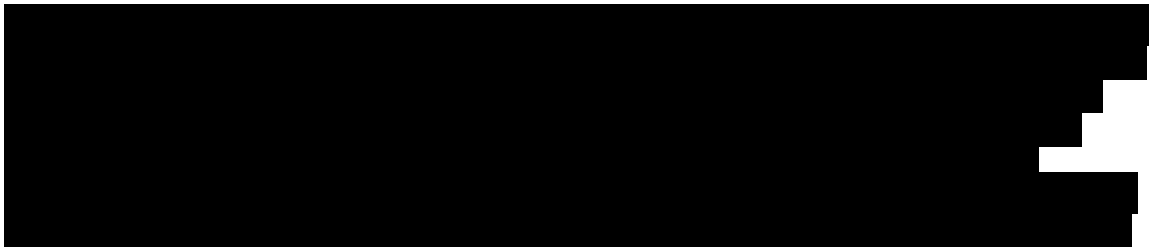
1. HOW ELECTRICITY WILL BE DELIVERED UNDER THE CONTRACT IN TERMS OF COST, TIMING, AND LOCATION. ANY IMPROVEMENTS, TRANSACTIONS, AND OTHER CONTINGENCIES THAT MUST BE MET, TO ENABLE DELIVERY AS PLANNED



2. CONFIDENTIAL INFORMATION ON GEN-TIE AND NETWORK UPGRADES AND COSTS THAT IS NOT PROVIDED IN THE PUBLIC PORTION OF THE ADVICE LETTER.

Not applicable; the facilities associated with the proposed agreement are fully constructed, interconnected and in operation.

3. LOCATIONAL ATTRIBUTES OF THE CONTRACT SUCH AS, CONGESTION RISK, IMPACT ON THE STATUS OF RUN MUST RUN (RMR) GENERATORS, AND RESOURCE ADEQUACY REQUIREMENTS.



4. TRANSMISSION DETAILS:

TRANSMISSION DETAILS	
QUEUE NUMBER (SPECIFY CONTROL AREA : CAISO, IID, ETC) AND RELATIVE POSITION	N/A – Already Interconnected
IF IN CAISO SERIAL GROUP, STATUS OF:	

FEASIBILITY STUDY	N/A – Completed, facilities are online
SYSTEM IMPACT STUDY	N/A – Completed, facilities are online
FACILITIES STUDY	N/A – Completed, facilities are online
IF IN CAISO CLUSTER:	
NAME OF CLUSTER	N/A – Completed
STATUS OF PHASE I AND II STUDIES	N/A – Completed
INTERCONNECTION AGREEMENT – DATE SIGNED OR ANTICIPATED	[REDACTED]
PREFERRED POINT OF INTERCONNECTION (LINE, SUBSTATION, ETC.)	[REDACTED]
EARLY INTERCONNECTION DETAILS, IF APPLICABLE	N/A – Completed, facilities are online
GEN-TIE TYPE (NEW LINE, RECONDUCTOR, INCREASED TRANSFORMER BANK CAPACITY, INCREASED BUS CAPACITY, INCREASED SUB AREA)	Existing/Operating Facility
GEN-TIE LENGTH	[REDACTED]
GEN-TIE VOLTAGE	[REDACTED]
DEPENDENT NETWORK UPGRADE(S)	Existing/Operating Facility
EXPECTED NETWORK UPGRADE COMPLETION DATE	N/A

F. FINANCING PLAN

Not applicable; the facilities associated with the proposed agreement are fully constructed, interconnected and in operation.

G. PROJECT VIABILITY CALCULATOR (PVC) – NOT APPLICABLE IF PROJECT IS COMMERCIALY OPERATIONAL

1. MODIFICATIONS THAT WERE MADE TO THE PVC

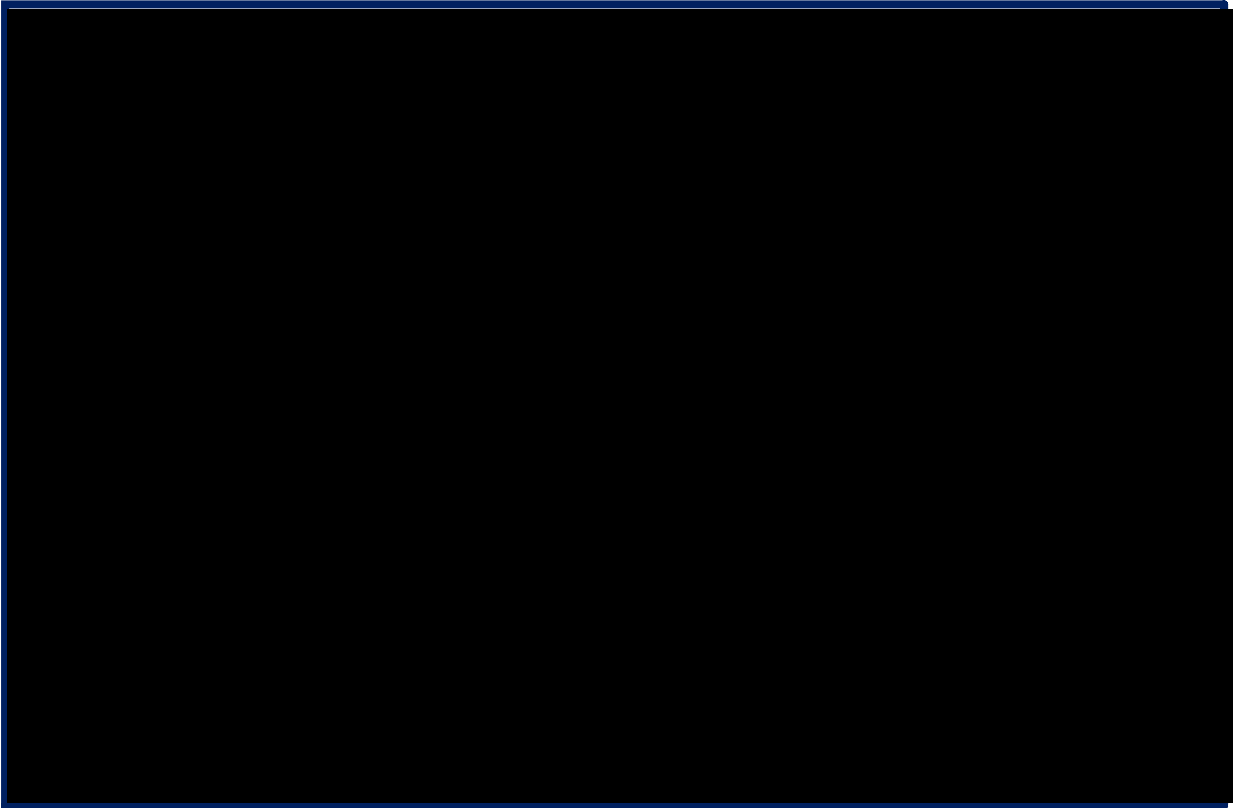
Not applicable.

2. THE PROJECT'S PVC SCORE RELATIVE TO OTHER PROJECTS ON THE SHORTLIST AND IN THE SOLICITATION (E.G. RELATION TO MEAN AND MEDIAN, ANY PROJECTS NOT SHORTLISTED WITH HIGHER PVC SCORES, ETC.). USE FIGURES FROM BID WORKPAPERS, AS APPROPRIATE.

