



SAN DIEGO GAS AND ELECTRIC COMPANY
ELECTRIC AND GAS PROCUREMENT DEPARTMENT
8315 CENTURY PARK COURT, CP21D
SAN DIEGO, CA 92123

SDG&E'S COMBINED HEAT AND POWER ("CHP")

2012
REQUEST FOR OFFERS
("RFO")
seeking
COMBINED HEAT AND POWER
POWER PURCHASE AGREEMENTS

ISSUED
FEBRUARY 21, 2012

OFFERS DUE
APRIL 6, 2012

RFO WEBSITE
<http://www.sdge.com/2012CHPRFO>
EMAIL QUESTIONS/COMMENTS TO
CHPRFO@semprautilities.com

TABLE OF CONTENTS

TABLE OF CONTENTS	1
1.0 BACKGROUND	3
2.0 PROCUREMENT PROCESS.....	5
3.0 ELIGIBILITY REQUIREMENTS.....	7
A. PARTICIPATION CRITERIA.....	7
B. RESOURCE CRITERIA	7
C. POWER PURCHASE AGREEMENT CRITERIA.....	9
D. CREDIT TERMS AND CONDITIONS.....	9
E. ASC 810 FIN46(R), REQUIREMENTS	10
4.0 FACILITY INTERCONNECTION	11
A. TRANSMISSION INTERCONNECTION.....	11
B. GAS SUPPLY & INTERCONNECTION	11
5.0 EVALUATION CRITERIA.....	13
QUANTITATIVE EVALUATION.....	13
A. NET CAPACITY BENEFITS.....	13
B. NET ENERGY BENEFITS.....	13
C. GHG COSTS	14
D. TRANSMISSION/DISTRIBUTION SYSTEM IMPACTS.....	14
E. GHG REDUCTION ADJUSTED RANKING PRICE.....	14
QUALITATIVE EVALUATION	15
A. PROJECT VIABILITY.....	15
B. PROJECT RELIABILITY.....	15
C. ADHERENCE TO PPA TERMS AND CONDITIONS.....	15
D. SUPPLIER DIVERSITY	15
BID CONFORMANCE EVALUATION	15
6.0 RFO SCHEDULE	17
PRE-BID CONFERENCE.....	18
7.0 RFO WEBSITE AND COMMUNICATION	19
8.0 RFO RESPONSE INSTRUCTIONS	20

9.0	REJECTION OF OFFERS	23
10.0	CONFIDENTIALITY.....	24
11.0	CHP PROGRAM PARAMETERS.....	26
	This RFO’s Role in the California AB 32 Program.....	26
	Procurement Review Group.....	26
	Independent Evaluator.....	26
12.0	SDG&E BACKGROUND	27

1.0 BACKGROUND

In accordance with the Qualifying Facility (“QF”) and Combined Heat and Power (“CHP”) Program Settlement Agreement and related documents (including the CHP Program Settlement Agreement Term Sheet) approved by the California Public Utilities Commission (“CPUC”) on December 16, 2010 in Decision 10-12-035 (collectively, the “Settlement Agreement”), San Diego Gas and Electric (“SDG&E”) is issuing its 2012 Combined Heat and Power (“CHP”) Request for Offers (“RFO”) to solicit offers (“Offers”) from owners and operators of CHP Facilities and Utility Prescheduled Facilities (“UPF”). The Settlement Agreement became effective November 23, 2011.

(“SDG&E”) is issuing this 2012 CHP RFO to achieve its megawatt (“MW”) and Greenhouse Gas (“GHG”) Emissions Reductions Targets, established in the CHP Program Settlement Agreement. This RFO solicits offers from owners and operators of CHP Facilities and UPFs.

Pursuant to the CHP Program Settlement, SDG&E seeks to acquire a total of 160 MW of CHP name plate Capacity under Power Purchase Agreements (“PPA” or “Agreements”) during the Initial Program Period (2011-2015) and 51 MW in the Second Program Period (2016-2020), both of which periods are defined in the CHP Program Settlement. Through this solicitation, the first of three RFOs to be held during the Initial Program Period, and various other procurement alternatives under the Settlement Agreement, SDG&E seeks offers to meet its first CHP MW Target of 60 MW in order to make progress toward its Initial Program Period goal of 160 MW. This solicitation sets forth the terms and conditions of SDG&E’s first CHP RFO. By responding to this RFO, the bidder agrees to be bound by all the terms, conditions, and other provisions of this RFO and any changes or supplements to it that may be issued by SDG&E, prior to the bidder’s response. The Independent Evaluator (“IE”) for this solicitation is Van Horn Consulting.

Table 1 – Program MW Targets

Year	MW Target in RFO
2012	60 MW
2013	50 MW
2014	50 MW
2016-2020	51 MW

In this RFO SDG&E will entertain offers for the following resources as defined in the CHP Program Settlement: Existing CHP, New CHP, Repowered CHP, Expanded CHP, and Existing CHP Facilities Converting to UPF. SDG&E will give preference for offers that are low cost, and have either low associated GHG emissions or provide GHG emissions reductions through changes in operations or technology. Any facility that offers operating flexibility will be considered favorably.

