

ATTACHMENT 1

**SAN DIEGO GAS & ELECTRIC COMPANY
2009 RENEWABLES PROCUREMENT PLAN**

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I.
INTRODUCTION AND BACKGROUND

In accordance with the direction provided by the Public Utilities Commission (the “Commission”) in the *Amended Scoping Memo and Ruling of Assigned Commissioner Regarding 2009 RPS Procurement Plans* (the “ACR”), issued in R.06-05-027 on June 20, 2008, the subsequent *Administrative Law Judge’s Ruling Regarding Revised Schedule For 2009 RPS Procurement Plans* (the “ALJ Ruling”) issued on August 12, 2008, and D.09-06-018, issued June 8, 2009, SDG&E hereby submits its revised 2009 renewables portfolio standard (“RPS”) Procurement Plan (the “Plan”).

In the ACR and subsequent ALJ Ruling, the Commission established a schedule for submission of draft 2009 RPS Plans and set forth certain elements that must be included in all draft Plans. Attachment A of the ACR identifies documents that must be submitted with each Plan and directs that the Plans include additional information in the following format:

A. Program Overview and Metrics

1. Overview: An assessment and discussion of:

- 1.1. Supplies and demand to determine the optimal mix of RPS resources (including the analysis used to determine the optimal mix, with the underlying assumptions clearly stated),
- 1.2. The use of compliance flexibility mechanisms, and
- 1.3. A bid solicitation setting forth relevant need, online dates, and locational preferences, if any.

2. Program Metrics: Data and information for each year from 2003 through 2013 (with actuals, estimates or forecasts drawn from the most recently filed Project Development Status Report and/or Compliance Report, as appropriate) of:

- 2.1. Retail sales,
- 2.2. Annual procurement targets,
- 2.3. RPS-eligible procurement,
- 2.4. Use of flexible compliance,
- 2.5. Use of above-market funds (AMFs),

- 2.6. Reasonable use of a procurement margin of safety to account for potential contract failure and other contingencies (see D.06-05-039, pp. 21-24) and
- 2.7. Any other relevant data and information regarding sales, targets, procurement, flexible compliance, margins of safety or other related matters to make a complete presentation on program metrics.

B. Selected Program Specifics

3. Standard Terms and Conditions (STCs): Specifically regarding STCs (both modifiable and non-modifiable), a matrix that: (a) identifies each STC from Decision 08-04-009; (b) states the parallel term in the 2009 model contract(s); (c) identifies any differences; (e) explains or justifies any variation from the STCs adopted in D.08-04-009, or as later modified by the Commission; and (f) provides any other information respondent believes necessary for the Commission to make an informed decision regarding any proposed changes from a Commission-adopted STC.

4. Transmission and Flexible Delivery: A statement of specific considerations, if any, to facilitate Program success relative to:

- 4.1. Transmission, including use of flexible delivery points, efforts to ensure the availability of needed transmission, and efforts to construct needed facilities (re: Pub. Util. Code § 399.14(a)(2)(C)(ii)),
- 4.2. Anything else on transmission and flexible delivery necessary for a full consideration of this issue.

5. Transmission Ranking Cost Report (TRCR): Discuss experience with the current TRCR process, and recommended improvements for consideration, if any, including:

- 5.1. Given the Generation Interconnection Process Reform (GIPR) of the California Independent System Operator (CAISO), and the proposed timing for interconnection studies, should negotiations only occur with those projects that are part of the Serial Group, are part of the Transition Cluster, or apply for interconnection before the closing of the “First Queue Cluster Window?”
- 5.2. Should information from the Scoping and Results Meetings scheduled in 2009 for the GIPR Transition Cluster be used, as available, to update TRCRs, other estimates of transmission costs, and proposed online dates being applied in bid evaluations and contract negotiations?
- 5.3. If so, are there any procedural problems which must be considered to ensure that information from these Scoping and Results Meetings may be integrated into the IOUs’ evaluations and negotiations?

6. Bid Evaluation: A statement identifying any modifications to how bids are evaluated and ranked according to the least-cost, best-fit methodology, including evaluation and ranking of out-of-state resources and short-term contracts.

7. Resource Planning: A discussion of procurement practices (historic and prospective) considering recent Progress Development Status Reports, Compliance Reports and available AMFs. This should include an assessment of the need determination relative to (a) signed and Commission-approved contracts, and (b) contract failure assumptions.

8. Coordination of Procurement Process: Should the Commission take a position on whether or not an IOU may execute exclusivity agreements with bidders prior to formal notification to all bidders?

- 8.1. Does an IOU now have the option when to execute an exclusivity agreement?
- 8.2. What are the reasons for and against IOUs either (a) being permitted discretion if and when to execute an exclusivity agreement or (b) being required to execute an exclusivity agreement no sooner than a certain date in the procurement cycle?

9. Build Own Resources: A showing on the IOU's current consideration of whether or not to build its own renewable generation to reach 20% by 2010 (D.06-05-039, pp. 33-34; D.07-02-011, pp. 23-25; D.08-02-008, pp. 32-35.) This showing must identify specific projects currently under consideration. It must also identify specific generic additions currently under consideration (e.g., 50 MW of utility-owned biomass in 2012, even if the specific location and plant name are unknown). If the IOU has decided not to consider this option, the showing must include the IOU's reasons and justification for that decision.

10. Workplan to Research 20% By 2010: A showing on each LSE's workplan to reach 20% by 2010, including but not limited to:

- 10.1 Identification of any impediments that remain to reaching 20% by 2010, and
- 10.2 What the LSE is doing, or plans to do, to address each impediment, if anything.

11. Contract Amendments: If conditions change (e.g., commercial operation date, project size, project owner, a project's costs relative to the contract price), one or both parties may seek to amend an RPS contract. Some changes or amendments might be within the context of "contract administration." Others might require Commission review and acceptance. In this context:

- 11.1. Please identify specific changes or amendments which the IOU believes to be within the scope of "contract administration."
- 11.2. Please identify specific changes or amendments which the IOU would plan to bring to the Commission for consideration.
- 11.3. Of those brought to the Commission, please identify those which the IOU would propose to bring (a) as part of an Energy Resource Recovery Account (ERRA) review, (b) by advice letter and if by advice letter under what tier, (c) via formal application, or (d) other.

12. Cost-Containment: IOUs are asked to address cost-containment as it relates to the 2009 Plans and going forward.

- 12.1. Generally: All stakeholders share a responsibility to do everything reasonably possible to meet or exceed program goals while minimizing total program costs. Please comment on whether there are additional contract terms, contract or program incentives, or other contract or program features that should be considered in order to promote a robust market while minimizing costs to ratepayers.
- 12.2. Specifically: Please comment on one specific aspect of the 2009 Plans: time of use (TOU) periods and allocation factors. TOU periods and allocation factors may differ in the coming years from current periods and factors. This may be the case, for example, if load curves vary from current patterns in the next decade and beyond as new sources and uses emerge (e.g., wide-spread use of plug-in hybrid electric vehicles (PHEV) using electricity off-peak, sales of PHEV stored energy back to the utility during peak, implementation of other storage technologies, widespread penetration of advanced (smart) meters, more robust use of prices to balance supply and demand). TOU benchmarking may be important, but no party has yet presented a methodology that is sufficiently developed, documented or explained to merit its explicit endorsement or adoption by the Commission. (D.06-05-039, Finding of Fact 30.) At the same time, RPS model contracts may fix TOU periods and allocation factors for the life of the contract. In this context, please comment on:
 - 12.2.1. Does your RPS Procurement Plan and/or model contract(s) fix TOU periods and allocation factors for the life of the contract?
 - 12.2.2. If they are not fixed, what are your proposed methods to update TOU periods and allocation factors?
 - 12.2.3. If they are fixed, is it reasonable that TOU periods and allocation factors remain fixed over the life of the contract? Please state reasons in support and against fixing these terms for the life of the contract.
 - 12.2.4. If they are fixed, are there reasonable ways to allow updates to TOU periods and allocation factors once or more over the life of the contract? What are the possible options? Please identify advantages and disadvantages of the options.

13. Other: Anything else necessary for a full and complete presentation of its 2009 RPS Procurement Plan for the Commission's consideration, as recommended by the IOU for Commission adoption.