This contract scores at the maximum viability



3. GENERATED GRAPHS FROM THE RPS WORKPAPERS:



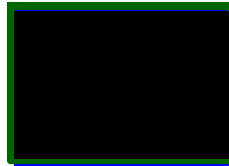


THE PROJECT PVC RESULTS



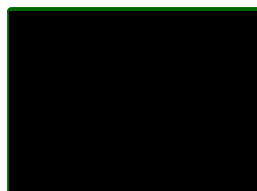
**Confidential Appendix B
2009 Solicitation Overview**

**ATTACH IS SDG&E'S 2009 SOLICITATION OVERVIEW, SUBMITTED
AS SECTION 3 OF SDG&E'S 2009 LCBF REPORT.**



Confidential Appendix C
Final RPS Project-Specific Independent Evaluator Report

**ATTACHED IS THE FINAL, CONFIDENTIAL VERSION OF THE
IE'S PROJECT-SPECIFIC REPORT**



Confidential Appendix D

Contract Summary: CES

THIS CONFIDENTIAL APPENDIX D SETS FORTH THE INFORMATION REQUIRED TO DEVELOP THE PROJECT CONTRACT SUMMARY.

CONTRACT SUMMARY

A. SITE

- 1. ADDRESS AND LATITUDE AND LONGITUDE OF THE PROJECT'S SITE**
 (IN DECIMAL DEGREE AND DEGREES: MINUTES: SECONDS FORM (E.G. 49.5000°,-123.5000° AND 49°30'02"N, 123°30'30"W))

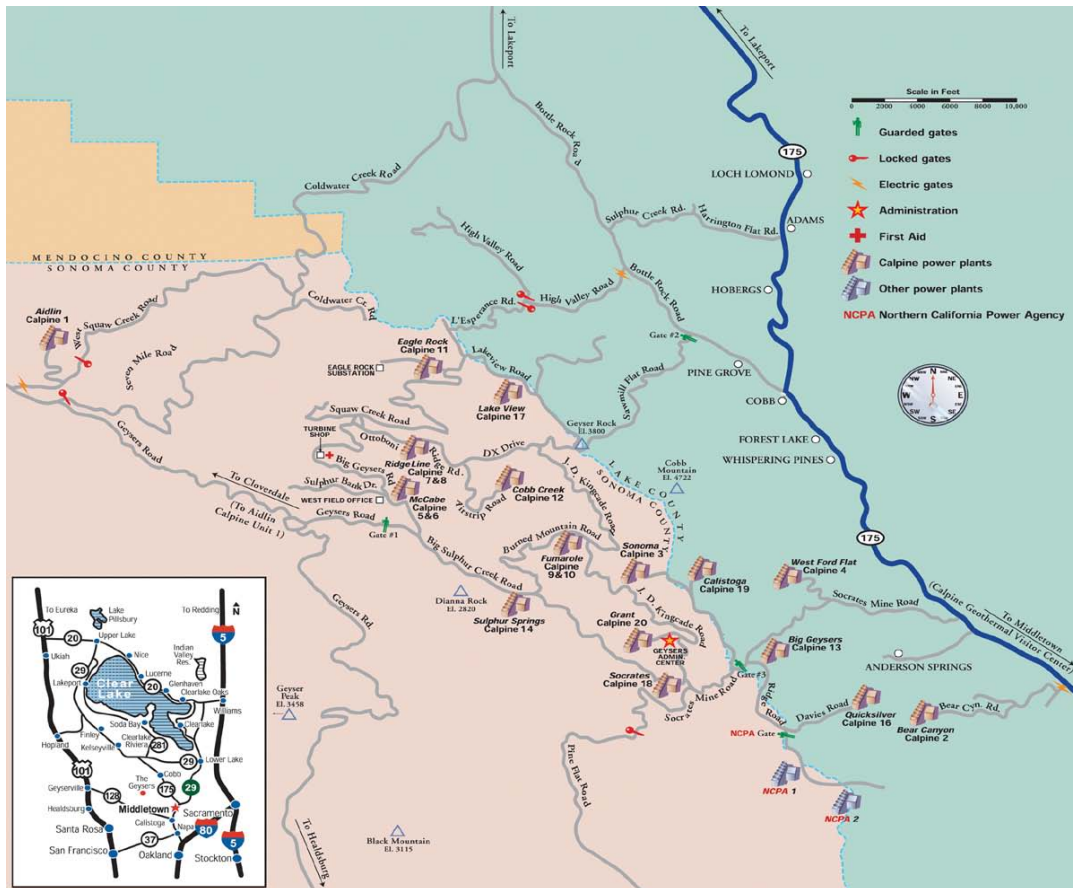
The project is located in Lake & Sonoma Counties near Middletown, California.

Geysers Visitor Center
 15500 Central Park Road
 Middletown, CA 95461

The geographical coordinates are listed below:

	<u>Decimal Degrees</u>	<u>Degrees: Minutes: Seconds</u>

- 2. GENERAL MAP OF THE PROJECT'S LOCATION**



B. THE PROJECT'S CONTRIBUTION TO SDG&E'S RPS PROCUREMENT TARGETS

The table below sets forth the Project's contribution to SDG&E's APT and IPT goals on a percentage basis.



C. TERMS AND CONDITIONS OF DELIVERY

- 1. THE POINT OF DELIVERY FOR THE PROJECT'S ENERGY AND THE SCHEDULING COORDINATOR.**

[REDACTED]

- 2. INFORMATION REGARDING FIRING AND SHAPING ARRANGEMENTS, OR OTHER PLANS TO MANAGE DELIVERY OF THE ENERGY THAT IS NOT INCLUDED IN THE PUBLIC SECTION OF THE ADVICE LETTER.**

[REDACTED]

D. MAJOR CONTRACT PROVISIONS

- 1. MAJOR CONTRACT PROVISIONS ARE SUMMARIZED IN THE THE MATRIX BELOW.**
- 2. CONTROVERSIAL AND/OR MAJOR PROVISIONS NOT EXPRESSLY IDENTIFIED IN THE MATRIX BELOW.**

<u>TERM/CONDITION</u>	<u>RPS CONTRACT</u>
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

<u>TERM/CONDITION</u>	<u>RPS CONTRACT</u>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>SCHEDULING COORDINATOR</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>
<p>[REDACTED]</p>	<p>[REDACTED]</p>

<u>TERM/CONDITION</u>	<u>RPS CONTRACT</u>
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

<u>TERM/CONDITION</u>	<u>RPS CONTRACT</u>
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

3. OTHER CONTRACT PROVISIONS

- a. ANY OTHER SIGNIFICANT OR UNIQUE CONTRACT PROVISIONS TOO DETAILED AND/OR COMPLICATED TO INCLUDE IN THE MATRIX ABOVE.

[REDACTED]

- b. WHETHER THE DEVELOPER IS TAKING ON THE FUEL RISK UNDER CURRENT CONTRACT TERMS AND PRICE (FOR BIOMASS CONTRACTS ONLY).

Not applicable.

E. CONTRACT PRICE

1. THE LEVELIZED CONTRACT PRICE USING SDG&E'S BEFORE TAX WEIGHTED AVERAGE COST OF CAPITAL DISCOUNT RATE IS INDICATED BELOW.

	PRICE	NOTES
LEVELIZED BID PRICE - INITIAL (\$/MWH)	[REDACTED]	
LEVELIZED CONTRACT PRICE - FINAL (\$/MWH)	[REDACTED]	

TOTAL SUM OF CONTRACT PAYMENTS	[REDACTED]	[REDACTED]

2. THE INDIVIDUAL COMPONENTS OF THE CONTRACT PRICING STRUCTURE ARE AS FOLLOWS:

- FLAT PRICING: [REDACTED]
- [REDACTED]

OTHER:
[REDACTED]

3. CONTRACT TERMS THAT PERMIT MODIFICATIONS TO THE CONTRACT PRICE.

[REDACTED]

4. PRICE ADJUSTMENTS/MODIFICATIONS REQUESTED OF THE DEVELOPER DURING THE NEGOTIATION PERIOD. PRICE ADJUSTMENTS/MODIFICATIONS REQUESTED OF THE UTILITY DURING THE NEGOTIATION PERIOD. REASON(S) FOR THE PRICE ADJUSTMENT(S). HOW THE INITIAL BID PRICE COMPARES TO THE FINAL CONTRACT PRICE.

