

Application No: A.10-07-XXX
Exhibit No.: _____
Witness: Amir Moftakhar

)
Application of San Diego Gas & Electric Company)
(U 902 E) to Amend Renewable Energy Power)
Purchase Agreement with NaturEner Rim Rock Wind)
Energy, LLC and for Authority to Make a Tax Equity)
Investment in the Project.)
_____)

Application 10-07-_____
(Filed July 15, 2010)

CHAPTER 3

PREPARED DIRECT TESTIMONY OF

AMIR MOFTAKHAR

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

****PUBLIC VERSION****

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

July 15, 2010

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CHAPTER 3
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I. PURPOSE

The purpose of my testimony is to 1) explain the underlying financial reasons that support SDG&E's role of tax equity investor in financing the development of renewable generation given the current state of the financial markets; 2) describe the financial structure and underlying assumptions for the Rim Rock tax equity investment; and 3) explain the economics of the transaction that support the ratepayer benefits of the investment. This testimony will cover financial details of the proposed transaction including the detailed workings of the project Base Case Model, referred to in the transaction documents, and other financial models.

II. BACKGROUND

The impact of the credit crisis and global economic crisis has caused a disruption in the financing for renewable energy project development. Traditionally, tax equity investors have been large investment or commercial banks, with large tax appetites and low financing costs. The U.S. economic recession has reduced taxable income among key tax equity investors and therefore fewer of these tax equity investors have a sizeable tax appetite. Additionally, a tight credit market has made the availability of low cost financing more scarce.

The global financial crisis has clearly restricted the major credit markets. As a result, there has been a corresponding increase in the returns sought by tax equity investors. These increases in returns are being influenced by capital scarcity and opportunity cost because project risks have not generally changed. Because the cost of capital and return expectations of other tax

1 equity investors now exceeds SDG&E's authorized cost of capital (as set forth in D.07-12-
2 049),this presents an opportunity for SDG&E to facilitate the development of new renewable
3 energy projects at an economic cost.

4 **III. FINANCIAL IMPACT AND BENEFITS OF UTILITY TAX EQUITY** 5 **PARTICIPATION**

6 As suggested above, the involvement of investor-owned utilities ("IOUs") like SDG&E
7 in tax equity investments could bridge a gap left by changes in the credit markets through the
8 utility's availability of capital, lower capital costs and the ability to monetize tax benefits. IOU
9 involvement would have direct financial benefits to ratepayers - lower financing costs produce a
10 direct reduction in the cost of power delivered to our customers. To achieve this, the utility can
11 structure a tax equity partnership flip structure to maximize financial benefit to ratepayers.

12 **A. Tax Equity Basics**

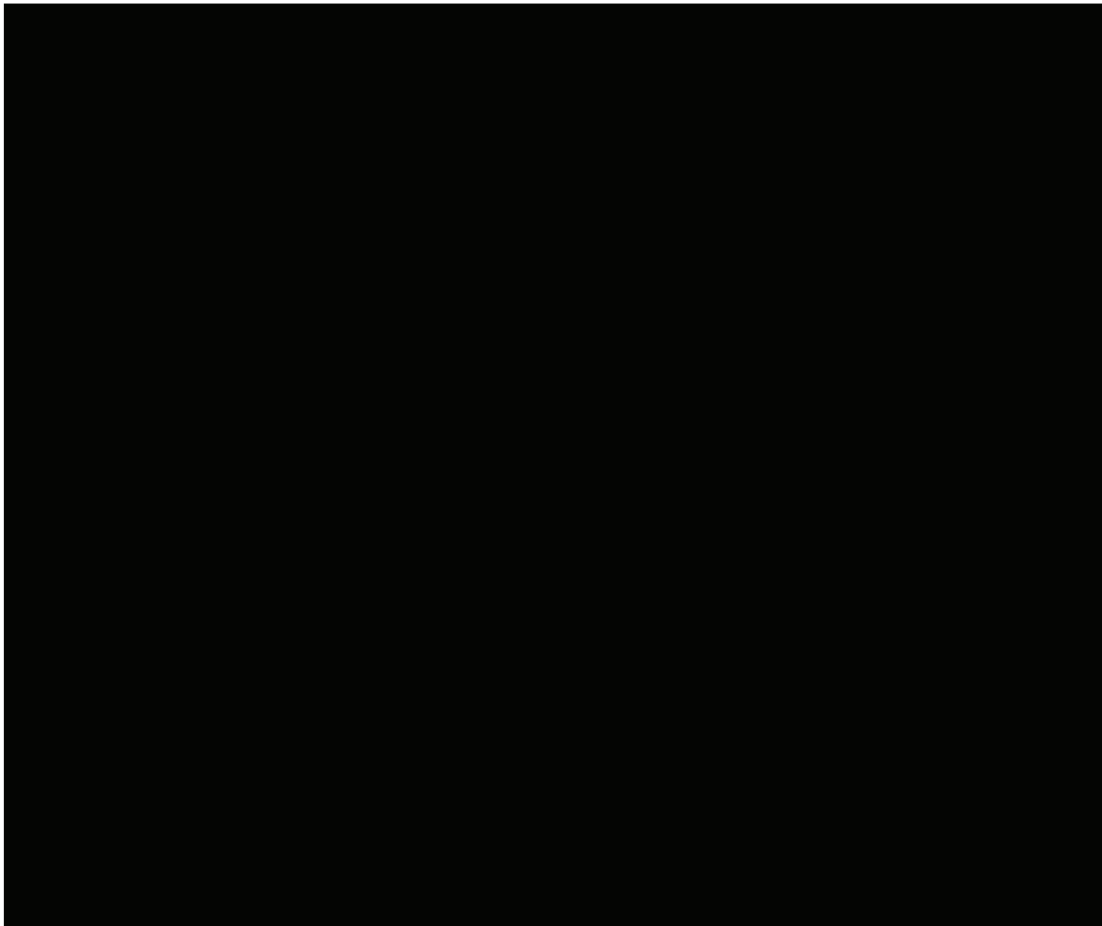
13 The purpose of this section is to introduce the general structure of the deal, which will be
14 covered in more detail later in this testimony.

15 The renewable energy industry has benefited greatly from tax benefits and tax equity
16 structures. While a typical tax equity structure can vary from deal to deal, it may be helpful to
17 discuss the general approach to this particular tax equity transaction and define key milestones
18 and their significance to ratepayers, the project "developer" (NaturEner) and the "investor"
19 (SDG&E). Specific financial considerations are covered in Section V of this testimony. The
20 following is an introduction to the tax equity structure and concept.

21 **1. Summary**

22 A standard tax equity flip structure is used extensively in the financing of renewable
23 projects. The investor and developer create a limited liability company ("LLC") to finance the
24 project tax equity investment. The investor contributes a majority of the total capital costs and

1 the developer contributes the remainder. Both parties have targeted returns on investment. In
2 order to maximize value in the project, the benefits of the LLC are separated into individual
3 components of cash, taxable income, production tax credits (“PTC”) and depreciation as shown
4 in the figure below. These four separate benefit streams are distributed according to an LLC
5 agreement and, for this specific investment, are detailed in Section VI of this testimony. There
6 are typically three phases to a tax equity transaction: the cash sweep phase, the pre-flip phase
7 and the post-flip phase. The allocation percentages for the distribution of the sum of all benefits
8 (streams of cash, taxable income, PTCs and depreciation) are not necessarily proportional to the
9 investor’s or developer’s capital contribution to the deal. In this proposed transaction, SDG&E
10 will be contributing up to 79.99% of the capital, but SDG&E can realize [REDACTED] of the total
11 depreciation during the pre-flip period based on current projections (see table below).



1 **2. The Cash Sweep Phase**

2 During the cash sweep phase in this proposed transaction, the developer will receive the
3 majority (████████████████████) of cash distributions from the LLC until such time as
4 ██████ of its initial investment is received (through distributions and payment of a development
5 fee) or three years, whichever occurs first. No return on investment is accounted for during this
6 period for the developer. During this phase, the remaining ██████ (under current projections) of
7 cash will go to the investor. If the project does not achieve projected performance and ██████ of
8 the developer’s investment is not recovered, the sharing of cash flows still change at year three to
9 the pre-flip phase allocations. During the cash sweep period, ██████ of taxable income, PTCs and
10 depreciation will go to the investor, with the remaining ██████ of each stream going to the
11 developer. This phase provides risk mitigation for ratepayers because the remaining ██████ (or
12 more) of the developer’s capital and any potential return on investment are withheld until
13 ratepayers achieve their “preferred return” as discussed in the next section.