C. Plan Coordination, Lessons Learned, Changes

14. Efforts to Coordinate: A statement that describes the efforts undertaken to coordinate the form and format of the 2009 Plans, plus improvements to the model contracts. The statement should also report on the successes or difficulties with that effort.

15. Lessons Learned: Identify and summarize any important lessons learned over the last few years and procurement cycles.

16. Important Changes: A statement identifying and summarizing the important changes between the Plans for 2008 and 2009. This might be a table or bullet point presentation. (It should not be a reprint of the two Plans with strike-out and underlined inserts.) In addition to identifying and summarizing the important changes, the Plan should also include an explanation and justification for each important change from 2008 to 2009.

17. Redlined Copy: A version of the 2009 Plan that is “redlined” to identify the changes from the 2008 Plan, with a copy for Energy Division, the Administrative Law Judge and any party who requests a copy.

II. 2009 RENEWABLES PROCUREMENT PLAN

A. PROGRAM OVERVIEW AND METRICS

1. OVERVIEW

SDG&E’s 2009 RPS Procurement Plan is designed to achieve the goal of serving 20% of its retail sales with renewable energy by 2010 and, in accordance with its Long Term Procurement Plan, of adding an additional 1% of cost effective renewable energy each year in order to achieve a 33% by 2020 goal. As is explained in more detail herein, in order to accomplish this aim within the brief period of time remaining before compliance year 2010, SDG&E intends to rely upon use of flexible compliance mechanisms in the years 2010 and later, and will solicit short-term contracts in its 2009 RFO.

1.1 SUPPLIES AND DEMAND TO DETERMINE THE OPTIMAL MIX OF RPS RESOURCES (INCLUDING THE ANALYSIS USED TO DETERMINE THE OPTIMAL MIX, WITH THE UNDERLYING ASSUMPTIONS CLEARLY STATED)

SDG&E has been successful in adding renewable resources in previous solicitations that represent a diversified portfolio of technologies suitable for SDG&E's resource needs. SDG&E's goal is to continue to promote a renewable mix that is wide-ranging in technology types and allows SDG&E to pursue a combination of both power purchase and ownership options, including turn-key and joint venture. It is important to note, however, that procuring an optimal mix is not possible to the extent that SDG&E is under a directive to comply with the 20% RPS obligation. The Commission makes no provision in its RPS compliance rules to allow a utility to wait for "optimal" resources to be offered into its RFO. As such, the selection of renewable resources is not driven by the objective of procuring an optimal mix of resources, but rather is determined, in accordance with RPS rules, by an assessment based upon quality, price and terms of offers submitted of which resources will allow SDG&E to meet RPS requirements in the most expeditious and cost effective manner. For example, SDG&E may be prevented from procuring a particular technology due to the lack of offers, or at least reasonably priced offers, for a certain technology. As SDG&E will discuss in Section 15, the majority of offers bid into SDG&E's 2008 RFO were from solar thermal or solar PV projects, a more expensive technology. SDG&E projects that this trend will continue as "low hanging fruit" – *i.e.*, other, less expensive technologies – diminish. This will restrict SDG&E's ability to design an optimal mix of renewable resources.

1.2 THE USE OF COMPLIANCE FLEXIBILITY MECHANISMS

To the extent that it is necessary to do so, SDG&E will avail itself of the flexibility mechanisms permitted under the RPS program, including: (1) the ability to sign bilateral agreements; including short term contracts, (2) the ability to bank purchases in excess of the APT; (3) the ability to withdraw, if necessary, from the bank to make up for purchase shortfalls (4) the ability to earmark contracts for purchase shortfalls, and (5) the ability to carry forward shortfalls for three years.

1.3 A BID SOLICITATION SETTING FORTH RELEVANT NEED, ONLINE DATES, AND LOCATIONAL PREFERENCES, IF ANY

SDG&E intends to issue an RFO in 2009 seeking additional offers in accordance with RPS requirements established by the Commission and the California Energy Commission, (“CEC”). The RFO will solicit bids from all technologies of renewable projects that are located anywhere in California, as well as outside of California provided that the renewable project located outside the State meets the requirements set forth in Public Utilities Code Section 399.16.

Included in SDG&E’s 2009 RFO will be a new section intended to encourage bids from projects served by the recently-approved Sunrise Powerlink (“Sunrise” or “SPL”).^{1/} The section describes outreach efforts aimed at such projects, including:

- 1) Hosting a special pre-bid conference in El Centro, California where SDG&E will explain:
 - a. The key elements of the Commission’s decision approving Sunrise;
 - b. The size, route, status and construction schedule of Sunrise;
 - c. The estimate of 1,900 megawatts (MW) of Imperial Valley renewables expected to be delivered over Sunrise by 2015, with more than half of that development from high capacity geothermal resources, and

^{1/} The Commission approved SDG&E’s application for approval of the Sunrise Powerlink in D.08-12-058.

- d. SDG&E's commitments to:
 - 1. Not contract for any length of term with conventional coal generators that deliver power via Sunrise,
 - 2. Replace any approved renewable energy contract deliverable via Sunrise that fails with a viable contract with a renewable generator located in Imperial Valley (*e.g.*, a minimum of 2,253 gigawatt-hours (GWh) per year) and
 - 3. Voluntarily raise its RPS goal to 33% by 2020.

2) The due date for offers from the SPL Region will be extended by two weeks.

3) To help alleviate upload traffic on the due date, Respondents submitting offers for projects located in the SPL Region will upload bids via a special, dedicated upload link. See the RFO website for instructions to obtain a username/password combination to upload bids via this dedicated link.

Attached as Appendix A is the proposed RFO that SDG&E intends to issue for its 2009 RPS program solicitation. SDG&E has also included as Appendix B all RFO accompanying documents including offer forms and its revised pro forma power purchase agreement ("PPA").

Subsequent to the issuance of D.09-06-050, SDG&E revised the pro forma agreement to accommodate very short term offers (one month to 4 years) and moderately short term offers (4 years to 10 years). SDG&E intends to use one pro forma for both short- and long-term agreements. In accordance with D.09-06-050, the revised pro forma is included with this compliance filing.

SDG&E's RFO will solicit capacity and energy services from repowered, upgraded or new facilities. Products may include unit firm or as-available deliveries starting in 2010, 2011, 2012, or 2013 for short-term contracts less than ten years or long term contracts of 10-years, 15-years, 20-years or longer terms.

SDG&E intends to solicit bids from renewable facilities that meet the requirements for eligible facilities as specified in SB 1078, SB 107 and as established by the CEC. The 2009 RFO allows sellers to offer renewable products from generation

plants connected anywhere to the WECC transmission system, as long as the energy can be delivered into California. Arrangements to have the energy delivered to a point of delivery within the CAISO system will be a negotiated term where either the buyer or seller must undertake such arrangement.^{2/} SDG&E will evaluate all resources on an equal basis using a Least-Cost/Best-Fit (“LCBF”) evaluation methodology that has: 1) been used in previous solicitation, and 2) been reviewed by its Independent Evaluator (“IE”). SDG&E intends to count renewable resources towards its resource adequacy requirement and will evaluate each offer and include in its overall evaluation criteria any costs / benefits associated with resource adequacy. SDG&E’s ability to procure from certain areas within California could be impacted by planned transmission additions. The lack of timely transmission additions will have a potential severe impact on certain project development in areas where transmission constraints and congestion are expected to exist, including resources that may locate in the eastern portion of San Diego County, the Imperial Valley, northern Mexico and Tehachapi areas.

Threshold requirements of SDG&E’s 2009 RFO include:

- (i) Projects within SDG&E’s service area must be greater than or equal to 1.5 MW, net of all auxiliary and station parasitic loads.
- (ii) Projects outside of SDG&E’s service area must be greater than or equal to 5 MW, net of all auxiliary and station parasitic loads.
- (iii) Respondents are required to satisfy all requirements established by the Commission and CEC, for participation in the RPS Program. Resources must be certifiable by the CEC as an RPS-eligible renewable resource. Any purchases entered into between respondents and SDG&E will be subject to the RPS requirements established by the Commission and eligibility requirements specified by the CEC.

^{2/} If SDG&E selects out-of-state offers, such offers will also be subject to approval by the CEC in accordance with the CEC’s latest Renewable Guidebook and in accordance with P.U. Code Section 399.16.

- (iv) Respondents must be willing to execute an agreement in substantially the form of SDG&E's pro forma PPA.