[REDACTED]

5. PROJECT CHARACTERISTICS (E.G. NETWORK UPGRADE COSTS, EQUIPMENT COSTS, CHANGES IN CAPACITY FACTOR, ETC.) THAT COULD CHANGE THE CONTRACT PRICE AND THEIR EFFECT ON THE LEVELIZED CONTRACT PRICE.

There are no characteristics that could change the levelized contract price.

6. FOR BIOMASS PROJECTS:

a. WHAT LENGTH FUEL CONTRACT(S) HAS BEEN SIGNED, AND FOR HOW MANY YEARS OF THE PPA HAVE FUEL CONTRACT(S) BEEN SECURED?

Not applicable.

b. DESCRIBE THE DEVELOPER'S FORECASTED PRICE FOR FUEL SUPPLIES.

Not applicable.

c. EXPLAIN HOW THE CONTRACT PRICE TAKES FUEL PRICE VOLATILITY INTO ACCOUNT.

Not applicable.

d. EXPLAIN WHAT THE DEVELOPER PLANS TO DO IF FUEL SOURCE DISAPPEARS OR BECOMES MORE EXPENSIVE.

Not applicable.

7. THE FOLLOWING TABLE ESTIMATES/PROVIDES ALL APPLICABLE ASSUMPTIONS REGARDING DIRECT OR INDIRECT CONTRACT COSTS THAT ARE PART OF THE CONTRACT, BUT NOT INCLUDED IN THE CONTRACT'S \$/MWH PRICE.





[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

*Based on expected GWh/year

8. INDIRECT EXPENSES ARE NOT BUILT INTO THE CONTRACT PRICE, PROVIDE:

- a. A CALCULATION THAT SUBTRACTS THE INDIRECT EXPENSES FROM THE CONTRACT'S TOTAL ABOVE-MARKET COSTS, AND

[REDACTED]

- b. A DESCRIPTION OF THE METHODOLOGY USED FOR THE CALCULATION.

[REDACTED]

9. FOR AN OUT-OF-STATE CONTRACT IN WHICH THE ENERGY WILL BE FIRMED AND SHAPED, THE TABLE BELOW IDENTIFIES ALL FIRING AND SHAPING COSTS ASSOCIATED WITH THE PROJECT AND WHETHER THEY ARE INCLUDED IN THE CONTRACT PRICE. (IF THERE ARE MULTIPLE POTENTIAL DELIVERY OPTIONS, THE TABLE IDENTIFIES THE FIRING AND SHAPING COSTS ASSOCIATED WITH EACH OPTION, AND A NARRATIVE BELOW EXPLAINS WHICH OPTION SDG&E EXPECTS IS THE MOST AND LEAST LIKELY.)

The project is not an out-of-state contract in which the energy will be firmed and shaped.

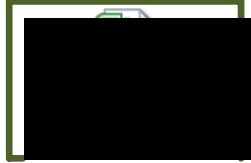
(\$/MWH)	EXPECTED CASE	BEST CASE	WORST CASE	IMPORTING INTO CALIFORNIA
PPA PRICE				
MAXIMUM PRICE	■	■	■	■
FIRMING/SHAPING				
TRANSMISSION LOSSES:	■	■	■	■
TRANSMISSION SERVICE (WHEELING):	■	■	■	■
IMBALANCE ENERGY CHARGES:	■	■	■	■
ANCILLARY SERVICE CHARGES:	■	■	■	■
TOTAL FIRMING/SHAPING:	■	■	■	■
ALL-IN TOTAL				
RELEVANT MPR	■	■	■	■
MAXIMUM PRICE + TOTAL FIRMING/SHAPING:	■	■	■	■

10. RESULTS FROM THE ENERGY DIVISION'S AMFs CALCULATOR

	(\$/MWH)	NOTES
LEVELIZED TOD-ADJUSTED CONTRACT PRICE	■	
LEVELIZED TOD-ADJUSTED TOTAL CONTRACT COST (CONTRACT PRICE + FIRMING AND SHAPING)	■	■
LEVELIZED MPR	■	■
LEVELIZED TOD-ADJUSTED MPR	■	
ABOVE-MPR COST (\$/MWH)	■	
TOTAL SUM OF ABOVE-MPR PAYMENTS (\$)	■	■



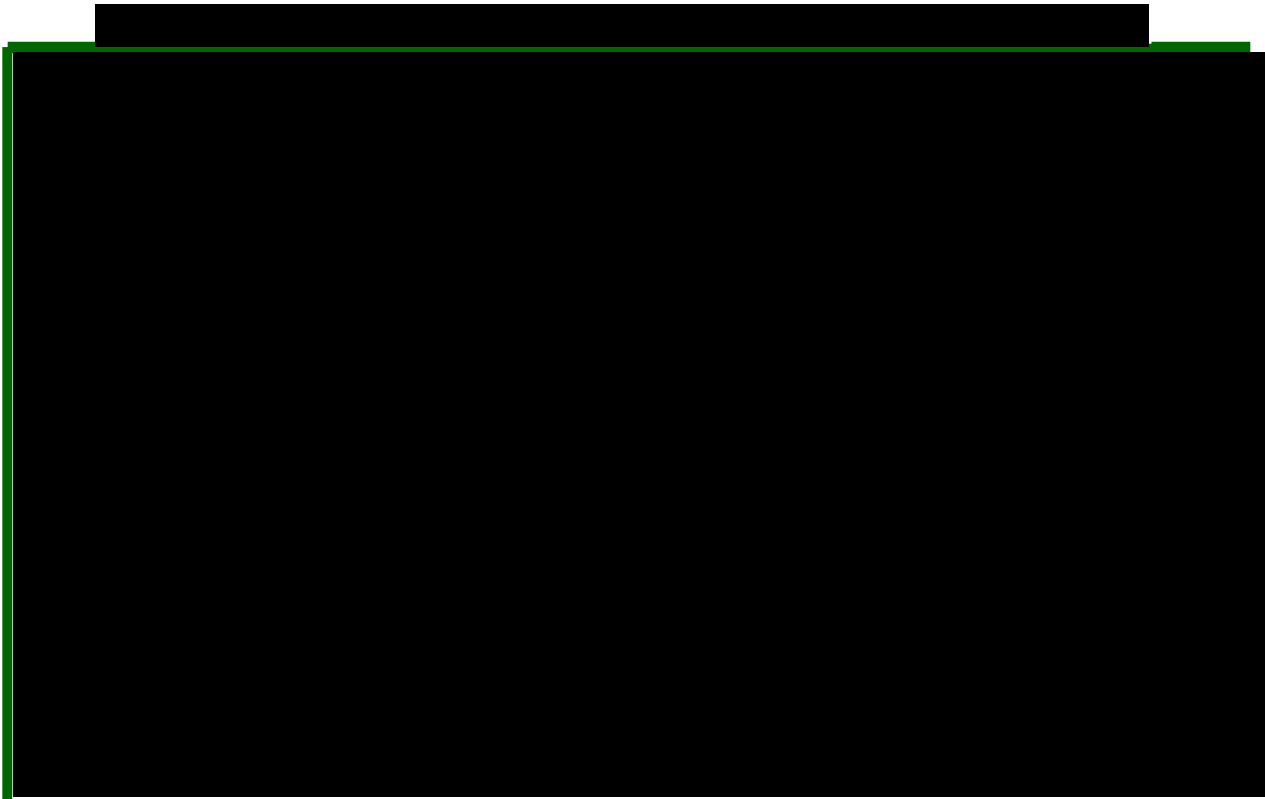
The file below presents the Results Tab generated by the AMF Calculator.