Table 2 – CHP Product Types

Generating Facility	CHP Baseload Facility ("CHP")	Utility Prescheduled Facility ("UPF")
Facility Vintage	New, Existing, Repowered, Expanded	
Maximum Term	7 Years for Existing for Repowered, 12 Years for new and Expanded meeting Credit requirements (Section 3).	Up to 12 Years
PPA Type	CHP Pro Forma PPA	CHP UPF PPA
Nameplate	Larger than 5 MW	
Delivery Point	Within the CAISO Controlled Transmission Grid	

The purpose of this document is to provide an overview of the process that SDG&E will use to implement this RFO. It will serve to set forth each bidder's obligations with respect to the RFO as well as describe the procedures that each bidder must adhere to. If there is a conflict or inconsistency between the terms and conditions contained here and the terms and conditions contained within the PPAs attached to these instructions, the terms and conditions in the PPAs applicable to the offers will prevail.

To be considered in this RFO, an Offer must be uploaded to the SDG&E RFO Website in accordance with this RFO Protocol no later than 1:00 PM Pacific Prevailing Time ("PPT"), on April 6, 2012. A USB Thumb Drive or CD copy of the Offer(s) must also be received via mail no later than April 9, 2012.

The RFO Schedule is subject to change at SDG&E's sole discretion at any time. All changes to the RFO Schedule will be posted to SDG&E's RFO website. The RFO Schedule may be affected by (but not limited to) issues such as: discussions with shortlisted bidders, proceedings before the CPUC, and efforts to obtain regulatory approval. SDG&E intends to notify bidders of any schedule change, but will not be liable for any change in schedule or for failing to provide notice of any change. A schedule detailing SDG&E's plans throughout the entire initial program period can be found in Section 6.

Once bidders have accepted their shortlisted position with SDG&E, further PPA contract negotiations may commence and continue until mutual agreement has been *achieved* and a contract has been executed. Being short listed does not guarantee that a PPA will be negotiated or signed with the bidder.

SDG&E will seek CPUC approval of all executed agreements resulting from this RFO. SDG&E reserves the right to execute agreements with individual bidders at any time after short listing and to seek CPUC approval for individual agreements in order to expedite the approval process.

2.0 PROCUREMENT PROCESS

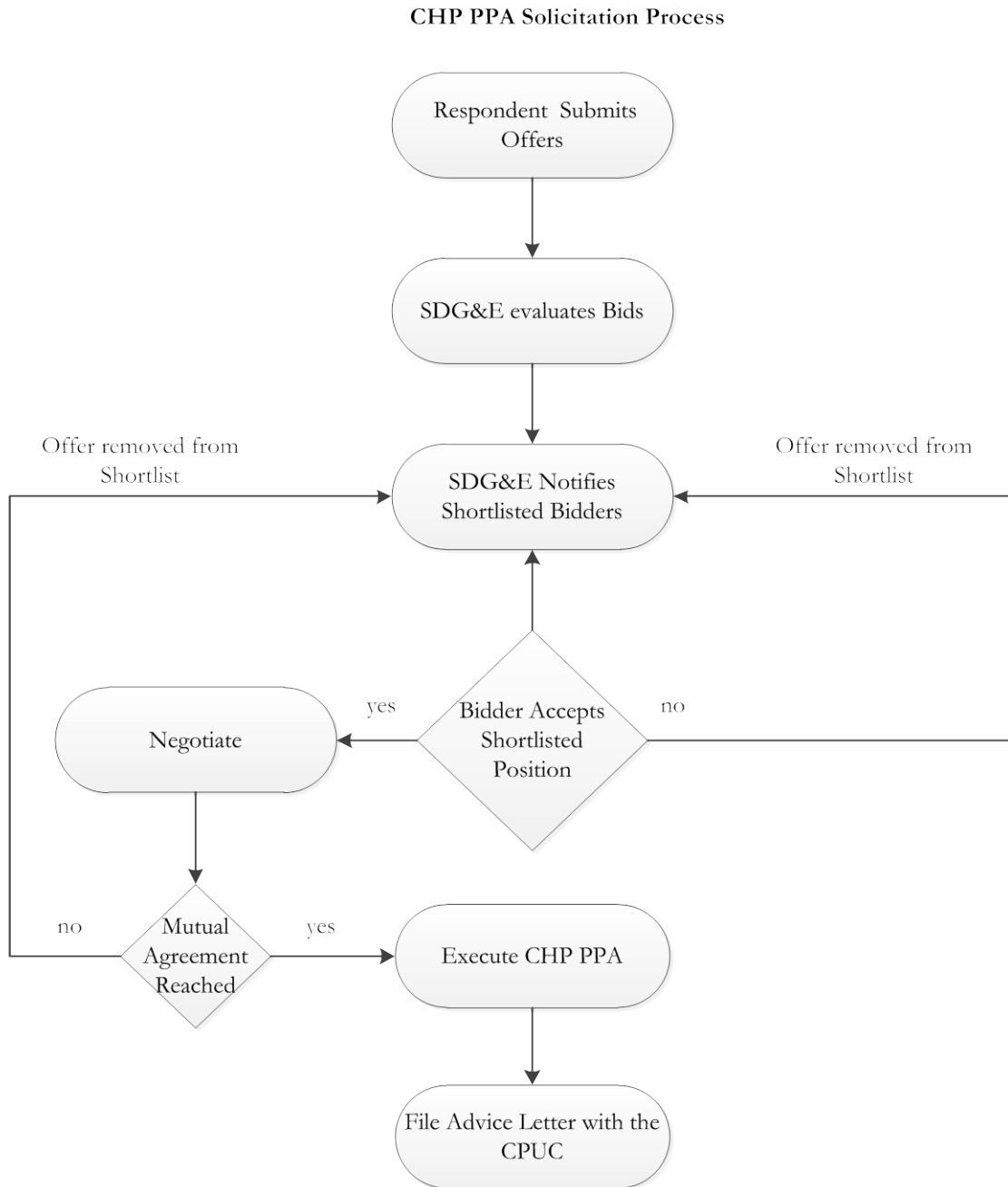
Respondents to this solicitation shall comply with the requirements described in this RFO document. The RFO Procurement Process steps are presented as a flow chart in Figure 1.