14 **3. The Pre-Flip Phase**

15 The pre-flip phase is designed to achieve a stated rate of return to the investor (SDG&E)
16 of 8.4% (7.36% after-tax) by the tenth anniversary of the investment. It is important to note that
17 unlike the cash sweep period - which ends based upon reaching a hard dollar amount (█████ of the
18 sponsor investment) or by timing (3-year sweep), whichever is earlier - the pre-flip period end
19 point is reached only when a stated rate of return is achieved for the investor. This means that
20 the investor is largely protected against poor project performance, which reduces potential cash
21 flows, because the investor continues to receive the majority of project benefits until its desired
22 return is achieved. During this period, the investor will receive ██████ of all four benefit streams

¹ Investor receives up to ██████ of cash stream under current projections. Numbers are rounded to the nearest whole percentage.

1 (cash, taxable income, PTCs and depreciation) until its target internal rate of return (“IRR”) is
2 achieved. If, on the tenth anniversary, the target IRR is not achieved, the LLC will continue to
3 distribute █████ of all four benefit streams until such time as the investor’s target IRR is realized.
4 Because the investor is largely insulated from project performance through the extension of the
5 flip date, this is a “preferred return” position. The return of the developer is dependent upon the
6 investor first achieving its target IRR and is directly dependent on cash flows in the outer years
7 of this transaction, specifically years 11-20. Should the investor’s target IRR not be achieved on
8 the tenth anniversary, the developer’s unreturned capital is at risk. As covered in more detail
9 later in this testimony, a large portion (43%) of benefits during the cash sweep and pre-flip
10 phases are achieved through tax incentives (PTCs and Modified Accelerated Cost Recovery
11 System (“MACRS”) depreciation). Another 43% of the benefits are achieved through the sale of
12 Green Attributes and fixed-price “null” power sales. The remaining 14% is merchant energy
13 sales, which are subject to variations in both price and production. It is important to note that
14 any production risk is largely mitigated by the ability to extend the flip date until the investor’s
15 target IRR is achieved.

16 **4. The Post-Flip Phase**

17 This is the final phase of the transaction. During this phase, the investor has already
18 realized its “preferred” return. The developer is then allocated not more than █████ under
19 current projections of all four benefit streams (cash, taxable income, PTCs and MACRS
20 depreciation) and given the opportunity to recover the remaining █████ (or more) of its capital
21 and earn a return. Any extension of the flip date from the pre-flip period puts the developer at
22 risk during this phase of the transaction.

1 **B. Tax Equity Financing and Capital Markets**

2 An important driver behind the potential involvement of IOUs is to bridge the current gap
3 between supply and demand for tax equity investment in renewable generation. In a May 2010
4 article, the American Council on Renewable Energy (“ACORE”) noted differences between
5 financing in 2006 vs. 2009. The article noted that despite wind projects having the same
6 revenues, the project cash flows that banks are willing to consider as means of repayment when
7 making their lending decision have been reduced by almost 50% versus what they had accepted
8 in previous years.² These types of changes are significant because they point out that even
9 though potential cash flows and project risks from wind projects may not have changed, there is
10 a change in the appetite for lending and investing by traditional financing parties. SDG&E could
11 offer assistance to make the project more viable and more economic for ratepayers.

12 The utility cost of capital is also a key driver. At an authorized 8.4% (7.36% after-tax)
13 cost of capital, SDG&E’s cost of capital is less costly and, therefore, more attractive than a tax
14 equity financing for wind projects in today's market. While specific rate terms are not available
15 publically and can vary widely for different projects, the market for tax equity investors is
16 assumed to be in the 8.5-10% range after-tax. It is this savings in financing costs that directly
17 translates into lower project costs and ultimately, a lower cost to the ratepayer. The 7.36% after-
18 tax cost of capital for SDG&E is broken out in section VII-A.4 into components of debt and
19 equity. These components can be compared to market rates, where available. In a July 2010
20 Project Finance News Wire publication,³ experts cite a cost of capital for these projects at a rate
21 higher than 8.5%. Also cited is the unleveraged after-tax rate of return for projects being in the

² “Leadership in Washington: Financing the Rise of Renewables” May 2010
http://www.greenbuildingpro.com/index.php?option=com_content&Itemid=74&catid=57&id=1781&lang=en&view=article

³ Martin, Keith, ed. "Chadbourne and Parke Project Finance Newswire." 17. *Chadbourne and Parke*. Web. 9 July 2010. <<http://www.chadbourne.com/files/Publication/747fa2c3-ebe5-425b-8114-407bc2e2a7dd/Presentation/PublicationAttachment/30b573ec-b30c-448d-9964-4330375a249e/pfn0710.pdf>>.

1 9.5%-10% range. Both SDG&E's 7.36% cost of capital and a projected [REDACTED] unleveraged
2 after-tax rate of return for this project confirm that SDG&E's cost of capital advantage and the
3 project economics of Rim Rock tax equity investment provide a direct financial benefit to
4 ratepayers. For every 100 basis points that SDG&E's cost of capital is below the market cost of
5 capital, customers will save approximately \$120 million over the life of the project.

6 Availability of capital for projects is another challenge facing developers and the market.
7 Banks may be less willing to commit large dollar amounts to individual projects than they were
8 before the financial crisis. According to Novogradac's Journal of Tax Credits (June 2010
9 volume), although a number of banks are willing to commit up to \$100 million per deal, the
10 average is only in the \$40 million range.⁴ This creates a challenging situation for developers for
11 both the cost and the availability of capital.

12 **C. Monetization of Tax Benefits**

13 The federal government has traditionally provided two major incentives to investors in
14 wind projects: 1) PTCs and 2) five-year MACRS depreciation.

15 PTCs are direct dollar-for-dollar reductions in an investor's tax liability. A wind project
16 will generate a benchmark PTC of \$15, escalated annually for inflation (currently at \$22 for
17 2010), for every megawatt hour of electricity it produces during the first ten years of operations.
18 A taxpayer claiming PTCs must have an ownership interest in the wind project generating the
19 electricity.

20 Five-year MACRS depreciation allows for faster recovery of the costs of a wind energy
21 facility than for most other types of electric generation facilities. Usually, about 90-97% of the

⁴ "Panelists Predict Sunny Skies for Energy Tax Credits" June 2010, Novogradac Journal of Tax Credits
http://www.chadbourne.com/files/Publication/706bf429-230b-4047-9cdb-f995f199f5e/Presentation/PublicationAttachment/e0644bbc-7c11-4a74-9a0f-fdf418697aaa/novogradac_jtc_2010-06_retc_pg68.pdf

1 cost of a wind project will qualify for MACRS depreciation. This means that for tax purposes,
2 most of the facility can be depreciated within five years at an accelerated rate, rather than the
3 normal 20-25 year book life and straight-line rate for the equipment or 20-year MACRS
4 depreciation used for fossil fuel generation. This accelerated cost recovery creates a large tax
5 benefit for an investor in the first five years of operation and these savings further improve the
6 project economics, while lowering the cost of power to ratepayers as explained later in this
7 testimony and the testimony of other witnesses.

8 The federal stimulus legislation passed in 2009 (the American Recovery and
9 Reinvestment Act of 2009, or ARRA) attempted to address the challenges facing wind project
10 development with two main provisions: 1) a provision to elect Investment Tax Credits (“ITCs”)
11 in lieu of PTCs and 2) a provision to elect a cash grant (administered by the Department of
12 Treasury) in lieu of ITCs. For purposes of the Rim Rock tax equity investment, SDG&E
13 believes that PTCs will provide greater benefits to ratepayers than ITCs based on the project’s
14 expected capacity factor, installed project costs and potential ITC normalization impact. As
15 shown in the table below, PTCs generally are preferable to ITCs at higher capacity factors and at
16 lower installed project costs. The projection for Rim Rock is a capacity factor of 39.9%, and has
17 an installed project cost such that the use of PTCs provide a direct economic benefit to the
18 ratepayer. At this higher capacity factor, PTCs deliver more value to the partnership and result
19 in a lower Green Attribute price. As discussed in Mr. Reeves’ testimony, PTCs also deliver
20 more value than ITCs to the ratepayer because they do not require normalization. This means
21 that ratepayers can benefit from the value of the PTCs directly as they are earned over ten years
22 rather than ratably over 20 years for ITCs. The table below⁵ shows the breakeven point between

⁵ “PTC, ITC, or Cash Grant – An Analysis of the Choice Facing Renewable Power Projects in the United States”
National Renewable Energy Laboratory, March 2009, Bolinger, Wise, Cory and James.

electing an ITC versus a PTC. The shaded negative numbers indicate that the project economics are better with PTCs.