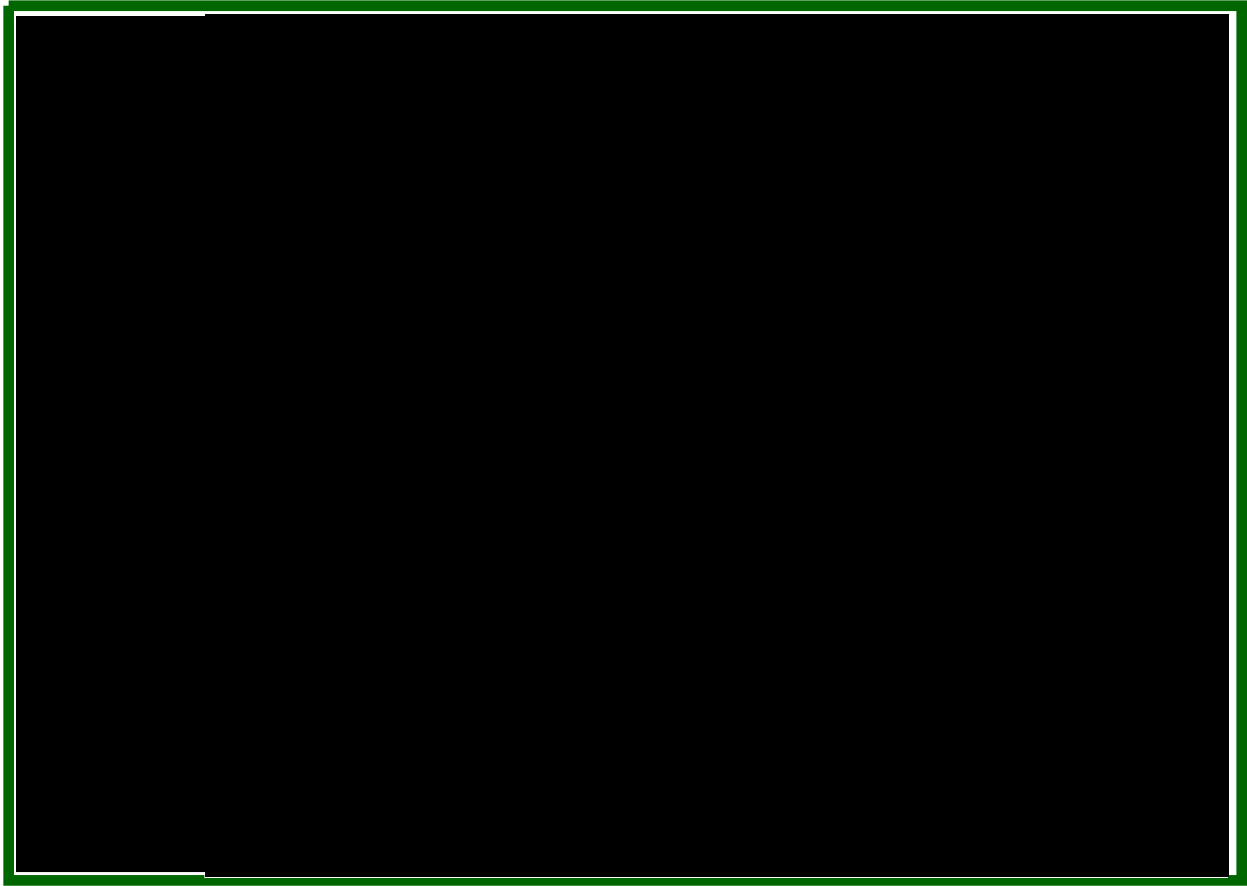


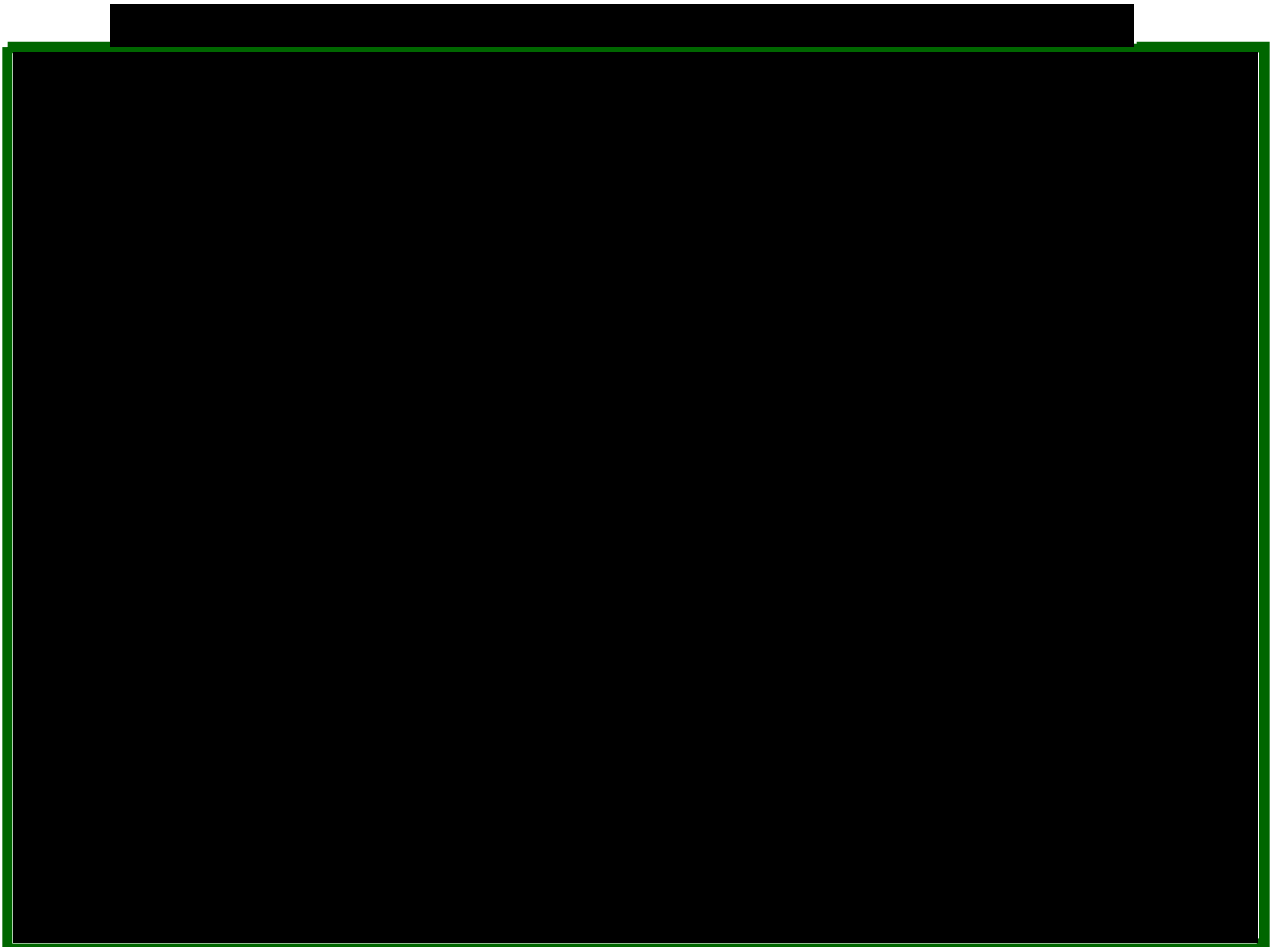
11. EXPLAINING WHICH MPR WAS USED FOR THE AMFs / COST CONTAINMENT CALCULATION (ONLY IF THE CONTRACT IS ELIGIBLE FOR AMFs).

