**SDG&E’s**

**2013 Greenhouse Gas Offset Credit**

**Request for Offers - (“GHG Offset RFO”)**

**Questions & Answers**

**Q1** - Regarding the enabling agreement for this RFO, is SDGE amenable to executing the EEI AB32 Annex for those counterparties that are already EEI-enabled with SDG&E?  If not, is SDG&E willing to review a counterparty’s form of enabling agreement instead of the SDG&E draft?

**A1** – SDG&E will only accept mark ups (red-line) of the contracting documents posted on the RFO website for this RFO (Master Allowance / Offset Credit Purchase Agreement and Offset Credit Confirmation). These documents can be found at <http://www.sdge.com/ghg-offset-credit-rfo-september-2013> . SDG&E will not accept any other forms.

**Q2** - Is there a maximum amount of offsets that SDG&E is seeking in this solicitation? Or is there a maximum amount of offsets that SDG&E is looking to procure?

**A2** - There is no maximum amount that can be offered, but SDG&E may only take a portion of some bids if the volume exceeds SDG&E’s needs.

**Q3 -** What type of offsets protocols does SDG&E prefer?

**A3 –** Although there was some discussion about various protocols and differences between those protocols during the pre-bid conference on September 26, SDG&E will entertain all CARB approved protocols; SDG&E does not have a preference for any particular approved protocol.

**Q4 -** Is there a preferred amount of offsets to procure?

**A4 -** SDG&E does not have a preferred offer volume, but the minimum offer size is 10,000 MMT and if an offer exceeds SDG&E’s needs, SDG&E may seek to contract for only a portion of the offsets bid.

**Q5 -** What criteria are going to be used to evaluate the bids? And will you be comparing the bids to prices of allowances?

**A5 -** SDG&E will use the evaluation criteria stated in the solicitation document (section four beginning at page 7). Primary evaluation factors are: market valuation, unsecured credit, portfolio fit, supplier diversity and project viability. Other evaluation factors are: project reliability and adherence to agreement terms and conditions (definitions for all of these factors are included in the solicitation document that can be found at: <https://www.sdge.com/sites/default/files/documents/1033449589/2013%20GHG%20Solicitation%20Document%20-%209-17-13%20-%20final.pdf?nid=8891> ). Yes, allowance prices will be used for comparison.

**Q6 -** Do you have any preference for single projects or multiple projects in one offer?

**A6 -** SDG&E will entertain offers that include single projects / a single protocol or multiple protocols / multiple projects. SDG&E has no preference.

**Q7 -** In the event of invalidation, are you looking for CCO (California Carbon Offset) replacement?

**A7 -** SDG&E would prefer allowance replacement, but will entertain CCO replacement.

**Q8 -** What products are you requiring?

**A8 –** SDG&E is seeking offers for qualified greenhouse gas offset credits. See the RFO solicitation document at <https://www.sdge.com/sites/default/files/documents/1033449589/2013%20GHG%20Solicitation%20Document%20-%209-17-13%20-%20final.pdf?nid=8891> for further details.

**Q9 -** Has the CPUC reviewed this agreement template or do we go through the redlines, negotiate, and then go seek CPUC approval?

**A9 -** SDG&E has notified the Commission of this RFO and has shared the solicitation documentation with CPUC members via the Procurement Review Group (“PRG”). The Commission has not approved the Agreement, but SDG&E has authority to procure offsets via an RFO without a formal approval of the Offset Agreement and once executed the contracts will be filed via SDG&E’s Quarterly Compliance Report (QCR).

**Q10 -** If the selling counterparty already has an EEI with SDG&E, can we simply execute an AB32 annex?

**A10 -** No. See the answer to question one, above (A1).

**Q11 -** Please provide an example of net account payable receivable payment.

**A11 -** Net accounts payable and receivable occurs when a party owes or is owed money by the other party. For the purposes of this RFO, this would occur then the offsets are delivered to SDG&E, but SDG&E has not yet paid for them. The window for this should be no more than 30 days after which SDG&E will have paid for the Offsets and the Net accounts payable and receivable will be back to zero.

**Q12 -** What is SDG&E using to calculate the allowance price? Is there an Index?

**A12 –** SDG&E will utilize ICE futures prices for this purpose. Vintage 2013 allowance futures prices will be used until that is no longer traded at which point, the reference will become Vintage 2014 futures.

**Q13 -** Will SDG&E be “hair-cutting” the allowance futures market price to an offset price when calculating exposure?

**A13 -** No, SDG&E is not anticipating such a ‘hair cut’ but to the extent that a counterparty has secured credit with SDG&E its threshold could increase and thus that counterparty would have a reduced Performance Assurance requirement.

