Application of San Diego Gas & Electric Company
(U 902 E) for Approval the Demand Response Contract
with EnerNOC, Inc.

Application No: 09-03-_____
Exhibit No: ________

RFO Solicitation Contract Approval
(RFO Template)

PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

MARCH 6, 2009

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(RFO Template)

I. Background

Provide the following RFO background:

A. Commission directive under which the RFO is being performed. (Witness: R. Anderson)

This Application concerns a contract for demand response (DR) solicited via San Diego Gas & Electric Company (SDG&E)'s 2010-2012 Supply Request for Offers (2010-2012 RFO).[1] Generally, the 2010-2012 RFO arose from (1) the forecasted need for local and system resource adequacy supply that was apparent as SDG&E developed its 2006 Long Term Procurement Plan (2006 LTPP) (covering the years 2007-2016); (2) uncertainty that surrounded the large quantity of new resource additions in SDG&E's service territory; and (3) a sustained, extraordinary heating event in late July 2006. It was under these circumstances that in the fall of 2006 the Commission ruled that SDG&E could launch or continue competitive solicitations in advance of the Commission's final need determination.[2] In particular, the Commission noted that SDG&E should engage in such activity "if they believe they have a need for new resources in an accelerated time frame."[3] In response to this directive, SDG&E began developing the 2010-2012 RFO, which was eventually issued on March 9, 2007.

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[1] As described in greater detail below, DR capacity was one of three products solicited via the 2010-2012 RFO.

[2] The Commission did not issue its final 2006 LTPP decision (D.07-12-052) until December 2007.

[3] R.06-02-013, Scoping Memo, dated September 25, 2006 at pp. 26-27. Note that this same ruling applied to PG&E.

B. Overall need assessment – capacity and energy balance tables from most recent LTPP, including date of need and online dates requested in RFO. (Witness: R. Anderson)

SDG&E filed its original 2006 LTPP on December 11, 2006 in Rulemaking (R.) 06-02-013. SDG&E's 2006 LTPP consisted of two volumes and corresponding exhibits. Ultimately, in D.07-12-052, the Commission approved SDG&E's 2006 LTPP, with some modifications. So as to generate a version of SDG&E's 2006 LTPP which conformed with D.07-12-052, the Commission mandated that SDG&E make a compliance filing (via a Tier 3 advice letter). On April 18, 2008, SDG&E filed its conformed 2006 LTPP via Advice Letter (AL) 1983-E, including an updated bundled customer system need table (Table III-4 on sheet 139). On September 4, 2008, in Resolution E-4189, the Commission approved AL-1983-E. Since that approval, in D.08-11-008, the Commission ruled on a number of petitions to modify D.07-12-052. In doing so, the Commission modified some rulings regarding, among other things, SDG&E's authorization to procure new local capacity.[4] Accordingly, on January 30, 2009, SDG&E filed a revised 2006 LTPP via AL 2061-E. At the time of the filing of this Application, approval of AL 2061-E was pending.

Based on the foregoing approvals, the Commission has authorized a SDG&E bundled customer system need of between 1480 – 1724 MW in 2011.[5] The need for capacity increases in each year up to between 1988 – 2250 MW in 2016.[6]

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[4] D.08-11-008, however, did not modify the authorized bundled customer system need reflected in Table III-4 of approved AL-1983-E.
[5] AL 1983-E, Table III-4 on sheet 139.
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1) List all procurement already completed under that authorization (if any). (Witness: R. Anderson)

SDG&E's bundled customer system need table (AL 1983-E, Table III-4, sheet 139) shows the resource need prior to the addition of capacity the Commission approved in D.07-09-010 (the Wellhead Margarita and JPower Orange Grove projects) and D.09-01-008 (the Miramar II project). SDG&E has also filed an application (A.08-10-003) seeking Commission approval of a contract for an additional 25 MW of supply side resource with Celerity for back-up distributed generation which is still pending. The sum of all of these contracts is 200 MW of additional capacity.

2) Demonstrates that the total authorization will not be exceeded with the contracts included in the request. (Witness: R. Anderson)

Table III-4 on Sheet 139 shows (in the form of high and low need values) SDG&E's total bundled customer system resource need for the years 2011-2016.[7] This is the need for capacity to meet SDG&E's bundled customer peak load, plus a 15% reserve margin. As an example, the low case need in 2011 is 1480 MW. A portion of this need is forecasted to be met with new uncommitted renewable resources (estimated to be less than 200 MW by 2011). Also a portion of this will be met with the 200 MW capacity from resources approved or pending before the CPUC since the need was determined (Wellhead Margarita, JPower Orange Grove, Miramar II and Celerity). Even after the above-named resource additions, SDG&E has a need for over 1,000 MW of additional capacity in 2011 (1480 MW – 200 MW – 200 MW = 1080 MW). Thus EnerNOC will fill only a very small

[7] The high need value is based on existing capacity. The low need value assumes future additional load reduction from DR, including the impacts from Advanced Metering Infrastructure (AMI).

portion of SDG&E's approved total bundled customer system need, which it must fill in the near term. Since the bundled customer system need continues to grow, EnerNOC capacity will also be needed in the long term.

It should also be noted that although this filing seeks approval for the entire EnerNOC contract, each year a portion of the resource adequacy credit for this contract will be assigned to other Load Serving Entities (LSE), according to the Commission's adopted rules.[8] Thus SDG&E's bundled customers will receive less than 100% of total the resource adequacy capacity offered by EnerNOC.

C. Describe any changes in the assumptions used to support the LTPP authorization and their impact on the need for these contracts (e.g., are significantly more demand-side or renewable resources coming on-line than forecast, resulting in a lower need for conventional generation than was calculated in the LTPP?). (Witness: R. Anderson)

None.

D. Other information not asked above but relevant to the origin of the RFO.

None.

II. <u>RFO Design Process</u>

A. Describe the factors and considerations that contributed to the structure of the RFO. (Witness: R. Anderson)

As noted above, the 2010-2012 RFO was issued to address need identified during the development of SDG&E's 2006 LTPP. Recognizing that a final decision on the 2006 LTPP was still pending, the 2010-2012 RFO was designed to fill only a portion of that need. Moreover, SDG&E designed the 2010-2012

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RFO to be consistent with the portfolio as presented in the 2006 LTPP filing to ensure that the products and quantities sought in the 2010-2012 RFO were consistent with that LTPP and would be compatible with the existing and planned resources in SDG&E's portfolio. Indeed, as part of the 2006 LTPP process, SDG&E was required to study: (1) its bundled customer system resource adequacy needs; (2) its bundled customer local resource adequacy needs; and (3) the total SDG&E grid (bundled and Direct Access customer) local resource adequacy needs for the years 2007-2016. Development of the 2010-2012 RFO was further motivated by the fact that SDG&E's bundled customer net short was going to require significant procurement to replace contracts scheduled to expire over the next five years.

Based on the foregoing factors and considerations, SDG&E issued the 2010-2012 RFO for supply resources to support reliability within the SDG&E service territory, supply energy to bundled customers and/or meet other portfolio needs (including resource adequacy requirements and the greenhouse gas [GHG] emissions profile). Specifically, the 2010-2012 RFO was targeted to solicit demand response and conventional resources that would fill the overall need identified in the 2006 LTPP.[9]

[9] Due to the release (on March 12, 2007) of SDG&E's 2007 Renewable Portfolio Standard (RPS) RFO, the 2010-2012 RFO did not solicit renewables. Thus, the 2010-2012 RFO was not considered an "all-source" RFO.

B. List the specific product requirements identified in the LTPP and/or bid documents, and detailed tables documenting need for the selected resource(s) – particularly with respect to how the selected resources support the renewable and/or GHG-reduction goals of the utility (or of the service area-wide resource mix). (Witness: M. Gaines)

Three products were sought in the 2010-2012 RFO: Product 1 – DR for initial delivery in 2010, 2011, or 2012, running for a total of 15 years; Product 2 - peakers or intermediate class resources, in SDG&E's territory, totaling a minimum of approximately 200 MW as turnkey or power purchase agreements (PPAs) for a minimum of 15 years, with on line dates of between April 2010 and April 2012; and Product 3 - a generation facility, located inside or outside SDG&E's service territory of an approximately 500 MW nameplate capacity, deliverable to SDG&E's service territory.

This Application addresses the bids received and evaluated for Product 1 - DR. Bids for Product 1 were for a product that "must be a means of reducing an end-use customer's demand and/or energy usage," that would reduce demand by at least 1.0 MW and be within SDG&E's service territory. Since such a product reduces load, it eliminates the need for other resources which would have produced GHG when operated. Thus, the addition of this demand response product is consistent with GHG reduction goals.

Product 1-DR offers were also required to comply with the policy guidance of the Energy Action Plan (I and II) and be in alignment with the state's "Demand Response Vision for the Future."[10] Offers were also required to meet

[10] D. 03-06-032, Appendix A (California Demand Response: A Vision for the Future).

the Commission's definition of DR.[11] Generation resources located on the customer side of the meter, such as back-up generation, were disqualified as DR products in this offer.[12] Products, including DR committed on existing programs, or products for Direct Load Control programs targeted toward residential customers and business customers with demands of less than 100 kW were also excluded. SDG&E sought offers that also met the resource adequacy requirements for DR as set forth by the Commission in D.05-10-042. Finally, the offer stated that SDG&E preferred DR products that would be available from May 1, 2010 through October 31, 2025. Products which were not available for all the months during this period required clarification from bidders, in detail, as to when the product would be available and the circumstances surrounding its availability. Please note that the entire RFO package is attached to this RFO Template as Attachment 1.

C. Explain the consultation and input from PRG, IE, and ED (including a description of any disputed issues and how these issues were resolved). (Witness: R. Anderson)

At all stages of the 2010-2012 RFO, SDG&E consulted with its Procurement Review Group (PRG) and also worked with its Independent Evaluator (IE) to ensure that the solicitation was open, designed and evaluated without bias and likely to garner a robust response from the market. There were no disputed issues regarding the demand response product in this RFO.

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[11] D.05-01-056 (at pp. 47-49) discusses the use of generation as demand response. More recently, D.06-03-024 states that demand response "applies to rate design, incentives and technology to induce changes in customer demand" (at p. 3).
[12] D.06-11-049 (at pp.57-58) discusses the Commission's policy regarding back-up generation options.

The PRG, including representatives from Energy Division, was briefed on SDG&E's plans for the 2010-2012 RFO as early as October 27, 2006, when a PRG meeting was held to discuss (among other topics) the El Dorado option agreement.[13] On March 1, 2007 a near-final draft of the RFO documents was sent to the PRG for their review prior to public release. On March 2, 2007, a call was held with Energy Division staff who had suggested changes which SDG&E ultimately incorporated into the RFO prior to its release on March 9, 2007. On March 16, 2007, SDG&E again reviewed with its PRG the goals of the 2010-2012 RFO, the process to be followed and the need to be filled. As further discussed in Section V.A.2, below, SDG&E reviewed various aspects of the 2010-2012 RFO and its results at several subsequent PRG meetings.

In an effort to expedite completion of the RFO process, SDG&E continued to use the same IE used for previous solicitations. This IE's familiarity with SDG&E's portfolio and PRG avoided the time that would be necessary to get another IE up to speed. However, after the RFO was underway, the IE asked to withdraw as SDG&E's IE in this matter due to a potential conflict related to other work being done by the IE's firm. SDG&E therefore switched IE firms immediately prior to the receipt of offers. This change in IEs was discussed with the PRG on two occasions. The final IE's Report, reflecting the input from both IEs who worked on the RFO, is included with this RFO Template as Attachment 10.

[13] The El Dorado option agreement is related to the 2010-2012 RFO in that it met the Product 3 requirements. The Commission approval the El Dorado option agreement in D. 07-09-010. The agreement allows SDG&E to acquire the El Dorado energy facility in Boulder City, Nevada. Starting in late 2011, this facility will make approximately 480 MW of needed combined-cycle capacity available to serve SDG&E's bundled customer load.

D. Describe the original solicitation and any subsequent revisions that were communicated to all potential bidders. (Witness: R. Anderson)

As noted above, the solicitation documents issued as part of the 2010-2012 RFO are included with this RFO Template as Attachment 1. The major sections in the RFO include : (1) a description of the products sought in the RFO; (2) a timeline of the solicitation process; (3) the identity of an RFO specific website and email address to be used to communicate with SDG&E with regard to the RFO; (4) a list of the required RFO response forms to be used to communicate offers to SDG&E (and instructions on how to obtain the forms); (5) a list of specific requirements that would apply to all respondents in the RFO; (6) an outline of the evaluation criteria to be used by SDG&E to select amongst the offers received; (7) a description of credit criteria; (8) a description of the confidentiality provisions that would apply to responses; and (9) a list of the contingencies that would impact SDG&E's acceptance of any offer.

SDG&E held a pre-bid conference for discussions with potential bidders on March 30, 2007. Prior to the deadline for submitting offers on May 17, SDG&E had in place a process to allow potential bidders to submit clarifying questions to SDG&E to assist them in preparing bids. All of these questions were answered by SDG&E and every question, with its accompanying response, was posted on the public RFO website for the benefit of all participants.

E. Summarize the solicitation outreach effort. (Witness: R. Anderson)

On March 9, 2007, SDG&E issued its 2010-2012 RFO to the market. In order to achieve its goals of maximum participation and robust competition, SDG&E took the following actions: (1) issued a press release which was run by major trade publications;[14] (2) conducted a direct mailing (via e-mail) to a list of likely interested parties;[15] (3) noticed the RFO on its website; and (4) posted all relevant documents on that website for access by any interested party.

III. Detailed Description of Bid Selection Process

A. List and briefly describe all bids received in a matrix which ranks bids and clearly demonstrates who "winners" are. (Witness: G. Valdivieso)

A matrix of all bids received is included with this RFO Template as Confidential Attachment 2 – Summary of Offers.

B. Explain rejected, withdrawn, or otherwise excluded bids. (Witness: G. Valdivieso)

SDG&E received a total of four offers for Product 1 – DR. There were no initial offers rejected, withdrawn or excluded from initial evaluation. As described in greater detail below, all offers passed the Vendors Conformance Checklist, which is included with this RFO Template as confidential in Attachment 4.

C. Explain quantitative and qualitative criteria used to evaluate bids. (Witnesses: K. McKinley / G. Valdivieso)

SDG&E assembled a cross functional group (Team) which reviewed and evaluated the offers received. Team members were represented from Engineering, Cost Effectiveness, Customer Programs, Supply Management, Diverse Business Enterprises (DBE) and Policy. Generally, the evaluation was based on a levelized present value cost calculation. The contracts were then compared based upon these levelized annual costs: the lower the cost the higher

[14] See "MW Daily," Monday March 12, 2007 and "California Energy Markets," March 16, 2006.
[15] List includes WSPP membership and parties who had requested that they be advised of future RFO's.

the ranking. The analysis was conducted over both 17 and 30 year periods for all of the proposals and assumed a discount rate of 8.23%.[16] The levelized present value of the bids is shown in Attachment 3 – Levelized Present Value Bids.

Basically, there were three steps taken to narrow the offers to a short list which led to negotiations and a final executed agreement between EnerNOC and SDG&E.

- Step 1: As previously stated in Section III.B, above, all four offers were reviewed and passed the Vendors Conformance Checklist which is included with this RFO Template as Attachment 4. The purpose of the Vendors Conformance Checklist was to verify that the offers met the minimum requirements as stated in the RFO. All four vendors continued to Step 2.
- Step 2: The next part of the review process was to evaluate the offers based on a list of evaluation criteria in order to create a short list. Each of the four offers were evaluated and given a score for each of the evaluation criteria: (1) Cost Effectiveness; (2) Marketability and Technical Feasibility; (3) Financials; (4) Terms and Conditions; and (5) Diverse Business Enterprises.[17] This evaluation process would result in selecting the offers which advanced to the short list. EnerNOC was one of three vendors who made the short list and therefore continued to Step 3. As a

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[16] Although bids were requested for 15-year products that would begin delivery in 2010 to 2012, deliveries beginning in an earlier year were not ruled out (a capacity delivery season is May 1 through October 31 of a calendar year). Hence, a 17-year period from 2008 to 2024 was used for the Product 1 bid comparison. The 30-year period from 2008 to 2037 was used to permit a comparison of Product 1 and Product 2 offers.

[17] The Evaluation Scoring Matrix is included with this RFO Template as Attachment 6.

result of this evaluation, one offer (Vendor 4) was eliminated because it was significantly less cost effective than the other three offers, and it ranked last in the overall evaluation scoring as described above in Step 2. This left three bids on the short list: EnerNOC, Vendor 2 and Vendor 3.

- Step 3: Each of the three vendors on the short list were invited to present their proposals. All three vendors accepted SDG&E's invitation. Meetings were held individually with each vendor. A second evaluation scoring matrix (Short List Evaluation Scoring Matrix) was then created based on information which required clarification and/or questions from Team members, in order to validate sections of their offers.[18] Based on the Short List Evaluation Scoring Matrix, SDG&E entered into negotiations with the top two ranking vendors. The third vendor was eliminated due to a lower score in their overall ranking (the top six areas with the greatest difference in scores were the [redacted]. Also it was determined that the third vendor would be targeting customers similar to those of the top two vendors. This resulted in negotiations with the top two vendors. EnerNOC was one of the two top vendors. SDG&E is continuing to negotiate with the second vendor. At this time, a contract has not been finalized with the second vendor. If and when those negotiations result in an executed contract, SDG&E will file a second application for Commission approval of that contract.

[18] The Short List Evaluation Scoring Matrix is included with this RFO Template as Attachment 7.

D. Explain the bid analysis methodology, including Least-Cost Best-Fit evaluation. (Witness: K. McKinley)

Since the 2010-2012 RFO was issued, SDG&E has filed its Demand Response Application requesting funding for program years 2009 through 2011.[19] In that filing, the following four measures of cost effectiveness were used to determine recommended programs (SDG&E applied all four tests to the EnerNOC Agreement, using essentially the same assumptions to show that it is as or more cost effective than the programs in that filing).[20]

Total Resource Cost Test (TRC): The TRC Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participants' and the utility's costs. The benefits calculated in the TRC Test are the avoided supply costs, the reduction in transmission, distribution, generation, and capacity costs valued at marginal cost for the periods when there is a load reduction. The costs in this test are the program costs paid by both the utility and the participants plus the increase in supply costs for the periods in which load is increased. Thus all equipment, installation, operation and maintenance costs; cost of removal (less salvage value); and administration costs, no matter who pays for them, are included in this test. Any tax credits are considered a reduction to costs in this test.

Ratepayer Impact Test (RIM): The RIM test measures what happens to customer bills

[19] A.08-06-002: SDG&E's 2009-2011 Demand Response Application (Cost Effectiveness Testimony prepared by K. McKinley).

[20] Note that the discount rate used in the cost effectiveness analysis is different than that used in the original analysis comparing the different bid responses. The reason for the variance is that in January 2008 SDG&E's cost of capital changed from 8.23% to 8.4% as a result of the Cost of Capital decision (D.07-12-049). In its Demand Response filing, SDG&E used the 8.4% number as the discount rate. In order to make a fair comparison between the EnerNOC contract and the other demand response programs, that analysis also used 8.4%. The original analysis used 8.23% because it was completed before January 2008.

or rates due to changes in utility revenues and operating costs caused by the program. Rates will go down if the change in revenues from the program is greater than the change in utility costs. Conversely, rates or bills will go up if revenues collected after program implementation are less than the total costs incurred by the utility in implementing the program. This test indicates the direction and magnitude of the expected change in customer bills or rate levels. The benefits calculated in the RIM test are the savings from avoided supply costs. These avoided costs include the reduction in transmission, distribution, generation, and capacity costs for periods when load has been reduced and the increase in revenues for any periods in which load has been increased. The costs for this test are the program costs incurred by the utility, *and/or other entities incurring costs and creating or administering the program,* the incentives paid to the participant, decreased revenues for any periods in which load has been decreased and increased supply costs for any periods when load has been increased. The utility program costs include initial and annual costs, such as the cost of equipment, operation and maintenance, installation, program administration, and customer dropout and removal of equipment (less salvage value).

Program Administrator Cost Test (PAC): The PAC Test measures the net costs of a demand-side management program as a resource option based on the costs incurred by the program administrator (including incentive costs) and excluding any net costs incurred by the participant. The benefits are similar to the TRC benefits. Costs are defined more narrowly. The benefits for the PAC Test are the avoided supply costs of energy and demand, the reduction in transmission, distribution, generation, and capacity valued at marginal costs for the periods when there is a load reduction. The costs for the

PAC Test are the program costs incurred by the administrator, the incentives paid to the customers, and the increased supply costs for the periods in which load is increased. Administrator program costs include initial and annual costs, such as the cost of utility equipment, operation and maintenance, installation, program administration, and customer dropout and removal of equipment (less salvage value).

Participant Test: The Participant Test is the measure of the quantifiable benefits and costs to the customer due to participation in a program. The benefits of participation in a demand-side program include the reduction in the customer's utility bill(s), any incentive paid by the utility or other third parties, and any federal, state, or local tax credit received. The costs to a customer of program participation are all out-of-pocket expenses incurred as a result of participating in a program, plus any increases in the customer's utility bill(s). The out-of-pocket expenses include the cost of any equipment or materials purchased, including sales tax and installation; any ongoing operation and maintenance costs; any removal costs (less salvage value); and the value of the customer's time.

Pursuant to the Standard Practice Manual[21] the benefit/cost ratio for all tests is calculated by dividing the total benefits by the total costs of the program. If a value of 1.0 or higher is derived it indicates that the program is cost effective from the perspective of the test being conducted. As shown in the chart below, the EnerNOC Agreement scored higher than 1.0 on all tests, indicating cost effectiveness from all perspectives tested.

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[21] California Standard Practice Manual: Economic Analysis of Demand-Side Programs and Projects, Governor's Office of Planning and Research, July 2002.

TEST	BENEFIT/COST RATIO
TRC (Total Resource Cost)	1.33
RIM (Rate Impact Measure)	1.23
PAC (Program Administrator Cost)	1.33
Participant	1.09

E. Summarize the Selected Offer(s), including the following (Witness: G. Valdivieso):

1) Name (identify unit or project)

Demand Response Capacity Delivery Agreement

2) Counterparty

EnerNOC, Inc.

3) Description of technology

EnerNOC operates what it calls a Clean Green California Program which provides firm capacity to utilities by reducing peak demand in targeted geographic areas through the use of energy management expertise, technology and communications networks.