The contract is a bilateral, short-term contract and is therefore not eligible for AMFs. However, it was compared to the 2009 MPR.

12. GRAPHS FROM THE RPSS WORKPAPERS:







13. HOW THE CONTRACT PRICE COMPARES WITH THE FOLLOWING:

a. OTHER BIDS IN THE SOLICITATION,



al

b. OTHER BIDS IN THE RELEVANT SOLICITATION USING THE SAME TECHNOLOGY,



c. RECENTLY EXECUTED CONTRACTS

[REDACTED]

- d. OTHER PROCUREMENT OPTIONS (E.G. BILATERALS, UTILITY-SPECIFIC PROGRAMS, ETC.)

[REDACTED]

14. THE RATE IMPACT OF THE PROPOSED CONTRACT (CENTS PER KILOWATT-HOUR) BASED ON THE RETAIL SALES FOR THE YEAR WHICH THE PROJECT IS EXPECTED TO COME ONLINE.

[REDACTED]

[REDACTED]

Confidential Appendix E

**Comparison of Contract with
SDG&E's Pro Forma Power Purchase Agreement**



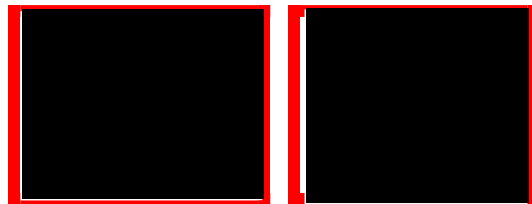
THE FILE ATTACHED BELOW IS A REDLINE OF THE CONTRACT AGAINST SDG&E'S COMMISSION-APPROVED PRO FORMA RPS CONTRACT. MODIFIABLE TERMS ARE HIGHLIGHTED IN GREEN AND NON-MODIFIABLE TERMS ARE HIGHLIGHTED IN PINK.



Confidential Appendix F

Power Purchase Agreement

THE FILE ATTACHED BELOW IS A COPY OF THE POWER PURCHASE AGREEMENT



Confidential Appendix G

Project's Contribution Toward RPS Goals

Project's Contribution to RPS Goals

Project Name	Technology	COD	Location
Calpine Geysers	Geothermal	03/01/2010	Various



IF PROJECT WAS PREVIOUSLY INCLUDED AS PART OF THE UTILITY’S BASELINE, THEN PLEASE COMPLETE THE FOLLOWING TABLE TO UPDATE THE UTILITY’S BASELINE

This project was not previously included as part of SDG&E’s utility baseline.

	DELIVERIES (GWH/YR)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
PRE-2002/ BASELINE	0	0	0	0	0	0	0	0	0	0	0
DELIVERIES FROM PROPOSED PROJECT	0	0	0	0	0	0	0	0	0	0	0
UPDATED BASELINE	0	0	0	0	0	0	0	0	0	0	0

IF THE PROJECT WAS PREVIOUSLY UNDER A CONTRACT THAT WAS EXPIRING FOR SDG&E BEFORE 2020, THEN PLEASE COMPLETE THE FOLLOWING TABLE TO UPDATE THE EXPIRING CONTRACTS TOTAL

This project was not previously identified as an expiring contract.

	DELIVERIES (GWH/YR)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EXPIRING CONTRACTS	0	0	0	0	0	0	0	0	0	0	0
EXPIRING DELIVERIES FROM PROPOSED PROJECT	0	0	0	0	0	0	0	0	0	0	0
UPDATED EXPIRING CONTRACTS	0	0	0	0	0	0	0	0	0	0	0

Confidential Appendix H
Final RPS Project-Specific Independent Evaluator Report

**ATTACHED IS THE FINAL, PUBLIC VERSION OF THE IE'S
PROJECT-SPECIFIC REPORT**

San Diego Gas & Electric Co.

Report of the Independent Evaluator on
Calpine Energy Services contract relative to
the results of the 2009 Request for Offers
from Eligible Renewable Resources (2009
Renewable RFO)

March 2, 2010

San Diego Gas & Electric Co.

Report of the Independent Evaluator on
Calpine Energy Services contract relative to
the results of the 2009 Request for Offers
from Eligible Renewable Resources (2009
Renewable RFO)

March 2, 2010

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Version: 1.1

FOREWORD

This is PA Consulting Group's Independent Evaluator (IE) Report analyzing, in the context of the results of San Diego Gas & Electric Company's 2009 Renewables RFO, the Power Purchase Agreement with Calpine Energy Services for geothermal power. The CPUC requires an IE report accompany any bilateral contract submitted for approval, and the template provided by the CPUC relates to RFOs. Since this contract was not submitted into any RFO, PA has based its report upon its IE report for the most recently completed (2009) RFO.

This report is based on PA Consulting Group's Preliminary Report on the 2009 RFO. The Preliminary Report addressed the conduct and evaluation of San Diego Gas & Electric Company's 2009 Renewables RFO through the selection of its preliminary short list. 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.

TABLE OF CONTENTS

Foreword	i
1. Introduction	1-1
2. Role of the Independent Evaluator (IE)	2-1
2.1 The IE requirement	2-1
2.2 PA's role as Independent Evaluator	2-2
2.3 PA's activities	2-4
2.4 Confidentiality and additional comments	2-4
3. Adequacy of outreach and robustness of the solicitation	3-6
3.1 Solicitation materials	3-6
3.2 Adequacy of outreach	3-6
3.3 Solicitation robustness	3-7
3.4 Feedback	3-7
3.5 Additional issues	3-7
4. Fairness of the design of SDG&E's methodology for bid evaluation and selection	4-1
4.1 Principles used to evaluate methodology	4-1
4.2 SDG&E's LCBF methodology	4-2
4.3 Evaluation of the strengths and weaknesses of SDG&E's LCBF methodology in this solicitation	4-4
4.4 Future improvements	4-5
4.5 Additional comment on the methodology	4-6
5. Procedural fairness of the bid evaluation	5-1
5.1 Principles used to determine fairness of process	5-1
5.2 Administration and bid processing	5-2
5.3 Conformance check	5-2
5.4 Parameters and inputs for SDG&E's analysis	5-3
5.5 Parameters and inputs for outsourced analysis	5-3
5.6 Transmission analysis	5-3
5.7 Additional issues	5-4
5.8 Results analysis	5-5
5.9 Additional issues	5-7
6. Fairness of project-specific negotiations	6-1
6.1 Principles of evaluation	6-1
6.2 Project-specific negotiations	6-1
6.3 Terms and conditions	6-1
6.4 Relation to other negotiations	6-3

TABLE OF CONTENTS...



6.5	Additional issues	6-3
7.	Project-specific recommendation	7-1
7.1	Evaluation	7-1
7.2	Recommendation	7-3
7.3	Additional issues	7-3

1. INTRODUCTION

PA Consulting Group, Inc. (PA) has served as the Independent Evaluator (IE) of San Diego Gas & Electric Co.'s (SDG&E's) 2009 Request for Offers from Eligible Renewable Resources (2009 Renewable RFO). This Report provides PA's evaluation of the fairness of the solicitation, up to and including the identification of a "short list" of bidders with whom SDG&E may pursue contract negotiations. This document has been formatted in accord with a template provided by Cheryl Lee of the CPUC Energy Division in an email dated Oct. 27, 2009.

2. 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.

2.1 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.

2. Role of the Independent Evaluator (IE)

RPS solicitations).³ The role of the IE is still not to conduct or administer the solicitation but to “separately evaluate and report on the IOU’s entire solicitation, evaluation and selection process”.⁴ The Decisions that approved the utility RPS solicitation plans for 2007 and 2008⁵ did not further elaborate on the IE role but took the participation of an IE as a given.