		Total Installed Project Cost (\$/kW)										
		\$1,500	\$1,600	\$1,700	\$1,800	\$1,900	\$2,000	\$2,100	\$2,200	\$2,300	\$2,400	\$2,500
Net Capacity Factor (%)	25%	-1.0%	0.4%	1.7%	2.8%	3.8%	4.7%	5.5%	6.3%	7.0%	7.6%	8.2%
	26%	-1.9%	-0.4%	0.9%	2.0%	3.1%	4.0%	4.9%	5.7%	6.4%	7.0%	7.6%
	27%	-2.8%	-1.3%	0.1%	1.3%	2.4%	3.3%	4.2%	5.0%	5.8%	6.4%	7.1%
	28%	-3.8%	-2.2%	-0.7%	0.5%	1.6%	2.7%	3.6%	4.4%	5.2%	5.9%	6.5%
	29%	-4.7%	-3.0%	-1.5%	-0.2%	0.9%	2.0%	2.9%	3.8%	4.6%	5.3%	6.0%
	30%	-5.6%	-3.9%	-2.4%	-1.0%	0.2%	1.3%	2.3%	3.2%	4.0%	4.7%	5.4%
	31%	-6.5%	-4.7%	-3.2%	-1.8%	-0.5%	0.6%	1.6%	2.5%	3.4%	4.1%	4.9%
	32%	-7.4%	-5.6%	-4.0%	-2.5%	-1.2%	-0.1%	1.0%	1.9%	2.8%	3.6%	4.3%
	33%	-8.3%	-6.4%	-4.8%	-3.3%	-2.0%	-0.8%	0.3%	1.3%	2.2%	3.0%	3.8%
	34%	-9.3%	-7.3%	-5.6%	-4.1%	-2.7%	-1.5%	-0.4%	0.7%	1.6%	2.4%	3.2%
	35%	-10.2%	-8.2%	-6.4%	-4.8%	-3.4%	-2.2%	-1.0%	0.0%	1.0%	1.9%	2.7%
	36%	-11.1%	-9.0%	-7.2%	-5.6%	-4.1%	-2.8%	-1.7%	-0.6%	0.4%	1.3%	2.1%
	37%	-12.0%	-9.9%	-8.0%	-6.4%	-4.9%	-3.5%	-2.3%	-1.2%	-0.2%	0.7%	1.6%
	38%	-12.9%	-10.7%	-8.8%	-7.1%	-5.6%	-4.2%	-3.0%	-1.8%	-0.8%	0.1%	1.0%
	39%	-13.8%	-11.6%	-9.6%	-7.9%	-6.3%	-4.9%	-3.6%	-2.5%	-1.4%	-0.4%	0.5%
	40%	-14.8%	-12.5%	-10.4%	-8.6%	-7.0%	-5.6%	-4.3%	-3.1%	-2.0%	-1.0%	-0.1%
	41%	-15.7%	-13.3%	-11.2%	-9.4%	-7.8%	-6.3%	-4.9%	-3.7%	-2.6%	-1.6%	-0.6%
42%	-16.6%	-14.2%	-12.1%	-10.2%	-8.5%	-7.0%	-5.6%	-4.3%	-3.2%	-2.2%	-1.2%	
43%	-17.5%	-15.0%	-12.9%	-10.9%	-9.2%	-7.7%	-6.2%	-5.0%	-3.8%	-2.7%	-1.7%	
44%	-18.4%	-15.9%	-13.7%	-11.7%	-9.9%	-8.3%	-6.9%	-5.6%	-4.4%	-3.3%	-2.3%	
45%	-19.3%	-16.8%	-14.5%	-12.5%	-10.7%	-9.0%	-7.6%	-6.2%	-5.0%	-3.9%	-2.8%	

Positive (and unshaded) means the ITC (or equivalent cash grant) provides more value
 Negative (and shaded) means the PTC provides more value

Even with the changes to the tax code under ARRA, which allow a developer to monetize PTCs/ITCs without a tax equity investor, developers generally still have need to seek an outside tax equity investor to maximize all available tax benefits. For example, even with the cash grants, developers still don't typically have the tax appetite to fully monetize the tax benefits afforded by MACRS.

Finding an investor with an appropriate tax appetite has been challenging since the financial crisis began. Due to a reduction in corporate profitability and taxable base, some investors have left the tax equity market. Other investors have reserved their taxable income for specific projects to which they have already committed for other reasons, such as client

1 relationships. The reduced availability of tax equity partners directly impacts the return
2 demanded by investors due to the scarcity of funds to be invested in these projects. This leads to
3 an opportunity cost premium priced into the current returns sought by such investments. In this
4 environment of increased costs for such investments, SDG&E's authorized rate of return is lower
5 than that of traditional tax equity investors.

6 **IV. FINANCIAL AND BASE CASE MODELS**

7 Due to the complex nature of this transaction, there are several key financial models
8 included in this testimony. Below is a review of four of the key models and an explanation of
9 each of the model's key outputs, inputs and purpose. These models are found in Appendices A,
10 B, C and D. These models are used in conjunction with each other, in an iterative fashion,
11 whereby outputs from one model become inputs into another, as described below. It is important
12 to note that due to the complexity and nature of these models, inputs and assumptions change
13 over time and the current numbers will be updated in the final Base Case Model. The
14 Competitive Energy Insight Wind Model (Appendix A) ("CEI Wind Model") and the
15 Competitive Energy Insight Partnership Model (Appendix B) ("CEI Partnership Model")
16 together comprise the Base Case Model that is referred to throughout the transaction documents.

17 **A. CEI Wind Model (Appendix A)**

18 The purpose of this model, which is used in conjunction with the CEI Partnership Model
19 to create the Base Case Model, is to determine project financial performance based on the current
20 assumptions for the Rim Rock development. All project-level assumptions can be found in the
21 global inputs tab or the annual inputs tab as found in the model. The depreciation schedule is
22 found in Table 13.

23 The key project-level inputs for this model are:

- 24 • Operating expenses.

- 1 • Revenue from sales of power and Green Attributes.
- 2 • Initial capital costs referenced in Appendix E: Pro Forma Capital Costs.
- 3 • Depreciation assumptions.
- 4 • The project operating expenses and revenues referenced in Appendix F: Pro Forma
- 5 Operating Expenses.
- 6 • Sensitivity analysis for each key variable

7 The production information used for this model includes:

- 8 • Nameplate capacity.
- 9 • Net capacity factor.
- 10 • Availability and scheduling losses (curtailment).
- 11 • Transmission line losses.

12 All expenses and revenues are loaded into the model. Revenues are calculated as the
13 product of energy production and a forecast price.

14 The nameplate capacity, expected capacity factor, curtailment and line losses are loaded
15 to derive the energy generation for the project. Production at busbar provides the basis for the
16 revenue stream for PTCs and Green Attributes. Production net of line losses derives the revenue
17 stream for energy sales.

18 The capital costs are loaded into the model, similar to the expenses, and drive the
19 depreciation, property tax and working capital reserves. The depreciation schedule in Table 13
20 details the MACRS schedule being used. This schedule is based on a new entity with assets
21 placed in service on November 1, 2012.

22 The results from this model include the cashflows, depreciation and project returns. The
23 outputs from this model will be inputs into the CEI Partnership Model in Section B below and

1 allocate project benefits to the partners based on all available inputs. This will result in the
2 calculation of the Green Attribute price set forth in the Pricing Addendum covered in Mr.
3 McClenahan's testimony. The output price charged to SDG&E ratepayers for the Green
4 Attributes reflects the revenue requirement needed for the project to achieve all base case targets.

5 **B. CEI Partnership Model (Appendix B)**

6 The purpose of this model, which is used in conjunction with the CEI Wind Model to
7 create the Base Case Model, is to determine partnership returns based on the current distribution
8 assumptions for the Rim Rock Investment. All partnership inputs can be found on the
9 Partnership Input tab and Control Panel tab of this model.

10 The inputs are derived from the CEI Wind Model and are detailed in Appendices A and
11 B:

12 The key partnership-level outputs from this model are:

- 13 i. Cashflows to partners.
- 14 ii. Taxable Income to partners.
- 15 iii. PTCs to partners.
- 16 iv. Return calculations for both partners.

17 Also calculated in this model:

- 18 v. Deficit restoration obligation computation.
- 19 vi. Capital account balances.

20 The allocation information used for this model includes:

- 21 vii. Cash sweep cash allocation and threshold.
- 22 viii. Pre-flip cash, taxable income, depreciation and PTC allocations.
- 23 ix. Post-flip cash, taxable income and depreciation allocations.
- 24 x. Equity contribution amounts from each partner.

1 The model first shows the equity contribution percentages of each partner. This becomes
2 the basis from which capital account balances and return calculations begin.

3 The project-level cashflows, depreciation, PTCs and taxes are loaded from the CEI Wind
4 Model. The imported data is then allocated to each partner based on the input assumptions for
5 distributions of cash, depreciation, PTCs and taxes. Using the methodology laid out in the
6 Pricing Addendum (attached to the testimony of Mr. McClenahan), the model is used to target
7 the return to SDG&E in year ten and the return to NaturEner by adjusting the partnership
8 distribution allocations and Green Attributes price. There are three main constraints for this
9 project:

- 10 a. Cash Sweep Phase – This phase will terminate at the sooner of three years or
11 when NaturEner recovers █████ of its invested capital inclusive of the developer
12 fee.
- 13 b. Pre-Flip Phase – This phase will not end until SDG&E has achieved its after-tax
14 return of 7.36%, which is estimated to occur at the tenth anniversary of
15 commercial operations.
- 16 c. Developer Yield – Must be █████ after tax in the base case. Note that this is a
17 constraint used for modeling purposes and is the target set in the Base Case
18 Model. This constraint differs from the Cash Sweep Phase and the Pre-Flip Phase
19 constraints in that there are no further allocation changes made if this target is
20 met.