The evaluation criteria set forth in the RFO is consistent with the directives contained in applicable Commission decisions, including D.03-06-071, D.04-06-013 and D.04-07-029. Bids will be assessed in an LCBF ranking based upon the all-in price, including capacity and energy, time of delivery adjustment, transmission upgrade costs, congestion costs/credits, resource adequacy costs or benefits, and duration equalization adders, if applicable. Currently the Commission directs IOUs to follow the CEC determination that integration^{3/} costs are negligible. However, SDG&E believes that integration costs are real and material, and therefore proposed to include such a cost adder to its 2008 LCBF evaluation. This would ensure that the true cost of the addition of renewable resources are known at the time of contracting. While the Commission in D.08-02-008 declined to permit SDG&E to include integration cost adders as a component of its LCBF, SDG&E continues to believe that the true and complete cost of renewables must be fully considered, particularly where the State is considering an increase of the renewables procurement requirement to 33%.

SDG&E may use production cost modeling to further evaluate short-listed offers and see how each projects dispatches within the existing portfolio of SDG&E resources. This exercise becomes particularly useful as SDG&E approaches its 20% renewable goal and is able to be more selective in its procurement. The ability to integrate and accept for delivery as-available renewable power is an issue that is largely handled by the CAISO;

^{3/} An integration cost adder could take into account the added costs created by certain resources that require additional ancillary services, load following capability or over-generation as part of LCBF.

the CAISO has been studying the impact of increased levels of renewable power from the perspective of reliability and has issued a report outlining its concerns and conclusions.

Pursuant to D.04-07-029 issued on July 8, 2004, qualitative factors will be used as tie-breakers to differentiate projects with similar all-in cost. These factors include (in no particular order of preference):

- Project Viability
- Local reliability
- Benefits to low income or minority communities
- Resource diversity
- Environmental stewardship

The Project Viability qualitative factor will be measured using the Project Viability Calculator (“PVC”) developed by the Commission’s Energy Division. Although the results of the PVC will not be used quantitatively, SDG&E will include the PVC in its solicitation materials to provide potential bidders with the ability to self-assess project viability. SDG&E will encourage potential bidders to refrain from proposing a project if their viability score is low, as it would be unlikely for SDG&E to shortlist a project with a low score, regardless of the price.

SDG&E’s description of its bid evaluation criteria using the LCBF Written Report Template prepared by the Energy Division is attached as Appendix C. This document describes the methodology for processing and performing LCBF evaluation for all offers submitted in SDG&E’s RFO. The intent is to implement a systematic approach to assessing the merits of all offers using the established LCBF quantitative factors and without prejudice for or against a particular respondent or particular product type. SDG&E is proposing that short-term offers and long term offers be evaluated using

different methodologies. As a result, SDG&E has appended to this LCBF Written Report Template a separate discussion regarding its approach to evaluation of short-term contracts.

SDG&E may utilize outside consultants to perform analysis and to provide overall support for the solicitation. In addition SDG&E will continue to utilize an Independent Evaluator (“IE”) for the 2009 RFO. The IE will provide an independent review of SDG&E’s RFO process and will review SDG&E’s evaluation criteria, pre-screening, cost modeling efforts, short-listing and final selections. In addition, the IE will participate in PRG meetings and will submit a final report on its findings. SDG&E intends to include the IE’s final report as part of its advice letter filing(s) seeking Commission approval of any contracts that result from this RFO process. To the extent the IE’s report contains confidential information, a redacted version of the report will be made available to the public. The intent is to ensure free and open communication between the IE and the Commission. SDG&E is committed to conducting an open and transparent solicitation, and to ensuring a fair, reasonable and competitive process.

SDG&E will brief its Procurement Review Group (“PRG”) on a periodic basis during the course of the solicitation and seek feedback on SDG&E’s evaluation, selection and negotiations. SDG&E will seek approval of any agreement resulting from the RFO via the Commission’s advice letter filing process.

SDG&E recognizes that RFOs are only one means of procurement. The WECC has a well-established and liquid bilateral market. SDG&E, for the benefit of its ratepayers, intends to 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, tend to be an annual batch-processing of commercial arrangements. SDG&E anticipates that it may seek approval for bilateral renewable contracts with developers who were unable to participate in the previous RFO solicitation and who are unable to wait until the next RFO solicitation. SDG&E is mindful that bilateral resources must be cost-effective when compared against projects that bid into past RFO solicitations. SDG&E's ability to consider offers received in response to all-source, non-RPS RFOs, as well as bilateral offers, will widen the scope of resources available to SDG&E. To the extent that a 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. SDG&E will brief its PRG prior to undertaking substantial negotiations in connection with such agreements.

2. PROGRAM METRICS

2.1– 2.4 RETAIL SALES; ANNUAL PROCUREMENT TARGETS; RPS-ELIGIBLE PROCUREMENT, AND USE OF FLEXIBLE COMPLIANCE

SDG&E's projected retail sales, Annual Procurement Target ("APT"), projected RPS-eligible procurement, and use of flexible compliance for 2009 is set forth in the attached Confidential Appendix D. Assuming that all resources deliver as contracted, SDG&E projects that it will meet its 2009 APT. To the extent that SDG&E exceeds its 2009 APT, it will bank its surplus in order to cover future APT shortfalls, if any, including shortfalls in year 2010 and beyond. If resources do not deliver as expected, SDG&E will either withdraw from its surplus procurement bank in order to make-up the shortfall or will carry-over deficit according to applicable procedures.

A detailed discussion of the elements required in the ACR (retail sales, annual procurement targets, RPS eligible procurement) is set forth in Appendix D, SDG&E's RPS Procurement Plan 2003 – 2013 Report.

2.5. USE OF ABOVE MARKET FUNDS (AMFs)

SDG&E plans to continue procuring competitively priced renewables and submitting renewables PPAs for the Commission's consideration even after having depleted its AMF funds.

2.6 REASONABLE USE OF A PROCUREMENT MARGIN OF SAFETY TO ACCOUNT FOR POTENTIAL CONTRACT FAILURE AND OTHER CONTINGENCIES

The prospect of contract failure in an emerging market such as the market for renewable energy is real. Accordingly, SDG&E has adopted a strategy of procuring in excess of its 20% RPS requirement. Specifically, it has set a goal of contracting for deliveries up to 24%-26% of its retail sales in 2011 through 2013. (See Confidential Appendix D) If SDG&E continues to procure renewables at the incremental rate shown on the spreadsheet, SDG&E will be on a trajectory to achieve 33% by 2020. The margin of safety is intended to provide protection against existing resources that under-deliver their expected volumes, new resources that are delayed in achieving commercial operation and absolute project failures.

2.7 ANY OTHER RELEVANT DATA AND INFORMATION

B. SELECTED PROGRAM SPECIFICS

3. STANDARD TERMS AND CONDITIONS

Appendix F provides a matrix that: (a) identifies each STC from Decision 08-04-009; (b) states the parallel term in the 2009 model contract; (c) identifies any differences; (d) explains or justifies any variation from the STCs adopted in D.08-04-009, or as later

modified by the Commission; and (e) provides any other information respondent believes necessary for the Commission to make an informed decision regarding any proposed changes from a Commission-adopted STC.

SDG&E notes that the matrix required above creates formatting difficulties and provides a product with unnecessary clutter, thus hindering the objective of the matrix – identifying changes in STCs. SDG&E respectfully proposes that in future filings, IOUs instead provide simple redlines of changes to modifiable STCs and justification for the proposed change. A representation stating that no changes have been made to the non-modifiable STCs should also accompany the filing.

4. TRANSMISSION AND FLEXIBLE DELIVERY

4.1. TRANSMISSION, INCLUDING USE OF FLEXIBLE DELIVERY POINTS, EFFORTS TO ENSURE THE AVAILABILITY OF NEEDED TRANSMISSION, AND EFFORTS TO CONSTRUCT NEEDED FACILITIES

On December 18, 2009, the Commission adopted D.08-12-058 granting SDG&E a certificate of public convenience and necessity (“CPCN”) for construction of its proposed Sunrise Powerlink Transmission Project (“Sunrise” or “SPL”). Since approval of Sunrise, SDG&E has moved forward expeditiously to ensure that Sunrise comes in service as soon as possible in order to facilitate renewable energy deliveries into SDG&E’s load center.