4) MW and MWh

EnerNOC commits to provide up to 25 MW of dispatchable load reduction during the 2010 capacity delivery season, which will increase to 35 MW during the 2011 capacity delivery season and finally to 40 MW starting with the 2012 capacity delivery season until the end of the contract term. A capacity delivery season is May 1 through October 31 of a calendar year. SDG&E will be limited to dispatching a maximum of 50 total hours of load reduction during any capacity delivery season.

5) Location

SDG&E's service territory.

6) On-line date

SDG&E may commence dispatching load reduction from the program starting on the first full capacity delivery month following the date that the Commission approves the EnerNOC Agreement (but no earlier than May 1, 2009). A capacity delivery month is a calendar month during a capacity delivery season. If Commission approval has not been received by December 31, 2009, then either EnerNOC or SDG&E may terminate the contract. Also, if the Commission approves the EnerNOC Agreement before the end of the 2009 capacity delivery season (i.e., before October 31, 2009), EnerNOC will have the flexibility to ramp up to the 2010 MW load reduction commitment by securing customers for its program and nominating a load reduction commitment during the 2009 capacity delivery season.

7) Contract Term

If the Commission grants approval, the EnerNOC Agreement shall remain in full force and effect through December 31, 2024, unless terminated earlier pursuant to the terms of the contract.

8) Transmission impacts of project (deliverability issues, needed upgrades, cost of upgrades, contingency factors, etc.)

There are no transmission impacts or needed upgrades associated with the EnerNOC Agreement.

9) Cost info (e.g., capacity payments, total cost, NPV, etc.). (Witness: Kevin McKinley)

Capacity payments to EnerNOC would start at [redacted] SDG&E's administrative costs are $125,000 for the first year, and escalate at a rate of 3% per year for the duration of the contract term. The estimated total present value cost of the program is [redacted]. This is based on a discount rate of 8.4%. The program budget is included in with this RFO Template as Attachment 9. The contract is structured such that EnerNOC would receive a monthly capacity payment [redacted] They would also receive energy usage payments [redacted]. The energy usage payment will [redacted] SDG&E is requesting approval in this Application for cost recovery of the total program costs as shown in Attachment 9, pursuant to the cost recovery mechanism described in Section VIII below.

10) Environmental Costs / attributes (NEW)

There are no environmental costs associated with the EnerNOC Agreement.

11) Greenhouse Gas profile

The EnerNOC Agreement does not produce any greenhouse gases. In fact, the contract will eliminate the need for other resources, which would produce greenhouse gases.

12) Assignment of regulatory risk

SDG&E may dispatch load reduction and EnerNOC may receive capacity and energy usage payments, only after Commission approval of the contract. Until Commission approval is issued, SDG&E is not required to make any payments to EnerNOC.

13) Terms for contract termination

Either EnerNOC or SDG&E may terminate the contract if (a) Commission approval has not been received by December 31, 2009, (b) if, upon approval of the contract, the Commission determines that SDG&E customers receiving service under Schedule EECC-CPP-D may not also concurrently participate in the program, or (c) upon breach of the contract by either party.

14) Whether or not and under what circumstances renegotiation of contract terms will be permitted (per and/or in addition to any renegotiation provisions stipulated in the bid documents)

Any changes to the committed load reduction level must be mutually agreed upon by SDG&E and EnerNOC. SDG&E and EnerNOC acknowledge that changes to the program may have to be approved by the Commission prior to implementation, and if such approval is required, changes shall not become effective until such approval has been obtained.

F. Provide other information relevant to the bidding and selection process not asked above but important to RFO evaluation (e.g., mutually exclusive bids). (Witness: G. Valdivieso)

The RFO selection process was described, above, in Section III.C.

IV. <u>Consistency with Commission Decisions</u>

The purpose of this section is to identify how the RFO process complies with procurement related Commission decisions. Where applicable, specific citations to Commission decisions should be provided. At a minimum, this section should explain:

A. Whether the solicitation and bid selection was consistent with IOU's LTPP and solicitation protocol:

1) Identify the Commission decision that approved IOU's Plan and evaluate with specific citations whether the IOU adhered to Commission guidelines for conducting RFOs. (Witness: R. Anderson)

As described above, the Commission decision approving the need to be filled, in part, by the EnerNOC Agreement is the decision approving SDG&E's 2006 LTPP (D.07-12-052) and the subsequent approval of SDG&E's conformed 2006 LTPP (Resolution E-4189). Since SDG&E's 2010-2012 RFO was issued prior to the Commission's approval of the 2006 LTPP, the solicitation was conducting using the process outlined in SDG&E's previously-approved Short Term Procurement Plan (STPP).[22] However, this process is virtually identical to the RFO process described in the approved 2006 LTPP.

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[22] SDG&E's 2004 LTPP was approved in D.04-12-048. In D.04-12-048, the Commission also ordered each IOU to file, on a going forward basis, updates to its STPP by Advice Letter. SDG&E filed updates to its STPP in AL 1745-E (dated November 16, 2005) and AL 1745-E-A (dated March 22, 2006).[22] Both AL 1745-E and AL 1745-E-A were approved by the Commission in Resolution E-4000, dated June 15, 2006. Accordingly, before approval of SDG&E's 2006 LTPP, AL-1745-E and AL 1745-E-A reflected the relevant STPP for purposes of SDG&E's procurement authority.

2) Evaluate whether the bid evaluation process was consistent with the approved IOU Plan. (Witness: R. Anderson)

As noted above, SDG&E's 2006 LTPP, and the previous STPP that was in place at the time of the 2010-2012 RFO, included bid evaluation guidelines that were approved as part of those plans. Moreover, SDG&E's conduct and consistency with its procurement plans were the subject of review by both the PRG and IE.

3) Explain how the Selected Offer(s) conform to IOU's portfolio needs, including least-cost/best-fit evaluation. (Witness: R. Anderson)

As stated in the Energy Action Plan II (approved by the CPUC on August 25, 2005), energy efficiency and demand response programs were described as "the State's preferred means of meeting growing energy needs."[23] In the Energy Action Plan II, state agencies were called to "[i]ntegrate demand response into retail sellers' electricity resource procurement efforts so that these programs are considered equally with supply options."[24] Additionally, the goals of the Energy Action Plan II were reiterated throughout the decision approving SDG&E's 2006 LTPP, placing demand response right behind energy efficiency programs in the preferred loading order of resources to be obtained by utilities. The decision also restated an earlier decision that demand response requirements should be met with "programs and tariffs that are triggered by price and not by emergency conditions."[25]

Although the 2010-2012 RFO was issued prior to the approval of SDG&E's 2006 LTPP, the EnerNOC program is fully consistent with the resource

[23] Energy Action Plan II, p. 2.
[24] Energy Action Plan II, Demand Response Key Action #7, p. 5.
[25] D.03-06-032, footnote, p. 8.

need in SDG&E's LTPP (i.e., it conforms with SDG&E's portfolio needs for price-sensitive demand response programs that will reduce demand and energy consumption).

4) Explain/discuss any discrepancies/ambiguities between the LTPP requirements and this RFO process. (Witness: R. Anderson)

Although the 2010-2012 RFO was issued prior to the approval of SDG&E's current 2006 LTPP, there are no major discrepancies or ambiguities related to procurement of demand response resources.

B. Robustness of RFO solicitation. (Witness: G. Valdivieso)

As noted above, there were four bidders for Product 1 – DR: EnerNOC, Vendor 2, Vendor 3 and Vendor 4. SDG&E believes this to be a robust response, as the market for DR aggregation programs is still developing and there is a limited pool of providers in the marketplace.

C. Consistency with EAP loading order: Description of cost effectiveness criteria, demonstration that renewables, EE, DSM, DG did not exist at cost effective prices or could not perform as needed for the specific product requested. (Witness: G. Valdivieso)

As noted above, this is a DR program which is within the preferred resources in the Energy Action Plan II loading order.

D. Selected Offer(s)' compliance with the Commission's GHG emission performance standard and with the IOU's overall GHG reduction objectives. (Witness: R. Anderson)

As stated in the Energy Action Plan II, "increasing energy efficiency, demand response, and renewable resources to the maximum extent possible in California and the western region will further reduce our contribution to climate change."[26] DR programs, in reducing the demand for electricity, also reduce the need for electric generation from fossil fuels to serve that demand, thereby reducing GHG emissions. As a DR program, the EnerNOC Agreement is compliant with both the Commission's GHG standards and SDG&E's GHG reduction objectives.

E. Selected Offer(s)' impact on transmission, particularly with respect to deliverability of other existing generation and planned/anticipated generation higher in the EAP loading order and ISO queue. (Witness: R. Anderson)

There is no impact on transmission associated with other resources higher in the loading order.

F. Affiliate Bids and UOG Ownership Proposals (if applicable) (Witness: G. Valdivieso)

There were no affiliate or utility-owned generation (UOG) bids into the 2010-2012 RFO.

G. Qualitative factors and valuation given to concerns that the IOU used in its evaluation and explanation of bid selection:

1) Project viability (including technology or counterparty concerns) (Witness: G. Valdivieso)

SDG&E believes the EnerNOC Agreement, if approved, will provide firm capacity by reducing peak demand in targeted geographic areas through the use of energy management expertise, technology and communications networks that have been proven to be reliable. EnerNOC would install two-way monitoring and control equipment providing SDG&E system operators with real-time visibility into aggregate and participant performance.

[26] Energy Action Plan II, p. 12.

2) Resource Diversity (Witness: R. Anderson)

SDG&E's approved 2006 LTPP describes a portfolio of resources, each of which meets one or more specific requirement. There is no single resource that, by itself, is suited to meet all portfolio needs. Therefore, SDG&E procures a variety of capacity resources. The EnerNOC Agreement will provide a DR resource that will meet the portfolio's peaking needs that occur for limited hours of the year.

3) Greenfield versus brownfield (including repowering) environmental impacts/benefits

Inapplicable.

4) Other qualitative factors used (Witness: G. Valdivieso)

See Section III.C.

H. List and explain any significant negotiated revisions to the RFO solicitation package that were agreed to by the IOU and individual counterparties. Include an explanation (and supporting analysis) of why the negotiated revisions did not sufficiently altered the nature of the product to warrant a re-issuance of the RFO bid documents to all bidders (i.e., confirm that the changes would not have resulted in a different bid selection had all parties been afforded the opportunity to bid a similarly nonconforming product). (Witness: G. Valdivieso)

The negotiation process resulted [redacted] EnerNOC's original offer was [redacted] The best and final offer was 40MW [redacted] EnerNOC will ramp up to 40MW beginning May 1, 2012. The committed load reduction and monthly capacity payment rate is illustrated in Attachment 5 - Executed Agreement, Table -1.

V. Outside Participation and Feedback

A. PRG Participation:

1) Describe all RFO-related information distributed to the PRG, including spreadsheets and presentations. (Witness: R. Anderson)

Meeting dates are provided in Section V.A.2. The material relevant to the Product 1- DR offering from each meeting is included in confidential Attachment 8.

2) **Summarize the PRG's participation in the RFO design, bid evaluation and bid selection process. (Witness: R. Anderson)**

The PRG's participation in the RFO process is described in Section II.C. The following is a listing of the PRG meetings relevant to Product 1 – DR:

SDG&E met with its PRG on October 27, 2006, March 16, 2007, April 27, 2007, and June 20, 2007. At the October 27, 2006 meeting, SDG&E discussed the upcoming 2010-2012 RFO and the need showing that would be made in the then soon-to-be-filed 2006 LTPP. The March 16, 2007 meeting included a presentation of the RFO schedule and further clarification of SDG&E's need positions. RFO criteria were further reviewed at the PRG meeting on April 27, 2007. Bids into the RFO for both Product 1 and 2 were presented and reviewed at the June 20, 2007 presentation, after the close of the RFO bidding period. During the May 15, 2008 PRG presentation, bids for Product 1 offers from EnerNOC and Vendor 2 were shown.

B. IE Participation:

1) Cite CPUC decisions requiring the use of an IE and their applicability to this RFO. (Witness: R. Anderson)

The Commission's decisions requiring the use of an IE and their applicability to this RFO are set forth in D.04-12-048 (2004 LTPP), D.07-12-052 (2006 LTPP) and D.08-11-008 (modification of 2006 LTPP). Generally, in D.04-12-048, the Commission decided to lift its prior ban on affiliate transactions for affiliate projects that were approved by the Commission and that were the result of competitive solicitations. Accordingly, as a condition of lifting the ban, any solicitation that involved a bid from an IOU affiliate must employ an IE to monitor the solicitation, bids, and evaluation process to ensure that it was fair.

In D.07-12-052, the Commission confirmed its requirement regarding the use of IEs and further refined the IE selection process, including, but not limited to, the development of a pool of qualified IEs and creation of a pro forma contract to be used when retaining an IE. The Commission also confirmed that IE costs, as part of the procurement process, are recoverable through the Energy Resource Recovery Account (ERRA).

In D.08-11-008 (modifying D.07-12-052), the Commission modified the requirements for use of an IE such that: (i) SDG&E is required by the Commission to use an IE in the solicitation process for products of greater than two years in duration and (ii) SDG&E must employ an IE wherever an affiliate or utility bidder is present, regardless of contract duration.[27] The Commission defines when the contract duration clock begins as: (1) at the time the contract resources begin delivery or the product is made available, if delivery or availability of the product occurs within one year of contract execution; or (2) at the time of contract execution, if delivery or availability does not begin within one year of contract execution. Further, to ensure that an IE is retained in all cases where an

[27] D.08-11-008 at page 27 and OP 2.

affiliate or utility may participate in an SDG&E RFO process, the Commission requires that SDG&E address the possibility of affiliate or utility bids by designating at the outset of an RFO whether such bidders are allowed to participate. If SDG&E chooses not to make such a determination up front, SDG&E will either require that all parties that intend to participate in an RFO submit a notice of intent early in the RFO process such that an IE can be retained before bids are received or designate at the outset of the RFO that an IE will be used.

Since D.07-12-052 and D.08-11-008 were not issued until after the 2010-2012 RFO, those decisions were not applicable. Nevertheless, as described in more detail below, pursuant to D.04-12-048, SDG&E employed the use of an IE for its 2010-2012 RFO because at the outset it was unclear whether an affiliate would bid into the RFO. Given this lack of certainty with respect to affiliate bidders, SDG&E decided to use an IE throughout the RFO process.

2) Summarize IE participation in the RFO development solicitation, and selection process. (Witness: R. Anderson)

In an effort to expedite completion of the RFO process, SDG&E continued to use the same IE used for previous solicitations. The prior IE's familiarity with SDG&E's portfolio and PRG avoided the time that would be necessary to get another IE up to speed. However, after the RFO was underway, the IE asked to withdraw as SDG&E's IE in this matter due to a potential conflict related to other work being done by the IE's firm. SDG&E therefore switched IE firms immediately prior to the receipt of offers. This change in IEs was discussed with the PRG on two occasions. The final IE's Report, reflecting the input from both IEs who worked on the RFO is included with this RFO Template as Attachment 10.

The following is a summary of the participation of each IE:

The first IE consulted with SDG&E concerning the need for capacity resources and the overall design of the 2010-2012 RFO. They were informed about and consulted on scheduling and milestones and reviewed a draft of the RFO text. SDG&E and its first IE discussed the steps of the bid processing and evaluation protocol and the evaluation spreadsheet template itself. The first IE offered revisions to the template, which SDG&E implemented. Also, prior to being replaced, the first IE was informed about the mailing list and had an opportunity to edit the list.

The second IE was on site in San Diego for receipt of the bids. He also supervised bid processing and met with the processing team. Also, the second IE participated in SDG&E's assessment processes during bid evaluation and viability assessment. He and his associates examined and commented on the bid evaluation spreadsheets, opined on the initial short list and cost-effectiveness tests, and reviewed the resulting contract prices, terms and conditions. His firm provided price reasonableness judgments for the then current California capacity market, based on their experience, and prepared the IE's report for the Product 1 –DR solicitation and selection. The IE also answered questions from the PRG members during meetings which covered this RFO.

3) Attach the IE's report on the solicitation.

See Attachment 10.

4) Present and explain the IE costs for the RFO. (Witness: R. Anderson)

The invoiced total for IE services for the Product 1 –DR evaluations in the 2010-2012 RFO has been approximately $9,800 to the end of 2008. Further costs for IE review and recommendations regarding the Product 1- DR economic evaluations and cost-effectiveness tests plus preparation of the IE report are anticipated to be about $30,000.

C. Provide any other information relevant to outside participation and feedback but important to RFO evaluation. (Witness: R. Anderson)

Throughout the period of time from the issuance of the 2010-2012 RFO and the deadline for submittal of offers to SDG&E, an e-mail box was provided to potential bidders to allow them to ask questions and seek clarification of the RFO documents, products sought, requirements for offers or any other area where they felt they needed clarity or assistance. SDG&E provided responses to all questions and posted all responses on the RFO website so that any participant – not just the participant submitting the question – could benefit from the response, thus ensuring that all participants had equal knowledge of the requirements of the RFO.

VI. Contingencies and Milestones (Witness: G. Valdivieso)

Identify any contractual obligations that will impact the schedule for Commission approval (termination clauses, transmission upgrades, etc). Also describe any milestones and uncertainties regarding technology, regulatory permitting, and on line data risk.

As noted above, Section III.E.6, pursuant to the terms of the EnerNOC Agreement, if Commission approval is obtained prior to October 31, 2009, EnerNOC has the option of providing DR capacity to SDG&E for the 2009 capacity delivery season, which runs from May 1 through October 31, 2009. Understanding that obtaining Commission approval well in advance of October 31, 2009 is unlikely, SDG&E is requesting Commission approval before the end of 2009. Obtaining Commission approval before the end of 2009 is important because EnerNOC would then be required to provide a minimum of 25 MW of load reduction beginning May 1, 2010 (i.e., the beginning of the 2010 capacity delivery season). Indeed, the sooner the decision is issued, the sooner EnerNOC can begin lining up customers to participate in its 2010 DR program. If CPUC approval has not been received before the end of 2009, or SDG&E has not waived CPUC approval by December 31, 2009, then either party may terminate the EnerNOC Agreement. For these reasons, the schedule proposed by SDG&E in this Application provides for a final decision on or before October 29, 2009.

VII. Requested Budget (Witness: G. Valdivieso)

See Attachment 9 – Program Budget.

VIII. Cost Recovery Mechanism (Witness: A. Ledgerwood)

Consistent with the regulatory accounting and cost recovery treatment initially established by D.03-03-036 and most recently affirmed by D.05-06-017, SDG&E currently records its DR program costs associated with existing DR programs in its Advanced Metering and Demand Response Memorandum Account (AMDRMA),[28] with one exception.[29] This treatment also applies to SDG&E's DR contract-related programs, such as its Comverge and Celerity contracts authorized through its 2003 Electric Resource Contracts Resulting from SDG&E's Grid Reliability Request for Proposal. These contract-related programs were approved in D.04-06-011, with the Commission

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[28] See D.03-03-036, Ordering Paragraph 8, and D.05-06-017.
[29] As authorized in D.03-03-036, SDG&E records the energy component of the customer incentive payments to its ERRA.

directing that the regulatory accounting and cost recovery treatment be consistent with that used for SDG&E's other DR programs.[30]

Therefore, consistent with the established and previously authorized regulatory accounting and cost recovery for its current DR programs and the request in its 2009-2011 DR Program application (A.08-06-002), SDG&E requests that the Commission approve that the same regulatory accounting and cost recovery mechanism be applied to the EnerNOC Agreement. SDG&E proposes that the O&M expenses, capital related costs (i.e. depreciation, return and taxes), contractual payments, and all other contract costs associated with the EnerNOC Agreement be recorded in the existing AMDRMA. SDG&E proposes that there be no change to the existing disposition of the AMDRMA balances previously authorized by the Commission to be transferred to the Rewards and Penalties Balancing Account (RPBA) on an annual basis for amortization in SDG&E's electric distribution rates over 12 months, effective on January 1 of each year, consistent with SDG&E's adopted tariffs.

[30] At the time Comverge and Celerity were approved, SDG&E was recording its costs in its Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA) that was established by D.01-04-006. Subsequently, the Commission, in D.06-03-024, approved the cost recovery mechanism and regulatory accounting of SDG&E DRP costs in AMDRA.

QUALIFICATIONS OF ROBERT B. ANDERSON

My name is Robert B. Anderson. My business address is 8330 Century Park Court, San Diego, California, 92123.

I am employed by San Diego Gas & Electric Company (SDG&E) as the Director of Resource Planning. My responsibilities mainly include overseeing the development of SDG&E's electric resource plan, evaluating resource options, and monitoring the electric markets. I have been employed by SDG&E since 1980, and have held a variety of positions in resource planning, corporate planning, power plant management, and gas planning and operations.

I hold a BS in mechanical engineering from the University of California, Los Angeles (UCLA) and a MBA – Finance from California State University, San Diego. I am also a California-registered professional engineer in mechanical engineering.

I have previously testified before the California Public Utilities Commission.

QUALIFICATIONS OF GUILLERMO VALDIVIESO

My name is Guillermo Valdivieso. My business address is 8335 Century Park Court, San Diego, CA 92123. I am employed by San Diego Gas & Electric Company ("SDG&E") as a Senior Energy Program Advisor for Demand Response Programs in the Customer Programs organization. In my current position, I am responsible for providing guidance regarding the design, development and implementation of SDG&E's Demand Response Programs.

I graduated from the California State University, Pomona with a Bachelor of Science degree in Marketing Management. I have been employed by SDG&E and Sempra Energy since 2000 and have held positions of increasing and broadening responsibility in such organizations as Corporate Facilities, Supply Management and Customer Programs.

I have not previously testified before the Commission.

QUALIFICATIONS OF KEVIN C. McKINLEY

My name is Kevin C. McKinley. My business address is 8335 Century Park Court, San Diego CA. 92123. I am currently employed by San Diego Gas & Electric Company (SDG&E) as a Supervisor of Measurement and Evaluation.

I originally joined SDG&E in 1978 and held a variety of management positions in financial analysis, customer forecasting, fuel planning, and marketing. During the 1990s I was the Manager of Marketing Analysis for SDG&E, where my responsibilities included producing a series of regulatory filings for Demand Side Management (DSM) forecasts, DSM earnings claims, and program measurement studies. I was heavily involved in the development of the original protocols used for measurement and evaluation in California during the 1990s. I was a member and also Chairman of the California Demand Side Management Advisor Committee (CADMAC) during part of this period.

