SDG&E 2014 All Source RFO

Questions & Answers / FAQs

Credit Questions

1. Should credit be included in the bid price?
In order to fairly evaluate bids and compare them against each other, we ask bidders not to include credit costs within their bid price. However, the respondent is required to fill out a credit form which provides the added cost of collateral per $100,000 increment to satisfy the initial collateral requirement if SDG&E decides not to extend unsecured credit. We are therefore asking for pricing without the credit cost and the added cost of collateral per $100,000 increment.

2. Should bidders provide a price that assumes SDG&E will extend credit?
Offers are firstly valued and ranked based on the assumption that unsecured credit will be granted for the full collateral requirement amount. If SDG&E decides not to extend unsecured credit to the bidder, it will use the cost of collateral provided in the credit form to estimate the incremental cost of credit to the original offer and then re-rank bids with this incremental cost included.

3. Will the credit requirement be higher the lower the price?
The credit requirement will not necessarily be higher the lower the price offered. However, intuitively, the lower the price offered, the higher SDG&E's exposure is to a counterparty default.

4. Will the credit requirement be different for different products at the same price?
The credit collateral requirement depends on the risk profile and the product type. Some products provide only capacity while others have additional benefits and therefore the credit collateral exposure would be higher.

5. Will SDG&E accept a security deposit in lieu of a site control?
No.

6. Regarding the shortlist acceptance fee, at what point is the fee return to the bidder?
If failure to reach agreement is due to no fault of the respondent, the shortlist acceptance fee is returned. If paid in cash, interest will be paid as well. If an agreement is reached, the fee is rolled over as part of the next level of collateral required (this will vary depending on the product type and the associated agreement. Please refer to the various model agreements for more details).

7. For a special purpose entity / LLC how will credit worthiness be evaluated?
For any entity, SDG&E will evaluate its audited financial statements for the last three years. If an entity does not have audited financial statements then they can be granted secured credit in the form of a Letter of Credit or a Cash Deposit. SDG&E will evaluate the parent company for credit worthiness for those entities that supply the audited financial statements of a potential guarantor. In this second case, the potential guarantor would have to execute a Guaranty based

on SDG&E's template that will be provided upon request and upon qualification of the counterparty.

8. What is the due date for the credit application?
The credit application is due on January 5, 2015 along with the rest of the offer.

9. Will SDG&E consider a hedge as a collateral requirement?
No, SDG&E will accect either cash or a Letter of Credit to meet the collateral requirement, a hedge would not be acceptable

10. Can a bidder provide a letter of credit or a corporate guarantee from a credit worthy entity rather than post cash?
Yes. SDG&E will evaluate the audited financial statements of the applicant for the last three years. If an entity does not have audited financial statements then they can be granted secured credit in the form of a Letter of Credit or a Cash Deposit. SDG&E will evaluate the parent company for credit worthiness for those entities that supply the audited financial statements of a potential guarantor. In this second case, the potential guarantor would have to execute a Guaranty based on SDG&E's template that will be provided upon request and upon qualification of the counterparty.

11. How will SDG&E calculate the credit requirements for RA? What is the current RA price?
The credit requirements are based on SDG&E's exposure. Upon approval of the filing or application requesting approval of the contracts associated with this RFO, the counterparties will be required to satisfy the initial collateral requirement based on the amount of SDG&E's exposure to counterparties' default or non-performance. The initial collateral requirement will be held during the lifetime of the contract (until contract expiration). In addition, there is an ongoing collateral requirement that will be due at the start of the delivery term. The ongoing collateral requirement is the amount the counterparty needs to post in order to satisfy mark-to-market exposure. The frequency of ongoing collateral requirement depends on the market changes and the counterparties' risk profiles.

Pricing for RA agreements is confidential.

12. How will the collateral requirement calculation differ depending upon whether the bidder gets an upfront payment when construction is completed versus getting payments over time?
The collateral requirement calculation is independent of the payment frequency and amount (that is, it does not differ as referred to in the question). It's important to consider that SDG&E will not entertain upfront payment upon completion of project construction. All signed contracts (accepted bids) will involve recurring payments for the life of the contract for the attributes of the project being procured (for example: capacity, ancillary services, or energy).

13. Please clarify when the shortlist acceptance fee is due. Is it due when the bids are due (1/5/2015) or at the time of shortlisting (eg June 2015)?

The shortlist acceptance fee is due within 10 days after shortlist notification. Shortlist notification is currently planned to occur on June 5, 2015.

14. Will a bidder lose its $100,000 short list acceptance fee if the parties can't reach agreement on the contract?

No, the shortlist acceptance fee will be returned (with interest if paid in cash) to the respondent if the parties fail to reach an agreement and such failure is not due to Bidder's withdrawal of its offer or a material misrepresentation of pricing or non-pricing information provided by the respondent.

15. Once the resource is built, shouldn't the risk of the resource going down considerably? Will the risk percentage be adjusted down once the resource is built?

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16. Please provide the methodology and values used to determine Resource Adequacy as it affects the ongoing collateral obligation

The collateral obligation associated with the contracts SDG&E will execute associated with its 2014 All Source RFO is based on SDG&E's exposure. Upon approval of the filing or application requesting approval of the contracts associated with this RFO, the counterparties will be required to satisfy the initial collateral requirement based on the amount of SDG&E's exposure to counterparties' default or non-performance. The initial collateral requirement will be held during the lifetime of the contract (until contract expiration). In addition, there is an ongoing collateral requirement that will be due at the start of the delivery term. The ongoing collateral requirement is the amount the counterparty needs to post in order to satisfy mark-to-market exposure. The frequency of ongoing collateral requirement depends on the market changes and the counterparties' risk profiles.

SDG&E's exposure will be related to all of the aspects of the product being purchased – RA (or capacity), energy, renewable attributes, etc… The specifics will depend on the details of each agreement.