

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



December 6, 2010

Advice Letters 2161-E and 2161-E-A

Clay Faber, Director
Regulatory Affairs
San Diego Gas and Electric
8330 Century Park Court, CP32C
San Diego, CA 92123-1548

Subject: Request for Approval of Renewable Power Purchase with Imperial Valley Solar, LLC and Partial Supplemental Filing

Dear Mr. Faber:

Advice Letters 2161-E and 2161-E-A are effective August 12, 2010 per Resolution E-4352.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



Clay Faber
Director – Regulatory Affairs
8330 Century Park Court
San Diego, CA 92123-1548

Tel: 858-654-3563
Fax: 858-654-1788
CFaber@semprautilities.com

May 17, 2010

ADVICE LETTER 2161-E-A
(U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: PARTIAL SUPPLEMENTAL FILING -- REQUEST FOR APPROVAL OF RENEWABLE POWER PURCHASE WITH IMPERIAL VALLEY SOLAR, LLC

PURPOSE

This partial supplemental advice letter is being filed to supplement San Diego Gas & Electric Company (SDG&E) Advice Letter (AL) 2161-E, in order to clarify and expand the Independent Evaluator's Report for SDG&E's Request for Approval of Renewable Power Purchase with Imperial Valley Solar, LLC.

DISCUSSION

SDG&E AL 2161-E, filed on April 07, 2010, sought California Public Utilities Commission (Commission) approval of a Renewable Power Purchase with Imperial Valley Solar, LLC. The amended and restated contract between SDG&E and IV Solar is for 20 years of concentrating dish Stirling solar energy from a plant to be constructed in the Imperial Valley of California with a commercial operation deadline of December 31, 2012. The Proposed Amendment seeks changes to the previously approved agreement to accommodate updated project schedule and pricing terms, as well as other changes.

PA Consulting Group acted as Independent Evaluator (IE) to SDG&E for this Renewable Power Purchase with Imperial Valley Solar, LLC. Public and confidential versions of PA Consulting Group's, *"Report of the Independent Evaluator on the amended Imperial Valley Solar contract relative to the results of the 2009 Request for Offers from Eligible Renewable Resources (2009 Renewable RFO)"*, dated April 2, 2010, were submitted to the Commission as part of SDG&E's AL 2161-E on April 07, 2010 as Attachments H (Public version) and C (Confidential version).

Upon further review of Commission Resolution E-4199, PA Consulting Group issued a letter to SDG&E dated May 12, 2010 to modify and append its IE report filed with AL 2161-E to include additional information and amend two inaccuracies in Section 7.1.2, Cash Flow Model. Included herein as Attachment A (public version) and Attachment B (confidential version) is the letter from PA Consulting Group dated May 12, 2010 to append to the IE Report filed with AL 2161-E.

EFFECTIVE DATE

This advice letter should be classified as Tier 3 (effective after Commission approval) pursuant to GO 96-B. SDG&E respectfully requests that the Commission issue a resolution approving this partial supplemental advice letter in conjunction with approval of Advice Letter 2161-E on or before August 12, 2010.

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, or June 6, 2010. 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 Gatchalian (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

NOTICE

A copy of this filing has been served on the 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.

CLAY FABER
Director - Regulatory Affairs

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Megan Caulson

Phone #: (858) 654-1748

E-mail: Mcaulson@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) #: 2161-E-A

Subject of AL: Partial Supplemental Filing -- Request for Approval of Renewable Power Purchase with Imperial Valley Solar, LLC.

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: Supplement to AL 2161-E

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 declaration filed with AL 2161-E.

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 8/12/2010

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

Attachment A

SDG&E Advice Letter 2161-E-A

Addendum to Independent Evaluator Report – Public Version



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350 South Grand Avenue, Suite 1600
Los Angeles, CA 90071

Tel: +1 213-689-1515

Fax: +1 213-621-3082

www.paconsulting.com

//PCharles letter expanding on IE rpt 5-12.doc

May 12, 2010

Patrick Charles
San Diego Gas & Electric Co.
8315 Century Park Court, CP21D
San Diego CA 92123-1548
Via email: PCharles@semprautilities.com

Dear Pat:

Imperial Valley Solar – Clarifications to IE report

I want to take this opportunity to clarify and expand on section 7.1.2 of the “Report of the Independent Evaluator on the amended Imperial Valley Solar contract relative to the results of the 2009 Request for Offers from Eligible Renewable Resources (2009 Renewable RFO)” by PA Consulting Group (PA), dated April 2, 2010 (the IE Report). I expect that this letter will be filed with the CPUC so that it can be read as an addendum (and in two specifics, correction) to the original IE Report

The discussion under consideration related to the CPUC’s Resolution E-4199: “the developer must provide the Commission and the IE with cash flow models, both the original reflecting the price in the original contract and the latest version, for projects that are re-filed with the Commission for approval of a price amendment if the new contract price is above the MPR and the contract is eligible for AMFs.... An IE’s conclusions must not be based on whether the developer’s rate of return is reasonable, but rather whether the change in model inputs are reasonable and justify the price change.”

This guidance implies that the Commission is requesting the IE to use the cash flow models to connect changes in price to changes in model inputs, and further to examine whether those changes are reasonable. “Reasonable” in this case should mean that the changes reflect market conditions. It could mean that the inputs changed because market conditions changed; that would surely be reasonable. It could also mean that the inputs changed because the developer realized that it had misread market conditions or incorrectly estimated costs, which raises the question as to whether it is reasonable to allow a developer to raise its price because of its own error. PA has concluded that in this case such a change is reasonable (below).

An additional type of model input is developer profit. The Commission stated that the IE should not evaluate the reasonableness of a developer’s rate of return, but the issue here has to do with changes in the rate of return. It would probably be unreasonable for a developer to attempt to increase the price of a signed contract in order to improve its own profits.

continued

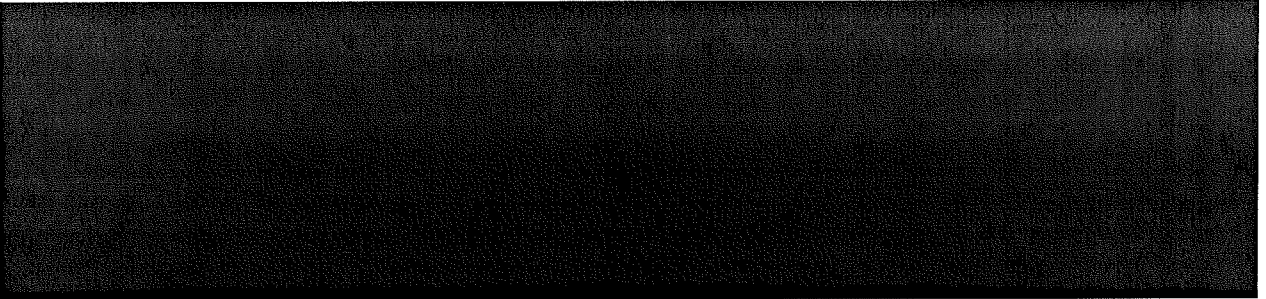
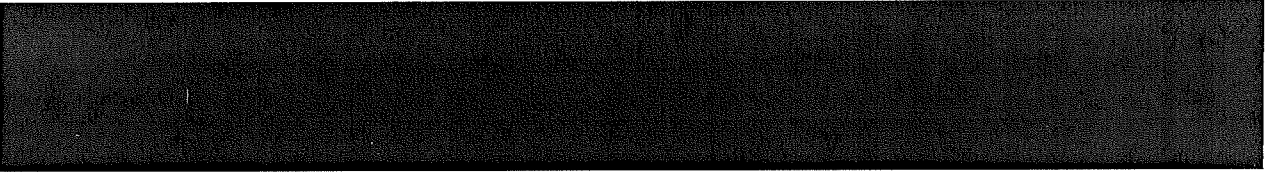
PA Consulting Group, Inc

continued

PA

- 2 -

The Imperial Valley Solar project may be viewed as providing its developer with two components of profit. In most cases a developer invests equity, borrows additional funds, builds and operates a power plant, services its debt and keeps the remaining cash flow. Its profit is the *return* (on equity) represented by the cash flow. But in this case, the developer, Tessera Solar North America (TSNA) is an affiliate of Stirling Energy Systems (SES) which developed the technology and assembles the individual SunCatcher generators. SES transfers the SunCatchers to TSNA at a price greater than its cost of materials and subassemblies. SES's profit is that *margin* and, because SES is an affiliate of TSNA, the developer profit should be considered as consisting of both TSNA's *return* and SES' *margin*.