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

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 and its Independent Evaluator.”^{6A} This section of the decision does not specify that a bilateral contract should be reviewed in the context of an RFO, although the IE report template distributed by the Energy Division only apply to RFOs (Energy Division also distributed a template for a “short form” report related to the special approval procedure for short-term contracts).

Furthermore, D. 09-06-050 orders “the Director of Energy Division [to use] the market price referent calculated for the same solicitation year in which the contract is signed as a price reasonableness benchmark.”^{6B} That would imply the reasonableness of a contract should be judged against the contemporary market price referent (MPR), and similarly against the shortlist of the contemporary RFO. In this specific case PA has used the results of the 2009 RPS RFO.

2.2 PA’S ROLE AS INDEPENDENT EVALUATOR

Template language: “Description of key IE roles: IEs provide an independent evaluation of the IOU’s RPS bid evaluation and selection process:

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, Decision (D.) 09-06-050, June 19, 2009, p. 28f.

^{6B} D. 09-06-050, Ordering Paragraph 7, p. 42.

2. Role of the Independent Evaluator (IE)

- “1. Did the IOU do adequate outreach to potential bidders and was the solicitation robust?”*
- “2. Was the IOU’s LCBF methodology designed such that all bids were fairly evaluated?”*
- “3. Was the IOU’s LCBF bid evaluation and selection process fairly administered?”*
- “4. Did the IOU make reasonable and consistent choices regarding which bids were brought to CPUC for approval?”*

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

When PA was contracted as IE for the All-Source RFO, PA and SDG&E agreed on an interpretation of the IE role that would not include a complete LCBF evaluation or full replication of the utility’s computations, although PA would spot-check them. PA’s role would be that of an observer and an adviser as needed. PA subsequently served as Independent Evaluator for SDG&E’s 2006 Renewable RFO and the Local Peaker RFO (conducted in 2006-7). In each case, PA and SDG&E used the above interpretation of the IE role, and it was adopted for the 2009 Renewables RFO.

PA’s emphasis has been on issues of fairness and equity. PA reviews the reasonableness of SDG&E’s evaluation criteria and algorithms and spot-checks the calculations but does not enforce a single standard of evaluation. While PA may have an opinion about the “best” way to value certain attributes or even to conduct a multi-attribute evaluation, its role as IE has not been to judge SDG&E’s evaluation against a standard, but rather to determine that SDG&E’s evaluation has not unfairly favored affiliates or ownership bids, or favored SDG&E and its shareholders in any other way⁷.

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

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.

2. Role of the Independent Evaluator (IE)

2.3 PA'S ACTIVITIES

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

PA and SDG&E began to discuss plans for the 2009 RFO during and after the 2008 RPS RFO evaluation, including the possibility of PA conducting the LCBF evaluation. 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 treatments of duration equivalence and resource adequacy. 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. In general, the bid evaluation criteria were similar to those that had been used in past RFOs. PA met with SDG&E to review the evaluation criteria and reviewed the LCBF model constructed by SDG&E.

PA was present at both bidder conferences: in San Diego on August 5 and in El Centro on August 12. PA was provided all questions submitted by bidders either at the bidder conference or later in writing, as well as SDG&E's answers. PA received the electronic bids from SDG&E in San Diego on both days bids were due.

PA was in regular contact with the SDG&E evaluation team. PA was provided all the data in the evaluation process. PA was responsible for interpreting all bids in order to conduct the LCBF evaluation. PA identified missing or incomplete information, including viability scorecards, and requested additional data from bidders. 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.

2.4 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.

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

2. Role of the Independent Evaluator (IE)

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

3. Adequacy of outreach and robustness of the solicitation

3. 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.

3.1 SOLICIATION MATERIALS

Template language: “Were the solicitation materials clear and concise to ensure that the information required by the utility to conduct [sic] 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 as noted in the next paragraph. Even so, not all bidders entered data correctly and completely, but PA does not believe this was the fault of the forms.

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, the solicitation forms and posted responses did not always elicit the type of information required by the Project Viability Calculator. In particular, the PVC scoring criteria are based on specific information – e.g., identification of projects to support assertion of project development experience, or an explanation of why a particular interconnection milestone with IID is or is not equivalent to a CAISO milestone.

3.2 ADEQUACY OF OUTREACH

Template language: “Identify guidelines used to determine whether IOU did adequate outreach (e.g., sufficient publicity, emails to expected interested firms). Did IOU do adequate outreach? If not, explain how it was deficient.”

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 686 email addresses, associated with 545 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*.

3. Adequacy of outreach and robustness of the solicitation

3.3 SOLICITATION ROBUSTNESS

Template language: "Identify guidelines used to determine adequate robustness of solicitation (e.g., number of proposals submitted, number of MWhs associated with submitted proposals). Was solicitation adequately robust?"

PA judges the robustness of the solicitation by the number of bids received. In PA's opinion, the solicitation engendered a robust response. █ separate organizations responded to the solicitation with a total of █ project proposals with █ pricing options. The CPUC had encouraged SDG&E to do specific outreach to the Imperial Valley and, more generally, the SPL area. █ project proposals were submitted from the SPL area, with █ pricing options, from a total of █ separate bidders.

3.4 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.

3.5 ADDITIONAL ISSUES

Template language: "Any other relevant information or observations"

PA has nothing else to add to this chapter.

4. FAIRNESS OF THE DESIGN OF 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.

4.1 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:⁹

- 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).

⁹ 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.

4. Fairness of the design of SDG&E's methodology for bid evaluation and selection

- The methodology does not have to be the one that the IE would independently have selected but it needs to be “reasonable”.

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.

4.2 SDG&E'S LCBF METHODOLOGY

Template language: “Describe IOU LCBF methodology.”

SDG&E ranked bids using a spreadsheet. The following quantitative values went into the ranking:

- Adjusted, levelized offer price
- Estimated costs of transmission network upgrades or additions
- Estimated congestion costs
- Estimated RA credit

Debt equivalence was not considered, per CPUC D. 07-12-052. The next four subsections describe the four bullet items above. The fifth subsection addresses a specific change to one of the details of the LCBF calculation relative to previous renewable RFOs. PA's opinion of the use of LCBF methodology is included in section 5.8.

4.2.1 Adjusted, levelized offer price

SDG&E's bid evaluation method does not directly compare costs and benefits of individual contracts; rather it creates 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. This means that SDG&E does not compute an “avoided cost” or “market price” by hour or subperiod to be compared with contract costs. Such a computation would be appropriate if the source of contract value was energy value (avoided energy purchases). But RPS-qualified energy is not interchangeable or fungible with spot energy, because spot energy is not guaranteed to be RPS-qualified.

The benefit or value of RPS-qualified energy is in its renewability. In that sense every MWh from a renewable resource has equal benefit regardless of the contract or the time of delivery. But SDG&E also recognized that RPS-qualified energy has both “renewability value” and “energy value”, and that the energy value depends on time of delivery (TOD). To recognize this, SDG&E uses as its measure of contract cost the average of the projected contract payments in different TOD periods weighted by the product of volume and a TOD weighting factor. The weighting factors have been approved by the CPUC and PA did not investigate their source.

For each year, the adjusted or “benefit-weighted” price is the average payment, divided by a MWh-weighted average TOD factor. For contracts with TOD pricing (where in each period

4. Fairness of the design of SDG&E's methodology for bid evaluation and selection

the payment per MWh equals the contract price times the TOD factor) it is the same as the contract price. The offer price term is the levelization of the adjusted price: for each year, the adjusted price in \$/MWh is multiplied by projected deliveries in MWh to get a stream of revenues, and the offer price term is the constant price in \$/MWh that would yield a stream of energy revenues having the same net present value.

4.2.2 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. (Two projects had CAISO-approved, completed System Impact Studies that could have been used but since they were ranked below the shortlist cutoff before adding any transmission costs, this specialized effort was not undertaken.) 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 own judgment to determine the cluster based on the project location and interconnection 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.