21 Once a constraint is met for the Cash Sweep and Pre-Flip Phase, the allocations are
22 changed to the next phase's allocations. The final post-flip allocations remain until a buyout or
23 the project is dissolved.

1 This model's outputs become inputs for the revenue requirement model to determine the
2 impact of the investment to ratepayers and shareholders.

3 **C. Revenue Requirement for Investment (Appendix C)**

4 The purpose of this model is to determine the shareholder return for a standard ratebase-
5 like investment. A revenue requirement traditionally consists of depreciation, returns, taxes,
6 operation and maintenance ("O&M") and franchise fees and uncollectibles ("FF&U").

7 The key computations for this model are:

- 8 xi. Return on common, preferred and debt.

9 The initial investment, obtained from the CEI Partnership Model, is loaded into this
10 model. The returns are calculated based on the ratebase declining balance. The returns are the
11 authorized returns for SDG&E, where the current authorized return is held constant for the term
12 of the transaction. The investment is treated as a standard investment with the authorized cap
13 structure and a 20-year book, state and federal tax life. The model assumes the investment will
14 be recovered over the 20 years of the project.

15 **D. Revenue Requirement for Rate Purposes (Appendix D)**

16 The purpose of this model is to determine the net ratepayer impact of the investment,
17 after offset by the project benefits. The revenue requirement for this project is the sum of the
18 annual depreciation, return and taxes.

19 The key outputs from this model are:

- 20 xii. Revenue requirement for rate purposes.
- 21 xiii. Reduction to base on which ratepayers will pay a return from project
22 deferred taxes.
- 23 xiv. Reduction to revenue requirement from project PTCs.
- 24 xv. Reduction to revenue requirement from project cash flows.

1 The benefits from the project are captured on the “import to RR” tab and are separated
2 into three streams.

3 The first benefit is SDG&E’s allocation of MACRS depreciation, which generates a
4 deferred tax benefit. This benefit stream is loaded into the model and reduces the basis for which
5 SDG&E’s returns are calculated. By lowering the basis upon which returns are calculated, the
6 revenue requirement is reduced.

7 The second benefit is SDG&E’s allocation of PTCs produced by the project. The PTCs
8 reduce the tax liability in the model. These PTCs are then “grossed up” by 1.7806⁶ in the model
9 to ensure a dollar for-dollar reduction to revenue requirement.

10 The third benefit is the project cash flows allocated to SDG&E. This benefit reduces the
11 resulting revenue requirement on a dollar-for-dollar basis. For example, if ratepayers had a
12 revenue requirement of \$5 and pre-tax cash is \$1, the net revenue that needs to be collected from
13 the ratepayer in that year is now \$4.

14 Once all these benefits are accounted for, the resulting net revenue requirement is what
15 will be collected in rates over the 20 years. The total rate impact of the investment on ratepayers
16 is expected to be \$0 at year ten as the investment is expected to be repaid in full. In years 11-20,
17 ratepayers will continue to receive a small portion of cash flows and tax benefits from the
18 project, which will have a direct financial benefit to ratepayers. This aspect of the transaction is
19 covered in Section VII-C.

20 **V. NATURENER PROJECT ECONOMICS FROM OPERATIONS**

21 The purpose of this section is to explain the project economics by explaining the capital
22 assumptions and detailing the operating revenues, expenses and tax benefits at the LLC level.

23 Appendix E (Pro Forma Capital Costs) and Appendix F (Pro Forma Operating Expenses) explain

⁶ Gross up factor calculated by the following equation: $(1/(1-(\text{TaxRateState}+\text{TaxRateFed})))$

1 the calculations, the model cell reference, the value and the description in greater detail.

2 Appendix G (Tax Benefits) is a spreadsheet forecast of the expected operations, expenses,

3 revenue and tax benefits over the life of the project.

4 **A. Capital Assumptions (Appendix E):**

5 The project is a 309 MW total installed capacity project with total capital costs currently
6 estimated at [REDACTED].

7 The capital costs include development costs, wind turbine costs, balance of plant costs
8 (site mobilization, engineering and construction), interconnection costs, financing costs,
9 contingency and other costs, including the development fees.

Item	Assumption
Nameplate	309 MW
Generation at bus bar	1004 GWh/year
Total Upfront Costs	[REDACTED]
Turbines	206 Acciona 1.5Mw Wind Turbines
Partnership term	20 years
Deal Structure	Partnership with Production Tax Credits
Net Capacity Factor	39.90%

10
11 The location of the project is expected to afford a wind capacity of 39.9%, which
12 provides 1,004 GWh per year in energy production. Scheduling losses are currently estimated at
13 [REDACTED] for the life of the project. Line losses are estimated at [REDACTED], providing [REDACTED] per year
14 in delivered energy to the Alberta Energy System Operator (“AESO”) pool, resulting in an
15 effective capacity factor of [REDACTED]

16 The current Base Case Model assumes that the full capacity is placed in service on
17 November 1, 2012.

1 **B. Revenues (Appendix F)**

2 The project will generate revenues from energy production in two aspects: 1) Green
3 Attributes associated with the production of wind energy and 2) sale of energy delivered to the
4 AESO pool (“null” power).

5 Revenues from the sale of energy delivered to the AESO pool currently are modeled in
6 two parts: 1) a hedge on [REDACTED] of the energy delivered in the first ten years of operation and 2)
7 sales based on the Alberta forward pricing curve (Canadian Dollars, CAD), converted at the
8 foreign exchange (“FX”) rate of that year forecasted by IHS/Cambridge Energy Research
9 Associates®, Inc., for [REDACTED] of the energy delivered in the first ten years and [REDACTED] of the energy
10 delivered in the last ten years. The hedge will be put in place at the time of Construction
11 Financial Closing fixing [REDACTED] of the revenue for the time during which SDG&E is seeking the
12 bulk of its benefits from the partnership.

13 **C. Operating Expenses (Appendix F)**

14 Project expenses consist of management and maintenance expense, power transmission
15 costs, firming and balancing expense, environmental monitoring expenses, and land royalty
16 expense. Each is described below and in Appendix F.

17 Management and maintenance expenses include turbine O&M expense, Montana-Alberta
18 Transmission Line (“MATL”) O&M expense, spare parts, managed service expenses, direct
19 expenses, administrative management fees, insurance, property tax, energy sales standby fees
20 and Montana sales tax. The backfeed power is assumed to be provided with the regulatory
21 reserves, therefore there is no additional cost associated with this expense.

22 Power transmission costs are based on the contractual rates, in alignment with FERC
23 electric tariffs, between NaturEner USA LLC and MATL LLP as described in the “Long-Term

1 | TSR Purchase and Service Agreement⁷ with a capacity commitment northbound of 180 MW
2 | and a NaturEner USA LLC northbound capacity commitment of 120 MW. The total northbound
3 | transmission is expected to be 300 MW, providing transmission service for the 309 MW plant
4 | after accounting for losses. Transmission costs are escalated at 2.5% per year.

5 | The Rim Rock project will not be eligible to participate in the CAISO's Participating
6 | Intermittent Resources Program ("PIRP"), which provides integration service for intermittent
7 | renewable energy in California. The costs of the PIRP program are socialized and not directly
8 | attributed to a specific generator. In contrast, non-PIRP projects, such as Rim Rock, need to
9 | purchase these services, which provides more transparency into the actual costs of integration of
10 | intermittent resources. The costs of these services are included in the Base Case Model and are
11 | thus already a component in the price of Green Attributes. Those costs include firming,
12 | balancing and dynamic corridor expenses.

13 | Costs are included for enhanced environmental monitoring that will be performed during
14 | the first three years of operation, specifically focusing on the avian and bat ecosystem
15 | impairment. These costs are included in Appendix B, which is part of the Base Case Model.

16 | Land royalties are paid to the parcel land owners per their contractual agreements. The
17 | royalty costs are based on a percentage of energy revenue.

18 | **D. Tax Benefits (Appendix G)**

19 | As discussed in both Mr. Reeves' testimony and this testimony, the Rim Rock project
20 | will elect PTCs. PTCs are based on the amount of energy delivered to the busbar at an escalating
21 | value based on an index established by the IRS. While the volume of the PTCs may be
22 | uncertain, the reduction in tax liability is fixed at a dollar-per-dollar reduction for those credits

⁷ Service Agreement Nos. 1, 2 and 3, Long-Term TSR Purchase Service Agreement for Transmission of Electricity to the Montana Alberta Tie Line.