Although SPL provides access to renewable rich areas in the Imperial County, eastern San Diego County and northern Mexico, SDG&E’s 2009 RFO will allow respondents to interconnect anywhere in the WECC, provided that they are able to deliver to a point within California. SDG&E will evaluate the cost of congestion between the contract delivery point and the SDG&E LAP, seeking an all-in cost of the resource that is

competitive under the LCBF analysis. The decision as to where the contract delivery point will be depends upon the respective expectations of the buyer and the seller regarding the costs of congestion over the life of the contract and is simply another deal term to be negotiated as part of the total value of the contract.

Transmission constraints may compel SDG&E to make use of flexible RPS eligibility rules established by the CEC. If the opportunity presents itself, and to the extent it would be cost-effective to do so, SDG&E may enter into contracts involving shaping and firming of out-of-state resources similar to the contract SDG&E executed with NaturEner Glacier Wind Energy and NaturEner Rim Rock.

5. EXPERIENCE WITH THE CURRENT TRCR PROCESS, AND RECOMMENDED IMPROVEMENTS FOR CONSIDERATION

While the TRCR does provide data points to evaluate renewable offers, the speculative nature of projects studied in the TRCR, the non-binding nature of TRCR participation and the high-level, cluster analysis provided in the TRCR places doubt on the accuracy and relevance of TRCR results. In the absence of a more precise measure of interconnection costs, SDG&E recognizes an opportunity for the Commission to coordinate results from the Renewable Energy Transmission Initiative (“RETI”) with future direction for the TRCR.

A stated objective of the RETI process is to “tie together the renewable procurement process with the development of generation and transmission so that one does not lag behind the others.”^{4/} SDG&E applauds this mission. Altering the TRCR process to capture the outcome of RETI makes sense since RETI plans consider variables that the TRCR currently does not.

^{4/} RETI Frequently Asked Questions from <http://www.energy.ca.gov/reti/>.

5.1. SHOULD NEGOTIATIONS ONLY OCCUR WITH THOSE PROJECTS THAT ARE PART OF THE SERIAL GROUP, ARE PART OF THE TRANSITION CLUSTER, OR APPLY FOR INTERCONNECTION BEFORE THE CLOSING OF THE “FIRST QUEUE CLUSTER WINDOW?”

LSEs should not be prohibited from negotiating with bidders of projects in any CAISO queue group or cluster. To do so would frustrate renewable development and would serve no reasonable purpose. Renewable projects mature at different rates for various reasons. A project is as likely to be stalled due to obstacles in the interconnection process as it is due to issues such as financing, land or permitting concerns; no milestone test is applied to these other stages of project development. Often, an executed PPA serves as a catalyst for project development and a seemingly stalled project could easily be revived.

5.2. SHOULD INFORMATION FROM THE SCOPING AND RESULTS MEETINGS SCHEDULED IN 2009 FOR THE GIPR TRANSITION CLUSTER BE USED, AS AVAILABLE, TO UPDATE TRCRS, OTHER ESTIMATES OF TRANSMISSION COSTS, AND PROPOSED ONLINE DATES BEING APPLIED IN BID EVALUATIONS AND CONTRACT NEGOTIATIONS?

All relevant information should be made available in a timely manner to update transmission studies, be applied to bid evaluations and be available for contract negotiations. New information would be in ratepayers' best interest inasmuch as it provides a more complete picture of a project's cost and viability. In addition, new information helps LSEs and developers better understand time horizons associated with the project. However, SDG&E cautions against lengthy delays to the RPS procurement process while waiting for interim results of preliminary studies. The 2009 procurement cycle should move forward with the best information available at the time.

5.3. IF SO, ARE THERE ANY PROCEDURAL PROBLEMS WHICH MUST BE CONSIDERED TO ENSURE THAT INFORMATION FROM THESE SCOPING AND RESULTS MEETINGS MAY BE INTEGRATED INTO THE IOUS' EVALUATIONS AND NEGOTIATIONS?

New information should be shared with LSEs and developers as soon as it becomes available. The market will make use of the information as it sees fit. Requiring that the information flow through formal procedures before disclosure could unnecessarily delay the procurement cycle and render the information stale, and could make the information unavailable during the evaluation and negotiation periods – critical times when additional project data is needed most.

6. MODIFICATIONS TO HOW BIDS ARE EVALUATED AND RANKED

In Section 1.3 above SDG&E explained that its LCBF process will include duration equalization adders, which equalizes bids with different starting dates and terms. In years past, SDG&E has used the Market Price Referent to fill in gaps. For the 2009 RFO, SDG&E proposes to fill in delivery gaps with average bid prices from actual 2009 bids. SDG&E believes bid prices are the most accurate indicator of market costs for renewable energy. The MPR, while not unreasonable, excludes the REC component and therefore does not capture bundled energy and REC, which the RFO seeks.

SDG&E supports SCE's proposal to set the MPR costs "at the busbar" and see no reason why the proposal, removing the effects of line losses, would be contrary to the purpose of the MPR or the renewable procurement process.^{5/}

^{5/} See, Pre-Workshop Comments of Southern California Edison Company Regarding the 2008 Market Price Referent for the RPS Program, filed in R.06-02-012 on March 10, 2008; Post-Workshop Reply Comments of Southern California Edison Company on the 2008 Market Price Referent for the Renewables Portfolio Standard Program, filed in R.06-02-012 on June 18, 2008.

Projects are selected for procurement based upon a least-cost, best-fit comparison of project bid prices, with adjustments for additional costs to bring project power output to ratepayers. These adjustments are part of SDG&E's LCBF, which is reviewed by SDG&E's IE and PRG, discussed in Advice Letters and subjected to regulatory review and approval before project costs can be charged to ratepayers. CalWEA's claim that the MPR "at the busbar" would unfairly subsidize out-of-state renewables can only hold if the MPR were the sole and exclusive metric used to assess the suitability of renewable projects for procurement.^{6/} This is not, nor has it ever been, the purpose of the MPR. The MPR was established to provide a threshold of cost beyond which projects should have to endure extra scrutiny. If a renewable project's costs exceed the MPR due to line losses, or other transmission effects, this by itself is not sufficient criteria to dismiss the project. It is, however, sufficient reason to subject the project proposal to a greater degree of analysis to determine whether the benefits of a remote location (such as being closer to a low-cost renewable resource such as a geothermal field or a high wind area, for example) are greater than the incremental costs of transmission to bring the resource to the load center. Project developers that wish ratepayers to pay more for electricity than they would otherwise pay for less costly generation alternatives should expect such scrutiny when their proposals are considered.

^{6/} See Post-Workshop Opening Comments of the California Wind Energy Association, the California Cogeneration Council, the Large-Scale Solar Association and the Solar Alliance, filed in R.06-02-012 on June 6, 2008.

7. RESOURCE PLANNING: A DISCUSSION OF PROCUREMENT PRACTICES (HISTORIC AND PROSPECTIVE) INCLUDE AN ASSESSMENT OF THE NEED DETERMINATION RELATIVE TO (A) SIGNED AND COMMISSION-APPROVED CONTRACTS, AND (B) CONTRACT FAILURE ASSUMPTIONS.

With the exception of the few LCBF changes describe within this Plan and certain changes required by D.09-06-018, SDG&E is not herein proposing any major changes to its procurement practices.

In order to determine its need, SDG&E first calculates estimated procurement amounts by summing expected deliveries from existing contracts and deliveries from contracts under negotiations (adjusted for probability of successful negotiations). The positive difference between the estimated procurement amount and SDG&E's 2010 APT constitutes SDG&E's need. Because a shortlist position does not guarantee a resulting contract, SDG&E shortlists at least twice its need in order to reduce pressure to accept unreasonable terms and conditions from bidders and to insure against failed negotiations.

As noted above, SDG&E has pursued a policy of over-procuring in order to insure against project development delays, project failures and under-deliveries. Although some of SDG&E's counterparties have experienced numerous project setbacks, SDG&E intends to mitigate the impact of these delays/failures through over contracting as discussed above.

8. COORDINATION OF PROCUREMENT PROCESS: SHOULD THE COMMISSION TAKE A POSITION ON WHETHER OR NOT AN IOU MAY EXECUTE EXCLUSIVITY AGREEMENTS WITH BIDDERS PRIOR TO FORMAL NOTIFICATION TO ALL BIDDERS?