All offers shall meet the minimum eligibility requirements as set forth in Section 3.0. All conforming offers will be evaluated in accordance with the Evaluation Criteria described in Section 5.0 of the RFO. SDG&E will initially select a shortlist to meet the 60 MW target for this RFO by selecting offers that best fit in with the quantitative and qualitative methodology described in Section 5.0. If SDG&E does not acquire the full 60 MW in this RFO or achieved through various other procurement alternatives under the CHP Program Settlement, any shortfall will be carried over to the next RFO. SDG&E may also select more than 60 MW in this RFO due to cumulative project sizes and count the excess toward its over MW target of 211 MW.

SDG&E is mindful of the influence interconnection costs have on successful project development. Distribution system upgrade costs and/or any non-reimbursable transmission system upgrade costs necessary to accommodate a proposed project shall be paid by the Respondent. Any offer shall include studies and estimates of such costs. The transmission cost estimates from the latest Transmission Ranking Cost Report (“TRCR”) developed by each of the California Investor Owned Utilities (“IOUs”) will be utilized in SDG&E’s least-cost/best-fit evaluation of offers submitted by New, Repowered, or Expanded Facilities in response to this RFO.

SDG&E intends for projects selected from this RFO Program to count towards SDG&E’s Resource Adequacy (“RA”) obligations. Respondents must follow the appropriate process for obtaining a deliverability study from the CAISO so that the projects can become eligible for RA, if not already eligible. Deliverability will only apply to the portion of the name plate capacity that SDG&E will be purchasing. Power Purchase Agreements resulting from this RFO will require Respondents to perform all activities necessary to facilitate RA recognition for the projects. The Respondent shall be responsible for all costs to facilitate RA recognition, including any deliverability study fees or upfront funding of deliverability upgrade costs and should be included in the bid price.

Figure 1- CHP Solicitation Process



3.0 ELIGIBILITY REQUIREMENTS

Respondents to this solicitation shall comply with the requirements herein. SDG&E, at its sole discretion, may change the terms, requirements and schedule of the solicitation. Respondents should monitor the RFO Website for announcements regarding any change.

A. PARTICIPATION CRITERIA

Terms of participation are listed below. Respondents not meeting all minimum participation criteria could be deemed ineligible and their offers may not be considered.

1. Respondents with new projects must apply for interconnection and seek to be evaluated as an RA resource, which requires a CAISO deliverability study. Evidence of the application must be included in the offer.
2. The contract term start date must be:
 - i. Within 24 months of PPA Execution (Existing Facilities)
 - ii. Within 36 months of CPUC Approval (Expanded Facilities)
 - iii. Within 60 months of CPUC Approval (New and Repowered Facilities)
3. An Offer from respondents with existing facilities must either be a RA resource or the Respondent must seek to become a RA resource, which requires a CAISO deliverability study. Evidence of current RA status or pending request for a deliverability study must be included in the offer
4. Respondents must assume all costs associated with energy deliveries to SDG&E.
5. Existing, Repowered, and Expanded and Utility Prescheduled Facilities must submit evidence that all interconnection agreements and permits have been received and the facility can operate under those permits and conditions for the entirety of the proposed contract term. And, the CHP Facility and its' associated delivery point be located within the CAISO controlled transmission grid.
6. The Respondent must have, at time of bidding, site control for the duration of the term proposed within the PPA. Site control may be evidenced by documentation of:
 - a. direct ownership
 - b. a lease
 - c. an option to lease or purchase upon PPA approval. The option must be an exclusive option to the Bidder that will last until the completion of the RFO cycle.
7. Respondents must submit as least two pricing proposals per project (one by which the respondent assumes all of the GHG emissions costs, and a second where the respondent passes on some specified portion or all of those costs onto SDG&E). The number of pricing proposal per project will be limited to ten.
8. The Respondent will own the facilities and have responsibility for development, land acquisition, permitting, financing, construction and operation for the facilities.
9. The Respondent must state the affiliate relationship with Sempra Energy, if one exists.

B. RESOURCE CRITERIA

Any CHP Facility with a nameplate larger than 5 MW may bid into the CHP RFO, including CHP Facilities seeking firm and as-available capacity PPAs, provided that the CHP Facility meets

the definition of cogeneration under California Public Utilities Code §216.6 and the Emissions Performance Standard established by Public Utilities Code §8341 (Senate Bill 1368). A CHP Facility must meet the federal definition of a qualifying cogeneration facility under 18 CFR §292.205 implementing PURPA.

This RFO also provides for CHP Facilities converting to Utility Prescheduled Facilities. A CHP Facility that met the PURPA efficiency requirements (18 C.F.R. §292.205) as of September 2007 and converts to a Utility Prescheduled Facility is also eligible to participate in the CHP RFOs. After the Existing CHP Facility converts to a Utility Prescheduled Facility, it may be either a Qualifying Facility or an Exempt Wholesale Generator (“EWG”) if the facility otherwise meets the criteria in Section 4.2.2.2 of the Settlement Agreement.

SDG&E &E will consider Offers from the following resources in this RFO as defined in the Settlement Agreement:

New CHP Facility: A CHP Facility that became or will become operational after the Settlement Effective Date, *i.e.*, November 23, 2011.