I left SDG&E in late 1998 and consulted in the measurement and evaluation area for the next several years. I rejoined SDG&E in April 2005. My current responsibilities include the Measurement and Evaluation of DSM programs for both SDG&E and the Southern California Gas Company for Energy Efficiency, Demand Response, and Low Income programs. I am also a part-time instructor and have taught at several colleges and universities in the San Diego area, including San Diego State University, the University of San Diego, University of Redlands and the University of Phoenix. I hold two masters degrees, one in Economics and the other in Latin American studies, both from San Diego State University. I also hold a Bachelors degree in Business Administration from Gonzaga University.

I have previously testified before the California Public Utilities Commission.

QUALIFICATIONS OF AMANDA LEDGERWOOD

My name is Amanda Ledgerwood. My business address is 8330 Century Park Court, San Diego, CA 92123. I am employed by San Diego Gas & Electric Company ("SDG&E") as a Regulatory Accounts Analyst in the Regulatory Accounts Department of the Regulatory and Finance Organization. My current responsibilities include the analysis of electric distribution regulatory balancing accounts and the maintenance of electric balancing account forecast models for reporting purposes.

I graduated from San Diego State University with a Bachelor of Science degree in Business Administration, emphasis in accounting. I am a Certified Internal Auditor. I have been employed by SDG&E and Sempra Energy since 2002 and have held various positions of increasing and broadening responsibility in such organizations as Audit Services, Human Resource Compliance, and Cost Accounting.

I have not previously testified before the Commission.

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION
OF ROBERT B. ANDERSON

I, Robert Anderson, do declare as follows:

1. I am Director of Resource Planning for San Diego Gas and Electric Company ("SDG&E). I am sponsoring testimony in support of SDG&E's Application for Approval of the EnerNOC Demand Response Capacity Delivery Agreement ("Testimony") filed with the California Public Utilities Commission on March 6, 2009. Additionally, as Director of Resource Planning, I am thoroughly 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 personal knowledge.

2. I am providing this Declaration to demonstrate that the confidential information ("Protected Information") being provided in this Testimony falls within the scope of data provided confidential treatment in the IOU Matrix ("Matrix") attached to D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas (see p. 4) for "Prepared Testimony Served but Not Yet Offered in Evidence" in a formal proceeding, I am addressing each of the following five features of Ordering Paragraph 2 of D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated redacted summarized, masked or otherwise protected in a way that allows partial disclosure.

3. The confidential information contained in the Testimony constitutes material, market sensitive, electric procurement-related information that is within the scope of Section 454.5(g) of the Public Utilities Code.[1] As such, the Protected Information provided by SDG&E is allowed confidential treatment in accordance with Appendix I – IOU Matrix in D.06.06.066.

The following data contains Protected Information under Matrix category VIII.B (Specific Quantitative Analysis Involved In Scoring And Evaluation Of Participating Bids). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.

Attachment 8 of the Testimony contains Protected Information as follows:

- Presentation material from the April 27, 2007 PRG meeting, the separate attachment entitled "2010-2012 RFO Evaluation Criteria," is protected in its entirety under Matrix category VIII.B (Specific Quantitative Analysis Involved In Scoring And Evaluation Of Participating Bids). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.
- The shaded portions of the Presentation material from the June 20, 2007 PRG meeting, slides 17, 18 and 24, and May 15, 2008 PRG meeting, slides 23-24, are protected under Matrix category VIII.A, (Bid Information). This data is confidential until final contracts are submitted to the CPUC for approval, at which time certain high-level summary data may be made public. Since these bids have not been submitted for approval, they are confidential. A high level summary of the EnerNOC contract is available in Attachment 11.

[1] In addition to the details addressed herein, SDG&E believes that the information being furnished in the Testimony is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of this data under those provisions as applicable.

- The shaded portions of the Presentation material on slide 11 of the PRG presentation from the March 16, 2007 PRG meeting, is protected under Matrix category IX.B (Strategic Procurement Information - Electric). Where information is presented in broad categories of supply sources to serve bundled load such information is public. However, where information is detailed by resources and load, such information must remain confidential.

Attachment 10 of the Testimony contains Protected Information as follows:

- The shaded portions of pages 6, 13 and 20 of the Template Questions, and pages 4, 7, 9, 10, 11 and 13 of the Supplemental Report (Attachment A to the IE Report) contain information protected under Matrix category VIII.A (Bid Information). This data is confidential until final contracts are submitted to the CPUC for approval, at which time certain high-level summary data may be made public. Since these bids have not been submitted for approval, they are confidential. A high level summary of the EnerNOC contract is available in Attachment 11.
- The shaded portions of pages 8-16 and 20-22 of the Supplemental Report (Attachment A to the IE Report) contain information protected under Matrix category VIII.B (Specific Quantitative Analysis Involved In Scoring And Evaluation Of Participating Bids). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.
- The shaded portions of pages 23-25 of the Supplemental Report (Attachment A to the IE Report) contain information protected under Matrix category VII.B (Contracts and power purchase agreements between utilities and non-affiliated third parties

(except RPS)). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application. A contract summary has been provided as Attachment 11 and is public.

4. I am not aware of any instances where the Protected Information has been disclosed to the public.

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

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized, masked or otherwise protected in a manner that would allow further disclosure of the data while still protecting confidential information. Pursuant to D.06-06-066, SDG&E has already made the required contract summary information public in its Application and Attachment 11 to the Testimony. The specific price and payment terms cannot be aggregated because this data is specific to each individual agreement. In the future, SDG&E anticipates that the contract costs will be aggregated along with SDG&E's other Demand Response contracts in filings before this Commission and other regulatory agencies and commissions. Such aggregation would have the effect of masking the contract costs so that they would continue to be protected. To the extent that SDG&E has made public the contract summary as discussed in D.06-06-066, SDG&E believes that such summary can properly be viewed as partial disclosure.

SDG&E has also made public a qualitative description of its bid evaluation methodology, as required by D.06-06-066. That description includes the criteria used for deriving a "short list" of bids, and for further economic, credit, technology and other evaluation factors by which SDG&E arrived at its decision to enter into these three contracts. Because the quantitative data is specific to the evaluation and analysis of each contract individually, that information cannot reasonably be summarized or aggregated in such a way as to provide greater public access without compromising the confidentiality of the Protected Information.

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

Executed this 6th day of March, 2009, at San Diego, California.

Robert B. Anderson
Director – Resource Planning
San Diego Gas & Electric Company

DECLARATION OF
GUILLERMO VALDIVIESO

I, Guillermo Valdivieso, do declare as follows:

1. I am a Senior Energy Programs Advisor for San Diego Gas and Electric Company ("SDG&E). I am sponsoring testimony in support of SDG&E's Application for Approval of the EnerNOC Capacity Reduction ("Testimony") filed with the California Public Utilities Commission on March 6, 2009. Additionally, as a Senior Energy Programs Advisor, I am thoroughly 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 personal knowledge.

2. I am providing this Declaration to demonstrate that the confidential information ("Protected Information") being provided in this Testimony falls within the scope of data provided confidential treatment in the IOU Matrix ("Matrix") attached to D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas (see p. 4) for "Prepared Testimony Served but Not Yet Offered in Evidence" in a formal proceeding, I am addressing each of the following five features of Ordering Paragraph 2 of D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated redacted summarized, masked or otherwise protected in a way that allows partial disclosure.

3. The confidential information contained in the Testimony constitutes material, market sensitive, electric procurement-related information that is within the scope of Section

454.5(g) of the Public Utilities Code.[1] As such, the Protected Information provided by SDG&E is allowed confidential treatment in accordance with Appendix I – IOU Matrix in D.06.06.066.

The following data contains Protected Information under Matrix category VIII.B (Specific Quantitative Analysis Involved In Scoring And Evaluation Of Participating Bids). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.

- shaded area of Section 3.C., page 12 of the Testimony,
- shaded areas of Attachment 2 – Summary of Offers
- Attachment 4 – Vendors Conformance Checklist
- Attachment 6 – Evaluation Scoring Matrix
- Attachment 7 – Short List Evaluation Scoring Matrix

The following data contains Protected Information under Matrix category VII.B (Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.

- Shaded area of Section 4.H., page 24 of the Testimony
- Attachment 5 – Executed Agreement
- Attachment 9 – Program Budget.

4. I am not aware of any instances where the Protected Information has been disclosed to the public. SDG&E only recently completed its negotiations with the counterparties, and the parties have agreed that the information in the Agreements will be held in confidence by each party subject to this Commission's regulations and/or other provisions of law. While SDG&E provides a contract summary in my testimony, to SDG&E's knowledge, no party, including SDG&E, has publicly revealed any of the Protected Information.

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

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized, masked or otherwise protected in a manner that would allow

[1] In addition to the details addressed herein, SDG&E believes that the information being furnished in the Testimony is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of this data under those provisions as applicable.

further disclosure of the data while still protecting confidential information. Pursuant to D.06-06-066, SDG&E has already made the required contract summary information public in its Application and supporting Testimony and Exhibits. The specific price and payment terms cannot be aggregated because this data is specific to each individual agreement. In the future, SDG&E anticipates that the contract costs will be aggregated along with SDG&E's other Demand Response contracts in filings before this Commission and other regulatory agencies and commissions. Such aggregation would have the effect of masking the contract costs so that they would be continue to be protected. To the extent that SDG&E has made public the contract summary as discussed in D.06-06-066, SDG&E believes that such summary can properly be viewed as partial disclosure.

SDG&E has also made public a qualitative description of its bid evaluation methodology, as required by D.06-06-066. That description includes the criteria used for deriving a "short list" of bids, and for further economic, credit, technology and other evaluation factors by which SDG&E arrived at its decision to enter into these three contracts. Because the quantitative data is specific to the evaluation and analysis of each contract individually, that information cannot reasonably be summarized or aggregated in such a way as to provide greater public access without compromising the confidentiality of the Protected Information.

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

Executed this 5th day of March, 2009, at San Diego, California.

Guillermo Valdivieso
Senior Energy Programs Advisor
San Diego Gas & Electric Company

DECLARATION OF
KEVIN C. MCKINLEY

I, Kevin McKinley, do declare as follows:

1. I am a Customer Programs Measurement & Evaluation Supervisor for San Diego Gas and Electric Company ("SDG&E). I am sponsoring testimony in support of SDG&E's Application for Approval of the EnerNOC Demand Response Capacity Delivery Agreement ("Testimony") filed with the California Public Utilities Commission on March 6, 2009. Additionally, as a Customer Programs Measurement & Evaluation Supervisor, I am thoroughly 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 personal knowledge.

2. I am providing this Declaration to demonstrate that the confidential information ("Protected Information") being provided in this Testimony falls within the scope of data provided confidential treatment in the IOU Matrix ("Matrix") attached to D.06-06-066 (the Phase I Confidentiality decision). Pursuant to the procedure set forth in the August 22, 2006 Ruling of ALJ Thomas (see p. 4) for "Prepared Testimony Served but Not Yet Offered in Evidence" in a formal proceeding, I am addressing each of the following five features of Ordering Paragraph 2 of D.06-06-066:

- That the material constitutes a particular type of data listed in the Matrix,
- The category or categories in the Matrix the data correspond to,
- That SDG&E is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- That the information is not already public, and
- That the data cannot be aggregated redacted summarized, masked or otherwise protected in a way that allows partial disclosure.

3. The confidential information contained in the Testimony constitutes material, market sensitive, electric procurement-related information that is within the scope of Section

454.5(g) of the Public Utilities Code.[1] As such, the Protected Information provided by SDG&E is allowed confidential treatment in accordance with Appendix I – IOU Matrix in D.06.06.066.

The shaded area of Section 3.E.9, Page 18 of the Testimony, and Attachment 3 – Levelized Present Value of Bids, contain Protected Information under Matrix category VIII.B (Specific Quantitative Analysis Involved In Scoring And Evaluation Of Participating Bids). This data is confidential for three years after the winning bidders are selected, which SDG&E interprets to mean three years from the date of filing its Application.

4. I am not aware of any instances where the Protected Information has been disclosed to the public. SDG&E only recently completed its negotiations with the counterparties, and the parties have agreed that the information in the Agreements will be held in confidence by each party subject to this Commission's regulations and/or other provisions of law.

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

6. The Protected Information cannot be provided in a form that is aggregated, partially redacted, or summarized, masked or otherwise protected in a manner that would allow further disclosure of the data while still protecting confidential information. Pursuant to D.06-06-066, SDG&E has already made the required contract summary information public in its Application and supporting Testimony and Exhibits. The specific price and payment terms cannot be aggregated because this data is specific to each individual agreement. In the future, SDG&E anticipates that the contract costs will be aggregated along with SDG&E's other Demand Response contracts in filings before this Commission and other regulatory agencies and commissions. Such aggregation would have the effect of masking the contract costs so that they would be continue to be protected. To the extent that SDG&E has made public the contract summary as discussed in D.06-06-066, SDG&E believes that such summary can properly be viewed as partial disclosure.

[1] In addition to the details addressed herein, SDG&E believes that the information being furnished in the Testimony is governed by Public Utilities Code Section 583 and General Order 66-C. Accordingly, SDG&E seeks confidential treatment of this data under those provisions as applicable.

SDG&E has also made public a qualitative description of its bid evaluation methodology, as required by D.06-06-066. That description includes the criteria used for deriving a "short list" of bids, and for further economic, credit, technology and other evaluation factors by which SDG&E arrived at its decision to enter into these three contracts. Because the quantitative data is specific to the evaluation and analysis of each contract individually, that information cannot reasonably be summarized or aggregated in such a way as to provide greater public access without compromising the confidentiality of the Protected Information.

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

Executed this 5th day of March, 2009, at San Diego, California.

Kevin C. McKinley
Cust. Programs Meas. & Eval. Supervisor
San Diego Gas & Electric Company

Attachment 1

REQUEST FOR OFFERS
for
SUPPLY RESOURCES

March 9, 2007

San Diego Gas & Electric Company
Electric and Gas Procurement Department
8306 Century Park Court,
San Diego, CA 92123-1593

1. Scope of Supply

San Diego Gas & Electric Company (SDG&E) is issuing this Request for Offers (RFO) for supply resources to support reliability within the SDG&E service territory, supply energy to bundled customers and/or meet other portfolio needs (including Resource Adequacy (RA) requirements and the Greenhouse Gas (GHG) emissions profile). All resources that can meet the obligations set forth below for each of the three requested products are welcome to bid into this RFO; however, all renewable resources are strongly encouraged to participate in the parallel Renewables RFO, which will be issued in March 2007.

The following products are sought in this RFO: 1) Demand Response Capacity (DR) for initial delivery in 2010, 2011, or 2012, running for a total of 15 years; 2) peakers or intermediate class resources, in SDG&E's territory, totaling a minimum of approximately 200 MW as turnkey or power purchase agreements (PPA) for a minimum of 15 years with on line dates of between April 2010 and April 2012; and 3) a generation facility, located inside or outside SDG&E's service territory of approximately 500 MW nameplate capacity, deliverable to SDG&E's service territory.

Product 1

Respondents may propose a 15-year product for the delivery of measurable Demand Response. This product must be a means of reducing an end-use customer's demand and/or energy usage, must be for at least 1.0 MW and be within SDG&E's service territory. The offer must provide, in sufficient detail, the Demand Response product, the process for delivering Demand Response and the manner in which it will meet the minimum guidelines specified in Section 6, Resource Criteria.

Product 2

Bids for this product must be new generation capacity. SDG&E prefers an on line date of March 2010, but will consider offers for dates as early as March 2009 or as late as March 2012. The new generation must be located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's service area such that the unit supports SDG&E's Local RA requirement.[1] SDG&E seeks a total of at

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[1] This determination will ultimately be made by the CASIO; however, SDG&E cautions that interconnection with the 500-kV Southwest Power Link or the Imperial Valley 500/230-kV Substation are not acceptable delivery points for proposals under this RFO because the reliability resource requirement is based on a contingency condition with the SWPL out of service. Similarly, direct interconnection to the San Onofre switchyard or the 230-kV lines from San Onofre to either Talega Substation or San Luis Rey Substation are not acceptable for the purpose of this RFO because these network facilities are fully utilized for the reliability condition of concern.

least 200 MW of Product 2. Products offered in this category shall be capable of operating at annual capacity factors of a minimum of 30%. It is anticipated that heat rates will be no higher than 10,500 btu/kWh. For this product, SDG&E requires resources that are capable of quick start operations (that is, capable of synchronizing and providing energy to the grid within 10 minutes of notification). SDG&E also requires that each offer contain pricing for, and an option to provide, black start capability.

Contracts for Product 2 will be either Build-Own-Transfer (turnkey) or Tolling Agreements. In the case of a tolling agreement, the contract term shall be for a period of 15, 20 or 25 years. For any tolling agreement, the bidder may offer at its sole election an option for transfer of ownership to SDG&E at a price certain at the end of the term of the tolling agreement. SDG&E's evaluation of all Product 2 offers will be adjusted for and compared at an in-basin level of costs and benefits.

Product 3

One fully dispatchable approximately 500 MW generation facility with a remaining useful life of at least 20 years capable of delivering unit contingent firm energy and capacity to SDG&E's service territory, with deliveries commencing between October 1, 2011 and March 31, 2012. Heat rates should be no higher than 8,000 btu/kWh, and the unit should be capable of operating at capacity factors of 80% or more.

Offers may be for either a 20 year PPA (tolls only) with an option offered at respondents' sole election for transfer to SDG&E at a price certain; or an acquisition by SDG&E. In both cases, deliveries shall begin no later than Q1 2012. SDG&E shall have exclusive rights to the product and all benefits derived therefrom, including the exclusive right to use, market or sell the product and the right to all revenues generated from the use, sale or marketing of the product. SDG&E will exercise exclusive dispatch control over the generating facility.

SDG&E has an option to purchase from a Sempra Energy affiliate the approximately 480 MW El Dorado Energy, LLC power plant (located in Boulder City, Nevada) on October 1, 2011 for depreciated book value, which is currently estimated to be approximately $189 million (the "El Dorado Option"). The El Dorado Option was first announced to the public by the CPUC in a press release issued on October 13, 2006, relating to the settlement of a lawsuit between Sempra Energy and the CPUC. A copy of this press release can be found at www.cpuc.ca.gov. The El Dorado Option was also referenced in SDG&E's 2008 Peaker RFO issued on October 17, 2006, as well as in SDG&E's December 11, 2006 Long-Term Procurement Plan, both of which are available at www.sdge.com. Prospective bidders should be aware that offers in this RFO for Product 3 are competing with the El Dorado Option. More information, including the relevant agreements, on this El Dorado Option can be found on the

RFO website. If SDG&E exercises the El Dorado Option to purchase El Dorado, SDG&E will seek approval of the transaction by both the CPUC and FERC. If the option is exercised after evaluation of competing offers, regulatory approvals will follow a separate filing process that is more expedited than the dates shown below in this RFO.

General Information

The Respondent shall be responsible for development, permitting, financing, and construction of any required facilities. In the case of a turnkey project, the project's property rights will be transferred to SDG&E as part of the generation facility acquisition. The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's Tariff, applicable CPUC and/or FERC rules, orders, and/or regulations, and SDG&E's specifications.

SDG&E requires that all offers requiring interconnection for ultimate delivery to SDG&E be accompanied by CAISO LGIP transmission interconnection studies that provide the cost of such interconnection to be used in SDG&E's evaluation process. If such LGIP interconnection study related information is not available at the time the bid(s) is submitted, then Respondent agrees to provide SDG&E with such LGIP interconnection study related information as soon as such information is received by Respondent, but in no case later than 9/01/2007.

The information presented here is preliminary and non-binding. SDG&E reserves the right to withdraw or change any element of this proposed offering at any time.

2. RFO Communication

All questions or other communications regarding this RFO should be submitted via e-mail to the RFO's mailbox: 2010-2012CapacityRFO@semprautilities.com. All questions and answers will be available to all RFO recipients, with Respondents' identity removed, via the RFO website at **www.sdge.com/2010-2012Capacityrfo**. SDG&E will not accept questions or comments in any other form, except during the bidders conference and the Respondent interviews. Respondents are encouraged to check the RFO Website periodically for updates, notices, and postings. E-mail requests for access to the RFO bid upload site may be made to the RFO mailbox.

SDG&E will hold a conference for registered bidders on March 23, 2007 at 9:00 am. Parties who intend to bid are required to e-mail the RFO's mailbox: 2010-2012CapacityRFO@semprautilities.com requesting registration as bidders in this RFO.

3. RFO Schedule

SDG&E reserves the right to revise this schedule at SDG&E's sole discretion and will post such changes to the RFO website. Short-listed Respondents will be notified of interview date, time, and meeting room location. All interviews will be conducted at SDG&E's Century Park complex. Product 3 will follow a different schedule than Products 1 and 2 (see table below.) Please also be advised that this schedule may be affected by the timing of the Long-Term Procurement Plan proceeding in which SDG&E has made its need showing that underlies this RFO.

#	MILESTONE EVENT	DATE
1.	RFO Issued	3/09/2007
2.	Intent to Bid e-mail due at RFO mailbox for registration	3/23/07
3.	Registered Bidders meeting with SDG&E Location: SDG&E CP4200A&B Time: 9:00 – 11:30 a.m. March 30, 2007	3/30/2007
4.	Question submittal cut-off date: noon	5/11/2007
5.	CLOSING DATE: Electronic Offers must be uploaded to and received by the RFO Website by noon (local prevailing time).	05/17/2007
6.	Hard-copies of Offers must be received at SDG&E's offices	05/18/2007
7.	SDG&E completes evaluation and creates shortlist of candidates Product 3[2]	No later than 07/01/2007
8.	SDG&E completes evaluation and creates shortlist of candidates Products 1 and 2	07/15/2007
9.	Last date for Respondents to submit completed ISO LGIP System Impact Study to SDG&E	09/01/2007
10.	Negotiations with shortlist. Product 3	No later than Sep 15, 2007
11.	Negotiations with shortlist. Products 1 and 2	Sept/Oct/Nov 2007
12.	Definitive Agreement filed at CPUC Product 3	No later than 09/01/2007
13.	Definitive Agreement filed at CPUC Products 1 and 2	12/01/2007
14.	Expected CPUC contract approval; final notice to proceed Product 3	12/15/2007
15.	Expected CPUC contract approval; final notice to proceed Products 1 and 2	01/15/2008

4. RFO Response

In order to remain on the mailing/notice list for this RFO, SDG&E requires that each interested party send an e-mail to the RFO mailbox indicating that it is either considering or intending to submit an offer.

[2] As noted above, if SDG&E exercises the El Dorado option, the related Commission filings will proceed on an expedited basis on a separate track from this schedule.