The Commission has created a significant number of procedures surrounding RPS procurement and has aligned the solicitations of all IOUs in each year's procurement cycle. Given the uniformity that the Commission has created with respect to the IOUs'

RPS procurement process, the Commission should prohibit an IOU from executing exclusivity agreements with Bidders prior to formal notifications to all Bidders. As described below, doing so would preclude the potential for a Bidder to play one IOU versus another to the detriment of the ratepayers.

8.1. DOES AN IOU NOW HAVE THE OPTION WHEN TO EXECUTE AN EXCLUSIVITY AGREEMENT?

IOUs currently do have the option of when to execute an exclusivity agreement with a Bidder since the RPS schedule provides for target dates rather than definite dates by which certain actions must occur. As noted above, however, SDG&E recommends that the Commission prohibit execution of exclusivity agreements with Bidders prior to formal notifications to all Bidders. This recommendation is based upon SDG&E's experience during the 2008 RFO cycle, which is discussed below.

8.2. WHAT ARE THE REASONS FOR AND AGAINST IOUS EITHER (A) BEING PERMITTED DISCRETION IF AND WHEN TO EXECUTE AN EXCLUSIVITY AGREEMENT OR (B) BEING REQUIRED TO EXECUTE AN EXCLUSIVITY AGREEMENT NO SOONER THAN A CERTAIN DATE IN THE PROCUREMENT CYCLE?

While SDG&E was evaluating offers bid in response to its 2008 RPS RFO, and well in advance of the July 1st date SDG&E planned to notify shortlisted bidders, a bidder contacted SDG&E and advised that another IOU had shortlisted the bidder's offer. The bidder suggested that if SDG&E were to do the same within a few days, the bidder would reject the other IOU and negotiate exclusively with SDG&E. Although SDG&E does not believe that this bidder engaged in any form of misconduct, such practice gives rise to the potential for a bidding war that would negatively impact ratepayers.

In order to prevent this possibility, the Commission should establish a specific date upon which all IOUs must notify all shortlisted bidders. Doing so would:

1. Ensure that all IOUs accurately evaluate all offers submitted without the pressures of an accelerated schedule for one bidder. It makes sense that shortlist decisions be made relative to completed quantitative analysis of all offers.
2. Prevent bidders from “gaming the system” by thwarting pre-shortlist negotiations. Pre-shortlist negotiation provides an opportunity to extract concessions from IOUs in order obtain exclusivity for a project. Conceivably, this could result in a bidding war for a project and unnecessarily increase costs to rate payers.

Establishing a fixed notification date is an important first step. In addition, in order to prevent pre-shortlist negotiations, the date on which a bidder accepts its shortlist position must be (1) as close as possible in time to the shortlist notification date; and (2) the same day for all IOUs.

9. BUILD OWN RESOURCES: A SHOWING ON THE IOU’S CURRENT CONSIDERATION OF WHETHER OR NOT TO BUILD ITS OWN RENEWABLE GENERATION TO REACH 20% BY 2010

As in past years, SDG&E plans to issue a RPS solicitation in 2009 which includes the opportunity for bidders to offer ownership opportunities to SDG&E. The RFO will include both turnkey development and PPAs. SDG&E may also consider building its own renewable generation through greenfield development, which typically takes 3-5 years to complete; this puts SDG&E developed projects (other than the solar PV project described below) beyond the 2010 timeframe. SDG&E’s ownership of renewable generation facilities could take a range of forms, from SDG&E acting as outright and sole developer of a project to a joint ownership structure where SDG&E assists a smaller

developer, acting as financier or adding other expertise such as regulatory, legal, or permitting.

SDG&E continues to study the benefits and issues associated with building its own renewable generation. These efforts are evolving and will be brought to the Commission when they are sufficiently developed. In its first such ownership/development effort SDG&E has established a new a Solar Energy Project.

In support of SDG&E's effort to further diversify its resource portfolio, to promote deployment of distributed solar generation and to contribute to the State of California's renewable energy goals, SDG&E requested Commission approval of its proposed Solar Energy Project in an application filed July 11, 2008. As is explained in more detail in the application, A.08-07-017, the SDG&E Solar Energy Project will focus on areas of the distributed solar generation market that are not currently being served by the California Solar Initiative ("CSI") programs. Specifically, SDG&E proposes to pursue installations that are larger in size than the installations to date in the CSI or SDG&E's Sustainable Communities Program ("SCP")^{7/} but smaller than the large central station PV generating facilities that are connected to the transmission system. The program is proposed over a 5 year period from 2009 through 2013. With a proposed cap of \$250 million, 20 MW_{ac} to 35 MW_{ac} are expected to be delivered to the grid.

The typical facility size is expected to be 1 to 2 MW_{ac} with each installation influenced by the useable space or real estate for a solar installation. This size range offers greater economies of scale than the typical CSI installation while being small

^{7/} SDG&E's Sustainable Communities Program provides incentives for sustainable, efficient building projects and integrates utility-owned distributed generation systems.

enough for siting flexibility on the distribution system.^{8/} The primary types of solar PV installations will be land based solar arrays and parking lot shading PV arrays. SDG&E prefers single axis tracking PV installations because the tracking systems allow the PV panels to follow the path of the sun during the day to maximize the output and energy from the generating facility, especially during peak summer periods. The SDG&E Solar Energy Project will fulfill the following objectives:

1. Deploy distributed renewable solar power generation in inland areas where SDG&E's load is concentrated.
2. Complete renewable projects in a market segment that has not been substantially reached by existing programs.
3. Further diversify SDG&E's resource portfolio.
4. Increase annual solar resource energy deliveries by employing tracking technologies.
5. Increase the capacity of renewable energy on system peak load.
6. Contribute to SDG&E's RPS goals.
7. Help to achieve SDG&E's future greenhouse gas ("GHG") emissions reductions targets.

SDG&E is also exploring opportunities to develop utility-owned wind generation within its service area. SDG&E has signed a Memorandum of Understanding with the Campo Band of Mission Indians of the Kumeyaay Nation, and Invenergy LLC to build a wind energy project capable of generating up to 160 megawatts (MW) of renewable

^{8/} Interconnection to the distribution system effectively limits the size of a facility based upon the constraints of the distribution system. Thus, SDG&E expects individual facilities to be in the 1 to 2 MW_{ac} range, but there could be a potential for up to 5 MW_{ac} depending upon location.

power. The wind energy generated by the project would flow on the Sunrise Powerlink transmission line. Over the next year, Muht-Hei, Inc., the Campo development corporation, in conjunction with the Campo Band Executive Committee, Campo Environmental Protection Agency and the Bureau of Indian Affairs, will finalize the terms of the agreements with Invenergy and SDG&E. SDG&E and the other project developers will complete pre-development siting analyses, placement of testing towers to evaluate wind potential and fulfill environmental clearances prior to construction. The project is expected to commence commercial operation in 2012. SDG&E will continue to brief its Procurement Review Group on this opportunity.

In 2008 and 2009 SDG&E performed preliminary analysis regarding another wind project within its service area. Unfortunately, the limited acreage available to SDG&E, in combination with setback requirements, affected the economics of the deal by limiting the number of turbines that could be installed. Therefore, SDG&E ultimately concluded that it would not continue development on the site.

To the extent that SDG&E's due diligence efforts reveal ownership opportunities that are viable, cost effective, competitive versus RFO-proposed projects, and consistent with Commission RPS-procurement guidelines, SDG&E will submit the projects to the Commission for its consideration.

10. WORKPLAN TO RESEARCH 20% BY 2010: A SHOWING ON EACH LSE'S WORKPLAN TO REACH 20% BY 2010, INCLUDING BUT NOT LIMITED TO:

SDG&E currently has executed and approved contracts that will contribute to its renewable resources in 2010. In order to achieve 20% by 2010, SDG&E will take the following steps.

1) Issue a renewables-only RFO in 2009 for projects that can deliver renewable power beginning in years 2010, 2011, 2012 or 2013.

2) Continue to negotiate with projects that were submitted in previous years RPS RFOs but which have not yet resulted in a filed contract.