Existing CHP Facility: An Existing CHP Facility is one that was operational before the Settlement Effective Date.

Repowered CHP Facility: If the CHP Facility contains combustion turbines, then each combustion turbine must be replaced with: (1) A new combustion turbine that has been certified as new by the original manufacturer of the equipment provided, however, that the CHP Facility that has replaced its combustion turbines with a substantially identical engine (e.g., as is common during major overhauls of aero derivative combustion turbines or as part of a spare engine program), does not qualify as a Repowered CHP Facility; or (2) A refurbished combustion turbine, so long as such refurbished combustion turbine has been certified by the entity that refurbished such combustion turbine (which may be the manufacturer) to achieve Heat Rate and total power output performance guarantees comparable to a new combustion turbine, prior to operational degradation; or (3) If the CHP Facility contains only steam turbines, then each steam turbine must be replaced with a refurbished steam turbine, which refurbishment must have been accomplished with new or near-new condition parts, and which include (i) a replacement of all stop and throttle control valves, seals, bearing, rotors, and turbine blades of each steam turbine, and (ii) a replacement or rebuilding of the stationary part of each steam turbine back to new condition, including seal system, lube oil system and all associated piping and auxiliary equipment.

In addition to the above turbine requirement, all of the following conditions must be met: (1) The repowering of the Generating Facility as described in this definition must be completed before the Term Start Date, (2) Section 1.02(a) of the CHP PPA must provide that the Generating Facility will be a Repowered CHP Facility on the Term Start Date, and (3) Seller must provide to Buyer a written certification, including all supporting data, from a qualified independent engineer, which certification must provide that the total useful life of the CHP Facility (including, as applicable, the combustion turbine(s), the steam turbine(s), the electrical generator(s) and the heat recovery steam generator) will operate for at least the Term of this Agreement, subject to industry standard maintenance practices.

Expanded CHP Facility: A CHP Facility that is (i) an existing topping-cycle CHP Facility that, on or after the Settlement Effective Date, has added at least one new combustion turbine and increased the Power Rating of the Generating Facility by not less than 90% of the Power Rating of the largest existing combustion turbine at the Generating Facility, or (ii) an existing bottoming-cycle CHP Facility that has increased its total Power Rating by at least 30% as compared to the Power Rating before such expansion.

Utility Prescheduled Facility: An Existing CHP Facility that has changed operations to convert to a utility controlled scheduled dispatchable generation facility, including but not limited to an EWG.

C. POWER PURCHASE AGREEMENT CRITERIA

Bidders may modify the CHP Pro Forma PPA or UPF PPA submitted as part of their Offer package to the extent such modifications add value to the Offer. Bidders may modify the CHP PPAs submitted as part of their Offer submittal to the extent such modifications add value to the Offer. SDG&E discourages extensive modification of the Pro Forma PPA.

D. CREDIT TERMS AND CONDITIONS

Existing Facilities and Repowered Facilities

A bidder who currently has an active contract in place with SDG&E will continue to have the same credit terms as in its current contract. Existing facilities with other IOUs will not be subject to new credit terms or conditions.

New or Expanded Facilities

A bidder submitting an offer with respect to a new, expanded CHP or repowered facility for a term that is greater than 7 years, must comply with credit and collateral requirements set forth in the CHP PPA. Existing facilities wishing to convert to UPF, must also meet the same credit requirements as new and expanded CHP facilities regardless of the proposed term. A bidder submitting an offer with respect to an existing CHP facility, repowered or an expanded CHP facility for a term that is less or equal to 7 years under the CHP PPA Exhibit F is not required to meet the aforementioned requirements.

SDG&E has the right to evaluate and determine the credit-worthiness of the Respondent relative to this RFO. The Respondent is required to complete, execute and submit the RFO credit application as part of its offer. The application requests financial and other relevant information needed to demonstrate creditworthiness. Respondents may download the application from the RFO Website.

If the Generating Facility is a New CHP Facility, a Repowered CHP Facility, or an Expanded CHP Facility that has elected in Section 1.02(a) of the CHP PPA to comply with the credit and collateral requirements, the provisions of this Section 1.07 also apply to Seller.

- Seller shall post and thereafter maintain the Development Security in accordance with Section 4(b) of Exhibit F.

- Seller shall post and thereafter maintain the Performance Assurance, in accordance with Section 2(a) of Exhibit F, in an amount equal to
 - [Option 1: 12 months of expected total Net Contract Capacity revenues]
 - [Option 2: 12 months of expected total revenues]
 - [Option 3: five percent of the expected total revenues]
 - [Option 4: [As proposed by Seller, subject to further negotiations between the Parties]] of the Generating Facility under this Agreement (the “Performance Assurance Amount”) The initial Performance Assurance Amount equals \$[____]. The Performance Assurance Amount will be revised upon any change to the Expected Term or Yearly Energy Production.

For questions regarding credit terms, please contact Ms. Judy Delgadillo at (213) 244-4343. Project-specific questions and answers will not be disclosed to other Respondents.

E. ASC 810 (FIN46(R), CONSOLIDATION OF VARIABLE INTEREST ENTITIES) REQUIREMENTS

Generally Accepted Accounting Principles and SEC rules require SDG&E to evaluate whether or not SDG&E must consolidate a Seller’s financial information as the primary beneficiary of a variable interest entity. If SDG&E determines at any time during the term of the agreement that consolidation is required, SDG&E shall require the following during every calendar quarter for the term of any resultant agreement:

- a) Complete unaudited financial statements and notes to financial statements, within 15 days of the end of each quarter;
- b) Financial schedules underlying the financial statements, within 15 days of the end of each quarter;
- c) Access to records and personnel, so that SDG&E’s internal or 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)) and SDG&E can meet its SEC filing requirements;
- d) Certifications by duly authorized representatives as may be reasonably requested by SDG&E; and
- e) Such other information as reasonably requested by SDG&E.