SDG&E **requires** that all offers submitted pursuant to this RFO contain, at a minimum:

a) the information requested in the Offer Response Forms (which will be in the technical specifications on the RFO website) using the forms provided. The forms should be submitted in editable electronic form for efficient processing by SDG&E.

b) a detailed Gantt chart (or equivalent alternative) which outlines all major project milestones (including but not limited to permitting, engineering, site preparation, equipment contract and delivery and construction). The project timeline will also include milestones associated with major cost commitments (>$500,000). The workplan should also include a description of any uncertainties, where any changes would still result in not meeting the required on line date.

c) Respondents proposing a tolling arrangement should submit comments on the draft Power Purchase Tolling Agreement. All other Respondents, including those proposing to provide Product 2 pursuant to a Turnkey Agreement, must submit a draft Term Sheet outlining the key features of any proposed transactions

d) Credit. Respondent's offer **must include** a completed credit application (found on RFO website).

SDG&E will review and may utilize all information submitted by a Respondent including any information identified as "confidential." SDG&E reserves the right to request additional information from Respondents prior to interviews.

All offers must be submitted to the RFO Website by 12:00 noon, PDT, May 17, 2007. One original offer, identical to the electronic submittal and signed by an authorized officer of the Respondent, shall also be sent to the address shown below and must be received by SDG&E by May 18, 2007. All content of the electronic offer submittal and the original signed offer shall be identical. Any conflicts between the information set forth in an electronic bid and the signed offer shall be resolved in favor of the signed offer. All offer materials and information submitted shall be subject to the confidentiality provisions of this RFO.

San Diego Gas & Electric Company
Electric and Gas Procurement Department
8315 Century Park Court, CP 21D
San Diego, CA 92123-1548
Attn: Mike McClenahan
Director of Electric Procurement,

5. Interconnection

SDG&E requests that all offers for new projects requiring interconnection for ultimate delivery to SDG&E be accompanied by CAISO LGIP transmission interconnection feasibility study studies. SDG&E must receive a completed CAISO **System Impact Study** for any new project by 09/01/2007. If a Respondent has previously obtained interconnection studies pursuant to SDG&E's Transmission Owner Tariff within the last 12 months (located at **http://www2.sdge.com/tariff/document7.pdf**), SDG&E will utilize the transmission costs identified in such studies for its evaluation of the offer. If adequate interconnection studies have not previously been conducted, Respondent must apply for an ISO System Impact Study through the LGIP and submit such report to SDG&E by September 1, 2007 (July 1, 2007 for Product 3 bids). Respondents will be responsible for all costs associated with performing more detailed interconnection studies for system impacts pursuant to the CAISO's LGIP tariff.

6. Offer Requirements

1. The Respondent shall be financially responsible for all costs for land, development, permitting (including emissions offsets, if applicable), engineering, procurement, and construction and for associated taxes, insurance, financing and bonding. The Respondent shall be operationally responsible for all development work and construction, including acquisition of land, permitting (including emissions offsets), engineering, procurement, and construction up to the highest industry standards and in accordance with time critical milestones and schedules.

2. The Respondent shall be responsible for all electric system and gas pipeline upgrades and / or extensions if required under applicable gas and electric tariffs. See http://www.sdge.com/tariff .

3. The Respondent must have all necessary water rights consistent with the generating resource needs. All property and water rights must be transferable to SDG&E if SDG&E is to assume ownership of the facility through a turnkey arrangement or by exercising an option (offered at respondent's sole discretion) at the end of the PPA term. For projects that contain such options, though, SDG&E has a preference for facilities with title to land. Resources located on leased properties may be accepted upon review of the lease terms, but must have a minimum lease term that covers the term of the PPA offered plus the remaining useful life of the plant.

4. Respondent must identify all necessary emissions offsets and the associated costs. Emissions offsets and/or credits must be transferable to SDG&E upon the date, if any, that SDG&E assumes ownership.

5. For turnkey projects, the Respondent shall train SDG&E's operating personnel in the operation and maintenance of the Facility.

6. Product 2 Respondents must provide generating facilities designed and permitted for operation for a minimum availability of 2,700 hours per year annual operations for peaking and intermediate duty. Product 3 Respondents must provide generating facilities designed and permitted for operation for a minimum availability of approximately 7,000 hours per year.

7. SDG&E will, if requested, be responsible for the purchase and transportation cost of natural gas or other fuels to the plant site during commissioning, testing and contract term, for turnkey (and tolling) projects. In such instance, electric output during commissioning and testing shall be delivered at no charge to SDG&E, and SDG&E shall be entitled to receive all revenues for such energy.

8. Permitting information provided by the Respondent shall include status of existing and required additional new permits, including any additional required approvals, along with a permitting and approval schedule. Such schedule must demonstrate an achievable on line date of no later than that COD required of the bid's Product type. This will not apply to bids for Product 3 from existing resources.

9. Demand Response Offers must comply with the policy guidance of the Energy Action Plan (I and II) and be in alignment with the state's Demand Response Vision for the Future.[3] Offers must also meet the California Public Utilities Commission (CPUC) definition of Demand Response.[4] As such, generation resources located on the customer side of the meter, such as back-up generation, will not qualify as a Demand Response product in this offer.[5] To further clarify, the Demand Response product must be by means of reducing an end-use customer's demand and/or energy usage. SDG&E is seeking offers that meet RA requirements for Demand Response as set forth by the CPUC in D.05-10-042, and will give preference to said offers incorporating Resource Adequacy in its evaluation of these responses. Agreements will be submitted to the CPUC for prior approval.

10. Demand Response offers must provide at least 1 MW of measurable Demand Response, of which the entire load reduction is located within the SDG&E service territory. SDG&E prefers that the proposed Demand Response product be available May 1, 2010 through October 31, 2025. If the Demand Response product is not available for all the months during the three-year period, Respondent should explain in detail when the product would be available and the circumstances surrounding its availability. The Demand Response product shall not include Demand Response committed on existing programs. Offers for a Direct Load Control program targeted toward residential customers and business customers with demands <100kW will not be considered.

11. Any Demand Response products should meet the following minimum criteria:

- Available during all of the months from May 1 through October 31.

[3] California Demand Response: A Vision for the Future. D. 03-06-032, Appendix A.

[4] D.05-01-056 (mimeo at pp. 47-49) discusses the use of generation as demand response. More recently, D.06-03-024 states that demand response "applies to rate design, incentives and technology to induce changes in customer demand" (mimeo at p. 3).

[5] D.06-11-049 (mimeo at pp.57-58) discusses the Commission's policy regarding back-up generation options.

- Available on weekdays for a minimum of two hours per day and up to five hours per day.
- Confirmation for the need for Demand Response will be given no earlier than 9:00 AM on the day the product is needed. The delivery period will be no sooner than noon or later than 6:00 PM on the day the product is needed.
- Detail any limitations of the product, for example: the minimum or maximum number of hours per year the product is available.
- Explain how the Demand Response product will be measured to ensure the load reduction amount committed is achieved and how the baseline will be established to exclude free ridership.[6]
- Specify a fixed price in the form of a capacity price ($/MW/year) for actual delivered Demand Response. Repondents may also offer an energy price ($/MWh), but must specify the number of hours (e.g., daily, monthly, seasonally, and/or annually) the product is available.
- Explain target customers for participation in the Demand Response product by customer class and whether the customers will be bundled SDG&E customers, Direct Access customers or both.
- The proposed energy price for Demand Response applicable to participating customers shall include an "ex-post price credit", by which the proposed energy price is reduced by the hourly ex-post price (i.e., CAISO hourly SP 15 ex post energy price, applicable to each demand response program event hour). For example, refer to SDG&E's Schedule CBP—Capacity Bidding Program, Special Condition 6.a.ii. (see http://sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_CBP.pdf) Such an adjustment is required in order to compensate SDG&E's' ratepayers for any failure of the contractor to deliver committed load reductions.

7. Binding Offer Evaluation

SDG&E anticipates evaluating offers for different Products on different timelines. First the offers for Product 3 will be evaluated. Offers that are determined to meet the threshold requirements will be evaluated on the basis of an expected cost analysis covering both quantitative and qualitative information. In general, offers that meet RFO requirements will be evaluated on the basis of a least cost/best fit (LCBF) analysis. The quantitative analysis will look at the total expected cost to SDG&E's bundled customers when the offer is added to SDG&E's resource portfolio. The quantitative components of this analysis include the following:

1. Binding Offer prices for both capacity and energy (offers deemed by SDG&E to contain unreasonably low or high prices will be rejected).

[6] "Free ridership" refers to load reduction that would have occurred even without the benefit of the proposed demand response product. This reference is derived from a definition in the energy efficiency proceeding (R. 01-08-028): Appendix B of Attachment 3 in D. 05-04-051 – Common Energy Efficiency Terms and Definitions.

2. Transmission system upgrade costs necessary for the generation resource to satisfy grid reliability and deliverability requirements.
3. Congestion costs - Potential for congestion costs will be assessed, as well as SDG&E's ability to hedge these costs.
4. Impacts on existing utility financial structure such as debt equivalence and/or the effect of FIN 46 may be considered in the evaluation of the overall effective cost of PPAs.
5. Changes to SDG&E bundled customer's total GHG Emissions will also be valued. SDG&E will determine the forecasted change in total GHG emissions from adding the offer to SDG&E's portfolio. Portfolio GHG increases or reductions will be valued based on previous CPUC direction.

Qualitative factors used to differentiate offers include the following:

1. Brownfield vs. greenfield – the proposed location will be assessed to determine if the project is located at a brownfield or greenfield site.
2. Environmental stewardship – SDG&E will assess the project team's history and any special benefits of the specific offer.
3. Ability to advance schedule– The offer will be assessed for its ability to advance its schedule should SDG&E's requirements change.
4. Financing plan– the Offer will be assessed as to the plan and likelihood of the project securing the necessary financing.
5. Technology, major equipment manufacturers and operational flexibility. The evaluation will include an assessment of the proposed technology's commercial operating history, and the manufacturer's U.S. presence and experience.
6. The proposed facility will be evaluated from the perspective of maximizing the operational flexibility of generating assets available to SDG&E. This incorporates unit capabilities that include size, start-up time, load response, minimum up and down times.
7. Reliability.
8. Development risk.
9. Corporate capabilities and proven experience.
10. Ability to meet schedule.
11. Project team (environmental, engineering, equipment procurement, construction) – Project Team will be assessed on whether the Project Team has demonstrated experience with the specific technology and implementation plan they are proposing.
12. Credit Risk.

SDG&E requests that Respondents who believe their bids have any important qualitative benefits elaborate on them in their offer.

SDG&E will utilize the information provided on the Offer Response Forms to evaluate all offers. Respondents are responsible for the accuracy of all figures and calculations. Errors discovered during negotiations may impact Respondents' standing on the short-list.

8. Binding Offer Duration

All offers into this RFO are binding as of the submittal date and must remain binding, open and valid through SDG&E's offer evaluation, price negotiations, contract execution between SDG&E and the selected Respondent(s), and CPUC and FERC approval. No offer adjustments which increase costs shall be permitted after submission of Binding Offer.

9. Confidentiality

Except with the prior written consent of SDG&E, Respondents may not disclose (other than by attendance alone at any meeting to which more than one Respondent is invited by SDG&E) to any other Respondent or potential Respondent their participation in this RFO, and Respondents may not disclose, collaborate on, or discuss with any other Respondent, bidding strategies or the substance of offers, including without limitation the price or any other terms or conditions of any indicative or final offer.

SDG&E will use the higher of the same standard of care it uses with respect to its own proprietary or confidential information or a reasonable standard of care to prevent disclosure or unauthorized use of Respondent's confidential and proprietary information that is labeled as "proprietary and confidential" on the offer page on which the proprietary information appears (confidential information). Respondent shall also summarize the elements of the offer(s) it deems confidential. The summary must clearly identify whether or not price, project name, location, size, term of delivery, technology type (either collectively or individually) or any other term are to be considered confidential information Confidential information may be made available on a "need to know" basis to SDG&E's directors, officers, employees, an independent third-party evaluator required by the CPUC, agents and advisors (representatives) for the purpose of evaluating Respondent's offer, but such representatives shall be required to observe the same care with respect to disclosure as SDG&E.

Notwithstanding the foregoing, SDG&E may disclose any of the confidential information to comply with any law, rule, or regulation or any order, decree, subpoena or ruling or other similar process of any court, securities exchange, control area operator, governmental agency or governmental or regulatory authority at any time even in the absence of a protective order, confidentiality agreement or non-disclosure agreement, as the case may be, without notification to the Respondent and without liability or any responsibility of SDG&E to the Respondent.

It is expressly contemplated that materials submitted by a Respondent in connection with this RFO will be provided to the CPUC, its staff, and possibly to the CEC, its staff, SDG&E's Independent Evaluator (IE) and Procurement Review Group (PRG). SDG&E will seek confidential treatment in accordance with CPUC Decision 06-06-066 and any subsequent decision by the CPUC related to confidentiality, with respect to any Respondent confidential information submitted by SDG&E to the CPUC for the purposes of obtaining regulatory approval. SDG&E will also seek confidentiality protection from the CEC for Respondent's confidential information and will seek confidentiality and/or non-disclosure agreements with the PRG. SDG&E cannot, however, ensure that the CPUC or CEC will afford confidential treatment to a Respondent's confidential information or that confidentiality agreements or orders will be obtained from and/or honored by the PRG, CEC, or CPUC.

SDG&E, its representatives, Sempra Energy, and any of their subsidiaries disclaim any and all liability to a Respondent for damages of any kind resulting from disclosure of any of Respondent's information.

10. OTHER REQUIREMENTS

CALIFORNIA CLIMATE ACTION REGISTRY

In D.06-02-032, the CPUC directed SDG&E to include a provision in any power purchase agreement for non-renewable energy that requires the supplier to register and report its GHG emissions with the California Climate Action Registry (CCAR). More information about the CCAR is available at California Climate Action Registry.

Pursuant to D.06-02-032, SDG&E will be required to include a provision in any tolling agreement that will require the supplier to register and report its GHG emissions with the CCAR. Specific registration requirements and reporting protocols with the CCAR will be established, and a method for assigning emissions values to supplies that are unregistered with the CCAR will also be developed.

For more information, see: http://www.cpuc.ca.gov/proceedings/R0604009.htm

FIN 46 Requirements

New Securities and Exchange Commission rules for reporting power purchase agreements may require SDG&E to collect and possibly consolidate financial information for the facility whose output is being purchased under long-term contractual arrangements. General guidelines include:

a) determination of allocation of risk and benefits
b) proportion of total project output being purchased by SDG&E
c) proportion of expected project life being committed to SDG&E
d) pricing provisions of contract; that is, whether the contract contains fixed long-term prices or pricing that varies over the term of the agreement based on market conditions or other factors

For any Agreements that meet the applicability criteria, SDG&E is obligated to obtain information from successful Respondents to determine whether or not consolidation is required. If SDG&E determines that consolidation is required, SDG&E shall require the following during every calendar quarter for the term of an Agreement:

a) Complete financial statements and notes to financial statements, and financial schedules underlying the financial statements, all within 15 days of the end of each quarter.
b) Access to records and personnel, so that SDG&E's independent auditor can conduct financial audits (in accordance with generally accepted auditing standards) and internal control audits (in accordance with Section 404 of the Sarbanes-Oxley Act of 2002).

Procurement Review Group

In D.02-08-071 (p. 24), the CPUC established the Procurement Review Group (PRG), whose members, subject to an appropriate non-disclosure agreement, would have the right to consult with and review the details of each utility's procurement plan, overall procurement strategy, contracts, and related matters. Since that time, the PRG process has been endorsed and continued in a variety of subsequent decisions, as it performs a valuable consultative role in the IOUs' procurement activities, including relating to the issuance and evaluation of RFOs and their results.[7] Thus, from RFO language development to offer evaluation to contract negotiation, SDG&E will brief the PRG on a periodic basis during the entire process.

Respondents are hereby notified that revealing offer information to the PRG is required during PRG briefings in accordance with Section 11.0 Confidentiality. Respondents must clearly identify, as part of the offer, what type of information it considers to be confidential.

Independent Evaluator

In D.04-12-048, the Commission ordered, in certain instances, the use of Independent Evaluators (IE) in competitive solicitations. SDG&E will make use of an IE in this solicitation. All offer material produced in this solicitation will be available, under confidentiality provisions, to the IE. SDG&E in its sole discretion

[7] See, e.g., D.02-10-062, D.03-12-062, and D.04-12-048.

may make available to its PRG each response to this RFO and may review the results of its evaluation and ranking of the proposals with the IE and PRG.

11. Credit Terms and Conditions

SDG&E has the unilateral right to evaluate and determine the ability of the Respondent to perform relative to this project. The shortlisted Respondents will be required to complete, execute, and submit a credit application. This form is available to Respondents on the RFO website. The application requests financial and other relevant information needed to demonstrate and confirm creditworthiness.

Upon execution of a mutually acceptable definitive agreement, the Respondent-Seller will be required to post security based on the credit requirements established by SDG&E. Category 2 and 3 products will be required to post Development Security for non-operational projects until commercial operation and Category 2 and 3 Products will post Operating Collateral upon attaining commercial operation, if the project is not operational at the time of contract execution, or upon the effective date of the contract, if the project is operational at the time of contract execution. Operating Collateral will remain in place for the life of the contract. Category 1 products will require Operating Capital for the life of the contract.

The table below provides a non-binding estimate of the range of security amounts that may be required per Product. These ranges are based on industry average credit ratings and current prevailing market conditions. The actual amounts will be determined separately for each shortlisted Respondent depending on the quality of submitted financial data and the specific bid characteristics and may vary from those provided below.

Product	Development Security	Operating Collateral
1	TBD	*xxx. $/MWH
2	$5/kW to $15/kW	$5 MM to $15 MM per 50MW of capacity
3	$15/kW to $25/kW	$15 MM to $25 MM per 50MW of capacity

* To be calculated as: (Probability of Occurrence @ 99% confidence) x [ISO Energy Price Cap - (average of trading prices)]) = Max unsecured credit exposure / MWH. In the event of non performance actual credit losses or replacement costs are to be accrued and secured in the form of a standing letter of credit.

All credit support arrangements (e.g., parent guarantee, performance bond, surety bond, subordinated security interest, letter of credit) must be negotiated prior to contract execution. Model credit support documents will be provided to shortlisted Respondents as applicable.

12. Proposal Costs

SDG&E will not reimburse respondents for any of their expenses for developing responses hereto under any circumstances, regardless of whether the RFO process proceeds to a successful conclusion or is abandoned by SDG&E in its sole discretion.

13. Contingencies

1. CPUC Review and Approval. Any Agreements entered into by SDG&E and a selected Respondent will be subject to and contingent upon (1) the issuance by the CPUC of a decision acceptable to SDG&E, approving such agreements and that does not materially alter the commercial aspects of the agreements; (2) a finding by the CPUC that the payments under the agreements are reasonable; and (3) a finding that SDG&E is authorized to recover the full amount of its costs including any payments made to Respondent under any of such agreements from SDG&E's customers in rates through existing or future cost recovery mechanisms that may be developed or instituted by the CPUC. Such CP is subject to a limited waiver, at SDG&E's sole discretion, so that a Limited Notice to Proceed may be issued if deemed necessary to meet a May 31, 2010 online date.
2. All proposals and agreements for new projects in SDG&E's service territory shall be contingent upon completion of detailed interconnection and delivery studies, which shall determine the costs of any required transmission network upgrades reasonably necessary to reliably permit the delivery of energy from the Respondent's facility to SDG&E's load aggregation point(s). Network electric transmission upgrade costs and gas pipeline upgrades will be paid in accordance with applicable tariff rules.
3. All Agreements entered into by SDG&E and a selected Respondent providing for SDG&E's ownership and operation of such unit will be subject to and contingent upon the issuance of a Certificate of Public Convenience and Necessity by the CPUC if required and in a form deemed satisfactory to SDG&E at its sole discretion.
4. FERC Approval. In addition to the approvals required elsewhere in this RFO and the applicable agreement between the parties, SDG&E, in its sole discretion, may obtain and/or require bidder to obtain: (1) a FERC order, as may be required, accepting and/or authorizing any agreement(s) entered into hereunder, including without limitation the transfer of a generation facility, on terms that do not materially alter the commercial aspects of the agreement(s); and/or (2) a finding by the FERC that the rates, terms, and conditions are just and reasonable.

14. RESERVATION OF RIGHTS

SDG&E makes no guarantee that a contract award shall result from this RFO. SDG&E reserves the right at any time, at its sole discretion, to abandon this RFO process, to change the basis for evaluation of offers, to terminate further participation in this process by any party, to accept any offer or to enter into any definitive agreement, to evaluate the qualifications of any Respondent or the terms and conditions of any offer, or to reject any or all offer, all without notice and without assigning any reasons and without liability of Sempra Energy, SDG&E, or any of their subsidiaries, affiliates, or representatives to any Respondent. SDG&E shall have no obligation to consider any offer.

15. Supplemental Information

SDG&E reserves the right to request additional information from individual Respondents or to request all Respondents to submit supplemental materials in fulfillment of the content requirements of this RFO or to meet additional information needs of SDG&E. SDG&E also reserves the unilateral right to waive any technical or format requirements contained in the RFO.

16. WAIVER OF CLAIMS AND LIMITATION OF REMEDIES

By submitting an Offer, Respondent knowingly, voluntarily, and completely waives any rights under statute, regulation, state or federal constitution, or common law to assert any claim, complaint, or other challenge in any regulatory, judicial, or other forum, including without limitation, the CPUC, (except as expressly provided below), the FERC, the Superior Court of the State of California (“State Court”) or any U.S. District Court (“Federal Court”) concerning or related in any way to the RFO or any documents in the RFO including all exhibits, attachments, and appendices thereto (“Waived Claims”). Respondent further expressly acknowledges and consents that if it asserts any Waived Claim at the CPUC, FERC, State Court, or Federal Court, or otherwise in any forum, to the extent that Respondent’s Offer has not already been disqualified, SDG&E is entitled to automatically disqualify such Offer from further consideration in the RFO or otherwise, and further, SDG&E may elect to terminate the RFO.

By submitting an Offer, Respondent further agrees that the sole forum in which Respondent may assert any challenge with respect to the conduct or results of the RFO is at the CPUC. Respondent further agrees that: (1) the sole means of challenging the conduct or results of the RFO is a complaint filed under Article 3, Complaints and Commission Investigations, of Title 20, Public Utilities and Energy, of the California Code of Regulations, (2) that the sole basis for any such protest shall be that SDG&E allegedly failed in a material respect to conduct the solicitation in accordance with the RFO; and (3) that the exclusive remedy available to Respondent in the case of such a protest shall be an order of the CPUC that SDG&E again conduct any portion of the solicitation that the CPUC determines was not previously conducted in accordance with the RFO or any

RFO documents (including exhibits, attachments, and appendices). Respondent expressly waives any and all other remedies, including, without limitation, compensatory and/or exemplary damages, restitution, injunctive relief, interest, costs and/or attorneys' fees. Unless SDG&E elects to do otherwise in its sole discretion, during the pendency of such a protest the RFO and any related regulatory proceedings related to the RFO will continue as if the protest had not been filed, unless the CPUC issues an order suspending the RFO or SDG&E has elected to terminate the RFO.