3) -Consider bilateral prospects which will satisfy the 20% RPS mandate. SDG&E believes that the RFO process is a single, limited means of procurement. SDG&E has had equal or greater success negotiating with bilateral offers. Mature, viable projects seem to prefer to seek out buyers on a bilateral basis. Less developed projects seek to take advantage of the RFO process to test the market.

4) Pursue ownership or development partnerships where SDG&E's participation/ownership would improve project viability, increasing the likelihood that the project will be successful. SDG&E will evaluate any such ownership opportunity in order to ensure that ownership is cost-effective when compared with PPAs, in accordance with guidelines previously established by the Commission.

5) To the extent feasible, to include renewables in non-RPS RFOs where SDG&E is seeking to fill specific resource needs. Should SDG&E issue such an all-source RFO during 2009, and to the extent that offers are received in response to all-source RFOs, such offers will be evaluated and, if economic, selected in accordance with LCBF principles.

6) Plan to procure to 4% to 6% excess of near term annual renewable supply goals to account for unanticipated project failures, delays or under-deliveries.

7) Make use of SDG&E's standard tariff to procure renewable energy from eligible projects by water and wastewater agencies and will comply with any Commission directive to expand AB1969.

10.1 IDENTIFICATION OF ANY IMPEDIMENTS THAT REMAIN TO REACHING 20% BY 2010, AND

The lack of adequate transmission infrastructure is a major impediment to SDG&E's ability to achieve the 20% RPS mandate. With the recent approval of the Sunrise Powerlink, transmission concerns are alleviated but not entirely resolved. SDG&E is also dependent upon the Tehachapi Transmission project that, when completed, will provide access to approximately 4500 MW of renewable resources. The CAISO adopted the Tehachapi Transmission plan that delayed the online date of Pacific Wind to 2011, and SDG&E is actively working with SCE, Pacific Wind, and the CAISO to determine a means of interconnecting this project as soon as possible.

The American Recovery and Reinvestment Act of 2009 has mitigated previous concerns regarding availability of federal Production and Investment Tax Credit. However, the recent economic downturn has reshaped the project financing landscape. Lenders who once required one point in lending fees now require up to five points, tax equity investors have virtually disappeared and private equity investors now require increased returns before agreeing to invest money.

Increasing costs to build renewable projects also poses a serious challenge to achieving the 20% goal. Once SDG&E reaches its SB 1036 cost cap, it is only obligated to procure below-MPR renewable energy. However, a project that is below-MPR at the time it is offered to SDG&E may ultimately cost more than was originally estimated due to increases in business costs that occur during the time the project is being developed.

Uncertainty surrounding the availability and timely issuance of land leases from the Bureau of Land Management (“BLM”) creates insecurity for project development. The process the BLM established to grant leases has proven to be time-consuming - creating uncertainty, scheduling challenges and corresponding problems with project elements such as financing, permitting, EPC contracts and supplier contracts. SDG&E’s two geothermal PPAs totaling 60 MW have been waiting for a BLM lease for nearly seven years.

Two other issues may challenge SDG&E’s ability to achieve its RPS goals. The first, involves debt equivalency. As SDG&E executes an increasing number of PPAs, the cumulative debt equivalence of all these agreements may greatly affect SDG&E’s credit profile and, consequently, its financial standing. Rating agencies include long-term fixed financial obligations, such as purchase power agreements, in their credit risk analysis. These obligations are treated as additional debt during their financial ratio assessment. S&P views the following three ratios, Funds From Operations (“FFO”) to Debt, FFO to Interest Expense, and Debt to Capitalization, as the critical components of a utility’s credit profile. Debt equivalence negatively impacts all three ratios. Unless mitigated, a PPA would negatively impact SDG&E’s credit profile as it would degrade credit ratios.

The second issue could also impact SDG&E’s ability to sign new contracts. As part of SDG&E’s overall internal review and approval process for new PPAs, SDG&E conducts a review of whether each PPA will be subject to consolidation under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46(R)”) rules. Until now, no renewable PPA has been deemed subject to such consolidation. However, SDG&E has been informed by its independent, registered public accounting firm,

Deloitte & Touche, LLP, that it must assess each contract within the context of FIN 46(R) in order to determine whether or not SDG&E must consolidate a Seller's financial information in with SDG&E's own quarterly financial reports to the Securities and Exchange Commission. As of July 1, 2006, for SDG&E, new rules may result in consolidation of certain Sellers' financial information. In particular, wind, solar, geothermal and bio-gas renewable Sellers could be impacted. Therefore, certain renewable contracts may no longer receive FIN 46(R) exemptions. If a new interpretation of FIN 46(R) rules is adopted by Deloitte & Touche, LLP, this could challenge SDG&E's ability to achieve its RPS goals and add further costs and risk to execution of new renewable contracts. If SDG&E determines that consolidation is required, a Seller must open its books to SDG&E and submit financial information, on a quarterly and monthly basis, as specified in SDG&E's contract language for the duration of any agreement.

All PPAs are affected by either debt equivalence or FIN 46(R) requirements. The Commission is well aware of the negative impact of debt equivalence on SDG&E's credit profile. AB 57 requires that the Commission adopt procurement plans that, among other objectives, enhance the creditworthiness of the utility. FIN 46(R) will affect SDG&E's reported financial data and may have negative impact on SDG&E's balance sheet and/or credit profile. FIN 46(R) could impact SDG&E's capital structure on a consolidated basis and cause it to be misaligned with its authorized capital structure. In order to rebalance SDG&E's capital structure to the authorized one, SDG&E would be required to infuse additional equity to offset the additional debt. Given that SDG&E will be executing contracts for 20% or more of its overall portfolio to meet its RPS goals,

SDG&E anticipates that the Commission will address and mitigate the resulting overall impacts of debt equivalence and FIN 46(R) to SDG&E's capital structure as described herein.

In D.07-02-011 and D.07-12-052, the Commission directed SDG&E to seek relief from costs associated with debt equivalence and FIN 46(R) through future cost of capital proceedings. Under the Cost of Capital Mechanism ("CCM") recently adopted in D.08-05-035, each utility must file a full cost of capital application every three years. Thus, SDG&E's next full cost of capital application will not be filed until 2010 for a test year of 2011. The Commission acknowledged in D.08-05-035 the potential need to respond to adverse credit impacts caused by debt equivalence and/or FIN 46(R) accounting requirements occurring in the time period between cost of capital proceedings. While it rejected in D.07-12-049 the proposal to establish an automatic capital structure adjustment to be triggered each time a PPA is signed or a FIN 46(R) adjustment is made to a balance sheet, it did approve in D.08-05-035 the ability of each IOU to file a capital structure adjustment application "between the utility's full cost of capital applications for authority to adjust its capital structure for changes in factors, such as debt equivalence, that may impact utility credit ratings."^{9/}

10.2 WHAT THE LSE IS DOING, OR PLANS TO DO, TO ADDRESS EACH IMPEDIMENT, IF ANYTHING.

SDG&E continues to move forward on its plan to design and construct the Sunrise Powerlink. SDG&E has also supported other projects, such as the Tehachapi project, that would provide access to new renewable resources. As a practical matter, however, while SDG&E can propose transmission solutions, it is obviously not within

^{9/} D.08-05-035, *mimeo*, p.7. See also pp.8 and 19, COL #6.

SDG&E’s power to approve these projects. Transmission issues, as well as other issues discussed above require legislative and regulatory fixes. SDG&E has therefore advocated expedited approval of transmission projects, flexibility in approving short term and bilateral contracts,^{10/} and RPS program recognition that these issues are impediments to achieving the 20% RPS mandate in a cost-effective and timely manner.

11. CONTRACT AMENDMENTS: IF ONE OR BOTH PARTIES MAY SEEK TO AMEND AN RPS CONTRACT. SOME CHANGES OR AMENDMENTS MIGHT BE WITHIN THE CONTEXT OF “CONTRACT ADMINISTRATION.” OTHERS MIGHT REQUIRE COMMISSION REVIEW AND ACCEPTANCE. IN THIS CONTEXT:

11.1. PLEASE IDENTIFY SPECIFIC CHANGES OR AMENDMENTS WHICH THE IOU BELIEVES TO BE WITHIN THE SCOPE OF “CONTRACT ADMINISTRATION.”

Many contract actions fall within the scope of “contract administration” and therefore should not require a formal advice letter filing. Such actions can be described in annual Energy Resource Recovery Account (“ERRA”) filings where the Commission could judge whether or not the actions were prudent. In any instance an IOU may seek a formal amendment to the contract and file a formal advice letter seeking approval.