Any information provided to SDG&E shall be treated as confidential, except that it may be disclosed for financial statement purposes.

4.0 FACILITY INTERCONNECTION

A. TRANSMISSION INTERCONNECTION

Respondents with new projects or expanded projects should have completed a System Impact Study, a Phase I interconnection study, or have passed the Whole Sale Distribution Access Tariff (“WDAT”) or California Independent System Operator (“CAISO”) Fast Track screen and provide a copy of the most recent completed study or evidence of having passed the Fast Track screening process with their offer. SDG&E will consider projects that have not completed these studies less viable. Transmission level projects are required to apply for interconnection through the CAISO Large Generator Interconnection Agreement/Small Generator Interconnection Agreement process. New distribution level projects will be required to apply through SDG&E’s or respective IOU’s WDAT process. Projects interconnecting within SDG&E’s service territory may visit: <http://www.sdge.com/business/interconnection.shtml> for additional information. Respondents must incorporate all estimated interconnection costs that are allocated to the project in Offer form.

SDG&E intends that CHP projects count towards SDG&E’s RA obligations when possible. In order to become RA eligible, a new project must apply for a deliverability study to be conducted by the CAISO. Respondents with winning offers must demonstrate that: (1) the project has been assessed for deliverability, (2) an assessment is underway, or (3) the Respondent will request a deliverability assessment through the next available CAISO cluster window. This condition must be met for winning offers that will interconnect at either the distribution or transmission level.

For more information:

SDG&E Interconnection Website: <http://www.sdge.com/business/interconnection.shtml>

- Download and review SDG&E Interconnection Handbook
- Links to CASIO interconnection queue, tariffs and websites
- Links to SDG&E interconnection queue, tariffs and websites
- Link to NERC/WECC Reliability Standards
- Links to Process Summaries
- Link to SDG&E Self Generation Technologies site

CAISO Generation Interconnection Process Contact:

- Project Manager: Judy Brown (916) 608-7062
- JBrown@caiso.com

SDG&E Contact:

- Gen. Interconnection Project Manager: Rodney Winter (858) 654-1799
- RWinter@semprautilities.com

B. GAS SUPPLY & INTERCONNECTION

Each Offer with an existing natural gas interconnection for an existing CHP or Utility Prescheduled Facility must provide the information specified in the Offer Form to confirm gas service.

Each Offer requiring a new natural gas interconnection with or requiring an increase peak daily gas demand on an existing interconnection must have initiated a request for gas service. Any resulting studies must be submitted as part of the offer package.

5.0 EVALUATION CRITERIA

All incoming offers will be assessed for conformance. Respondents should conform with minimum participation criteria in order to be considered. In addition, projects must conform with minimum resource criteria in order to be considered.

SDG&E will utilize all the information provided in the required forms and narratives to evaluate all offers. Respondents are responsible for the accuracy of all discussions, figures and calculations. Errors discovered during evaluation may impact a Respondent's standing on the short-list.

QUANTITATIVE EVALUATION

SDG&E evaluates and ranks offers based on a Least-Cost/Best-Fit ("LCBF") principles. The LCBF analysis evaluates both quantitative and qualitative aspects of each offer to estimate its value to SDG&E's customers and its relative value in comparison to other offers. The valuation of an offer takes into account cash flow components for both benefits and costs. These components are then netted and discounted to yield a Net Present Value ("NPV") for each offer. The NPV of that Offer is compared to the NPV of other offers to find the least cost. "Best Fit" is achieved by ensuring that selected offers fulfill the qualitative criteria further described below.

SDG&E evaluates the quantifiable attributes of each offer individually. These individual attributes will include: capacity benefits, energy benefits, contract payments, GHG emissions and costs, congestion costs, and transmission losses and costs. Each of these attributes is described below.

A. NET CAPACITY BENEFITS

Capacity benefits are calculated by comparing the capacity costs in the offer to the capacity value. Each offer is assigned capacity benefits, if applicable based on SDG&E's forecast of capacity value and RA (defined in the CAISO Tariff). Each bidder's RA capacity value is based on monthly forecasts determined by SDG&E, which are then aggregated into annual capacity benefits. Projects in the SDG&E service area will receive added local capacity benefit, but all generating facilities that have a delivery point at a CAISO intertie have the potential to provide a system capacity benefit dependent on SDG&E's ability to obtain import allocation rights from the CAISO. Projects with firm capacity will have more capacity value than as-available capacity.

B. NET ENERGY BENEFITS

For offers with firm or as-available energy, SDG&E calculates the net energy benefits of the offer based on how the offer's energy costs compare to forecast market value of the energy inclusive of GHG costs. For offers with dispatch capabilities at SDG&E's control, SDG&E calculates the net energy benefits based on the market values of energy when the proposed unit would be expected to be dispatched. The market value of the energy is adjusted for congestion losses incurred by SDG&E to sink that energy to its local load.