1 that are received, as explained in Section III-C of this testimony and in Mr. Reeves' testimony.
2 Production below forecasted levels will result in a delayed "flip date" as covered in Section III-
3 A; this mechanism still results in full repayment to ratepayers of the amount invested.

4 Another tax benefit is MACRS tax depreciation. MACRS allows a business to recover
5 its investment through depreciation deductions more rapidly than the traditional straight-line
6 method used for book purposes. For wind property placed in service after 1986, the MACRS
7 class life of the assets is five years rather than the typical 20 years for fossil fuel generation. It is
8 estimated that 93% of the Rim Rock project is eligible for five-year MACRS depreciation and
9 6% is eligible for 15-year MACRS depreciation. Below is a table representing the year-by-year
10 recovery of project costs through MACRS depreciation.

11 MACRS depreciation is a critical benefit because it allows for the recovery of costs to be
12 realized sooner, which translates into a time-value-of-money advantage for SDG&E and a source
13 of cash that does not require a return from ratepayers. Also, five-year MACRS is another risk-
14 mitigation feature in the first ten years of this investment, accounting for 30% of the benefit in
15 years one to ten to the ratepayer.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
MACRS	\$42MM	\$235MM	\$141MM	\$84MM	\$69MM	\$57MM
Percentage Recovered*	6.7%	37.3%	22.4%	13.4%	11.0%	9.2%

16 *based on an in service date of 11/1/2012

17 **VI. NATURENER PARTNERSHIP ECONOMICS FROM TAX BENEFITS**

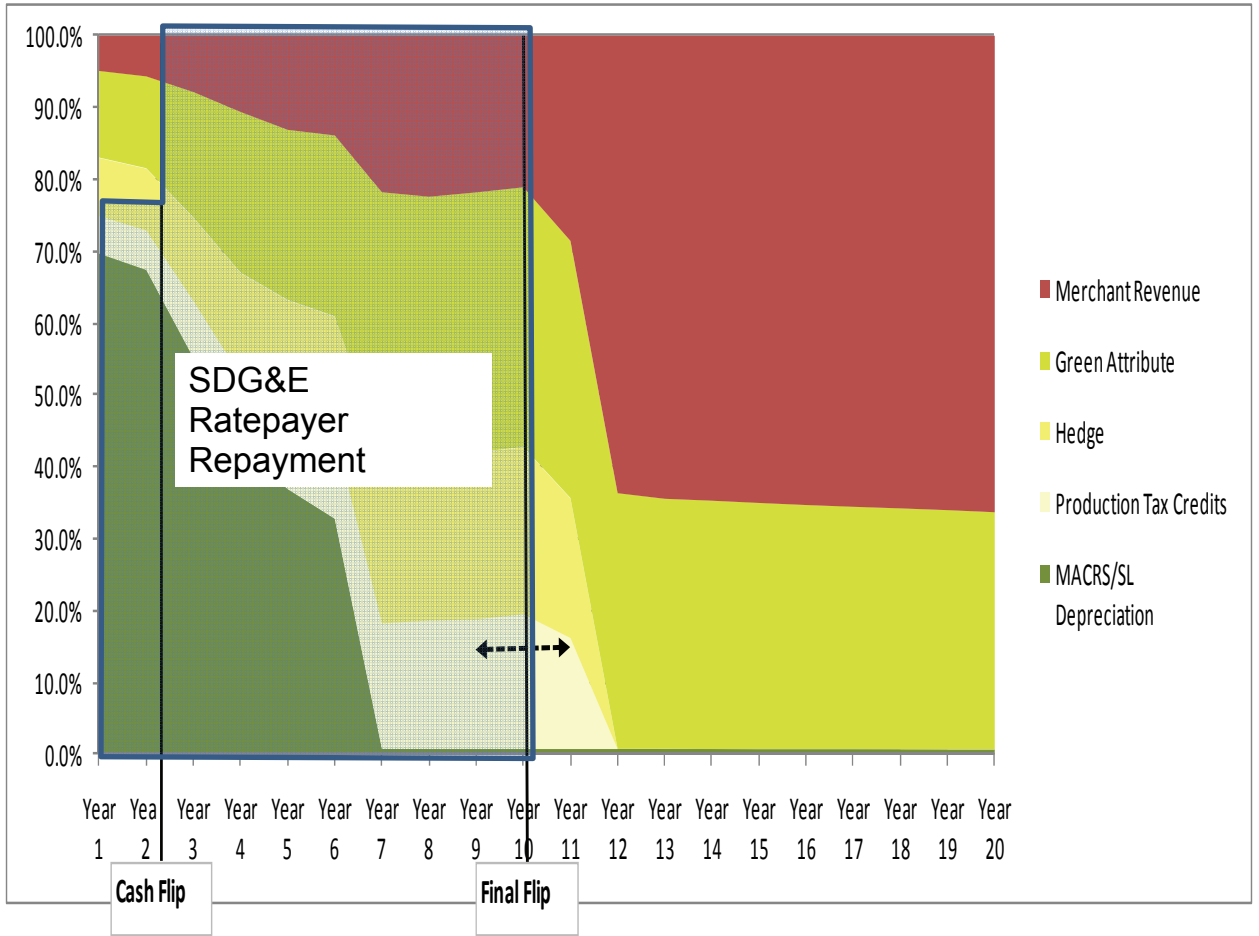
18 The purpose of this section is to explain in detail the tax equity structure proposed, the
19 allocation of benefits to the partners, and the return to each partner.
20

21 **A. Tax Equity Structure**

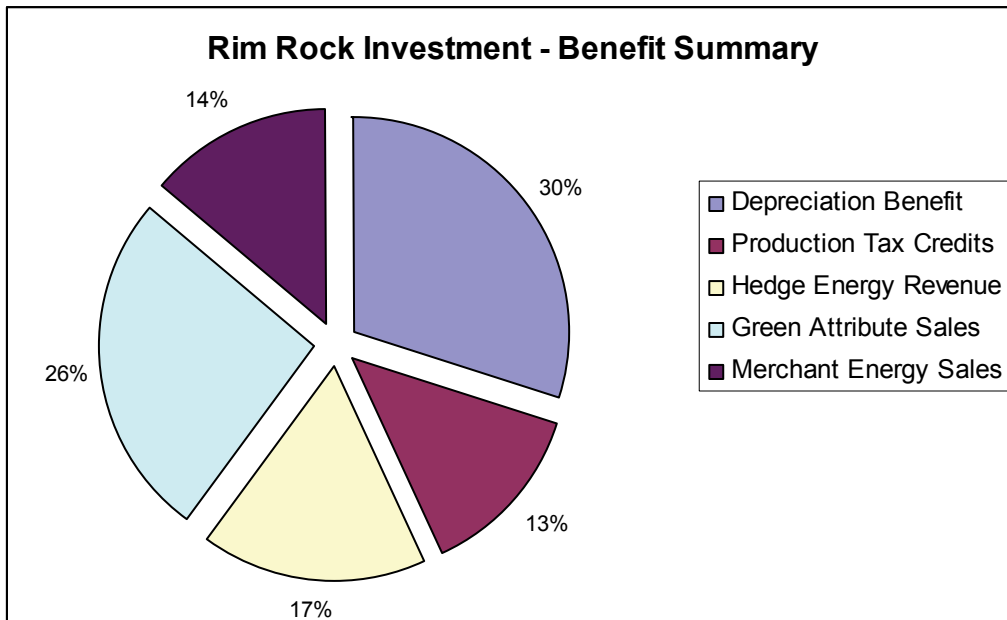
22 The tax equity structure has often been used in the renewable energy industry. As
23 previously explained in this testimony, the unstable financial markets of recent times and the

1 extension of the tax benefits via the stimulus package suggest that there is a constructive role for
2 IOUs to play as a tax equity investor. Traditionally, in the tax equity structure the tax equity
3 investor (SDG&E) receives a majority of the tax benefits while the developer (NaturEner)
4 receives a portion of its cash back in the first three years. The balance of the developer's return,
5 both on and of their investment, is not recovered until after the tax equity investor has received
6 its "preferred" return, making the tax equity investor's risk profile look somewhat more like debt
7 than an equity investment.

8 In this tax equity arrangement, a predefined allocation of these benefits flows to two
9 project investors (SDG&E and NaturEner), as detailed further in the Equity Capital Contribution
10 Agreement ("ECCA") and the LLC Agreement attached to Mr. McClenahan's testimony. These
11 allocations govern the timing of repayment to investors. The charts below depict the relative
12 quantity of the various benefits from the project level to be distributed by the partnership to each
13 investor. The charts also show the potential risk profile of the project benefits. Depreciation
14 does not vary based on production or the market as it is essentially fixed at 30% of the overall
15 benefit from the LLC. Green Attribute sales, null power hedge sales and PTCs account for 56%
16 of the project benefits. Green Attribute sales are at a fixed price for 20 years while null power
17 hedge sales and PTCs are fixed in price for 10 years. Green Attribute sales, null power hedge
18 sales and PTCs will vary with production, but this risk is mitigated through the variable flip date
19 as explained in Section III-C. The remaining 14% of benefit is assigned to market null power
20 sales, which is subject to both production and market price risk, but again is mitigated through
21 the variable flip date since the investor will continue to receive project cash flows until its target
22 IRR is achieved.