Respondent further acknowledges and agrees that if Respondent asserts any Waived Claim, SDG&E shall be entitled to seek immediate dismissal of Respondent's claim, complaint, or other challenge, with prejudice, by filing a motion to dismiss (or similar procedural device) supported by the language in this Section and that Respondent will not challenge or oppose such a request for dismissal. Respondent further acknowledges and agrees that if it asserts any Waived Claim, and if SDG&E successfully has that claim dismissed or transferred to the CPUC, Respondent shall pay SDG&E's full costs and expenses incurred in seeking such dismissal or transfer, including reasonable attorneys' fees. By submitting an Offer, Respondent acknowledges and agrees that it has submitted that Offer after consultation with its own independent legal counsel.

Respondent agrees to indemnify and hold SDG&E harmless from any and all claims by any other Respondent asserted in response to the assertion of any Waived Claim by Respondent or as a result of a Respondent's protest to a filing at the CPUC resulting from the RFO.

Except as expressly provided in the RFO documents, nothing herein, including Respondent's waiver of any Waived Claims as set forth above, shall in any way limit or otherwise affect the rights and remedies of SDG&E.

17. Attachments

The following tools for respondents to the RFO will be made available for download at the website for this RFO:

1. Credit Application

2. Draft Term Sheets/Contracts (To Be Developed)

3. Offer Response Forms (Respondents are encouraged to expand these forms for multiple facilities/sites. In addition, Respondents are encouraged to provide supplemental information to expand upon any unique capabilities to meet SDG&E's needs).

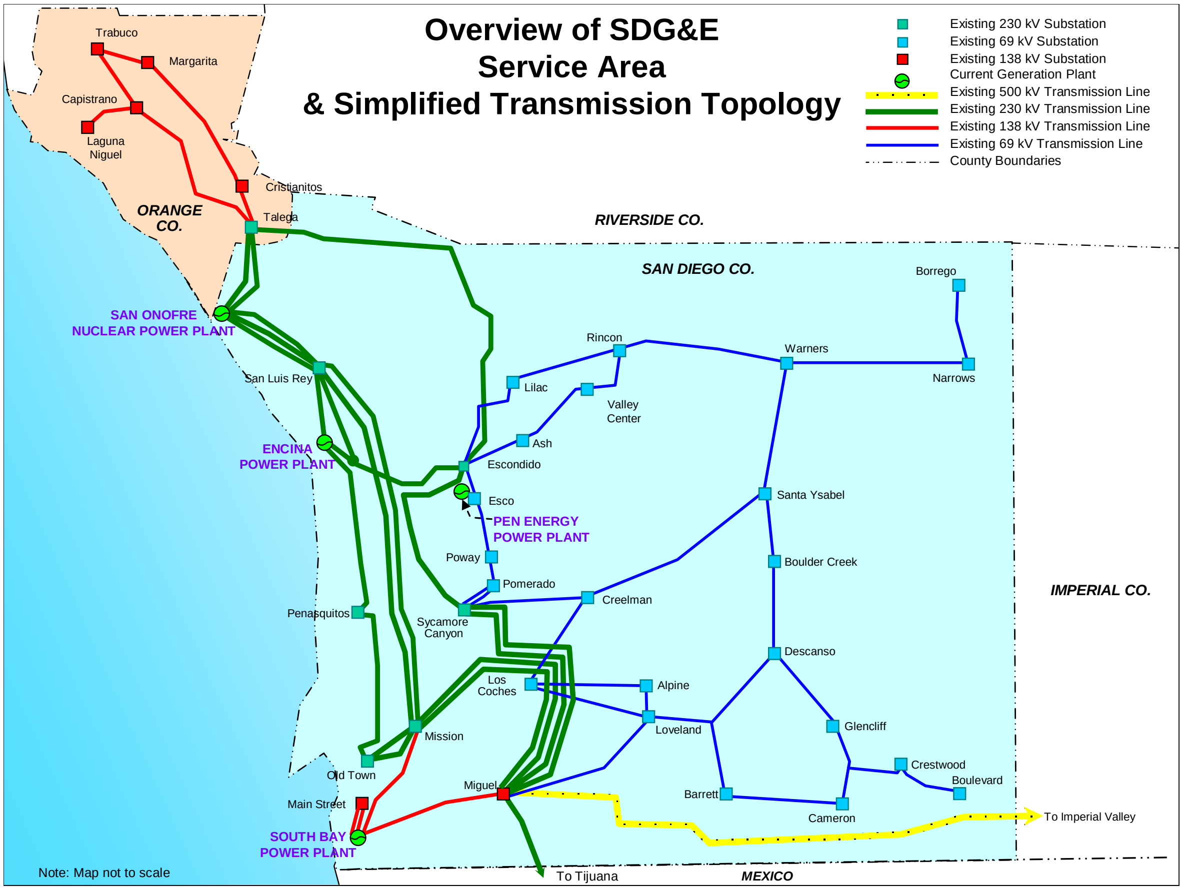
Addendum

Introduction to SDG&E: Background

San Diego Gas & Electric Company (SDG&E) provides electric service to approximately 1.3 million customers in San Diego County and the southern portion of Orange County. SDG&E also provides natural gas service to approximately 775,000 gas customers. The electric customer base comprises 89% residential and 11% commercial and industrial customers.

SDG&E's electric transmission network is comprised of 130 substations with approximately 884 miles of 69-kV, 265 miles of 138-kV, 349 miles of 230-kV, and 215 miles of 500-kV transmission lines. Local ("on system") generating resources are the Cabrillo plant (connected into SDG&E's grid at 138 kV and 230 kV), the South Bay plant (connected at 69 kV and 138 kV), the Palomar Energy Center (connected at 230 kV), a number of combustion turbine facilities located around the service area (connected at 69 kV), various Qualifying Facilities and renewable generation. Imported resources are received via the Miguel Substation as the delivery point for power flow on the Southwest Power Link, which is SDG&E's 500-kV transmission line that runs from Arizona to San Diego along the U.S./Mexico border, and via the SONGS 230-kV switchyard.

Figure 1 shows a simplified diagram of existing SDG&E service area and the electric transmission topology in San Diego County and the southern portion of Orange County. Planned or approved transmission facilities for the future (if any) are not shown on this map.


Overview of SDG&E
Service Area
& Simplified Transmission Topology
Existing 230 kV Substation
Existing 69 kV Substation
Existing 138 kV Substation
Current Generation Plant
Existing 500 kV Transmission Line
Existing 230 kV Transmission Line
Existing 138 kV Transmission Line
Existing 69 kV Transmission Line
County Boundaries
Trabuco
Margarita
Capistrano
Laguna Niguel
Cristianitos
Talega
ORANGE CO.
RIVERSIDE CO.
SAN DIEGO CO.
IMPERIAL CO.
MEXICO
SAN ONOFRE NUCLEAR POWER PLANT
San Luis Rey
ENCINA POWER PLANT
PEN ENERGY POWER PLANT
SOUTH BAY POWER PLANT
Borrego
Rincon
Warners
Narrows
Lilac
Valley Center
Ash
Escondido
Esco
Santa Ysabel
Poway
Pomerado
Boulder Creek
Penasquitos
Sycamore Canyon
Creelman
Descanso
Los Coches
Alpine
Loveland
Glencliff
Mission
Crestwood
Boulevard
Old Town
Miguel
Barrett
Cameron
Main Street
To Imperial Valley
To Tijuana
Note: Map not to scale

Attachment 2

ATTACHMENT NO. 2 - Public

SUMMARY OF ORIGINAL OFFERS FROM ALL FOUR (4) VENDORS

Vendor	EnerNOC	Vendor 2	Vendor 3	Vendor 4
Start Date	01/01/2010	02/01/2008	05/01/2010	05/01/2010
Terms	15 years	15 years	15 years	10 years
Capacity (MW)	25	20	(e) 15 - 100	25
Capacity Payments ($/MW/yr)	(a) [redacted]	(c) [redacted]	(e) [redacted]	(f) [redacted]
Energy Payments ($/MWh)	(b)	(d)		
Maximum number of hours per year	50 hrs/yr	50 hrs/yr	55 hrs/yr (24hrs/month)	150 hrs
Notification response time prior to an event	30 minutes	30 minutes	negotiable	

<u>EnerNOC NOTES</u>

[redacted]

There were two (2) additional offers from EnerNOC for a 5 and 7 years term which SDG&E did not consider.

<u>Vendor 2 NOTES</u>

[redacted]

[redacted]

<u>Vendor 3 NOTES</u>

(e) Vendor 3 proposed a tier offer:

[redacted]

<u>Vendor 4 NOTES</u>

(f) Vendor 4 offered was based on a 25MW program based on the following pricing:

[redacted]

Attachment 3

ENTIRE DOCUMENT CONIDENTIAL
PURSUANT TO P.U. CODE 583, 454(g),
GO 66-C AND D.06-06-066

Attachment 4

ENTIRE DOCUMENT CONIDENTIAL
PURSUANT TO P.U. CODE 583, 454(g),
GO 66-C AND D.06-06-066

Attachment 5

ENTIRE DOCUMENT CONIDENTIAL
PURSUANT TO P.U. CODE 583, 454(g),
GO 66-C AND D.06-06-066

Attachment 6

ENTIRE DOCUMENT CONIDENTIAL
PURSUANT TO P.U. CODE 583, 454(g),
GO 66-C AND D.06-06-066

Attachment 7

ENTIRE DOCUMENT CONIDENTIAL
PURSUANT TO P.U. CODE 583, 454(g),
GO 66-C AND D.06-06-066

Attachment 8

Slide 1

Meeting of SDG&E's Procurement Review Group

March 16, 2007

Conference call

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Slide 2

Agenda

- SDG&E RPS RFO Update
- Review of SDG&E's 2010-2012 RFO
- Review Status of 2008 Peaker RFO

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2010-2012 Supply RFO

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2010-2012 Supply RFO - Schedule

	MILESTONE EVENT	Date
1.	RFO Issued	3/09/2007
3.	Registered Bidders meeting with SDG&E Location: SDG&E CP4200A&B Time: 9:00 – 11:30 a.m. March 30,2007	3/30/2007
5.	CLOSING DATE: Offers must be uploaded to and received by the RFO Website by noon (local prevailing time)	05/17/2007
7.	SDG&E completes evaluation and creates shortlist of candidates Product 3	No Later Than 07/01/2007
8.	SDG&E completes evaluation and creates shortlist of candidates Products 1 and 2	07/15/2007
9.	Last date for Respondents to submit completed ISO LGIP Feasibility Study to SDG&E	09/01/2007
10.	Negotiations with shortlist. Product 3	No Later Than Sep 15, 2007
11.	Negotiations with shortlist. Products 1 and 2	Sept/Oct/Nov 2007
12.	Definitive Agreement filed at CPUC Product 3	No Later Than 09/01/2007
13.	Definitive Agreement filed at CPUC Products 1 and 2	12/01/2007
14.	Expected CPUC contract approval; final notice to proceed Product 3	12/15/2007
15.	Expected CPUC contract approval; final notice to proceed Products 1 and 2	01/15/2008

This schedule allows SDG&E to resolve the El Dorado option portion of the RFO by the end of 2007.

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2010-2012 Supply RFO – Need

- Bundled customer need is ~1900mw by 2012. SDG&E plans two RFO's to fill this need.

  - 1st RFO (Mar 2007) will procure 1) one CCGT, 2) at least 400mw local new capacity to meet grid reliability needs through 2012. SDG&E could buy more (up to full net short) if attractive offers are available in the SDG&E basin.

  - 2nd RFO (~Q1 2008) will procure remaining net short either 1) from larger SP15 market, or 2) local resources only (new / existing).

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2010-2012 Supply RFO - Products

- One baseload unit
  - Locations : inside or outside SD
  - Quantity : ~500mw
  - Term : turnkey or 20 yr PPA
  - The RFO will publicly notice the El Dorado option. Sempra will be bidding this unit into the RFO at Oct 2011 book value.

- New peaking / intermediate units
  - Location : in basin
  - Quantity : at least 400mw (reduced by the amount procured in 2008 Peaker RFO) up to full net short requirement.
  - Term : turnkey, or PPA of minimum 15 yrs; offerors may bid an option for SDG&E purchase at the end of the PPA term. On line dates of 2010-2012; SDG&E will consider, but not pay a premium for, earlier COD's.

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Summary Data / Strategy

[redacted]

Slide 1

Meeting of SDG&E's Procurement Review Group

April 27, 2007
San Francisco, CA

1

Slide 2

Agenda

1. Review 2010-2012 RFO Evaluation Criteria

2. Review 2008 Peaker RFO Results

3. Quarterly Positions Update

2

Slide 3

Review 2010-2012 RFO Evaluation Criteria

(Please refer to the separate document distributed by email)

3

Emailed Document Referenced in Prior Slide
Is Confidential in its Entirety

Slide 1

Meeting of SDG&E's Procurement Review Group

June 20th, 2007
San Francisco, CA

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Slide 2

Agenda

- Review of 2007 RPS RFO Results
- Review of RPS Contracts to be Filed
- Review of 2010-2012 RFO Results
- Independent Evaluator Comments
- Other Updates
  - 2008 Peaker RFO Updates
  - Updated RA Positions (including new Lake Hodges dates)

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Slide 16

Review of 2010-2012 RFO Results

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Slide 17

2010-2012 RFO Product 1 Demand Response Bids

[redacted]

EnerNOC

• Product offered is a centralized communication infrastructure called the EnerNOC Network Operations Center. Conducts its remote monitoring, remote dispatch, data collection and reporting.

• Target Large and mid-sized commercial and industrial customers.

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Confidential – Review Restricted Pursuant to PU Code 582, GO 66-C and PRG NDA

Slide 18

2010-2012 RFO Product 1 Bids and Supply Curve

[redacted]

Slide 24

2010-2012 RFO
Next Steps

- Shortlist negotiations for Products 1 and 2. Complete detailed evaluation including production cost modelling to value intermediate v peaking. Transmission information to be incorporated on Sept 1st. Contracts to be completed for filing by Nov, 2007
  - Demand Response Deals
- File El Dorado Option for CPUC approval (August 2007 with a decision by the end of 2007)

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Confidential – Review Restricted Pursuant to PU Code 582, GO 66-C and PRG NDA

Slide 1

Meeting of SDG&E's Procurement Review Group

May 15, 2008
Conference Call
Call-in (800) 423-1988
Pass Code 1239785

Slide 2

Agenda

- 2008 RPS RFO Preliminary Results
- RPS Contract
- Summer 2009 / Peaker Update
- 2010-2012 RFO Update
- Independent Evaluator Comments

Page 2

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2010 - 2012 RFO Update

Slide 23

2010-2012 RFO Update

PRODUCT 1 **Demand Response**	[redacted]	**EnerNOC**
Type	Load Reduction DR	Load Reduction DR
Term	15 years	15 years
MW	20 MW	50 MW
Includes Capacity Payment, Debt Equivalence (DE) and levelized for 15 years. Does not include Energy Payments. Levelized cost per kW /Yr	[redacted]	[redacted]
Includes Capacity Payment, and levelized for 15 years. Does not include Energy Payments. Levelized cost per kW /Yr	[redacted]	[redacted]
Status	[redacted]	[redacted]
Expected signing date	[redacted]	[redacted]

[redacted]

Attachment 9

Attachment 9 - Program Budget PUBLIC

ESTIMATED ANNUAL COSTS OF THE CONTRACT

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**TOTAL**
Maximum Capacity (MW)	25	35	40	40	40	40	40	40	40	40	40	40	40	40	40	**n/a**
* Total Capacity Payments ($000)																
Total Dispatch Available (hours)	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	**750**
Total Contract Costs *(excluding Administrative Costs)* ($000)																
** SDG&E Administrative Costs ($000)	$125	$129	$133	$137	$141	$145	$149	$154	$158	$163	$168	$173	$178	$184	$189	**$2,325**
Grand Total ($000)																
PV of Costs																

*** The capacity payments include a 3% escalation beginning in 2017. Costs exclude energy payments.**

**** Admin costs escalated at** 3%

Discount Rate 8.4%

Attachment 10

Van Horn Consulting
Energy, Economic, Regulatory
& Environmental Consultants
Orinda, CA 94563

Public Version

Independent Evaluator Template Questions: The EnerNOC Contract Resulting from SDG&E's Product 1 Selection in Its March 9, 2007 Request for Offers for Supply Resources

Van Horn Consulting
Orinda, CA 94563
consulting@vhcenergy.com

Mike Katz
Ed Remedios
Andy Van Horn

March 6, 2009

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I. INTRODUCTION

VHC has prepared this report in its role as the Independent Evaluator (IE) for SDG&E's 2010-12 RFO for supply resources, issued on March 9, 2007. It describes VHC's role as the Independent Evaluator (IE) regarding the EnerNOC contract now being submitted to the California Public Utilities Commission (CPUC or Commission) for approval in SDG&E's Application 09-03-XXX, March 6, 2009. SDG&E issued this RFO, in order to support reliability within its service territory, supply energy to bundled customers and meet other portfolio needs, including Resource Adequacy (RA) requirements and greenhouse gas (GHG) emissions mitigation. Bids for Product 1 were for a product of 15-years' duration that "must be a means of reducing an end-use customer's demand and/or energy usage", which would reduce demand by at least 1.0 MW and be within SDG&E's service territory.[1] VHC has assessed the fairness of San Diego Gas & Electric Company's (SDG&E's) Product 1 short list selections and the proposed contract resulting from an offer from EnerNOC.

In 2008, the California Public Utilities Commission (CPUC or Commission) ruled that: "parties are to use the attached templates for the purposes specified on the templates: The IEs are to use the IE templates, either the short form or the long form, when preparing their reports on the utilities' RFOs, and the utilities are to use the contract approval template when submitting a request to the Commission for approval of a resource contract. These templates are to be used for the purposes specified until further notice."[2]

The CPUC requires that the Long Form template be used whenever an IE submits a report on the outcome of an IOU RFO bid process for review by the California Public Utilities Commission. Consistent with the CPUC ruling, this report uses the CPUC's Long Form template. To provide additional details and descriptions VHC has prepared an attachment to this report, Attachment A, "Independent Evaluator's Supplemental Report: The EnerNOC Contract." Material from Attachment A is referenced as indicated in specific responses to the CPUC's Long Form template questions.

This report and its Attachment are the public versions of documents that contain confidential and/or privileged materials. Review and access to the confidential portions are restricted, subject to PUC Sections 454.5(g), 583, D.06-06-066, and General Order

[1] SDG&E, Request for Offers for Supply Resources, March 9, 2007. p. 3. Generation resources located on the customer side of the meter, such as back-up generation, were disqualified as Demand Response products in this RFO.
[2] "Administrative Law Judge's Ruling Issuing Templates For Independent Evaluator Reports And Contract Approval Requests," Rulemaking 06-02-013, dated May 8, 2008.

(GO) 66-C. Text that is to be redacted (not displayed in this public version) is designated as such by shading of the text, e.g., [redacted].

II. VHC RESPONSES TO QUESTIONS IN THE LONG FORM TEMPLATE

VHC's responses to the Commission's Long Form Template Questions are shown in *italic font* below. Responses to some questions reference specific sections or page numbers in VHC's separate IE Supplemental Report, Attachment A.

A. Role of the Independent Evaluator (IE)

1. Describe key IE roles – IEs provide an independent evaluation of the IOU's bid evaluation and selection process and help inform the CPUC and the Procurement Review Group (PRG) about the process by addressing the following questions:

   a. Did the IOU conduct adequate outreach to potential bidders, and did its outreach activities result in an adequately robust solicitation to promote competition?

      VHC began its role as IE for SDG&E on May 14, 2007, three days prior to the receipt of bids on May 17, 2007. VHC assumed the role previously performed by PA Consulting, which had reviewed the design of the solicitation and the early evaluation criteria. PA Consulting's review is discussed in Appendix A of the Attachment.

      In response to its RFO for Product 1, SDG&E received four offers. All offers passed the Vendors Conformance Checklist.

      Considering SDG&E's limited geographic area and the small number of Demand Response (DR) vendors, VHC believes that SDG&E did conduct adequate outreach to potential bidders and that its outreach activities resulted in an adequately robust solicitation to promote competition.

      See Pages 4 to 5 of Attachment A for additional information.

   b. Were the IOU's bid evaluation methodology and selection process designed fairly?

      SDG&E adopted a four-step process to evaluate Product 1 bids: 1) Conformance check, 2) Matrix Scoring of the offers, 3) More detailed economic evaluation of the best offers and 4) 2nd Matrix Scoring of short-list offers.

The conformance check enabled SDG&E to eliminate non-conforming bids prior to the screening analysis and verify that an offer met minimum RFO requirements. The Matrix Scoring ranked the conforming offers by a numerical score that weighted various quantitative and qualitative attributes, so that the offers were ranked according to overall attractiveness. The detailed economic evaluation of bids on the short list found the lowest cost options on a levelized cost basis with and without Debt Equivalence (DE) costs. SDG&E then conducted discussions with bidders on the short list to determine which offer or offers would best meet SDG&E needs. SDG&E had discussions with bidders, negotiated with two of the bidders, and agreed on a contract with EnerNOC. SDG&E also determined the Benefit to Cost ratios using the Total Resource Cost, Rate Impact Measure, Program Administrator Cost and Participant Cost measures for the EnerNOC offer.

See pages 6 to 16 of the Attachment for more detailed information on SDG&E's bid evaluation.

c. Were the IOU's bid evaluation and selection process, and the negotiation of specific contracts, administered fairly?

   VHC concluded that SDG&E's administration of its bid evaluation and selection process were fair.

   VHC did not monitor the meetings with EnerNOC to negotiate this contract. However, VHC has reviewed an interim and the final draft contract, concluding that the resulting terms are fair.

   See Pages 6 to 16, 25 and 26 of the Attachment for additional discussion.

d. Did the IOU make reasonable and consistent choices regarding which bids were rejected, which were shortlisted and which were brought to the CPUC for approval?