C. GHG COSTS AND EMISSIONS

Pursuant, to the CHP PPA, bidders can assume all or a portion of the GHG compliance costs, elect to pass through the GHG compliance cost to SDG&E, or elect a hybrid approach for GHG cost recovery. If the bidder passes through a portion of all GHG costs to SDG&E, SDG&E will estimate the GHG costs based on its own forecast of GHG prices and credit the bid if the seller elects to assume some or all of the GHG costs. GHG emissions associated with electricity generated by the facility and delivered to SDG&E will also be evaluated.

D. TRANSMISSION/DISTRIBUTION SYSTEM IMPACTS

For new or expanded projects SDG&E will use costs derived from each of the IOU's TRCR reports *in lieu* of Phase 1 study results. Links to the most recent TRCR costs may be on SDG&E's RFO website.

In order for SDG&E to ensure accuracy in the evaluation the bidder must provide the name of the nearest proxy substation. The bidder will assume all Direct Assignment Facility costs and wheeling charges to the Delivery point. These costs should be included into the bid price.

E. GHG REDUCTION ADJUSTED RANKING PRICE

Offers will be sorted based on a Net Market Value (\$/MW-Year), and SDG&E will also consider the GHG reduction savings as calculated by the Settlement rules. SDG&E will rank the offers based on the lowest net costs. The contribution towards CHP Settlement the MW target and GHG reduction goals will be included in the overall assessment of offers.

QUALITATIVE EVALUATION

Qualitative factors and benefits will be used to determine advancement onto the short list or evaluate tie-breakers, if any.

A. PROJECT VIABILITY

SDG&E is seeking experienced companies and development teams to develop and operate facilities utilizing known and proven technology. New Projects should have clear and achievable milestones. Projects with new or changed local environmental impacts should demonstrate the ability to obtain permits to operate.

B. PROJECT RELIABILITY

SDG&E will not only review the viability of new, expanded, and repowered projects but will also consider the physical condition and age of the existing facilities submitted for review.

C. ADHERENCE TO PPA TERMS AND CONDITIONS

Bidders may modify the CHP Pro Forma and Utility Prescheduled Facility (Tolling) PPA submitted as part of their submittal package to the extent that modifications add value to the offer. SDG&E will review modifications any PPA terms and conditions proposed in the offer and consider the materiality of these changes.

D. SUPPLIER DIVERSITY

SDG&E encourages Diverse Business Enterprises (“DBEs”), as defined in G.O. 156¹, to participate in the CHP program. Additional information on SDG&E’s DBE program can be found at:

<http://www.sempra.com/about/supplier-diversity/>
<http://www.cpuc.ca.gov/puc/supplierdiversity/>

SDG&E’s DBE Program representatives will provide a presentation during the pre-bidding conference. DBEs can request additional information by contacting SDG&E at vendorrelations@semprautilities.com.

SDG&E is seeking to increase opportunities for diverse business entities to compete for SDG&E’s business, through both direct and indirect contracting. In the event of a tie, a Diverse Business Enterprise will receive qualitative preference if the business has been certified.

BID CONFORMANCE EVALUATION

In addition to the elements described above, SDG&E may also reject an offer if:

1. SDG&E uncovers evidence of market manipulation in the bid preparation and offer process;
2. the Respondent does not provide adequate evidence it meets minimum participation criteria;

¹ See <http://www.thesupplierclearinghouse.com/eligibility/default.asp> for the definition of a DBE.

3. there is a question as to whether or not the projects meet minimum resource criteria;
4. the Respondent cannot fulfill the terms and conditions of the CHP PPA; and/or,
5. the Respondent is unable to comply with RFO timing and other solicitation requirements.

6.0 RFO SCHEDULE

The following schedule and deadlines apply to this RFO. SDG&E reserves the right to revise this schedule at anytime and in SDG&E's sole discretion. Respondents are responsible for monitoring the RFO Website for updated schedules and possible amendments to the RFO or the solicitation process.

NO.	ITEM	DATE
1.	RFO Issued	February 21, 2012
2.	Pre-Bidder's Conference	March 7, 2012
3.	DEADLINE TO SUBMIT QUESTIONS Question submittal cut-off date. Answers to all questions will be posted on the website no later than March 26, 2012	March 21, 2012
4.	DEADLINE TO REGISTER Those intending to bid must register to receive a username/password in order to upload electronic offers.	March 30, 2012
5.	CLOSING DATE: Offers must be uploaded to and received by the RFO Website no later than 1:00 PM (Pacific Prevailing Time).	April 6, 2012
6.	SDG&E Begins Bid Evaluation Process	April 6, 2012
7.	DEADLINE TO SUBMIT E-Binder or CD Respondents submit to SDG&E one USB Thumb Drive or one CD. Respondents submit to the IE one USB Thumb Drive or one CD.	April 9, 2012
8.	SHORTLIST NOTIFICATION SDG&E notifies Shortlisted Bidders	May 23, 2012
9.	SHORTLISTED BIDDERS ACCEPTANCE/WITHDRAWAL Letter due from Shortlisted Bidders indicating: a. Withdrawal from SDG&E's solicitation; OR b. Acceptance of shortlisted standing; withdrawal of participating in any other solicitation and evidence of withdrawal notice to all other solicitors	+10 Days after Shortlist Notification
10.	SDG&E issues appreciation notices to unsuccessful Respondents	+3 week after Shortlisted Bidders accept/withdraw
11.	SDG&E commences with PPA negotiations	up to 24 weeks*
12.	Submits Advice letters with PPAs to CPUC for approval	+4 weeks after PPAs are negotiated and executed
	* Negotiation time will vary depending on facility vintage and proposed contract modifications.	