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1 The tax equity deal specifies allocations for three main items: 1) investment contributed
2 by each of the partners, 2) distributions of pre-tax cash flow generated by the partnership and 3)
3 distributions of tax benefits and taxable income from the partnership.

4 The partnership specifies that SDG&E will contribute up to 79.99% of the forecasted
5 [REDACTED] total capital investment on the partnership funding date. The balance of the
6 capital investment will be contributed by NaturEner.

7 The tax equity structure in the Base Case Model follows a traditional flip structure, which
8 allocates [REDACTED] (as currently projected) of the cash generated by the partnership to NaturEner
9 during a cash sweep phase, which begins on November 1, 2012 and expires on October 31, 2015,
10 or sooner based on a not-to-exceed negotiated threshold. This allows for recovery of up to [REDACTED]
11 of NaturEner's investment in this phase. NaturEner's remaining return of, and on, capital does
12 not come until after full SDG&E ratepayer repayment. Upon expiration of the cash sweep phase,
13 the cash flow distribution allocation changes, so that SDG&E receives [REDACTED] (as currently
14 projected) of the cash from the partnership up to the flip date (projected to be on the tenth
15 anniversary of the project). From the flip date until the end of the partnership, the cash flow
16 allocation currently is split with [REDACTED] to NaturEner and [REDACTED] to SDG&E. Final allocation
17 percentages will be based on the final Base Case Model per Pricing Addendum.

18 Tax benefits, including PTCs and MACRS depreciation, as well as taxable income, are
19 allocated [REDACTED] to SDG&E and [REDACTED] to NaturEner up to the flip date, and then [REDACTED] to SDG&E and
20 [REDACTED] to NaturEner from the flip date until the end of the partnership. The allocation
21 percentages during each phase of the project are designed to meet the safe harbor provisions
22 established by the IRS. A terminal value of the assets is included in the Base Case Model and
23 distributed according to the post-flip allocations, forming part of NaturEner's return.

1 **B. Depreciation**

2 Of the [REDACTED] total project estimated capital investment, 100% of these costs
3 consists of depreciable equipment. Approximately 93% of the depreciable equipment qualifies
4 for five-year MACRS treatment, 6% qualifies for fifteen-year MACRS and the remaining 1%
5 will be depreciated or amortized straight line over 20 years. As described and illustrated above,
6 SDG&E would receive [REDACTED] of the benefits of the project’s tax losses (including depreciation) up
7 to the flip date, and [REDACTED] thereafter.

8 **C. Capital Accounts**

9 If the allocations of tax benefits to either NaturEner or SDG&E exceed their respective
10 capital accounts in the partnership, a reallocation of the tax benefits would be required unless a
11 deficit restoration obligation (“DRO”) is elected. For this transaction, a limited DRO [REDACTED]
12 [REDACTED] has been elected by SDG&E as the tax equity investor,
13 thereby mitigating the possibility of a reallocation of the tax benefits to NaturEner instead of
14 SDG&E. The DRO benefits ratepayers because it allows ratepayers to continue to receive the
15 tax benefit allocations specified in the LLC Agreement, even in situations where the tax benefits
16 allocated to SDG&E exceed SDG&E’s capital account balance.⁸

17 The capital account balance starts with the contributed capital of each partner. Taxable
18 income increases the capital account balance, while tax deductible expenses, tax depreciation,
19 and cash distributions all decrease the capital account balance. The Base Case Model shows that
20 SDG&E’s capital account is projected to be negative in years [REDACTED] largely as a result of the
21 allocations of depreciation benefits in excess of its capital investment. NaturEner’s capital

⁸ Under the LLC Agreement, if SDG&E has a negative capital account balance at a time when the project is liquidated, it is required to make an additional capital contribution to the project in that amount, in connection with such liquidation. Although SDG&E is expected to have such a negative balance at certain times during the life of the project, the risk of being required to put in more money is mitigated by a special allocation of any taxable income that is available after the PTC period expires to bring SDG&E’s capital account balance up to zero.

1 account is positive throughout the life of the project. Underperformance and exceptional
2 performance will influence the balance of the capital accounts during operations.

3 As explained above, in the event that SDG&E's capital account balance was to go
4 negative, the DRO for SDG&E would allow SDG&E to keep its normal allocation of tax
5 benefits, up to the DRO amount. While SDG&E would get taxed on cash distributions in excess
6 of its tax basis in the partnership, and while the net losses allocated to SDG&E would be
7 suspended and could not be deducted until SDG&E's capital account becomes positive, the DRO
8 would allow SDG&E to receive its full allocation and full use of PTCs, thereby benefiting
9 ratepayers. SDG&E's negative capital account would be restored post-flip under the terms of the
10 LLC Agreement, which requires the reallocation of up to [REDACTED] of the project's income to
11 SDG&E until such time as SDG&E's capital account balance is no longer negative. The DRO
12 liability, which reflects the tax benefits allocated to ratepayers in excess of SDG&E's capital
13 investment in the project, is contingent and would only be due if the partnership is liquidated.
14 The ratemaking treatment of an unlikely recognition of a DRO liability is covered in the
15 testimony of Mr. Deremer.

16 **VII. FINANCIAL MECHANICS OF NATURENER-SDG&E TAX EQUITY**

17 The purpose of this section is to explain and detail the recovery mechanism for this
18 investment, the associated benefit flow and the rate neutrality of this investment.

19 **A. Standard Revenue Requirement and Components**

20 SDG&E's proprietary revenue requirement model is used to model the ratebase
21 investment. Forecasted revenue requirements represent the incremental monthly and annual
22 revenue required to recover the equity investment. The revenue requirement evaluation assumes
23 all capital is recovered through depreciation over its book life. In addition to the actual
24 expenditure amounts, the revenue requirement includes all other expenses required to support the

1 capital investment, including an authorized return on investment, and income and property taxes.
2 In this section, I will outline the components that make up the revenue requirement for SDG&E's
3 forecasted [REDACTED] investment.

4 **1. Depreciation**

5 The proposed depreciation uses the straight-line remaining life depreciation method
6 consistent with Standard Practice U-4, Determination of Straight-Line Remaining Life
7 Depreciation Accruals. The CPUC issued this standard practice in 1961 as a guide for
8 determining proper depreciation accruals. SDG&E proposes a 20-year straight line in this model
9 for both tax and book lives.

10 **2. Property Taxes**

11 The partnership will pay property taxes in Montana on the assessed value of the project.
12 Property taxes are treated as an expense in the calculation of operating pre-tax net income
13 distributed to the partners. SDG&E's investment in the partnership is regarded as an intangible
14 asset excluded from property taxes. Accordingly, there is no revenue requirement associated
15 with reimbursement for property taxes in this filing.

16 **3. Income Taxes**

17 This section provides SDG&E's estimate of income taxes that will be incurred due to this
18 equity investment, and discusses the assumptions and methodology used to make the income tax
19 estimates. State and federal income tax expense is estimated based on net operating income
20 before income taxes.

21 Current tax law has been utilized to compute income taxes for this investment. Federal
22 income tax expense is calculated by multiplying the current statutory corporate federal income
23 tax rate of 35 percent by applicable federal taxable income. Similarly, state income tax expense

1 is calculated by multiplying the statutory rate of 6.67% by Montana apportioned state taxable
2 income.

3 Following established Commission policy, federal income tax depreciation is computed
4 on a normalized basis while state tax depreciation is flowed through to ratepayers as it is
5 realized.

6 **4. Return**

7 The return on rate base included in the revenue requirement for the investment is
8 calculated by multiplying SDG&E's currently-authorized return by the average net rate base for
9 each year. The table below shows SDG&E's rate of return calculation on a pre-tax basis.

SDG&E Rate of Return (ROR) Calculation				
Capital Structure		Weighting	Cost	ROR
Debt		45.25%	5.62%	2.54%
Preferred Stock		5.75%	7.25%	0.42%
Common Equity		49.00%	11.10%	5.44%
	Total Pre-Tax	100%		8.4%
	Total After-Tax			7.36%

10 **5. FF&U**

11 FF&U is the revenue requirement needed to pay required franchise fees on electric sales
12 and to recover estimated uncollectible expenses. In this case, FF&U is recovered in rates similar
13

1 to all utility revenue collected in the state. It is recovered using the proceeds from years 11-20.
2 The current rate adopted in SDG&E's last general rate case is 3.7%.⁹

3 **6. Revenue Requirement for Investment Output**

4 SDG&E's forecasted [REDACTED] investment results in a levelized revenue
5 requirement of [REDACTED] over 240 months.

6 **B. Ratepayer Benefits (Revenue Requirement for Rate Purposes)**

7 As explained in the previous section, the purpose of this revenue requirement is to
8 determine the rates needed on an annual basis to recover the investment, less the project benefits.