The matrix shown below establishes SDG&E’s proposal for how contract changes are handled. The IOUs should not be required to seek Commission approval for routine contract administration activities. These activities include COD delays, inconsequential location changes or immaterial changes to modifiable language. A Tier 1 Advice Letter should be filed for additional procurement from the project (increased MW or MWH) but at the same, previously approved contract price. A Tier 3 advice letter should only be necessary when material contract changes would result in unforeseen cost increases. This

^{10/} Including allowing earmarking from bilateral contracts.

includes material increases in transmission upgrade costs, congestion costs and price increases that do not fall into the Tier 1 category. In addition, if for any reason an IOU wishes to file an advice letter even though one is not required, the right to do so should be preserved.

SDG&E believes this matrix is workable. Any change resulting in higher payments would set in motion at least a Tier 1 advice letter. If the Commission believes a more formal Tier 3 is necessary, it can reject the Tier 1 and require an IOU to resubmit via a Tier 3.

ERRA Filing	Tier 1	Tier 3	Application
Routine contract administration activities – e.g. extension of on-line dates and other milestones, compliance with modifiable STC changes, or changes related to transmission or site permitting issues.	Additional procurement at pre-approved price.	Material increases to ratepayer costs that have not been pre-approved. For example: Contract price, transmission upgrade cost, congestion cost, bundled attributes (RA/ancillary services), capacity increases accompanied by higher contract pricing.	Modification of non-modifiable STC.

11.2. PLEASE IDENTIFY SPECIFIC CHANGES OR AMENDMENTS WHICH THE IOU WOULD PLAN TO BRING TO THE COMMISSION FOR CONSIDERATION.

As discussed above and indicated on the matrix, there are instances when contract changes are of a nature that requires a formal amendment. Such instances include: (1) re-pricing; (2) technology/delivery revisions which could affect the RPS eligibility of a project; and, (3) changes to modifiable standard terms and conditions. In these instances

LSEs should be required to execute a formal contract amendment and submit the amendment via Advice Letter for the Commission's consideration.

11.3. IDENTIFY THOSE WHICH THE IOU WOULD PROPOSE TO BRING (A) AS PART OF AN ENERGY RESOURCE RECOVERY ACCOUNT (ERRA) REVIEW, (B) BY ADVICE LETTER AND IF BY ADVICE LETTER UNDER WHAT TIER, (C) VIA FORMAL APPLICATION, OR (D) OTHER.

All contract actions, whether or not they require a PPA amendment, should be brought to the Commission. However, as described in Section 11.1 and 11.2 above, depending on the nature of the action, a simple notification via ERRA or a more formal advice letter would be required.

12. ADDRESS COST-CONTAINMENT AS IT RELATES TO THE 2009 PLANS AND GOING FORWARD.

12.1. ADDITIONAL CONTRACT TERMS, CONTRACT OR PROGRAM INCENTIVES, OR OTHER CONTRACT OR PROGRAM FEATURES THAT SHOULD BE CONSIDERED IN ORDER TO PROMOTE A ROBUST MARKET WHILE MINIMIZING COSTS TO RATEPAYERS.

SDG&E's Plan places SDG&E on a procurement trajectory to potentially achieve 33% by 2020. While crafting the Plan, SDG&E assessed the relative rate impacts of a 33% renewable portfolio. As renewable resources are added annually to the model, gas fired resources and market purchases are backed off to maintain the capacity and energy balance. Our results indicate that if SDG&E were to begin exclusively procuring wind or exclusively procuring solar resources based on the costs we are seeing in our current RFO to achieve 33%, the commodity costs in 2020 could be higher than the base case of only 20% renewables by about [REDACTED] respectively. These costs do not include any additional transmission cost needed to reach 33% or any additional integration costs, such as higher level of ancillary services. Clearly, it is unreasonable and

imprudent to plan on procuring only wind or only solar resources going forward.

SDG&E studied a mix comprised of [REDACTED].^{11/} The result is a 2020 commodity cost of about [REDACTED] above the base case. It is important to note that the mix described above does not constitute an optimal mix. As mentioned earlier in Section 1.1, SDG&E's selection of renewable resources is not driven by a desire to procure an optimal mix but rather by the quality, price and terms of offers submitted given mandated deadlines. The lack of reasonably priced offers from a particular technology will restrict SDG&E's ability to procure an optimal mix.

12.2. TIME OF USE (TOU) PERIODS AND ALLOCATION FACTORS.

12.2.1. DOES YOUR RPS PROCUREMENT PLAN AND/OR MODEL CONTRACT(S) FIX TOU PERIODS AND ALLOCATION FACTORS FOR THE LIFE OF THE CONTRACT?

SDG&E's solicitation does make use of Time-of-Delivery ("TOD") periods as an evaluation tool to assess the value of an offer relative to SDG&E's demand for energy during a given time period. However, most of SDG&E's PPAs include fixed contract pricing. The problem with variable payments which annually adjusts to prevailing TOD factors is that developers may have problems predicting cash flow and thus have corresponding challenges in financing the project. However, if both buyers and sellers are not opposed to a pricing mechanism which adopts TOD pricing, the flexibility to do so should be preserved. The measure of a project's price reasonableness is not how the pricing is structured but how the levelized price compares to the MPR.

^{11/} SDG&E notes that these cost impacts are illustrative based on current costs and actual rate impacts will depend on many factors including the final cost of renewable resources, natural gas costs, the cost of new transmission and integration costs.

12.2.2. IF THEY ARE NOT FIXED, WHAT ARE YOUR PROPOSED METHODS TO UPDATE TOU PERIODS AND ALLOCATION FACTORS?

As an LSE's demand profile evolves, LSEs should be provided the opportunity to revise its TOD as necessary. Revisions can be submitted for the Commission's approval within annual RPS procurement plans.

In accordance with the direction provided in D.09-06-018, SDG&E will explain its factors in the formal review of TOU factors undertaken in the Commission's long-term procurement plant ("LTPP") proceeding.

12.2.3. IF THEY ARE FIXED, IS IT REASONABLE THAT TOU PERIODS AND ALLOCATION FACTORS REMAIN FIXED OVER THE LIFE OF THE CONTRACT? PLEASE STATE REASONS IN SUPPORT AND AGAINST FIXING THESE TERMS FOR THE LIFE OF THE CONTRACT.

In SDG&E's case, TOD periods provide a valuable evaluation metric. However, contract pricing mechanisms should be flexible enough to accommodate either fixed or variable unit cost as long as both buyers and sellers can agree on a mutually acceptable price. There are many assumptions about the future – such as the cost of the capacity from a certain renewable technology – that will change during the course of a long term contract. TOD profiles are not the largest of these. Thus, it is thus reasonable that they remain fixed throughout a contract term.

12.2.4. IF THEY ARE FIXED, ARE THERE REASONABLE WAYS TO ALLOW UPDATES TO TOU PERIODS AND ALLOCATION FACTORS ONCE OR MORE OVER THE LIFE OF THE CONTRACT? WHAT ARE THE POSSIBLE OPTIONS? PLEASE IDENTIFY ADVANTAGES AND DISADVANTAGES OF THE OPTIONS.

SDG&E does not see a need to establish overly complicated rules and options surrounding TOD and contract pricing. Discretion should be left to buyers and sellers to

develop pricing mechanism tailored to the project within the context of the total value proposition made up of all of the various contract terms.

13. OTHER: ANYTHING ELSE NECESSARY FOR A FULL AND COMPLETE PRESENTATION OF ITS 2009 RPS PROCUREMENT PLAN FOR THE COMMISSION'S CONSIDERATION, AS RECOMMENDED BY THE IOU FOR COMMISSION ADOPTION.

C. PLAN COORDINATION, LESSONS LEARNED, CHANGES

14. EFFORTS TO COORDINATE: A STATEMENT THAT DESCRIBES THE EFFORTS UNDERTAKEN TO COORDINATE THE FORM AND FORMAT OF THE 2009 PLANS, PLUS IMPROVEMENTS TO THE MODEL CONTRACTS. THE STATEMENT SHOULD ALSO REPORT ON THE SUCCESSES OR DIFFICULTIES WITH THAT EFFORT.