   Based on a matrix scoring comparison, SDG&E selected the three highest scoring bids for the short list and for more detailed analysis. These were: EnerNOC, Bidder 2, and Bidder 3. Bidder 4 was appropriately rejected, because of [redacted] Moreover, [redacted]

SDG&E is continuing contract negotiations with bidder 2, which had the second highest scoring offer based on the 2nd Scoring Matrix results. SDG&E is not pursuing the offer from bidder 3.

VHC concurs with SDG&E's rejection of bidder 4 and continued negotiations with bidder 2. VHC believes the rejection of bidder 2 is also reasonable, based on 2nd Matrix Scoring; even though the offer was economically competitive. Overall, VHC believes that SDG&E made reasonable and consistent choices regarding the rejection of one bid, the evaluation of the other bids and the offer now being brought to the CPUC for approval.

See Pages 6 to 16 and 25 and 26 of Attachment A for additional discussion.

2. <u>Describe IE oversight activities (i.e., attended negotiation meetings, reviewed Request for Proposals materials, attended pre-bid conference, evaluated proposals and/or reviewed evaluation process and results, etc.) and reporting/consultation with CPUC, PRG and others.</u>

VHC team members were on-site the day of the initial receipt and processing of the bids, which were delivered electronically.

During the bid evaluation period, VHC conducted interviews, held on-site meetings and participated in numerous conference calls and e-mail communications to discuss the bid processing and evaluation criteria. VHC reviewed SDG&E's economic spreadsheets, methodology, models and key assumptions. VHC also modified some of SDG&E's assumptions to test and validate the economic evaluation and cost-effectiveness results.

VHC did not actively participate in the contract negotiation process. VHC felt that a thorough review of the negotiated contract and the supporting evaluation and comparison of offers was an appropriate level of IE review for this DR contract.

In addition, VHC participated in Procurement Review Group (PRG) meetings on two occasions when the DR offers were discussed.

See Pages 2 - 4, 6-16, and 23-24 of the Attachment for additional discussion.

3. Any other relevant information not asked above but that may serve to make future RFOs more transparent to parties.

   No.

B. Was the IOU's methodology for bid evaluation and selection designed fairly?

1. Identify the principles you used to evaluate the IOU's bid evaluation methodology, including the following (at a minimum):

   a. The IOU bid evaluation should be based on those criteria specified in the bid documents. In cases where bid evaluation goes beyond the criteria specified in the bid documents, the IE should note the criteria and comment on the evaluation process. The IOU bid documents should clearly define the type and characteristics of products desired.

      The IOU bid documents clearly defined the type and characteristic of the products desired. On Page 3 of its RFO, SDG&E stated "Respondents may propose a 15-year product for the delivery of measurable Demand Response. This product must be a means of reducing an end-use customer's demand and/or energy usage, must be for at least 1.0 MW and be within SDG&E's service territory. The offer must provide, in sufficient detail, the Demand Response product, the process for delivering Demand Response and the manner in which it will meet the minimum guidelines specified in Section 6, Resource Criteria." On pages 11-12 of its RFO, SDG&E listed qualitative factors it would include in its evaluation to differentiate offers.

      SDG&E used a Scoring Matrix that ranked the conforming offers by a numerical score that weighted various quantitative and qualitative attributes (e.g., according to overall attractiveness.) The detailed economic evaluation of bids on the short list found the lowest cost options on a levelized cost basis with and without Debt Equivalence (DE) costs. SDG&E then conducted discussions with bidders on the short list to determine which offer or offers would best meet SDG&E needs.

      After the presentations by individual bidders on the short list, SDG&E used a second matrix scoring system to rank offers. Along with the cost-effectiveness calculations, this matrix scoring process constituted the Least-cost, Best-fit analysis for Product 1.

See Pages 8-17 and Attachments 6 and 7 of SDG&E's Application for additional information.

In Attachment 8 of the SDG&E Application, the SDG&E evaluation criteria include a discussion regarding the comparison of Product 1 to Product 2 offers. This analysis was not done. VHC concurs that this analysis would not be relevant in light of the fact that no Product 2 offers are under negotiations. Furthermore, performing an apples-to-apples comparison of the small number of the Product 1 DR bids to the Product 2 supply-side bids would not have provided any additional value to the selection process of Product 1 or Product 2 offers from this solicitation.

b. The methodology should identify how qualitative and quantitative measures were considered and were consistent with an overall metric.

SDG&E used its Scoring Matrix in the application of qualitative factors. Bids were compared quantitatively using a levelized cost of capacity per kW-year over two time periods, 2008 to 2024 and 2008 to 2037. SDG&E also estimated Benefit/Cost ratios for the TRC, RIM, PAC and Participant Test measures for the negotiated offer with EnerNOC.

See Pages 8-17 of the Attachment and Attachments 6 and 7of the SDG&E Application for additional information.

c. As applicable, there should be no differences in the evaluation method for different technologies that cannot be explained in a technology-neutral manner (e.g. evaluation metric should be ability to ramp 10 MW/minute rather than, must be a hydro storage facility).

No particular technologies were specified in the RFO, and no technology bias was observed in the evaluation.

d. Was the bid evaluation methodology consistent with CPUC direction?

Yes.

See Page 22 of Attachment A.

2. Describe the IOU's Least Cost Best Fit (LCBF) methodology (or alternatively include IOU's own description).

Along with the cost-effectiveness calculations, the two matrix scoring processes discussed above constituted SDG&E's Least-cost, Best-fit analysis for Product 1.

See response to B.1.b above and Pages 17-22 of Attachment A.

3. Using the principles in #1, evaluate the strengths and weaknesses of the IOU's LCBF methodology:

   a. How did the IOU methodology compare to other methodologies used in other solicitations, to the extent that the IE can make such comparisons?

   SDG&E's estimation of benefit to cost ratios is consistent with the "California Standard Practice Model, Economic Analysis of Demand-Side Programs and Projects, October 2001" and applicable updates. VHC believes that other utilities perform the same cost-effectiveness tests for demand-side projects, such as the EnerNOC offer.

   See Pages 17-22 of Attachment A for additional information.

   b. Did the methodology have a bias against any technology, operating characteristic, location, etc.?

   No.

   c. Discuss the role of "portfolio fit" in LCBF in this solicitation's methodology.

   Given the small size of this Demand Response contract relative to SDG&E's demand and the Commission's directives, "portfolio fit" was not an issue. Section 6 of Attachment A provides more discussion of SDG&E's need and how this contract is consistent with the CPUC's policy direction for IOU's to meet 5 percent of their peak demand with Demand Response programs.

   d. Discuss any issues of transmission-related cost (or benefit) impacts and estimates. What procedures did the utility have in place for acquiring all appropriate transmissions information, subject to constraints imposed by FERC's Standards of Conduct?

Transmission was not an issue for the selection of a Demand Response (DR) program within SDG&E's service area. SDG&E opted not to include avoided transmission and distribution (T&D) benefits in the cost-effectiveness calculations discussed in Section 5.3 of the attachment. SDG&E indicated that no T&D benefits were included in the cost-effectiveness tests, because of the considerable amount of uncertainty of customer retention with DR programs. VHC does not view this as a significant, because including T&D in the cost-effectiveness calculations would make the EnerNOC offer even more economically attractive.

e. How were the evaluation criteria weighted, and was the weighting appropriate?

VHC believes that SDG&E used reasonable categories to rank offers in its preliminary screening analysis. However, VHC would have probably selected different weightings for some categories. In particular, VHC would have weighted the capacity cost higher, because this is the primary economic metric for comparing capacity resources, such as peak shaving programs.

See Page 9 of Attachment A.

f. What future LCBF improvements would you recommend?

The cost-effectiveness tests for Demand Response are now being reviewed in a Commission proceeding. When they are approved, updated tests should be applied in the next Demand Response RFO.

4. <u>Describe how the IOU sought brownfield/repowering development opportunities.</u>

Not Applicable for this Demand Response program.

5. <u>Did the IOU consider contract viability?</u>

Yes, in the matrices used for evaluation and in the decision to negotiate with an experienced DR provider, EnerNOC.

6. <u>Any other information relevant to bid evaluation and selection not requested above but important in evaluation of the IOU's methodology.</u>

Particular to this bid evaluation, VHC made recommendations in the areas of the timeliness and communications needed for this IE review.

See Page 22 of the Attachment.

C. Was the LCBF evaluation process fairly administered?

1. <u>Identify the principles you used to assess the fairness of the LCBF evaluation process, including the following (at a minimum):</u>

   a. What qualitative and quantitative factors were used to evaluate bids?

   The Matrix Scoring include criteria in the areas of Cost Effectiveness, Marketability, Financials, Terms and Conditions and Diverse Business Enterprises sub-contracting. The 2nd Scoring Matrix used after the selection of the short list, included general criteria and specific criteria in the areas of customer recruitment, measurement and evaluation, reporting, customer interface and DBE.

   See Section 5, Attachments 6 and 7 of the SDG&E Application, and the response to B.1.b above for additional information.

   b. If applicable, were affiliate bids treated the same as non-affiliate bids?

   No bids were received from an affiliate.

   c. Were bidder questions answered fairly and consistently and the answers made available to all?

   VHC believes SDG&E has conducted a reasonable process that allows all bidder questions to be answered fairly and consistently and that the answers were made available to all The three bidders that were selected for more detailed evaluations had many opportunities for communications with SDG&E during the solicitation process. VHC can not comment on early communications with bidders, since PA Consulting was the IE, until VHC took over this role just before bids were received..

   See response A.1.a regarding PA Consulting's initial role in this solicitation.

   d. Did the utility ask for "clarifications" from bidders, and what was the effect, if any, of these clarifications?

VHC is aware that SDG&E had discussions with all bidders on various issues that included clarifications of the bids. As a result, one bid was removed from the short list. (See Response to A.1.d). [redacted]

See Pages 7-8 of the Attachment.

e. Were economic evaluations consistent across bids?

Yes.

f. Was there a reasonable justification for any fixed parameters that enter into the methodology (e.g., RMR values; GHG metrics, etc.)?

Yes. For example, a value for avoided capacity cost was used in the analysis. SDG&E has filed information at the CPUC regarding the basis for this assumed capacity cost, which greatly influences the B/C ratios for the various cost-effectiveness tests. There are a host assumptions and parameters used for the various evaluations done by SDG&E. The key assumptions are discussed throughout Sections 5 and 6 of Attachment A.

2. <u>Describe the IE methodology used to evaluate administration of IOU LCBF process.</u>

VHC had discussions with SDG&E personnel, reviewed spreadsheets applied by SDG&E and performed sensitivity analyses using different assumptions.

See Page 22-24 of the Attachment.

3. <u>How did the IOU identify non-conforming bids? Did the utility identify the terms that deviate from the utility RFO for each bid, and was a quantitative and qualitative assessment of the cost or value of those deviations performed? Were non-conforming bids treated fairly and consistently? Was there a pre-established, consistently applied criteria to determine what issues of conformance would result in rejection and which were subject to negotiation?</u>

All bids were treated consistently. Bidder # 4 could have been considered non-conforming, but was eliminated later in the Scoring Matrix evaluation.

See Response to A.1.d. above.

4. For those parts of the process conducted by the utility, how were the parameters and inputs used and were they reasonable? What quality controls were in place?

   The LCBF evaluation was conducted by SDG&E. Areas for future improvement and refinement include earlier review of the economic and scoring matrices and more timely communications regarding the progress in negotiations. VHC also raised an issue concerning inclusion of energy payments for the Participant Test. However, the parameters and inputs used were reasonable and unbiased for the selection.

   See Pages 22- 25 of the Attachment.

5. For those parts of the process outsourced to either the IE or a third party, what information/data did the utility communicate to that party and what controls did the utility exercise over the quality or specifics of the outsourced analysis?

   No analysis was outsourced. VHC carried out additional cost-effectiveness calculations to investigate different assumptions.

6. Did the utility follow its transmission analysis procedures and include in its evaluation and selection process all appropriate transmission information that it could reasonably develop or acquire, subject to the constraints imposed by FERC's Standards of Conduct?

   Transmission analysis was not required.

7. Beyond any quantitative analysis, describe all additional criteria or analysis used in creating its short list. (e.g. Did the IOU take into consideration supplier concentration risk?)

   See Response to B.1.b and Appendices B and C of Attachment A.

8. Results analysis

   a. Describe the IE, PRG, Energy Division and IOU discussion regarding the LCBF evaluation process. Please note any areas of disagreement between the IE and the IOU, if applicable.

      i. Discuss any problems and solutions.

         VHC disagreed with SDG&E on its estimate for replacement capacity cost used to rank bids on the short list. VHC performed sensitivity analyses including lower replacement capacity costs to assess the impact of changes *to assumptions for these items. VHC concluded that changing assumptions for those items would not change the conclusion that EnerNOC's offer is cost effective.*

However, VHC agrees with the approach taken by SDG&E to estimate the value of avoided capacity in the cost-effectiveness tests. VHC disagrees with the exclusion of energy payments as a benefit in the calculation of the B/C ratio for the Participant Test. However, including energy payments would increase the B/C ratio for this test and, therefore, did not influence the selection of this contract.

See Pages 12 and 21of Attachment A.

ii. Identify specific bids if appropriate.

See Page 7 of Attachment A for information on specific bids.

iii. Did the IOU make reasonable and justifiable decisions to exclude, shortlist and or/ execute contracts with projects? If the IE conducted a separate bid ranking and selection process and it differed from the IOU's outcome, include all relevant information here.

SDG&E made reasonable and justifiable decisions. VHC performed sensitivity analyses with different set of assumptions and concluded that the selection of the EnerNOC bid was reasonable. This sensitivity analysis was described in Section 5 of Attachment A.

iv. What actions were taken by the IOU to rectify any deficiencies associated with rejected bids?

No actions were needed.

b. Was the overall evaluation fairly administered?

Yes.

c. Based on the IE's prior experience, how does this solicitation compare to other solicitations (to the extent the IE can describe these solicitations subject to confidentiality agreements)?

i. If applicable, how did this solicitation compare to others by the same IOU?

California IOUs have relatively similar RFO processes for soliciting offers for renewable and conventional resources. However, SDG&E included DR in its 2010-2012 RFO. VHC believes no other California IOUs have not done a combined supply and demand-side solicitation. VHC is not aware that any IE reports have been submitted for any DR programs submitted to the CPUC.

ii. How did the process and the results compare to that of other IOUs in different jurisdictions?

No specific comparisons have been made.

9. <u>Any other information relevant to the fair administration of the LCBF evaluation not asked above but important to the IOU's methodology.</u>

None.

D. How did the IOU conduct outreach to bidders, and was the solicitation robust?

1. <u>Describe the IOU outreach to potential bidders (e.g., sufficient publicity, emails to expected interested firms)</u>

See Response to A.1.a and Page 5 and Appendix A of Attachment A.

2. <u>Identify principles used to determine adequate robustness of solicitation (e.g., number of proposals submitted, number of MWhs associated with submitted proposals)</u>

See Response to A.1.a and Page 5 and Appendix A of Attachment A.

3. <u>Did the IOU do adequate outreach? If not, explain in what ways it was deficient.</u>

See Response to A.1.a and Page 5 and Appendix A of Attachment A.

4. <u>Was solicitation adequately robust?</u>

See Response to A.1.a and Page 5 and Appendix A of Attachment A.

5. Did the IOUs seek feedback about the bidding/bid evaluation process from bidders after the solicitation was complete?

   See Response to A.1.a and Page 5 and Appendix A of Attachment A. SDG&E has not been provided VHC with any feedback from bidders. However, SDG&E still has the opportunity to seek feedback from the Product 1 bidders in this RFO.

6. Did the bids received meet the needs the solicitation was intending to fill?

   The solicitation requested DR bids for initial delivery in 2010, 2011, or 2012, running for a total of 15 years and required that bids must be a means of reducing an end-use customer's demand and/or energy usage, must be for at least 1.0 MW and be within SDG&E's service territory. All four bids met these requirements.

   See Page 7 of the Attachment for information on capacities and terms of the offers.

7. Any other information relevant to outreach to bidders and robust solicitation not asked above but important to the IOU's process.

   None.

E. Discussion of project-specific negotiations

1. Identify the methodology the IE used to evaluate negotiations.

   VHC did not monitor the meetings with EnerNOC to negotiate this contract, partly because VHC believed that there would be few benefits from spending a large amount of time monitoring meetings to negotiate a single, relatively small amount of Demand Response capacity. In this case, VHC has only reviewed the final draft contract, which VHC believes will be beneficial to ratepayers. However, VHC believes SDG&E should have kept it better informed of progress during the contract negotiation process. VHC's key focus for review of the contract negotiation process and the resulting contract is to highlight any unique terms and conditions that may pose risks or raise significant issues for ratepayers.

   See Section 7 of the Attachment for additional information.

2. Using the above principles, evaluate the project-specific negotiations. Highlight any issues of interest/concern including unique terms and conditions.

   VHC noted that this DR contract does not have a minimum DR capacity required throughout for the term of the contract. However, VHC assumes this issue is common to all DR contracts, because customers will require some flexibility to opt out of the program or reduce their commitments each month, if at some point in the future the customer finds the program savings to it are not worth the costs it incurs from curtailments. See Section 7 of Attachment A for more discussion regarding the unique terms and conditions and issues regarding this proposed contract.

3. Was similar information/options made available to other bidders when appropriate, (i.e., if a bidder was told to get its price down to $X, was the same information made available to others?)

   VHC understands that SDG&E would be willing to enter similar contracts with the other bidders and believes that discussions with one other bidder are continuing.

4. Any other information relevant to negotiations not asked above but important to understanding the IOU's process.

   No.

F. Affiliate Bids and UOG Ownership Proposals (if applicable)

1. Describe the design and implementation of any Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids, including any violation(s) of that code.

   Not Applicable.

2. Describe other safeguards and methodologies implemented by the IOU, including those stipulated in Commission decisions D.04-12-048 and D.07-12-052 for head--to-head competition between utility ownership and independent ownership bids, to ensure that affiliate and UOG bids were analyzed and considered on as comparable a basis as possible to other bids, that any negotiations with such bids' proponents were conducted as comparably as possible to negotiations with other proponents,

and that the utility's final selections in such cases did not favor an affiliate or UOG bid.

Not Applicable.

3. Describe compliance with the safeguards.

   Not Applicable.

4. If a utility selected a bid from an affiliate or a bid that would result in utility asset ownerships, explain and analyze whether the IOU's selection of such bid(s) was appropriate.

   Not Applicable.

G. Code of Conduct

1. Describe the design and implementation of the required Code of Conduct used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG bids and staff who create the bid evaluation criteria and select winning bids.

   Not Applicable.

2. Describe any violation(s) of that code.

   Not Applicable.

3. Alternatively, provide an explanation of why this requirement is not applicable to this RFO.

   There were no bids from the utility or its affiliates.

H. Does (do) the contract(s) merit CPUC approval? Is the contract reasonably priced and needed and does it reflect a functioning market?

1. Provide discussion and observations for each category:

   a. Contract Price, including cost adders (transmission, credit, etc.)

The cost-effectiveness analysis resulted in B/C ratios greater than 1 for the TRC, RIM, PAC and the Participant Tests.

See Pages 27 and 28 of Attachment A for additional information.

b. Portfolio Fit

See Response to 2.3.c

c. Project Viability

i. Technology

ii. Bidder Experience (financing, construction, operation)

iii. Credit and collateral

iv. Permitting, site control and other site-related matters

v. Fuel status

vi. Transmission upgrades

Fuel status and transmission upgrades are not issues for this solicitation. In SDG&E's matrix evaluations, SDG&E ranked the technical feasibility of EnerNOC's bid higher than others, because [redacted]

The Bidders' experience and financial situation were taken into account in assessing the bids. See Attachment 6 of SDG&E's Application.

VHC believes this DR program has a reasonable probability of success, because EnerNOC is experienced at developing and running DR programs. SDG&E describes this experience in its Advice Letter. The main uncertainty associated with this project is the amount of DR capacity that EnerNOC can acquire, deliver and retain over the contract period.

d. Any other relevant factors.

No.

2. Do you agree with the IOU that the contract(s) merits CPUC approval? Explain.

   Yes. The DR Offers were required to comply with the policy guidance of the Energy Action Plans (I and II) and to be in alignment with the State's Demand Response Vision for the Future.[3] *The bid has a B/C ratio greater than one for each of the four cost- effectiveness measures analyzed. The bidder has the necessary experience.*

3. Based on the complete bid process should some component be changed to ensure future RFOs are fairer or provide a more efficient, lower cost result?

   VHC concludes that SDG&E has run a fair and unbiased solicitation for Product 1, resulting in an appropriate short list and a reasonable contract with EnerNOC. VHC believes that the selection of this offer relative to the other offers received in the RFO was done in a consistent, fair and unbiased manner. Even though the final scoring matrix uses qualitative assessments for various categories, the scoring appears to be fairly applied to all offers and relative scores appear reasonable from examining SDG&E justifications for the scores.

   However, VHC believes issues could arise under the following situation: One hypothetical offer could have a high qualitative score but less attractive economics compared to another offer with a lower qualitative score. It is not clear to VHC how SDG&E would balance the economic evaluation versus the qualitative scoring under this situation. Of course, multiple contracts could be negotiated.

   VHC's response to C.4 suggests possible areas for future improvement and refinement.

4. Any other relevant information.

   No.

[3] California Demand Response: A Vision for the Future D.03-06-032, Appendix A.

ATTACHMENT A: INDEPENDENT EVALUATOR'S SUPPLEMENTAL REPORT

(Attached as a separate document)

Independent Evaluator's Supplemental Report: The EnerNOC Contract Resulting from SDG&E's Product 1 Selection in Its March 9, 2007 Request for Offers for Supply Resources

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Attachment A

Public Version

Independent Evaluator's Supplemental Report: The EnerNOC Contract Resulting from SDG&E's Product 1 Selection in Its March 9, 2007 Request for Offers for Supply Resources

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1. Introduction and Regulatory Background

SDG&E issued its 2010-12 Request for Offers (RFO) for Supply Resources on March 9, 2007, in order to support reliability within its service territory, supply energy to bundled customers and meet other portfolio needs, including Resource Adequacy (RA) requirements and greenhouse gas (GHG) emissions mitigation. Bids for Product 1 were for a product of 15-years' duration that "must be a means of reducing an end-use customer's demand and/or energy usage", which would reduce demand by at least 1.0 MW and be within SDG&E's service territory.[1]

This report provides Van Horn Consulting's (VHC's) assessment of the fairness of San Diego Gas & Electric Company's (SDG&E's) Product 1 short list selections and the proposed contract with EnerNOC. It describes VHC's role as the Independent Evaluator (IE) regarding the EnerNOC contract now being submitted to the California Public Utilities Commission (CPUC or Commission) for approval in SDG&E's Application 09-03-XXX. It accompanies VHC's answers to the CPUC's Independent Evaluator Long-form Template Questions, which are being filed concurrently. To reach its conclusions, VHC has reviewed SDG&E's RFO bid receipt and evaluation processes and methods, as well as spot-checking data, calculations and results.[2] VHC has conducted on-site and telephone interviews and held discussions with SDG&E personnel, in addition to reviewing relevant documents, spreadsheets and model results. VHC has also examined and reviewed the proposed contract, but it did not monitor the negotiation process.