Mr. Scannell also provided a memorandum noting and explaining key differences between the old proforma and the new proforma:

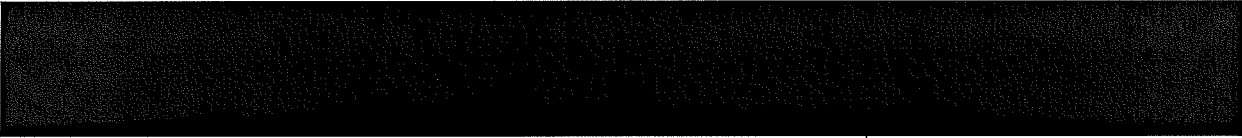
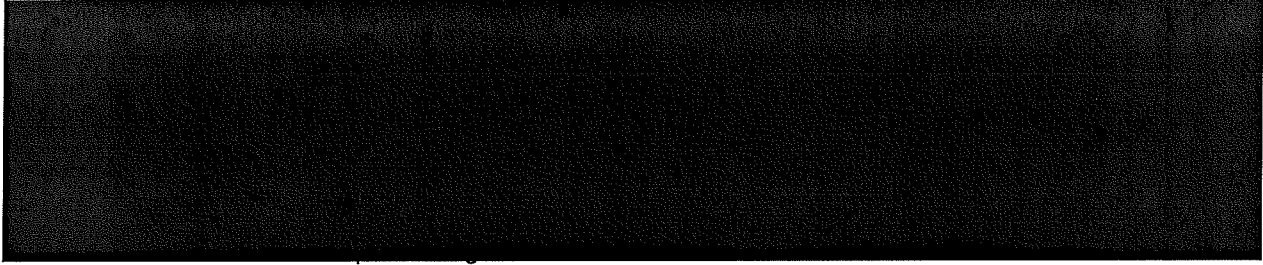
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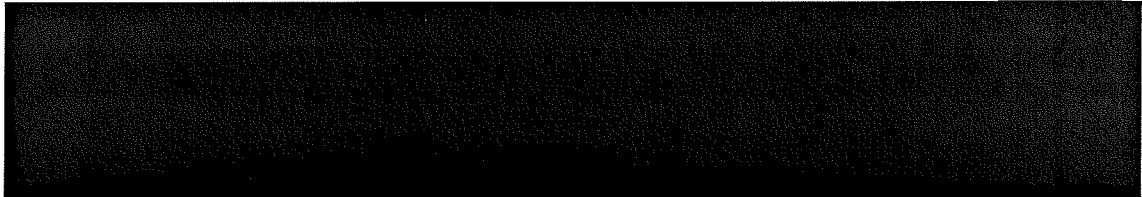
PA

- 3 -

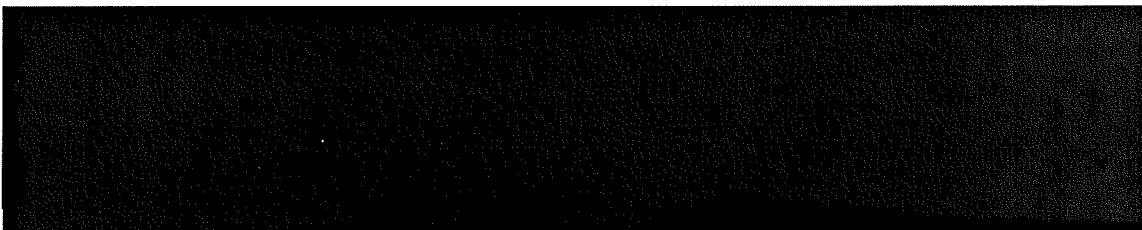


Finally please note the following two corrections to the discussion of profits in the IE report.

1.



2.



Therefore we consider the estimated operating margin to be a reasonable indicator of what that margin will be.



continued

PA Consulting Group, Inc

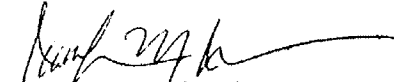
continued

PA

- 4 -

Please call me if you have any questions about this information.

Yours truly,



Jonathan M. Jacobs