4.2.3 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. In past RFOs the congestion study had been conducted by ABB Inc. ABB was unable to do so for the 2009 study. 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 FERC Code of Conduct. As for the 2008 RFO, there was no pre-Sunrise case. Congestion adders for the projects that ranked highest based on the other LCBF components were all small and therefore congestion costs did not affect the composition of the short list.

4.2.4 RA credit

Renewable projects under contract to SDG&E would provide varying amounts of resource adequacy (RA) credit. In the 2008 RPS RFO for which PA served as IE, SDG&E had represented RA as a cost rather than a credit, based on the cost SDG&E would incur for additional RA credits equal to the difference between a bid's capacity and its own RA credit. PA argued that this approach unduly relied on a bid's "nameplate" capacity, which had no real relation to any commodity the bid provided to SDG&E and which could in some cases be an artificial value. SDG&E accepted PA's argument for the 2009 RFO and assigned each bid a cost credit equal to the value of the RA credit the bid would be expected to receive based on technology and the RA capacity credits that have been assigned by CAISO to projects of similar technology (normalized by capacity). The result is an annual RA credit in \$/year (a unit cost in \$/kW-yr multiplied by capacity in kW). The credit is converted to levelized \$/MWh, similar to the levelization of the offer price term.

4. Fairness of the design of SDG&E's methodology for bid evaluation and selection

4.2.5 Duration equalization

In past Renewables RFOs, SDG&E used a "duration equalization" approach to handle start and end effects. This has addressed principle 6 from the Template (section 4.1). 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 an MPR proxy, that is, 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.

4.3 EVALUATION OF THE STRENGTHS AND WEAKNESSES OF SDG&E'S LCBF METHODOLOGY IN THIS SOLICITATION

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*
- "2. Evaluation of various technologies and products*
- "3. Evaluation of portfolio fit*
- "4. Evaluation of bids with varying sizes, in-service dates, and contract length*
- "5. Evaluation of bids' transmission costs*
- "6. Evaluation of bids' project viability*
- "7. Other."*

Overall, PA believes that the SDG&E methodology is reasonable. This judgment is within the context of the principles set forth in 4.1, especially the last: "The methodology does not have to be the one that the IE would independently have selected but it needs to be 'reasonable'." PA has detailed comments on a limited number of the points above.

4.3.1 Evaluation of various technologies and products

PA did not detect any technology bias in the methodology [REDACTED]

[REDACTED]

[REDACTED]



4.3.2 Evaluation of portfolio fit

The Renewable Portfolio Standard is based on raw renewable MWh, with no time differentiation. Furthermore, the quantitative LCBF analysis is but part of a process that includes consideration of bidders' track records and viability and extensive negotiation – another IE has characterized the process as more like a “competitive negotiation” rather than a sealed-bid auction.¹⁰ SDG&E's LCBF computation bears a similar relation to a more complex time-differentiated analysis as a “screening curve” analysis does to an optimal capacity expansion model; yet as a part of a larger process the screening curve analysis is often quite adequate.

4.3.3 Evaluation of bids' transmission costs

PA assigned TRCR clusters to those projects that did not provide such information. PA did not consider SCE's TRCR to contain a sufficient definition of its clusters, and requested additional information, which was received from an SCE attorney. In mid-August, PA was informed that SDG&E's procurement group was considering requesting from its transmission planning group a special TRCR-like upgrade analysis for Imperial Valley resources, but if such a study was conducted its results were not used in the LCBF evaluation. SDG&E's Evaluation Team requested a congestion analysis from SDG&E's Transmission function; PA reviewed the information provided by the Evaluation Team and ensured that no data was transmitted that could identify bidders.

4.3.4 Evaluation of bids' project viability

SDG&E eliminated certain bids due to low viability. These judgments did not always accord with bidders' Project Viability Calculators, which had been self-scored. It was necessary to rescore all high-ranking bids.

4.4 FUTURE IMPROVEMENTS

Template language: “What future LCBF improvements would you recommend?”

PA has no improvements to recommend at this time.

¹⁰ Private conversation.

4. Fairness of the design of SDG&E's methodology for bid evaluation and selection

4.5 ADDITIONAL COMMENT ON THE METHODOLOGY

Template language: "Any additional information or observations regarding the IOU's evaluation methodology."

PA has nothing else to add to this chapter.

5. 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 4

5.1 PRINCIPLES USED TO DETERMINE FAIRNESS OF PROCESS

Template language: "A. 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:¹¹

- 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 20% 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?

¹¹ Jacobs, op. cit., p. 3-1.

5.2 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 2.3. Most of the guidelines above are addressed in detail in subsequent sections of this chapter, but three of them, which are not addressed below, can be answered here succinctly:

- 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.

5.3 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?"

PA verified that each offer received conformed with the requirements of the RFO. Nonconforming bids were identified as such but not immediately discarded. 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. Extensive efforts were made to contact bidders and give them opportunities to provide additional information that would bring their bids into conformance. PA recommended that SDG&E eliminate a small number of offers as non-conforming:

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

[REDACTED]



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

5.4 PARAMETERS AND INPUTS FOR SDG&E'S ANALYSIS

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

The quantitative bid analysis was conducted by PA. Certain key parameters were supplied by SDG&E independent of any bids, including the RA price estimate, RA cost factors, the proxy price for duration equalization, TOU pricing factors, and financial parameters of the revenue requirements model for Alternative III bids. Parameters and inputs for the congestion analysis were determined by SDG&E's transmission function independent of the procurement group.

5.5 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 analyzing using a spreadsheet model and parameters supplied by SDG&E. SDG&E and PA were in communication throughout the analysis, generally about modifications to the model that became necessary in the course of the analysis and about missing data. SDG&E did not exercise control over the quality or specifics of the analysis. SDG&E and PA did work together to identify and solicit missing information from bidders.

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. SDG&E's procurement group communicated to the transmission function the locations and general characteristics of a set of high-ranking bids for this analysis. PA reviewed that communication to ensure it included no identifying information.

5.6 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, SDG&E's model calculated costs for transmission network upgrades or additions, using the information provided through the TRCRs or a CAISO-approved, completed System Impact Study. 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.

5. Procedural fairness of the bid evaluation

5.7 ADDITIONAL ISSUES

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

5.7.1 Affiliate bids and UOG ownership proposals

The treatment of affiliate bids has been a focus of PA throughout its tenure as Independent Evaluator for SDG&E. Although the Energy Division's template does not specifically call for discussion of the handling of affiliate bids and UOG ownership proposals, the CPUC and FERC have both expressed concern about the fair treatment of non-affiliate bids. They required particular attention in past RFOs because SDG&E was conducting the evaluation itself, rather than having the IE do so. In this case, since PA conducted the evaluation, no special "masking" was required as in past RFOs.

SDG&E provided three alternative forms for bids: PPA, PPA with buyout option, and turnkey. The latter two are utility ownership forms. Several bidders submitted Alternative II (PPA with buyout) bids. In all cases these were additional options to Alternative I bids but the buyouts did not provide identifiable value. Several bidders submitted Alternative III (turnkey) bids, which were evaluated using a variant of a "revenue requirements" model and treating the revenue requirement to finance the purchase similarly to an annual PPA payment.