The IE review process is the result of a series of CPUC rulings and decisions affecting California's Investor-owned Utilities (IOUs). The CPUC's December 2004 decision on long-term resource procurement (D. 04-12-048) stated that it would "require the use of an IE for resource procurement where there are affiliates, IOU-built or IOU-turnkey bidders" from that point forward (pp. 135f). The CPUC's intent was to ensure that a utility did not favor itself or an affiliate. In Decision 07-12-052, Conclusion of Law, item 24, states "IEs are valuable to the procurement process and we direct the IOUs to utilize IEs according to the parameters established in this decision and in D.04-12-048." On page 140, the Decision states "Further, given that IOUs may not know with certainty whether or not it or its affiliate will bid on a particular solicitation, the Commission requires that an IE be utilized for all competitive RFOs[3] that seek products of more than three months in duration.[4]" Under the decisions cited above, the role of the IE is to assist the utility in RFO design and observe the utility's procurement, evaluation and contract negotiation processes, in order to provide an opinion

[1] SDG&E, <u>Request for Offers for Supply Resources, March 9, 2007. p. 3.</u> Generation resources on the customer side of the meter, such as back-up generation, were disqualified as Demand Response products in this RFO.
[2] VHC did not independently verify the absolute value of all elements incorporated in SDG&E's evaluation. However, VHC generally identified the methods supporting these cost calculations, in order to determine that the models applied and the results were reasonable.
[3] Competitive RFOs include RFOs issued to satisfy service area needs and to provide specific supply-side resources not covered by the Commissions' Energy Efficiency (EE) and Demand Response (DR) programs.
[4] This requirement creates uniformity between the contract length for which an IOU must consult its Procurement Review Group (PRG) and the IE process.

concerning "fairness." In addition to the CPUC's requirements, the Federal Energy Regulatory Commission (FERC) requires an Independent Evaluator to prevent a bias and to avoid preferences favoring the selection of affiliate offers over offers from other participants.[5]

Decision 07-12-052 also directed the Energy Division to create an IE report template. This order was completed on May 8, 2008, when ALJ Carol Brown issued a Ruling in CPUC Rulemaking, R. 06-02-013. This Ruling included two templates for use by the Independent Evaluator in reporting its review of a utility's RFO solicitation. In this review VHC has utilized the long-form IE template. This template provides the framework for reviewing transactions that require a utility's application to the CPUC for approval. The key topics covered by the IE Template are the following:

A. Role of the Independent Evaluator (IE).
B. Was the Investor Owned Utility's (IOU's) methodology for bid evaluation and selection designed fairly?
C. Was the Least-Cost, Best-Fit (LCBF) evaluation process fairly administered?
D. How did the IOU conduct outreach to bidders and was the solicitation robust?
E. Discussion of project-specific negotiations.
F. Affiliate Bids and Utility-Owned Generation (UOG) Ownership Proposals (if applicable).
G. Code of Conduct.[6]
H. Does (do) the contract(s) merit CPUC approval? Is the contract reasonably priced and needed and does it reflect a functioning market?

VHC has answered the specific questions in the Long-form Independent Evaluator Report Template in a separate document. For purposes of clarity and chronology the topics discussed here generally follow the time-line of SDG&E's procurement and negotiation activities.

This is the public version of the report, wherein confidential and/or privileged materials have been redacted. Review and access to the redacted portions are restricted, subject to PUC Sections 454.5(g), 583, D.06-06-066, and General Order (GO) 66-C. Text that has been redacted is designated as such by shading of the text, e.g., [redacted].

[5] 108 FERC ¶61,081 (2004): "Opinion and Order … Announcing New Guidelines for Evaluating Section 203 Affiliate Transactions." VHC is not aware of additional CPUC requirements for an IE review of Demand-Side Management programs acquired via an RFO process.
[6] Code of Conduct refers to the process used by the IOU to prevent sharing of sensitive information between staff working with developers who submitted UOG or affiliate bids and staff who create the bid evaluation criteria and select winning bids.

2. Role of the Independent Evaluator

a. Van Horn Consulting's Review and Advisory Activities

VHC began its role as IE for SDG&E on May 14, 2007, three days prior to the receipt of bids on May 17, 2007. VHC assumed the role previously performed by PA Consulting, which had reviewed the design of the solicitation and the early evaluation criteria. PA Consulting's review is discussed in Appendix A. As the IE, VHC has performed two principal functions:

- To ensure that SDG&E performs a fair and unbiased solicitation, bid selection and contracting process, and
- To provide advice to improve processes, evaluation techniques and assumptions.

VHC has looked for potential biases that could arise from the following three types of bids:

- Bids from an SDG&E affiliate,
- Bids that advance SDG&E's transmission development & ownership interests, and
- Build, Own and Transfer (BOT) project bids.

In addition, VHC has looked for potential advantages that could result from the design of the RFO structure itself or the use of evaluation techniques or the choice of underlying assumptions that might create bias in the selection process.

VHC's primary focus has been to ensure the fair treatment of all bids and to avoid economic evaluation techniques and assumptions that could lead to intentional or unintentional biases in the selection of resources (e.g., unintended preferences for certain types of technologies; supply versus demand-side options; the mix of peaking, dispatchable resources and baseload resources; and start-date and contract term preferences). VHC has generally not focused on the absolute value of bids, but rather has focused on the relative costs and adjustments to costs made in order to ensure a proper ranking of the offers and to select the offers for negotiations. With respect to Demand Response offers, VHC focused on three areas:

- Detailed review of the economic evaluations of offers,
- Review and critique of the two qualitative scoring matrixes used to rank the offers, and
- Review of the contract and identification of significant issues or ratepayer risks associated with the contract.

VHC was given access to personnel involved with bid processing and evaluation. A VHC team member was on-site the day of the initial receipt and processing of the bids, which were delivered electronically.

During the bid evaluation period, VHC conducted interviews, held on-site meetings and participated in numerous conference calls and e-mail communications to discuss the bid processing and evaluation criteria. VHC reviewed SDG&E's economic spreadsheets, methodology, models and key assumptions. VHC also modified some of SDG&E's assumptions to test and validate the economic evaluation and cost-effectiveness results.

VHC did not actively participate in the contract negotiation process. VHC felt that a thorough review of the negotiated contract and the supporting evaluation and comparison of offers was an appropriate level of IE review for this Demand Response (DR) contract.

In addition, VHC participated in Procurement Review Group (PRG) meetings on two occasions when the DR offers were discussed.

b. The Product 1 Bid Solicitation

This RFO solicited Demand Response and conventional resources; it did not solicit renewable resources, and, thus, was not a true All-Source RFO.[7] Product 1 requested bids for at least 1 MW of capacity located within SDG&E's service territory. The DR Offers were required to comply with the policy guidance of the Energy Action Plans (I and II) and to be in alignment with the State's Demand Response Vision for the Future.[8]

In response to its RFO for Product 1, SDG&E received four offers. All offers passed the Vendors Conformance Checklist.

c. Summary of the Contract

EnerNOC provided the highest scoring offer among the bids selected for the Product 1 Short List.[9] The offer was [redacted] The contract gives SDG&E the rights to dispatch EnerNOC load reductions for up to 50 hours per year during the capacity delivery season May 1 through October 31. During the periods of curtailment, SDG&E will pay an energy price [redacted]. The contract capacity amount is capped at 25 MW in 2009 and 2010, 35 MW in 2011 and 40 MW in the years 2012 through 2024.

3. Outreach to Bidders and Robustness of the Solicitation

VHC can only provide cursory comments on the outreach, since PA Consulting was under contract during the time of the issuance of the RFO, which requested offers for three Products.

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[7] On March 12, 2007, the next business day after this RFO was released, SDG&E issued its 2007 RFO for Eligible Renewable Resources.
[8] California Demand Response: A Vision for the Future D.03-06-032, Appendix A.
[9] [redacted]

Appendix A is a summary of PA Consulting activity during the RFO process. VHC understands that notification was given to a large number of bidders and a workshop for potential bidders was held. The outreach appears to be sufficient because there were four conforming offers for Product 1. VHC would expect a relatively small number of bidders for a demand-side solicitation, because the opportunities for demand-side reductions are limited by the relatively small geographic area for finding SDG&E energy customers willing to participate in new demand-side programs and because there are only a limited number of providers in this developing marketplace.

4. Review of the Bid Processing

To ensure that the identity of potential offers from Sempra affiliates of SDG&E remained unknown to those evaluating and ranking the bids, SDG&E created two separate teams to conduct bid processing and bid evaluation. The RFO Processing Team (PT) determined whether or not each bid conformed to the RFO and prepared a summary page of information from the individual bids along with a checklist indicating the location of required information within each bid document. Electronic passwords and separate servers were used to ensure that no members of the RFO Evaluation Team (ET) had access to the bid information, until after the bids were processed by the RFO processing team.

Mike Katz and Andy Van Horn were on-site on May 17, 2007 when DR bids were delivered electronically to SDG&E. All of the bids were submitted before the 12:00 p.m. soft deadline. The PT then screened each bid against a checklist and checked the bids for conformance with the RFO. There were no offers from a Sempra affiliate.

a. Bid Submissions

SDG&E received bids from four parties.

b. Bid Conformance and Error Correction

All offers satisfied SDG&E's Vendors Conformance Checklist (Attachment 4 to EnerNOC Template). Hence, no offers were rejected, withdrawn or excluded from SDG&E's initial evaluation.

c. Bidder Anonymity

The general practice for the bid processing team is not to conceal bidders' identities to the evaluation team, except for disguising potential affiliate bids.[10] The reason given for choosing

[10] For bids that are received from an affiliate, it is SDG&E's procedure to change the identifying characteristics by using a fictional name and removing materials that would allow the Evaluation Team (ET) to conclude that the offer was from an affiliate. While well-intended, disguising the identity of affiliate bidders is problematic, and, in some cases, would not be possible.

not to conceal bidders' identities is the difficulty of removing all identifying characteristics of each entity submitting a bid. Bid documents usually contain extensive use of logos and other identifying characteristics. However, if a bid were to be received from an affiliate, extensive care would then be taken to disguise the identity of the bidder (e.g., by using a fictional name) to prevent the ET from concluding that the offer was from its affiliate. There were no affiliate bids for the Product 1 solicitation.

In SDG&E's 2008 Renewables Solicitation, PA Consulting noted in its IE report that problems arose with disguising bids, because of the difficulties in creating fictional names and other bidder information that are believable and that could successfully conceal the true bidders' identities. VHC concurs with PA Consulting that re-examining the Bidder Anonymity process for future RFOs is warranted.

d. Data Verification

The ET receives all data from the bid sheets electronically and then transfers the information into economic analysis spreadsheets. Various people transfer information in Excel workbooks. A different person checks this data transfer to verify its accuracy. Additional review was performed to ensure not only that the data were transferred accurately, but also that interpretations of the bids were done correctly.

5. Review of SDG&E's Bid Evaluation

This section of the report provides an overview of SDG&E's evaluation process. The following section provides VHC's comments and our assessment of the Bid Evaluation.

a. Overview of the Bid Evaluation

SDG&E adopted a four-step process to evaluate Product 1 bids: 1) Conformance check, 2) Matrix Scoring of the offers, 3) More detailed economic evaluation of the best offers and 4) 2nd Matrix Scoring of short-list offers.

In general, the conformance check enabled SDG&E to eliminate non-conforming bids prior to the screening analysis and verified that an offer met minimum RFO requirements. The Matrix Scoring ranked the conforming offers by a numerical score that weighted various quantitative and qualitative attributes, so that the offers were ranked according to overall attractiveness. The detailed economic evaluation of bids on the short list found the lowest cost options on a levelized cost basis with and without Debt Equivalence (DE) costs. SDG&E then conducted discussions with bidders on the short list to determine which offer or offers would best meet SDG&E needs.

Summary details of four demand response bids are shown in Table 1.

Table 1. Summary of Four Demand Response Bids

	EnerNOC	Bidder 2	Bidder 3	Bidder 4
Term	2010 - 2024	2008 - 2022	2010 - 2024	2010 - 2019
Capacity, MW	25	20[11]	30	25
Curtailment, hours per year	50	50	55	150
$ per kW-year and Price escalation	[redacted]	[redacted]	[redacted]	[redacted]

The negotiated EnerNOC contract incorporates changes from the bid values shown above. If CPUC approval is given in time, the contract [redacted] Also, the maximum capacity in the negotiated contract is 25 MW in 2010, 35 MW in 2011 and 40 MW from 2012 to 2024.

b. *Matrix Scoring*

The preliminary screening analysis compared the offers with a combined capacity totaling100 MW. Capacity offered in the individual bids varied from 20 to 30 MW.

This screening analysis used a scoring matrix[13] with the following categories and weightings shown in Table 2.

[11] [redacted]

[12] If CPUC approval has not been received by December 31, 2009, then either EnerNOC or SDG&E may terminate the Agreement.

[13] This matrix is taken from SDG&E's Excel analysis titled "Final Team Completed Evaluation Scoring Matrix."

Table 2. SDG&E Demand Response Bid Scoring Matrix

[redacted]	
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

VHC believes that SDG&E used reasonable categories to rank offers in its preliminary screening analysis. However, VHC would have probably selected different weightings for some categories. In particular, [redacted][14] Nevertheless, different relative weightings of SDG&E's categories would not have changed the selection of offers that made the short-list. SDG&E's detailed scoring for each option is given in SDG&E's Attachment 6 of the SDG&E EnerNOC Template.

The three highest scoring bids were selected for the short list and for more detailed analysis. These were: EnerNOC, Bidder 2, and Bidder 3. Bidder 4 was appropriately rejected, because of [redacted] (as shown on Table 4). [redacted]

Table 3. Scoring Matrix Totals: Comparison of Four Bids

	EnerNOC	Bidder 2	Bidder 3	Bidder 4
Contractor Total Score	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[14] Current cost-effectiveness measures for demand response resources were derived from energy efficiency cost-effectiveness tests: the Total Resource Cost (TRC) test, the Ratepayer Impact Model (RIM) and the Program Administrator Test (PAC). These tests do not account for potential environmental or transmission and distribution or updated capacity value benefits of Demand Response programs.

[redacted]

c. Detailed Economic Results

The offers were then compared using a levelized cost per kW-year, with and without DE costs, over two time periods. The first time period, for a Product 1 stand alone analysis, was 2008 to 2024, which encompasses the terms of the three preferred offers. SDG&E also conducted Product 1 and 2 analyses for a 30-year period from 2008 to 2037. The spreadsheet allowed for a 30-year analysis, but SDG&E didn't compare product 1 and 2 offers. SDG&E's evaluation relied upon the use of a levelized cost per kW-year without including energy payments. This is reasonable as long as the number of hours of energy curtailment and the energy payments during these curtailments are approximately the same among offers. [redacted] To examine this issue, VHC conducted its own economic comparison cases, which included the energy payment differentials among the offers. VHC's comparison is shown in Section 5 c below.

The results of SDG&E's economic analysis were:

Table 4. Levelized $ per kW-year with and without Debt Equivalence

	EnerNOC	Bidder 2	Bidder 3
2008 – 2024 Levelized $ per kW-year with DE	[redacted]	[redacted]	[redacted]
2008 – 2024 Levelized $ per kW-year without DE	[redacted]	[redacted]	[redacted]
2008 – 2037 Levelized $ per kW-year with DE	[redacted]	[redacted]	[redacted]
2008 – 2037 Levelized $ per kW-year without DE	[redacted]	[redacted]	[redacted]

The bids for the three offers are [redacted] VHC recommends that the use of the 2008 to 2024 study period that encompasses the terms of the bids be used, rather than the 30-year study period from 2008 to 2037. The results for the 2008-2037 period are not as good an indicator of overall economic attractiveness, because of the large number of years that must include replacement capacity values in that comparison.

The economic analysis, using 2008 as the first year of the study period, was initially performed in 2007 and updated in 2008. [redacted] However, in VHC's opinion, it is unlikely that a change in the first year of the study period would alter the decision to select the EnerNOC bid with its somewhat higher levelized capacity cost.

The following describes the components of the above economic comparisons:

1. Assumptions

The principal assumptions for the above analyses are:

a. No energy charges,
b. A discount rate of 8.23% per year, SDG&E's weighted after-tax cost of capital at the time of the analysis,
c. An escalation rate of [redacted] for the Consumer Price Index,
d. An avoided capacity cost [redacted], and
e. No subsidies or credits.[15]

2. Energy Charges

The four bids and the proposed contract with EnerNOC include energy payments. However, [redacted] Bid energy prices were [redacted] If the actual negotiated energy payments that would be made to each of the bidders are similar, the inclusion of energy payments in the analysis is unlikely to change the ranking of bids.

3. Capacity Costs

[15] These subsidies or credits are those that would be offered to the provider of the demand response product under state or federal incentive programs to encourage energy efficiency. SDG&E determined that there are no incentives that would accrue to the providers of this product.

The avoided capacity cost is used to take into account those periods prior to the start of the contract or after the end of the contract, when capacity from an offer is not available but is within the common study period for evaluation.

VHC finds this method, except for the assumed value of the avoided capacity cost, to be reasonable. SDG&E used an initial value of [redacted] VHC disagreed with this approach, because it is an incorrect economic adjustment to a levelized cost stream. This [redacted] SDG&E recognizes this; however, since that is how the original analysis was performed, and re-doing the calculation would not change the short list, SDG&E thought it was better to present the original analysis.

Since the short listed projects do not change, VHC does not recommend that the capacity values be corrected in SDG&E's evaluation spreadsheets because it will not change the short list as shown in the sensitivity cases in section 5.

4. Debt Equivalence Costs

Long-term contracts are viewed by debt rating agencies as a long-term financial or debt-like liability. The methodology used to calculate the DE adder was consistent with the approach approved by the CPUC in D.04-12-048 in the 2004 Long-Term Procurement Plans (LTPP) proceeding. A risk factor of 20% and discount rate of 10% were used. The rebalancing percentage for both debt and equity were each assumed to be 50%.[16]

SDG&E compared offers with and without a DE adder. The 2007 LTPP Decision 07-12-052, issued subsequent to SDG&E's initial RFO evaluation, requires all utilities to perform the economic evaluation of offers without a DE adder. The CPUC found that "DE in and of itself, is not a real cost that the utilities directly incur by entering into a PPA."[17] The Commission stated that "In order to further encourage fair, head-to-head competition between PPAs and utility-owned projects... the bid adder for PPAs should be eliminated."[18] However, it should be noted that use of DE for evaluations was re-approved in D.08-11-008.

[16] SDG&E has capital ratios of 45.25% for Debt, 5.75% for Preferred Equity and 49.0% for Equity. Rating Agencies treat Preferred Equity as debt for DE calculations.
[17] Finding of Fact 75, CPUC Decision 07-12-052.
[18] Finding of Fact 76, CPUC Decision 07-12-052.

5. Additional Cases

In order to check SDG&E's evaluations under different assumptions, VHC performed additional economic comparisons of the three highest-scoring offers. The following are the results of several of these additional economic evaluation cases. The results are compared to the levelized cost with corrected debt equivalence (Case 1):

Table 5. Levelized Annual Cost 2008 – 2024, $ per kW-year[19]

Case		EnerNOC	Bidder 2	Bidder 3
1	With DE	[redacted]	[redacted]	[redacted]
2	With DE and Revised Capacity Costs	[redacted]	[redacted]	[redacted]
3	With DE, Revised Capacity Costs and replacement capacity costs for Bidder 2 in 2008 and 2009.[20]	[redacted]	[redacted]	[redacted]
4	With DE, Revised Capacity Costs, replacement capacity costs for Bidder 2 in 2008 and 2009 and inclusion of energy costs.[21]	[redacted]	[redacted]	[redacted]

In Cases 1 through 4, the ranking shows Bidder 3 is first, EnerNOC is second and Bidder 2 is third. VHC believes Case 4 to be the best overall economic assessment of the option that is consistent with the updated CPUC guidelines that include DE. The Case 4 results show that the EnerNOC levelized cost [redacted]

d. 2nd Matrix Scoring of Bids

After the short-list presentations by Bidder 2, Bidder 3 and EnerNOC, SDG&E used a second matrix scoring system to rank these offers. Along with the cost-effectiveness

[19] The period for calculation of DE has been updated to be consistent with the evaluation period of 17 years.
[20] Bidder 2's bid was for [redacted] Additional capacity replacement costs corresponding to [redacted] are included in this case.
[21] Energy costs are assumed to be [redacted] per year with 50 hours of operation of year for all bids.

calculations, this matrix scoring process constituted the Least-cost, Best-fit analysis for Product 1.

The categories used to rank the offers are shown in the following table.

Table 6. Second Matrix Scoring of Individual Bids

Evaluation Criteria	Weight
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

VHC believes that qualitative scoring of these various elements of the offers is a reasonable method to rank the overall attractiveness of the Demand Response offers, as long as the economic attractiveness of the offers is approximately the same among the viable offers.

The results of SDG&E's rankings are shown in the following table.

Table 7. Bidder Total Scores for SDG&E's 2nd Scoring Matrix

	EnerNOC	Bidder 2	Bidder 3
Bidder Total Score	[redacted]	[redacted]	[redacted]

The EnerNOC matrix score [redacted] The detailed results for each offer are given in SDG&E's Attachment 6 of SDG&E's EnerNOC Template. SDG&E views the EnerNOC bid as the most attractive offer primarily due to [redacted].

VHC can not independently verify that it would come up with same scoring of the categories listed, since it did not listen to the presentations from the individual bidders. However, VHC reviewed the supporting documentation for the scoring and concurs that SDG&E scored the offers in each of the categories in a systematic manner. There will always be uncertainty regarding the absolute level of scoring in each category because of its qualitative nature.

[redacted].

[redacted].

[redacted]

[redacted]

Overall, VHC concurs that EnerNOC had [redacted].