PRE-BID CONFERENCE

SDG&E will host one pre-bid conference on March 7, 2012. Participation in the pre-bid conference is NOT mandatory in order to submit an offer. Please monitor the RFO Website periodically. The venue will be posted as soon as arrangements are finalized.

Any party interested in attending this pre-bid conference should email the following information to CHPRFO@SempiraUtilities.com

- Company name
- Attendees' names, titles and contact information

7.0 RFO WEBSITE AND COMMUNICATION

The RFO and all subsequent revisions and documents are available for download from the RFO Website. Potential Respondents are responsible for monitoring the RFO Website for subsequent updates, notices and postings.

The RFO website contains RFO forms and documents, RFO Schedule, and a Question and Answer forum. **Those intending to bid must register first to receive a username/password prior to uploading electronic offers.** See instructions on the website to register. The DEADLINE TO REGISTER is indicated in Section 6.0 – “RFO Schedule”.

All questions or other communications regarding this RFO must be submitted via email to CHPRFO@semprautilities.com by the DEADLINE TO SUBMIT QUESTIONS as specified in Section 6.0 RFO Schedule. SDG&E will not accept questions or comments in any other form.

8.0 RFO RESPONSE INSTRUCTIONS

Respondents are required to submit at least two offer forms (maximum of 10) to this solicitation by submitting the forms listed below. Forms are available on the RFO Website. The failure to provide the listed information may result in the proposal being deemed non-conforming and may disqualify the proposal from further consideration.

Required Participation Forms:

- 1) **Offer Form** – Bidders must include in their Offer Form proposed pricing for the following items:
 - a) Firm Capacity Payment (\$/kW-yr)
 - i. Fixed O&M cost applied to the Firm Capacity Payment
 - b) As-Available Capacity Payment (\$/kW-yr)
 - i. Applicable only to CHP Pro Forma PPAs.
 - c) Energy Payment in \$/MWh or,
 - d) At a guaranteed (fixed) heat rate Btu/kWh applied to either the PG&E City Gate or SoCal Gas price index
 - i. Gas Transportation Service Rate (\$/MMBtu) applied to the gas price index if applicable
 - ii. Variable O&M (\$/MWh) applied to the energy payment if applicable

Bidders are required to complete the Offer Form as well as the other applicable appendices. The Offer Form should be completed in conjunction with the PPA form of contract when provided. In order for a PPA Offer to be considered, it shall include two GHG Compliance Cost options as set forth in the pro-forma CHP RFO PPA or Utility Prescheduled Facility (“UPF”) PPA, as applicable.
- 2) **Project Description Form** – Submit one per project. A written description of the generating facility as well as the following information: (i) nameplate of each generating unit, heat balance diagrams, thermal host and use, contractual arrangements, and description of all interconnection systems.
- 3) **CEC-2843 Application Form** – Submit a copy of respondent’s application to the CEC requesting qualification for the Combined Heat and Power System.
- 4) **Electric Interconnection Information** – Please provide copies of completed studies (if any), provide the name of the substation and interconnection voltage applicable to the facility as well as the nearest 230kV substation (if known) in the Offer Form (listed above).
- 5) **Credit Application** – Submit one per project. A credit application will be required under all PPAs. Changes to terms and conditions will render the offer non-conforming and disqualify the project from further consideration.
- 6) **Supplier Diversity Information** - Provide a copy of certification documents received from the California Public Utilities Commission. An application can be made before submission of the offer and referenced in the offer.
- 7) **Redline forms of the Applicable PPA** – Submit up to one of each if respondent wishes to bid in the facility as both a base load and dispatchable resource. CHP RFO Pro Forma PPA Redline will be used for base load resources and the CHP Utility Prescheduled Facility PPA Redline will be used for dispatchable resources.

The Project Description Form, Credit Application, and completed PPA must be in Word or Word-compatible format (not in PDF). The Offer Forms must be in Excel (.xls or .xlsx) format (not in PDF).

Any party interested in submitting an offer must register on the RFO Website and upload the offer to the Website. To register, Respondents must send an e-mail to CHPRFO@semprautilities.com containing the bidder name and contact information. A username/password combination will be issued allowing access to the offer upload link. All offers must be uploaded to the RFO Website no later than **1:00 p.m.**, Pacific Prevailing Time, on the CLOSING DATE (see RFO Schedule). If Respondents encounter technical difficulties with the uploading process, they should provide evidence of such difficulties (e.g. a screen shot of the error message) and email the bid to the RFO inbox by 1:00 p.m., Pacific Prevailing Time, on the Closing Date. If the Respondent encounters technical difficulties with both the uploading process and the RFO inbox, they should provide evidence of such difficulties (e.g. a screen shot of the error message or a sent email notice with a time stamp before 1:00 p.m. on the Closing Date) and submit a USB Thumb Drive or CD of the bid package to SDG&E and the Independent Evaluator at the addresses below by close of business on the day following the Closing Date.

San Diego Gas & Electric Company
Electric and Fuel Procurement Department
Attn: CHP RFO
8315 Century Park Court, CP21D
San Diego, CA 92123-1593

Mike Katz
Van Horn Consulting
28 Brookdale Ct.
Lafayette, CA 94549

All offer materials submitted shall be subject to the confidentiality provisions of Section 10.0 Confidentiality of this RFO.

SDG&E will review and may utilize all information, if any, submitted by a Respondent that is not specifically requested as a part of any forms. During all stages of the RFO process, SDG&E reserves the right to request additional information from individual Respondents or to request any Respondent to submit supplemental materials in fulfillment of the content requirements of this RFO or to meet additional information needs. SDG&E also reserves the unilateral right to waive any technical or format requirements contained in the RFO.