**Q14 -** After delivery of the offsets, is the seller still required to post the independent amount?

**A14 –** Yes, the independent amount is required for the entire duration of the contract (this applies to counterparties that are below investment grade or do not have a credit rating), and the independent amount will be returned after the invalidation period has expired.

**Q15 -** How frequently will you calculate the Mark-to-Market?

**A15 -** SDG&E anticipates a bi-weekly calculation, but – as allowed for in the offset agreement documents - this can be done more or less frequently if circumstances require.

**Q16 -** Is there availability for netting exposure or netting agreements?

**A16 -** Yes, SDG&E is open to netting exposure or netting agreements, but this would require a separate Netting Agreement.

**Q17 -** You’re asking for potential Mark-to-Market and invalidation security from sellers. Would that go on for 3 years?

**A17 -** Yes.

**Q18 -** If seller is posting Mark-to-Market exposure for allowance, what is the 20% invalidation security for?

**A18 -** As required by the CPUC, SDG&E may not take the Invalidation Risk. As stated in the solicitation document, after delivery of the offset credits to SDG&E and for the entire Invalidation Period, Bidders will be required to provide collateral equaling 20% of the Notional Value of the contract payments under the agreement. It is important to note that SDG&E will have already provided full payment for the offset credits shortly after delivery of the offset credits, and this Invalidation Security Amount will be held by SDG&E throughout the three year invalidation term in order to mitigate SDG&E’s risk of loss in the event that the offset credits are invalidated in whole or in part during this period.

**Q19** - My company is a DBE firm and we utilize a Transfer Agent Bank (Bank X) to facilitate current commodity transactions, which alleviates certain credit requirements.  As a DBE firm, will we be allowed to utilize our Corporate Escrow with Bank X to meet the credit requirements as identified in the RFO and on the conference call? If not, what other means are available to assist DBE firms with credit so that we can participate?

**A19 –** As a DBE firm, you may not have audited financial statements and would then only qualify for secured credit.  This means that you would then be required to post collateral to cover the credit exposure throughout the term of the invalidation risk.  The collateral that SDG&E will accept are either letters of credit or a cash deposit.  Your Escrow bank may be able to assist you with those options.

**Q20 -** Sourcing of CCO3s from multiple projects:   Is the submission of multiple projects acceptable to SDG&E?    Given that CCO3s have yet been issued, the option to deliver a percentage of the offered CCO volume from multiple projects allows supply flexibility and delivery certainty to [BIDDER NAME REMOVED] (and SDG&E).

**A20 -** SDG&E is willing to accept bids sourced from multiple projects, as long as all of the resulting CCOs meet therequirements set forth in this RFO.

**Q21 -** CCO3 non-issuance:  In the event that CCO3s have not been issued by the ARB by September 2014, would SDG&E consider taking delivery of CCO8s?

**A21 -** SDG&E will only accept other CCO3 offsets or CCAs.  Other products will not be accepted for replacement.

**Q22 -** Is all the information in the Project Description Form a full requirement?     (as an early action financer and developer in US carbon, much of this information was NOT required under original contracting and is unlikely to be available)

**A22 –** To the degree that a Bidder cannot answer a question or provide the information requested in the Project Description form, please indicate ‘not applicable’ or some other appropriate response and explain the circumstances surrounding the response. SDG&E will not automatically consider such responses as non-conforming.

**Q23 -** If a respondent submits proposals with some questions “N/A” will the proposal still be considered?

**A23 –** Yes.

**Q24 –** Regarding the project description form, and given the current California offset market, offset project developers have been selling offsets primarily to investment grade trading companies who in turn are selling these offsets to end users. The reason for this is because California compliance entities have largely determined that the offsets they want are required to have a guarantee against invalidation and this is a product that project developers are typically unable to provide given their non-investment grade status. Consequently, regarding SDG&E’s Project Description Form -- many of these questions are only questions that the original Project Developer can answer (examples of this include questions 7a, 8, 9, 11, 12, 14, 15, 16, 17, 27a, b and 28b). Please advise how SDG&E will respond to offers from investment grade sellers who answer all the questions that they are able to in a good faith manner but respond with a N/A on those questions that they are unable to fully complete on the Project Description Form.

**A24 -** To the degree that a Bidder cannot answer a question or provide the information requested in the Project Description form, please indicate ‘not applicable’ or some other appropriate response and explain the circumstances surrounding the response. SDG&E will not automatically consider such responses as non-conforming.