5.7.2 Viability

Developer and project viability have become a key concern in the Renewable RFO, because of the delays and contract failures that have affected several projects. The CPUC devoted special attention to viability in 2009, requiring "that each IOU include a project viability methodology and calculator in its amended 2009 Procurement Plan and solicitation package."¹²

SDG&E requested bidders to complete a Project Viability Calculator (PVC) for each bid, rather than fill out the PVC for each bid. The PVC form was based on the format developed by the Energy Division. This was in order to avoid having the utility or IE create a PVC for every bid, since SDG&E did not know in advance how many bids would be received. In the event, [REDACTED] separate project proposals were received

SDG&E's intent was that after the quantitative evaluation it would eliminate bids that, while scoring high, did not appear viable. One basis for doing so could have been the bidder-supplied PVCs; however, SDG&E and PA both expected bidders to take an optimistic view of viability and had therefore decided to rescore the PVCs from those bidders who scored highest in the LCBF ranking, beginning from the bidders' own scoring. SDG&E and PA separately rescored sets of high-ranking bids. [REDACTED]

The original and revised scores are shown in Figure 1 in section 5.8.

¹² D. 09-06-018, p. 21.

5. Procedural fairness of the bid evaluation

5.7.3 Concentration risk

[REDACTED]

5.8 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?”

One of the most important aspects of the Renewables RFO is the need determination. Under the Renewable Portfolio Standard, utilities seek to obtain at least 20% of their 2010 retail deliveries from renewable sources. SDG&E has further committed to obtain 33% of its 2020 retail deliveries from renewable sources. The primary goal of RPS procurement is total renewable volume. For an individual Renewable RFO, this translates to a “need” target.

In the past, SDG&E has determined its renewable need based on a target of 24-26% of its 2010 deliveries “to provide a margin of safety in the event contracted resources do not achieve commercial operation by 2010.”¹³ In 2009, SDG&E set a target at that fraction (24-26%) in “2011-2013” since the 2009 RFO could not yield capacity in 2010.

[REDACTED]

SDG&E took a “largest hazard” approach, and analyzed the largest hazard in two ways: (a) the largest individual expected delivery volume; (b) the total expected delivery from contracts

¹³ Ibid., p. 11.

5. Procedural fairness of the bid evaluation

with viability scores [REDACTED]
[REDACTED]
[REDACTED] and since SDG&E has committed to replace SPL-region contracts with other SPL-region contracts, SDG&E said it would shortlist bids in the SPL region. PA concurs that all these decisions are reasonable.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

In PA's opinion, SDG&E conducted the RFO in fair and equitable manner. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

5.9 ADDITIONAL ISSUES

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

PA has nothing else to add to this chapter.

6. FAIRNESS OF PROJECT-SPECIFIC NEGOTIATIONS

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

6.1 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.

6.2 PROJECT-SPECIFIC NEGOTIATIONS

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

As noted above, PA did not directly observe the negotiation between Calpine and SDG&E. PA first learned of the Calpine offer when it was reported to the Procurement Review Group in May, 2009.

[REDACTED]

[REDACTED]

It is PA's opinion that the Calpine Energy Services contract reflects fair negotiations.

6.3 TERMS AND CONDITIONS

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

[REDACTED]

[REDACTED]

[Redacted]

[Redacted]

[Redacted]

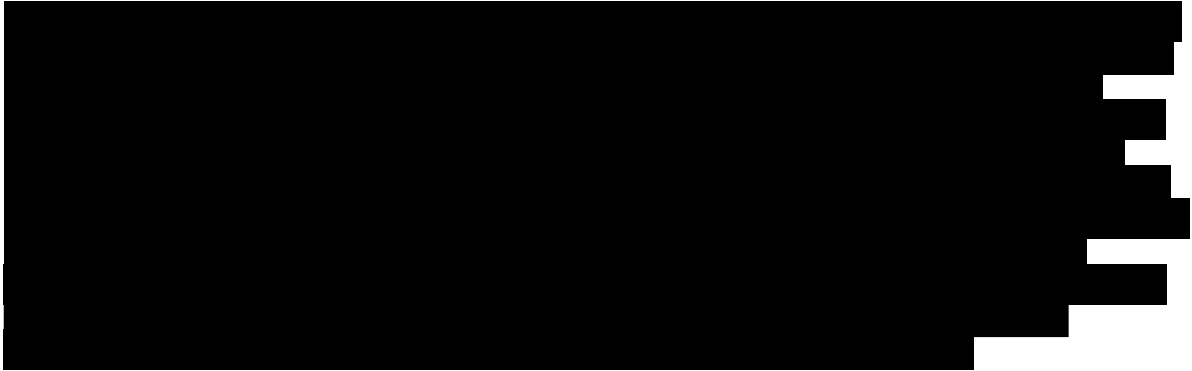
- [Redacted]

- [Redacted]

[Redacted]

[Redacted]

[Redacted]



6.4 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?”

PA does not believe this question to be relevant here as the changes in terms are quite mild.

6.5 ADDITIONAL ISSUES

Template language: “Any other relevant information or observations.”

PA has nothing else to add to this chapter.

¹⁴ California Public Utilities Commission, Revised Proposed “Decision Authorizing use of Renewable Energy Credits for Compliance with the California Renewables Portfolio Standard” in Rulemaking 06-02-012, December 23, 2009, p. 32.

7. PROJECT-SPECIFIC RECOMMENDATION

PA agrees with SDG&E that the Calpine Energy Services contract merits CPUC approval.

7.1 EVALUATION

Template language: "A. Provide narrative for each category and describe the project's ranking relative to: 1) other bids from the solicitation and 2) 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."*

The CPUC has adopted a "fast-track" method for evaluating short-term contracts.¹⁵ In that decision the Commission directed Energy Division to calculate a price benchmark for "moderately short-term contracts" (four to ten years in duration) based on the MPR. On Oct. 23, 2009, the Director of Energy Division wrote to parties in R. 08-08-009 describing a benchmark for contracts of less than four years' duration, but to PA's knowledge that benchmark has not yet been finalized. Still, the MPR should provide an indicator. The Commission has adopted MPR values for use with the results of the 2009 RPS RFO.¹⁶



PA evaluated this contract as if it had been submitted in the 2009 RPS RFO. The RFO stated that SDG&E would "assess price reasonableness of each offer by various methods including comparing the offer to 1) a publicly available energy market price index plus, if necessary, an

¹⁵ California Public Utilities Commission, Decision (D.) 09-06-050, June 19, 2009.

¹⁶ California Public Utilities Commission, Resolution E-4298, Dec. 17, 2009.

7. Project-specific recommendation

appropriate valuation of other attributes bundled within the offer.... or, 2) offers received in recent RFO's." Then, "[a]fter offers are sorted by price, SDG&E will short list the most reasonably priced offers that are most viable and reliable." [REDACTED] s

SDG&E had derived a price standard from the offers in that RFO, for use in its "duration equalization" algorithm; that standard was [REDACTED] By that measure the Calpine contract is a good one as it is [REDACTED] cheaper (and has full RA credit, which not all the 2008 offers did).

Short-term contracts play a slightly different role than long-term contracts in the utility's portfolio since they provide insurance against delays in development of plants with long-term PPAs. [REDACTED]

[REDACTED] PA therefore reviewed the Calpine Energy Services contract using the same LCBF evaluation model that had been used for the 2009 Renewables RFO.

For the LCBF analysis, PA used the bid price [REDACTED]

[REDACTED]

7. Project-specific recommendation

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

That ranking is about the same as for the [REDACTED]
[REDACTED]

The price of the Calpine Energy Services contract is competitive, and since it is associated with existing generation it is highly viable. [REDACTED]
[REDACTED]

7.2 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 the Calpine Energy Services contract merits approval. Its price is reasonable compared with the offers in the 2009 RFO, based on SDG&E's LCBF evaluation tool, and it is from an existing resource.

[REDACTED]

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

¹⁷ SDG&E's RFO allowed bidders to propose either flat pricing (as in this case) or TOD-adjusted pricing, in which the bidder's contract price would be multiplied by a factor dependent on its delivery profile. The TOD adjustment is related to a measure of energy value not cost, and this specific adjustment does not mean that Calpine Energy would be paid more than its contract price.

7. *Project-specific recommendation*

PA