9 **1. Benefit of Depreciation**

10 As previously discussed, the tax depreciation benefits are being accounted for and flowed
11 through to each partner in the CEI Partnership Model. The CEI Partnership Model would
12 allocate [REDACTED] of the tax depreciation benefits to SDG&E in the first ten years. Thus, [REDACTED] of the
13 total partnership five-year MACRS depreciation benefit is allocated to SDG&E. Since the
14 revenue requirement already captures the book depreciation, the additional benefit of the
15 deferred taxes created by the difference between MACRS depreciation and book depreciation is
16 passed back to the ratepayers via a reduction in ratebase equivalent to the accumulated deferred
17 taxes. In this way, the ratepayers benefit from the fact that while only up to 79.99% of the total
18 investment is ratebased, they receive [REDACTED] of the deferred tax benefits from the partnership.

19 **2. Benefit of PTCs**

20 Just as [REDACTED] of the MACRS benefit is flowed to SDG&E in the first ten years, so are the
21 PTCs allocated to SDG&E in the same proportion. Since PTCs are after-tax cash flows, they are
22 flowed back to the ratepayer by grossing them up to reduce the revenue requirement by

⁹ See D.08-07-46, Decision on the Test Year 2008 General Rate Cases for San Diego Gas & Electric Company and Southern California Gas Company.

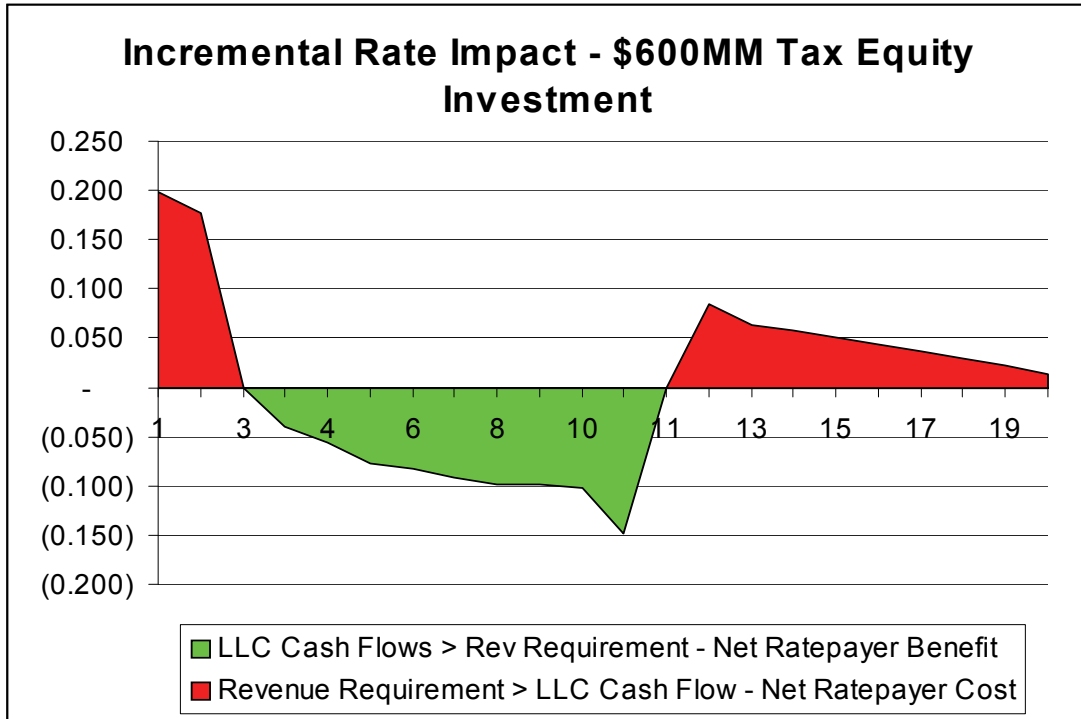
1 approximately 1.78 times. PTCs can only be earned in the first ten years of operation and only
2 based on actual energy produced and delivered at busbar net of scheduling losses. The
3 assumption for PTCs in the Base Case Model is a rate of \$23/MWh in 2012.

4 **3. Benefit of Pre-Tax Cashflows**

5 Pre-tax cash flows are allocated to SDG&E from the partnership at a rate of [REDACTED] during
6 the cash sweep period (which lasts no longer than 3 years), [REDACTED] from the end of the cash
7 sweep period to the flip date, forecasted to be on the tenth anniversary, and then [REDACTED] from the
8 “flip date” to the end of the partnership under current projections. Pre-tax cash flows received
9 from the partnership are also passed back to the ratepayers, creating a dollar-for-dollar reduction
10 in the revenue requirement for the ratebased recovery of the investment.

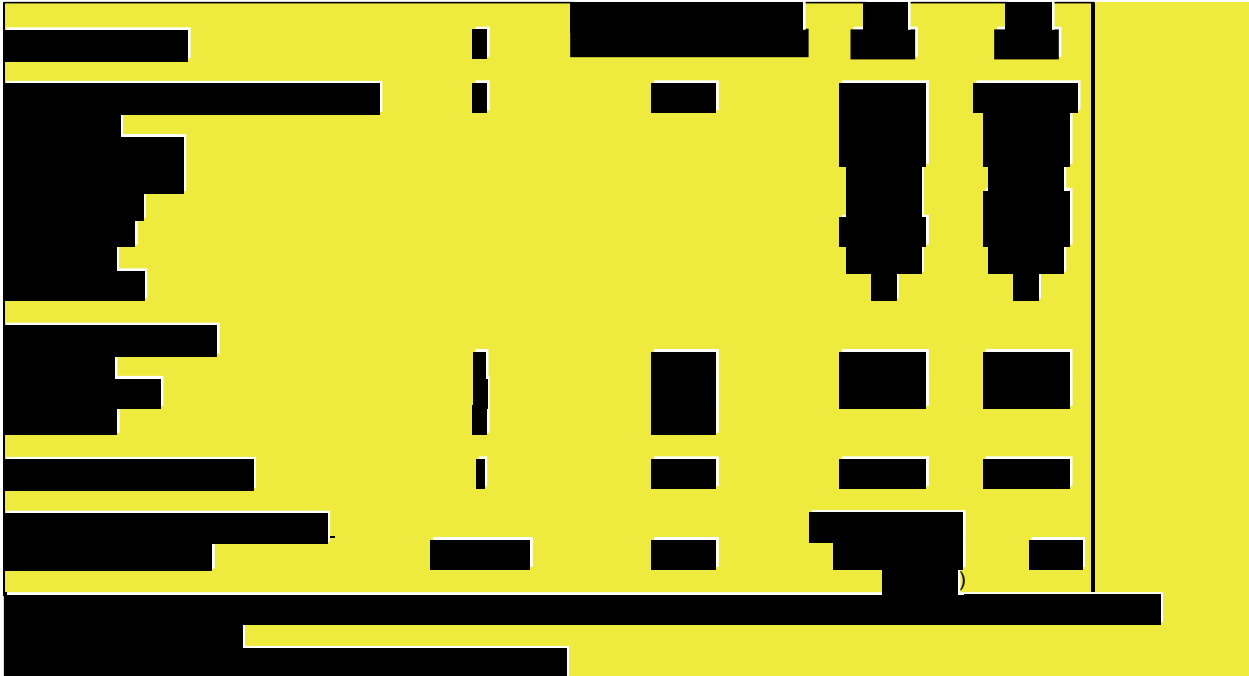
11 **C. Investment Neutrality and Investment Benefit**

12 In summary, the Rim Rock tax equity investment has a projected net zero impact on
13 rates. The ratepayers pay a traditional ratebased-type recovery to SDG&E in an amount up to
14 \$600 million. To offset the cost of this revenue requirement, ratepayers receive all of the
15 benefits from the partnership as outlined in this testimony. SDG&E will monetize, on behalf of
16 the ratepayer, any tax benefits or incentives available in the transaction. Therefore, the
17 ratepayers receive all the benefits from the Base Case Model to completely offset the cost of the
18 associated revenue requirement for the maximum \$600 million investment. Below is a graph
19 that shows the estimated net impact to rates over the life of the project. The net resulting cost to
20 the SDG&E ratepayer is simply the PPA for the Green Attribute, which is priced lower due to
21 SDG&E’s involvement.



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Although SDG&E's investment (up to \$600 million) may be fully repaid in 10 years, the tax equity structure that is being used also allocates a small portion of benefits to ratepayers post-flip and represents a direct financial benefit. The benefits received in years 11-20 are estimated at [REDACTED] over the life of the project and create an effective Green Attribute price of [REDACTED]. This effective price represents the [REDACTED] gross Green Attribute price minus the [REDACTED] post-flip benefit and is represented in the chart below.