6. Need Assessment and Least-Cost, Best-Fit Analysis

a. Overview

Peak electricity demand in California is growing at 1.35% per year, faster than energy use, which is growing at 1.25% per year.[22] To meet growing peak demand during a relatively few hours per year, more electric generation capacity could be added. However, the operation of less efficient peak generating technologies can increase local air pollution, particularly on hot summer days, as well as requiring additional electric generating capacity that would be idle most of the year. An effective, reasonably-priced Demand Response program can substitute for supply-side resources to help meet the peak load. In addition, effective Demand Response options may help to reduce local emissions, help meet California's AB 32 greenhouse gas emission reduction goals and defer transmission and distribution investments.

The policy guidance of the Energy Action Plan (EAP I and II) and its 2008 EAP Update, along with the state's Demand Response Vision for the Future,[23] outline the conditions that Demand Response Offers (DRO) must meet. DRO must satisfy the California Public Utilities Commission (CPUC) definition of Demand Response by reducing an end-use customer's demand and/or its energy usage.[24] According to the 2008 EAP Update:

> To meet our policy goals, it is imperative that we develop understandable and transparent dynamic pricing tariffs and demand response programs that operate with these tariffs. The first *EAP* set a goal of five percent of peak demand to come from price response from consumers by 2007. We are nowhere near that goal and must reinvigorate our efforts in this area. The investor-owned utilities have also made strides in recent years to improve their demand response program offerings to consumers. Because air-conditioning use is the primary contributor to the growth in peak electricity demand, the utilities have increased their emphasis on air conditioner cycling programs. Heat storms in recent years have also emphasized the importance of load-shedding programs that relieve stress on overheated transmission and distribution infrastructure.

Both the CPUC and the California Energy Commission (CEC) are interested in implementing cost-effective demand response infrastructure that can be combined with advanced metering and price responsive tariffs. The CPUC has indicated that DRO should be cost-effective and provide incentives to enhance the reliability of demand reductions. In D.08-03-017, the Commission stated: "Well-designed performance incentives are an important factor in demand response programs, due to the imperative that the program operates as anticipated when called

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[22] California Public Utilities Commission (CPUC) and the California Energy Commission (CEC), Energy Action Plan Update, CEC-100-2008-001, February 2008.
[23] California Demand Response: A Vision for the Future. D. 03-06-032, Appendix A.
[24] D.06-03-024 states that demand response "applies to rate design, incentives and technology to induce changes in customer demand" (mimeo at p. 3).

upon."[25] The Commission also indicated that a well-designed portfolio of DR contracts is desirable.[26] A Cost-Effectiveness Evaluation Framework and various different cost-effectiveness methodologies to evaluate DR contracts are now being considered in R.07-01-041.[27]

Demand Response goals are still being established in R.07-01-041. VHC understands that it is difficult to come up with the percent of the peak load that is met by DR programs. However, SDG&E's current DR programs including this contract are expected to reduce the peak load by less than five percent. Apart from economic cost-effectiveness, the Commission has encouraged innovative demand response agreements and agreements that "may provide valuable experience with alternative ways of procuring and managing demand response programs."[28] Hence, the selected EnerNOC offer will help move SDG&E toward the stated Demand Response goal of 5% of system peak load.

b. *Resource Adequacy and SDG&E's Need*

Under this Product 1 RFO, SDG&E sought offers that could meet Resource Adequacy (RA) requirements for Demand Response, as set forth by the CPUC in D.05-10-042. The Commission has defined Resource Adequacy Requirements (RAR) for all Load Serving Entities (LSEs) in California in D.04-10-035. Under this and subsequent Commission orders, each LSE is required to acquire planning reserves that are at least 15% greater than their peak load forecast, which may be adjusted by the CEC. Thus, RAR requirements may necessitate that SDG&E procure additional resources to meet the RAR planning reserve.

The proposed EnerNOC contract is expected to contribute to meeting grid, local, and system resource adequacy requirements. SDG&E's Resource needs were approved by the CPUC in D. 07-12-052, and SDG&E filed with Commission Advice Letter 1983-E to conform its plan to the Commission Decision. In that Advice letter SDG&E showed its bundled customer

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[25] Decision 08-03-017, March 13, 2008, Order Approving Four Southern California Edison Company Demand Response Contracts. p. 13. This decision approved four of eight proposed dispatchable DR contracts negotiated by SCE based on portfolio cost-effectiveness.

[26] As stated in D.08-03-071, "D.06-11-049 adopted a number of demand response programs for SCE and Pacific Gas and Electric Company (PG&E) following a heat storm in 2006 and in anticipation of increased reliance on demand response in 2007 and beyond. In addition to augmenting existing demand response programs, D.06-11-049 directed SCE and PG&E to solicit bids for agreements under which third parties would procure demand response. On May 28, 2007, D.07-05-029 approved five demand response agreements between PG&E and third parties, and one between SCE and EnerNOC." [D.08-03-071, p. 3.] This decision approved four of eight proposed dispatchable DR contracts negotiated by SCE based on their combined portfolio cost-effectiveness.

[27] Current cost-effectiveness measures for demand response resources were derived from energy efficiency cost-effectiveness tests: the Total Resource Cost (TRC) test, the Ratepayer Impact Model (RIM) and the Program Administrator Test (PAC). These tests do not account for potential environmental or transmission and distribution or updated capacity value benefits of Demand Response programs. When revised cost-effectiveness tests and load impact protocols are further refined for application to individual DR contracts, the Commission expects to place less weight on the portfolio effects of different combinations of DR contracts.

[28] D.07-05-029 at p. 12 and Finding of Fact 6.

system resource need in its Table III-4 on original Sheet 139. Since the plan was approved, SDG&E has filed for approval of a number of additional contacts. Even after approved or pending resource additions,[29] SDG&E has a need for over 1,000 MW of additional capacity in 2011, (1,480 MW – 200 MW – 200 MW = 1,080 MW). SDG&E's resource plan in Table III-5 also identified SDG&E's need for capacity to meet its local RA requirements, which are a subset of its total system need. This table showed that SDG&E has both a short and long-term need for a portion of its future system capacity to be in the San Diego load pocket, in order to meet local RA capacity requirements.

Thus, EnerNOC will fill only a very small portion of SDG&E's total bundled customer system resource needs in the near term, and contribute to meeting its local RA obligation. In the long term, bundled customer need continues to grow. Hence, the EnerNOC capacity will also be needed in the long term.

c. SDG&E's Least-Cost, Best-Fit and Cost-Effectiveness Analysis

Least-Cost Best-Fit is a comprehensive process to select the right technology and the optimal size resource in the right location that results in the lowest-cost solution under a range of scenarios, including changes in the portfolio over time.

As described in Section 6 *a*, above, the Commission has indicated that cost-effective DR contracts are needed to help utilities meet 5% of their peak loads. With this in mind, SDG&E's LCBF process to make this DR selection consisted of the "Short List Evaluation Scoring Matrix," discussed above, and four cost-effectiveness tests. The cost-effectiveness tests measure the potential economic value of each individual offer by calculating a benefit/cost ratio. The cost-effectiveness tests for DR resources are derived from energy efficiency cost-effectiveness measures.[30] A current rulemaking proceeding on DR programs, R.07-01-041, is establishing updated cost-effectiveness methodologies.

The benefit/cost (B/C) ratios for the cost-effectiveness tests applied to the EnerNOC contract are shown in the following table:

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[29] These expected resource additions are from contracts with Wellhead Margarita, JPower Orange Grove, Miramar II and Celerity, totaling 200 MW, plus about 200 MW of new, uncommitted renewable resources. It should be noted that although SDG&E seeks approval for the entire EnerNOC contract, each year a portion of the Resource Adequacy (RA) credit for this contract will be assigned to other Load Serving Entities (LSE), according to the Commission's adopted rules in place in that year. Thus, SDG&E bundled customers will receive less than 100% of this capacity towards meeting its identified need.

[30] See California Standard Practice Model, Economic Analysis of Demand-Side Programs and Projects, October 2001.

Table 8. Cost-Effectiveness Tests: Benefit/Cost Ratios

TEST	BENEFIT/COST RATIO
TRC (Total Resource Cost)	1.33
RIM (Rate Impact Measure)	1.23
PAC (Program Administrator Cost)	1.33
Participant	1.09

SDG&E describes these four tests in their application. Here, VHC's discussion is limited to examining the key assumptions that affect the B/C ratios shown above.

The most important factors driving all the above B/C ratios are the assumptions regarding the benefits of the "avoided capacity costs" that arise from this demand response program. To derive the results shown above, SDG&E used a value for avoided capacity costs of [redacted] in 2009 real (constant) dollars.

SDG&E derived this value by adjusting its $135.3/kW-yr[31] combustion turbine-based capacity value in the following manner: First, the value was [redacted] VHC did not independently verify these calculations, but notes that they result in capacity values that are relatively close to the ones provided by Southern California Edison and PG&E.[33]

Then, SDG&E applied additional adjustments to allow an apples-to-apples comparison of the cost of capacity for this proposed contract to the avoided capacity costs. [redacted] The values appear to be reasonable. The capacity cost would have been slightly lower if an annual escalation rate of [redacted]. SDG&E used [redacted] escalation rate in the economic evaluation in the analyses discussed in Section 5.

VHC notes that SDG&E only compared the contract capacity costs to the adjusted capacity costs noted above and excluded energy payments under the contract. VHC believes that this assumption is reasonable in this situation, because [redacted]

31 This value comes from SDG&E's "Response to Energy Division DR-02 dated October 31, 2008" in the proceeding for Rulemaking 07-01-04. The value is given in 2009 real (constant) dollars.

32 This value comes from the filing noted in the immediately preceding footnote.

33 See the immediately preceding two footnotes.

[redacted] for the hours that the DR program is implemented. In effect, the energy payments to EnerNOC are assumed to be [redacted] If the energy payments to participants are equal to the avoided energy costs, these costs and payments can be netted out of the evaluation. This is likely to be true for the TRC, RIM and PAC tests. However, VHC believes that the energy payments should be included as a benefit in the Participant Test. The reason for this is that these energy payments that flow to the participant would increase the economic benefits to participate in this DR program. When the energy payments are included, the Participant test benefit/cost ratio increases from 1.09 to 1.28.

VHC also observes that SDG&E excluded "avoided T&D costs" in the calculations of the B/C ratios. If any avoided T&D costs had been included, then the B/C ratios for the various tests would have increased.

In this calculation, the capacity benefits are premised on the assumption that there is 100 percent certainty of load reduction, when this contract is called upon during peak load conditions. From a planning perspective, this allows SDG&E to avoid additional peaking capacity that would be needed to meet target reserve margins, if SDG&E did not secure this DR contract. VHC assumes that this treatment of DR programs for capacity planning is supported by the CPUC and is applied similarly by all IOUs.

VHC also notes that customer costs are assumed to be equal to capacity payments. As a result of this assumption, the costs for the TRC measure are equal to the costs for the PAC measure. Hence, the Benefit/Cost ratios for the two measures are the same. VHC does not know what the customer's costs are, but the benefits to the customer are likely to exceed their costs for providing capacity, otherwise the customer would not participate.

SDG&E estimated changes in its revenues based on a 2010 rate of $0.15 per kWh. VHC believes that the change in revenues should be based on the marginal rate of the participant. Even though VHC did not confirm that the $0.15 per kWh is the marginal rate, it expects that changes in this rate would have a small impact on cost-effectiveness test B/C ratios.

Some DR programs may result in load shifting (e.g., some air conditioning load moved from peak to non-peak periods). This load shifting would result in changes to estimates of reductions in revenues and in avoided cost payments.

SDG&E correctly includes administrative costs equal to $125K per year in 2010, escalating at 3.0 percent per year. VHC has not verified these costs but they appear to be reasonable.

VHC has a secondary concern regarding the potential costs of the Technology Incentive (TI) program, which offers incentives for the installation of equipment that provides dispatchable on-peak load reductions at customer-owned facilities. The TI incentives proposed in SDG&E's 2009 - 2011 DR filing are $100/kW for non-automated demand technologies and

$300/kW for Automated Demand Response (AutoDR). SDG&E also has a Technical Assistance (TA) program that provides customers who are enrolled on a DR program with at least a one-year commitment with an energy audit design to help them identify methods of reducing energy costs. [redacted]

VHC has discussed this issue regarding the potential costs noted above that the EnerNOC contract. SDG&E believes that is a low probability that additional TI and/or other costs would be borne by SDG&E ratepayers for DR from the EnerNOC contract. However, even if a one-time TI payment of $150 per kW to EnerNOC (or customers participating through the EnerNOC contract) were to occur, the estimated levelized cost of capacity for the EnerNOC offer would increase by about $14 per kW-year. VHC also estimated changes to the B/C ratio that would result from a TI payment of $150 per kW. The B/C ratio does not change for TRC, decreases from 1.23 to 1.06 for RIM and decreases form 1.33 to 1.14 for PAC. For the Participant Test, the B/C ratio increases from 1.09 to 1.27 without taking into account energy payments and from 1.28 to 1.46, taking into account energy payments. This contract appears cost-effective, even if a reasonable amount TI and TA costs were to be incurred from this contract.

In summary, VHC believes that the EnerNOC contract can become a cost-effective part of SDG&E's overall LCBF solution. VHC concurs that this contract can help meet both local and system capacity needs and will contribute toward the achievement of the CPUC's directive for utilities to meet 5 percent of their peak loads through DR.

d. Areas for Improvement and Refinement

1. Review of Economic and Scoring Matrices

VHC recommends an earlier, timelier review of the economic evaluations and scoring matrices. The bulk of VHC's IE review was done in 2009, well after SDG&E evaluations and scoring matrices were completed. The primary advantage of a review right after the analyses are completed or during the analysis process would be to confirm that there are no significant differences of opinion regarding the assumptions and the analysis. (Part of the cause for delay in relaying analyses to the IE in this instance was a change in personnel at SDG&E.)

2. Communications

SDG&E should add the IE onto its internal distribution lists regarding these analyses, forthcoming dates of negotiations, drafts of contracts and key contract issues, as they progress. The bulk of communications with VHC regarding Product 1 occurred only when the EnerNOC contract was approaching final agreement on its terms and conditions. A more timely review and identification of potential negotiation issues as they arise will assist VHC in making an assessment of fairness in those future situations when multiple parties may be involved in parallel contract negotiations.

7. Review of Negotiations and Contract Terms

a. Review of Negotiations

VHC did not monitor the meetings with EnerNOC to negotiate this contract, partly because VHC believed that there would be few benefits from spending a large amount of time monitoring meetings to negotiate a single contract for a relatively small amount of Demand Response capacity. In this case, VHC has only reviewed the final draft contract. VHC believes SDG&E should have kept the IE better informed of progress during the contract negotiation process. In particular, VHC sees the greatest IE value in reviewing the early "redlined" contract drafts, in order to identify the contract issues and those terms and conditions that might result in risks for ratepayers. If such issues are identified, the task is then to see that such issues are resolved fairly and expeditiously.

b. Review of Contract Terms and Conditions

VHC did not do a line-by-line comparison of this contract's terms and conditions with other contracts that SDG&E has entered into with its DR program providers, because such differences would have little or no bearing on the fairness of the terms and conditions in this contract. However, if additional Product 1 contracts result from this RFO, then VHC will examine them to identify potential differences among the contracts. Below, VHC gives its overview of the key contract terms and conditions in the EnerNOC contract.

1. <u>General Overview</u>

The contract price is [redacted] The contract gives SDG&E the rights to curtail load up to 50 hours per year during the months of May through October. During the periods of curtailment, the SDG&E pays an energy price based on [redacted] The capacity payments are [redacted].

EnerNOC is allowed to provide a maximum of 25 MW DR in 2009 and 2010, 35 MW in 2011 and 40 MW in years 2012 through 2016. Starting in 2010, the minimum capacity requirements equal the maximum DR capacity of the contract. However, the contract minimum can be reduced as a function of the actual performance of the DR.[34] EnerNOC has strong incentives to achieve the maximum DR amounts specified in the contract, but the contract does allow EnerNOC the flexibility to provide less without violating contract terms and conditions.

[34] See Section 8.1.b.i of the EnerNOC contract.

In future DR contracts, VHC recommends that SDG&E consider having a greater percentage of the payments allocated to July, August, and, perhaps, September to align payments more closely to the value of the DR capacity provided instead of uniform equal monthly capacity payments during the six delivery months.

2. Article 8 – Project Performance

The performance requirements are tied to monthly amounts of DR capacity. EnerNOC notifies SDG&E about its DR capacity on the fifth (5^{th}) calendar day prior to the first day of each Capacity Delivery Month. In the case of reduced DR capacity, the capacity payment will be reduced to the new committed load reduction. Performance penalties only arise, if EnerNOC notifies SDG&E that DR capacity is available, and then, this capacity is not delivered up to the designated level, when it is called upon by SDG&E.

Table 1 of the Contract lists the [redacted].

The baseline measurement of the capacity reduction for each Participating Facility is calculated from the Baseline Hourly Energy Usage. This is [redacted] VHC believes this is a good, conservative baseline for measuring savings. The actual, realized savings may be slightly higher than the measured savings, because the days when the program is implemented will be the highest load days for most customers.

VHC assumes that this contract structure, which has no minimum capacity requirements over the term of contract, may be the norm for DR programs. Perhaps, this is so, because it is too difficult to firmly predict the number of customers willing to participate in these programs and to forecast the duration of their commitments.

3. Credit

Credit requirements for all contracts are set by SDG&E's credit department based on the Credit and Security Policy approved by the Sempra Energy Utilities Board. The terms are based on the credit department's assessment of the credit-worthiness of the counter-party (or counter-parties) of the contract. The EnerNOC power purchase agreement (PPA) contains credit and collateral provisions that are consistent with SDG&E's policy. During the contract period, EnerNOC is required to provide Performance Assurance in the amount of [redacted].

c. *Project Viability*

VHC believes this DR program has a reasonable probability of success, because EnerNOC is experienced at developing and running DR programs. SDG&E describes this experience in its Testimony. The main uncertainty associated with this project is the amount of DR capacity that EnerNOC can acquire, deliver and retain over the contract period.

8. Conclusions and Recommendations

As discussed above, VHC reviewed SDG&E's bid receipt and evaluation processes and methods, as well as spot-checking data and calculations. In addition to conducting on-site and telephone interviews and discussions with SDG&E personnel, VHC reviewed bid-related materials and quantitative analyses, recommended refinements, initiated discussions, reviewed the contract and participated in PRG meetings where the Product 1 bids were discussed.

a. *Contract Selection*

VHC concurs with SDG&E that this contract offer scored the highest in the Second Matrix Scoring evaluation and passed the cost-effectiveness tests. Based on VHC's updating of SDG&E's economic analysis with different capacity cost assumptions and considering energy cost differences among the offers, VHC views the contract as one of the two most attractive DR offers.

b. *Contract Price*

The contract price is [redacted] Based on current capacity costs and on benefit/cost ratios greater than 1.0, the contract price is reasonable.

c. *Fairness Assessment*

VHC concludes that SDG&E has run a fair and unbiased solicitation for Product 1, resulting in an appropriate short list and a reasonable contract with EnerNOC. VHC believes that the selection of this offer relative to the other offers received in the RFO was done in a consistent, fair and unbiased manner. Even though the final scoring matrix uses qualitative assessments for various categories, the scoring appears to be fairly applied to all offers and relative scores appear reasonable from examining SDG&E justifications for the scores.

d. *Least-Cost Best-Fit Portfolio Assessment*

SDG&E has utilized a different LCBF framework for evaluating this DR contract than it typically uses for evaluating supply-side resources. Based on SDG&E's two matrix evaluations, its economic evaluations and cost-effectiveness tests, VHC believes that the EnerNOC contract can become a cost-effective part of SDG&E's overall LCBF portfolio.

e. Project Viability

EnerNOC is a relatively experienced contractor, having previously provided demand-response programs. It has successfully run programs for SDG&E in the past, giving this DR project a substantial likelihood of successful completion.

f. Contract Terms and Conditions

VHC has reviewed the negotiated contract terms and conditions. In order to better align capacity payments to EnerNOC with the time of receipt of delivered DR capacity under this contract, VHC would have preferred higher percentages of the payments to occur in July, August, and September, rather than the six uniform, equal capacity payments in each month from May to October. However, since this payment format was negotiated and agreed, VHC assumes that both parties derive benefit from having a uniform payment stream.

VHC's principal contract concern is that the long-term minimum capacity obligation can be lowered. The contract provides the flexibility to reset the contract DR capacity, if less DR capacity is delivered than the contract amounts. VHC presumes that this was agreed, because of the difficulties in forecasting, delivering and retaining DR capacity over time. VHC assumes that this contracting issue is not unique to this contract, but common to all DR contracts.

Overall, VHC believes that the contract terms and conditions are reasonable and beneficial to ratepayers.

g. Recommendation for Approval

For the foregoing reasons, VHC believes that SDG&E has conducted a fair and unbiased RFO process to obtain Product 1 bids to supply Demand Response resources. VHC believes that the EnerNOC offer and the improved, negotiated contract terms and conditions described in SDG&E's application represent an attractive DR program. Therefore, VHC recommends that the Commission approve this contract between SDG&E and EnerNOC.

APPENDIX A: PA CONSULTING'S REVIEW OF THE SUPPLY RFO

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//to Mike Katz 20090225 re PA IE work on 2010-12 Capacity RFO Product 1.doc

February 25, 2009

Mr. Michael Katz
Van Horn
Consulting Via
email

Dear Mr. Katz:

SDG&E 2010-12 Capacity RFO, Product 1

This letter describes the activities undertaken by PA Consulting Group as Independent Evaluator for the 2010-12 Capacity RFO prior to your engagement in that position, and in particular any activities related to the evaluation of "Product 1".

1. I reviewed a draft of the RFO document that was provided to the Procurement Review Group and provided comments to SDG&E. The final version of the RFO was produced by SDG&E with the concurrence of Energy Division (without PA's direct participation).
2. I attended SDG&E's pre-bid conference in San Diego on March 30, where I was introduced to the potential bidders.
3. In April, I received and reviewed the draft Evaluation Criteria document. I met with SDG&E in San Diego to discuss in detail the evaluation criteria for the 2010-2012 Capacity RFO.

Yours truly,

[redacted]

Jonathan M. Jacobs
Managing Consultant

Attachment 11

PUBLIC

ATTACHMENT NO. 11

EnerNOC CONTRACT SUMMARY

EnerNOC

Program Months	May 1st - October 31st
Program Days/Hours	Monday - Friday 12:00 pm - 6:00 pm
Program Type	Day Of - 30 minute notification
Program Triggers	At SDG&E Discretion
Program Availability	50 hours per year
Number of Events	Until the program availability hours are called
Event Duration	2 hours minimum - 5 hours maximum per day
Capacity Payment	Yes
Energy Payment	Yes