Respondents offering the same projects to multiple solicitations or other contracting opportunities are hereby advised that if SDG&E notifies Respondent that their offer is shortlisted, the Respondent must decide within 10 days to accept the short listing and immediately withdraw their offer from all other solicitations/contracting opportunities or risk being removed from the shortlist. Respondent's shall confirm such withdrawal by submitting to SDG&E a copy of the written correspondence sent to all other solicitations/opportunities pertaining to such withdrawal while granting SDG&E permission to contact the other solicitors to confirm the withdrawal. ALL

OFFERS SHALL BE VALID AND BINDING UPON THE RESPONDENT AFTER BEING SELECTED FOR THE SHORT LIST UNTIL CONTRACT EXECUTION.

SDG&E WILL NOT REIMBURSE RESPONDENTS FOR THEIR EXPENSES UNDER ANY CIRCUMSTANCES, REGARDLESS OF WHETHER THE RFO PROCESS PROCEEDS TO A SUCCESSFUL CONCLUSION OR IS ABANDONED BY SDG&E IN ITS SOLE DISCRETION.

9.0 REJECTION OF OFFERS

SDG&E SHALL TREAT ALL RESPONDENTS FAIRLY AND EQUALLY AND SHALL EVALUATE ALL OFFERS IN GOOD FAITH. WHILE SDG&E IS MINDFUL OF THE BENEFITS OF ENERGY FROM CHP FACILITIES AND IS VIGOROUSLY PURSUING THE GOALS OF THE CHP SETTLEMENT, IT MAKES NO GUARANTEE THAT A CONTRACT AWARD SHALL RESULT FROM THIS RFO EVEN AFTER AN OFFER HAS BEEN SHORTLISTED. 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 OFFERS, 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.

10.0 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, OFFER 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 SUMMARIZE ELEMENTS OF THE OFFER(S) IT DEEMS CONFIDENTIAL. THE SUMMARY MUST CLEARLY IDENTIFY WHETHER OR NOT PRICE, PROJECT NAME, LOCATION, SIZE, TERM OF DELIVERY AND TECHNOLOGY TYPE (EITHER COLLECTIVELY OR INDIVIDUALLY) 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, CONTRACTORS, CONSULTANTS, THE INDEPENDENT EVALUATOR, 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, THE CEC, ITS STAFF, SDG&E'S PRG, AND THE COST ALLOCATION METHODOLOGY ("CAM") GROUP. SDG&E WILL SEEK CONFIDENTIAL TREATMENT PURSUANT TO PUBLIC UTILITIES CODE SECTION 583 AND GENERAL ORDER 66-C OF THE CPUC, 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 CALIFORNIA ENERGY COMMISSION (“CEC”) FOR RESPONDENT’S CONFIDENTIAL INFORMATION AND WILL SEEK CONFIDENTIALITY AND/OR NON-DISCLOSURE AGREEMENTS WITH THE PROCUREMENT REVIEW GROUP (“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.

11.0 CHP PROGRAM PARAMETERS

THIS RFO'S ROLE IN THE CALIFORNIA AB 32 PROGRAM

As part of the CHP Settlement, (approved in Decision (“D.”) 10-12-035) a new CHP Program was developed for California Investor Owned Utilities (“IOUs”) setting a 3,000 MW target to maintain the GHG benefits of the existing CHP fleet in California. SDG&E’s share of this allocation is 211 MW.

PROCUREMENT REVIEW GROUP

The Procurement Review Group (PRG), a CPUC-endorsed entity, is composed of non-market bidders such as ratepayers’ advocacy groups, state energy and water commissions, power authorities, utility-related labor unions and other non-commercial, energy-related special interest groups. CPUC D.03-06-071 established the role of the PRG in the RPS Program. Each IOU has its own PRG. The PRG is charged with overseeing the IOU’s procurement process, reviewing procedural fairness, examining overall procurement prudence and providing feedback during all stages. From RFO language development to offer evaluation to contract negotiation, each IOU briefs its PRG on a periodic basis during the entire process.

Respondents are hereby notified that revealing confidential offer information to the PRG is required during PRG briefings in accordance with Section 10 (“Confidentiality”). Each Respondent must clearly identify, as part of its offer, what type of information it considers to be confidential.

INDEPENDENT EVALUATOR

The CPUC requires each IOU to use an Independent Evaluator (“IE”) to evaluate and report on the IOU’s entire solicitation, evaluation, and selection process. The IE will review SDG&E’s implementation of the RFO process and final selections. The IE also makes periodic presentations regarding its findings to the IOU, and the IOU’s PRG, including the CPUC Energy Division staff. The intent of these IE presentations is to preserve the independence of the IE by ensuring free and unfettered communication between the IE and the CPUC as well as an open, fair, and transparent process that the IE can affirm.

SDG&E is committed to ensuring an open and transparent solicitation, and to providing a fair, reasonable and competitive process.

12.0 SDG&E BACKGROUND

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 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 include the Encina plant (connected into SDG&E's grid at 138 kV and 230 kV), the Palomar Energy Center (connected at 230kV) and a number of combustion turbine facilities located around the service area (connected at 69 kV). 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 San Onofre Nuclear Generating Station 230-kV switchyard.

The figure below shows a simplified diagram of existing SDG&E's service area, which encompasses an area of 4,100 square-miles and spans 2 counties and 25 communities.



For a map California IOU service territories please visit:
http://www.energy.ca.gov/maps/serviceareas/electric_service_areas.html