PG&E, SCE and SDG&E participated in multiple conference calls and exchanged numerous emails to coordinate proposals on three issues:

- Matrix of Standard Terms and Conditions – PG&E, SCE and SDG&E all prefer a simpler approach to report how modifiable and non-modifiable STCs are adopted or modified for pro forma PPAs. Each IOU therefore provided its recommendations within its 2009 RPS Plan.
- Coordination of Formal Notification to Bidders – PG&E and SDG&E agreed that coordination is necessary. SCE would prefer to retain flexibility in the timing of notification to bidders.
- Contract Amendments requiring formal Advice Letters – PG&E, SCE and SDG&E all agree in principle that no-cost contract administration activities should not require an advice letter. Although the three IOUs could not agree on precise wording and thus one matrix which defines when advice letters are necessary, the matrices are very similar –

suggesting that the Commission can develop direction that captures features that are important to the Commission.

15. LESSONS LEARNED: IDENTIFY AND SUMMARIZE ANY IMPORTANT LESSONS LEARNED OVER THE LAST FEW YEARS AND PROCUREMENT CYCLES.

SDG&E has conducted ten solicitations to date in pursuit of the 20% RPS mandate. The RFOs support SDG&E's goal by promoting additional renewable development, enhancing SDG&E's ability to develop a renewable mix that is wide-ranging in technology types and allowing SDG&E to pursue a combination of both power purchase and ownership options with the overall goal of achieving a 20% renewable portfolio mix by 2010. In addition, SDG&E has been involved in bilateral negotiations that represent another market for the advancement of the important goals established in the RPS program.

Results from the previous RFOs raise the following major concerns and lessons learned: 1) there is an urgent and critical need for new transmission infrastructure if the State is to meet its 20% RPS goal; 2) the impending 2010 RPS compliance deadline is leading to higher prices for renewable energy; and 3) creation and completion of renewable generation projects based upon emerging technologies is a challenge where the attainment of the 20% RPS goal hangs in the balance.

1) Transmission. A review of the renewables projects proposed to SDG&E validates concerns that lack of availability of adequate transmission will have a significant impact on SDG&E's ability to achieve the 20% RPS mandate. Of the projects contracted from SDG&E's 2004 RFO and the projects in the 2005 RFO short-list, greater than 80 % of the associated projected annual energy purchases are dependent in some

way on new transmission being approved and built to import the energy from Imperial Valley, Tehachapi and eastern San Diego County. Several projects short-listed in the 2006 and 2007 RFO represent a quantity of renewable energy that is equal to approximately 15% of SDG&E's 2011 retail sales. These projects are located in Imperial Valley, eastern San Diego County and the La Rumorosa area in Mexico and are dependent in some way on new transmission being approved and built. For the 2008 RFO, developers continue to favor project locations which would require Sunrise in order for SDG&E to access. As mentioned earlier, nearly 50% of the projects offered in 2008 and 60% of the capacity and energy offered in 2008 depended on Sunrise. Even more significant is that of the top 30 LCBF ranked projects, 24 are dependent on Sunrise. Of the remaining six projects that are not Sunrise dependent, SDG&E shortlisted five^{12/} and the sixth was a pre-existing PPA.

With approval of Sunrise Powerlink, additional opportunities for renewable development in California exist:

a) In the east county of San Diego to allow for a significant addition of new wind resources in that area. As already mentioned, SDG&E received bids in previous RPS RFOs which results in negotiations with ~350 MW of wind projects located in east San Diego county. In its 2007 RFO, the short-list includes a number of bids located in Imperial Valley and the La Rumorosa area of Mexico in excess of 500 MWs. In order to access this energy, a new 500 kV switchyard will need to be constructed to tap the Southwest Powerlink transmission line to accommodate the wind resource in this area.

^{12/} One declined.

According to various sources,^{13/} delivery of this wind will require not only a new substation, but the addition of the Sunrise Powerlink transmission line as well. The substation allows for the interconnection to the grid, but the Sunrise line is required to create sufficient take-away capacity so that all of these renewable resources can be delivered to load without violating the CAISO reliability criteria.

b) The Sunrise Powerlink transmission line will provide access to large amounts of solar and geothermal resources from Imperial Valley as well as to facilitate east San Diego County and Mexico wind projects. The Commission is well acquainted with this proposal, which, as noted above, is discussed in detail in A.06-08-010. The Sunrise Powerlink project will provide transmission facilities critical to delivering renewable generation under SDG&E's Commission-approved contracts as well as prospective contracts that SDG&E hopes to be able to file with the Commission in the near future.

Based on the number of SDG&E's approved contracts, contracts under negotiations, and contracts short-listed from the 2008 RFO, a significant amount of SDG&E's renewable opportunities require the Sunrise Powerlink transmission line in order to deliver its energy to the California grid. As a practical matter, without the Sunrise Powerlink transmission line, SDG&E will likely not achieve delivery of 20% of retail sales from renewable energy within the compliance period.

c) Early interconnection plan in the Tehachapi region. The Pacific Wind agreement proposes to build a 205 MW wind project in the Tehachapi area and interconnect at the Cotton Wind substation. The project was originally anticipated to achieve commercial operation in 2008 and is contingent on new transmission lines being

^{13/} See, e.g., the CAISO Grid Planning Standards and SDG&E Transmission Ranking Cost Reports (public) and CAISO Feasibility and Facilities Studies (confidential).

approved and built. This resource represents a significant portion of SDG&E's need for renewable energy. However, the recently adopted CAISO transmission plan for the Tehachapi area indicates that the build-out plan adopted for Tehachapi will delay the commercial operations date until 2011. SDG&E is actively working with SCE, Pacific Wind, and the CAISO to devise a plan to allow for earlier interconnection with delivery of this project as soon as possible. SCE filed its CPCN on June 29, 2007 requesting approval of its Tehachapi Renewable Transmission Project, which includes the Whirlwind (Sub 5) substation. Although Pacific Wind's preferred interconnection is Cotton Wind substation, a four mile gen-tie would be required to interconnect at the Whirlwind substation. SCE has indicated that this scenario could allow early interconnection by 2010, but would require approval of the CPCN no later than December 31, 2009. SDG&E recommends that the Commission expedite the approval of this CPCN.

Although the Tehachapi build-out has the potential to add greatly to the State's progress towards its RPS goals, SDG&E notes that it has not received a single offer from this region since its 2005 RFO.

SDG&E recommends that the Commission and the CEC implement a process to expedite the completion of transmission infrastructure.

2) Increased Pricing. It is apparent that each year's RFO has resulted in year-on-year increases in the offered prices by developers of renewable resources. While some of this increase is attributable to the rise in worldwide commodity prices, and increased EPC costs, some other portion of the increase is attributable to the incremental demand created by an RPS program with mandated targets and associated penalties. The demand created

by RPS has stretched the ability of manufacturers to keep pace with the surge in items like wind turbines, specialty glass needed for solar and drilling rigs required for geothermal. For producers with costs below the MPR, it is likely that some form of opportunity pricing is also taking place where the MPR is seen as a single-clearing price market where a bidder's concern is the size of a discount below MPR required to clear its bid, rather than a bid based upon costs.

3) Emerging Technology Projects. SDG&E has observed that the projects bid into its RPS RFOs are often not at the same stage of development as projects bid into RFOs for conventional resources. The developers of renewable resources sometimes submit offers that would benefit greatly from more pre-submittal work in the areas of cost estimation, site control and permitting. The work done on offers seems to be often progressing in parallel with the negotiation of the bid. The result is that offers can change significantly during the negotiation process. At this late stage of the process (long after losing bidders have been dismissed) SDG&E is often faced with the decision whether to terminate negotiations or work through various issues as each element of the developer's project comes together (land acquisition, procurement, permitting, etc). The lesson learned is that less rigidity in the RFO process is a requirement, up to and including supplementing the RFO process with bilateral negotiations.

16. IMPORTANT CHANGES

A document that identifies, summarizes, explains and justifies important changes between the 2008 and 2009 Plans is attached as Appendix E.

17. A VERSION OF THE 2009 PLAN THAT IS “REDLINED” TO IDENTIFY THE CHANGES FROM THE 2008 PLAN

Redlined versions of this document and all other plan documents revised in accordance with D.09-06-018, marked to show changes from the draft 2009 Plan filed on September 15, 2008, are attached as Appendix G.