1

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3 **VIII. CONCLUSION**

4 SDG&E’s proposed tax equity investment in the Rim Rock project will advance the
5 development, constuction and operation of renewable generation to serve California customers.
6 SDG&E’s involvement through a tax equity investment benefits ratepayers through SDG&E’s
7 access to relatively low cost capital and its monetization of tax benefits, resulting in a lower
8 priced PPA for Green Attributes. With more than 86% of project benefits at a fixed price during
9 SDG&E’s projected involvment and the option to invest only upon commercial operation of the
10 project, this project provides an attractive risk profile for IOU involvement. The tax equity
11 investment in Rim Rock also is protected through a preferred return and the variable flip
12 structure as discussed throughout this testimony.

13 SDG&E’s involvement directly lowers the Green Attribute price through an investment
14 that is expected to fully repay ratepayers in 10 years and that provides additional financial

1 benefits in years 11-20. This investment also facilitates the development of a project that will
2 represent a significant step forward in meeting the State's ambitious RPS goals.

3 The confidential appendices to this testimony are included as Exhibit A. A declaration
4 regarding confidentiality of certain data is included in this testimony as Exhibit B.

5 This concludes my direct testimony.

6 **IX. STATEMENT OF QUALIFICATIONS**

7 My name is Amir Moftakhar. I am employed by SDG&E as the Financial Strategies
8 Manager for SDG&E and Southern California Gas Company. My business address is 8330
9 Century Park Court, San Diego, California 92123-1530.

10 I received a Bachelors of Managerial Economics degree from the University of
11 California, Davis in 2001. I received a Masters of Business Administration from Pepperdine
12 University in 2003. I have been employed by SDG&E since 2009. I have over 12 years of
13 professional work experience, with the vast majority of my experience in finance, financial
14 operations and banking.

15 In my current capacity as Financial Strategies Manager, I am responsible for managing,
16 directing and coordinating the financial analysis of SDG&E and SoCalGas projects.

Exhibit A

List of Contents:

- CONFIDENTIAL Appendix A: Competitive Energy Insight Wind Model
- CONFIDENTIAL Appendix B: Competitive Energy Insight Partnership Model
- CONFIDENTIAL Appendix C: Revenue Requirement for Investment
- CONFIDENTIAL Appendix D: Revenue Requirement for Rate Purposes
- CONFIDENTIAL Appendix E: Pro Forma Capital Costs
- CONFIDENTIAL Appendix F: Pro Forma Operating Expenses
- CONFIDENTIAL Appendix G: Tax Benefits

**CONFIDENTIAL APPENDICES OF APPLICATION HAVE BEEN REDACTED IN
THEIR ENTIRETY**

Appendix A: Competitive Energy Insight Wind Model **(REDACTED)**
Appendix B: Competitive Energy Insight Partnership Model **(REDACTED)**
Appendix C: Revenue Requirement for Investment **(REDACTED)**
Appendix D: Revenue Requirement for Rate Purposes **(REDACTED)**
Appendix E: Pro Forma Capital Costs **(REDACTED)**
Appendix F: Pro Forma Operating Expenses **(REDACTED)**
Appendix G: Tax Benefits **(REDACTED)**

Disclaimer: The structure of this transaction bases final pricing on actual and forecast costs and revenues at the time of closing. The numbers presented below represent the forecast of those as of July 12, 2010.

Exhibit B

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

**DECLARATION OF AMIR MOFTAKHAR
REGARDING CONFIDENTIALITY OF CERTAIN DATA**

I, Amir Moftakhar, do declare as follows:

1. I am the Financial Planning Manager in the Financial Analysis Department for San Diego Gas & Electric Company (“SDG&E”). I have provided direct testimony for SDG&E’s Application to Amend Renewable Energy Power Purchase Agreement with NaturEner Rim Rock Wind Energy, LLC and For Authority to Make a Tax Equity Investment in the Project, dated July 15th, 2010 and corresponding appendices A, B, C, D, E, F and G submitted concurrently herewith (the “Report”). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066^{1/} and D.08-04-023 to demonstrate that the confidential information (“Protected Information”) provided in the Report submitted concurrently herewith (described below) falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission’s confidentiality decision, D.06-06-066 (the “IOU Matrix”) and/or under relevant statutory provisions.^{2/}

^{1/} As amended by D.07-05-032.

^{2/} The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (See D.06-06-066, *mimeo*, note 1, Ordering Paragraph 1). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (See *Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities (“IOUs”) and energy service providers (“ESPs”). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.^{3/}

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where “it matches a Matrix category exactly . . . or consists of information from which that information may be easily derived.”^{4/} In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

- 1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
- 2) Which category or categories in the Matrix the data correspond to,
- 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- 4) That the information is not already public, and
- 5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.^{5/}

claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

^{3/} See, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.

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

^{5/} D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

5. SDG&E’s Protected Information: The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

Description of Data	Matrix Category	Period of Confidentiality
<ul style="list-style-type: none"> ▪ Page AM-3, Chart on the bottom of the page ▪ Page AM-4, Lines 3, 4 6, 7, 9-11, 17, 22, footnote 1 ▪ Page AM-5, Lines 3, 18, 20 ▪ Page AM-22, Lines 5, 8, 10, 13, 16, 19-20 ▪ Page AM-23, Lines 2, 6, 7, 11-12, 20 ▪ Page AM-24, Line 10 ▪ Page AM-25, Line 3 	VII.G.	<p>Contract Terms and Conditions</p> <p>Confidential for three years following delivery starts or until one year following expiration, whichever comes first.</p>
<ul style="list-style-type: none"> ▪ Page AM-16, Line 6 ▪ Page AM-16, “Total Upfront Costs” data in inserted table 	VIII.A	<p>Raw Bid Data -Always confidential.</p> <p>Summaries of bids (total MW, MWH, technology types, etc) are confidential until final contracts are submitted to CPUC for approval.</p>

Description of Data	Matrix Category	Period of Confidentiality
<ul style="list-style-type: none"> ▪ Page AM-3, Line 10 ▪ Page AM-7, Line 1 ▪ Page AM-13, Lines 11, 16 ▪ Page AM-16, Lines 13, 15 ▪ Page AM-17, Lines 6, 9, 11 ▪ Page AM-21, MACRS and Percentage Recovered Table ▪ Page AM-24, Line 10 ▪ Page AM-25, Line 3 ▪ Page AM-27, Lines 4-5, 12, 18, 20 ▪ Page AM-28, Lines 5-7 ▪ Page AM-29, Lines 5-7 ▪ Page AM-30, Table above Line 1 <p>Appendix A : Competitive Energy Insight Wind Model</p> <p>Appendix B : Competitive Energy Insight Partnership Model</p> <p>Appendix C : Revenue Requirement for Investment</p> <p>Appendix D : Revenue Requirement for Rate Purposes</p> <p>Appendix E : Pro Forma Capital Costs</p> <p>Appendix F : Pro Forma Operating Expenses</p> <p>Appendix G : Tax Benefits</p>	<p>VIII.B</p>	<p>Quantitative Analysis in Scoring and Evaluation of Bids</p> <p>Confidential for three years after winning bidders selected.</p>

6. The Commission previously considered and approved application of IOU Matrix confidentiality protection to project development status data in its *Administrative Law Judge's Ruling Granting San Diego Gas & Electric Company's May 21, 2007*

Amendment to April 3, 2007 Motion and May 22, 2007 Amendment to August 1, 2006 Motion, issued June 28, 2007 in R.06-05-027.

7. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

8. I am not aware of any instance of public disclosure of the Protected Information.

9. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by the Energy Division.

10. As an alternative basis for requesting confidential treatment, SDG&E submits that the project status information provided in the Report is material, market sensitive, electric procurement-related information protected under §§ 454.5(g) and 583, as well as trade secret information protected under Govt. Code § 6254(k), and that the disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-C.^{6/}

11. Public Utilities Code § 454.5(g) provides:

The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports, or any combination, provided that the Office of Ratepayer Advocates and other consumer groups that are nonmarket

^{6/} This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

participants shall be provided access to this information under confidentiality procedures authorized by the commission.

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

13. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.^{7/} Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

14. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.^{8/}

15. If disclosed, the Protected Information could provide parties with whom SDG&E is currently negotiating insight into SDG&E’s procurement options, which would unfairly undermine SDG&E’s negotiation position and could ultimately result in increased cost to ratepayers. In addition, if developers mistakenly perceive that SDG&E is not committed to assisting their projects, disclosure of the Protected Information could act as a disincentive to developers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Evidence Code § 1060 and General Order 66-C.

^{7/} See also Govt. Code § 6254.7(d).

^{8/} See, D.06-06-066, *mimeo*, pp. 26-28.

16. In accordance with the statutory provisions described herein, SDG&E hereby requests that the information set forth in the Report be protected from public disclosure.

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

Executed this 15th day of July, 2010, at San Diego, California.



Amir Moftakhar
Financial Planning Manager