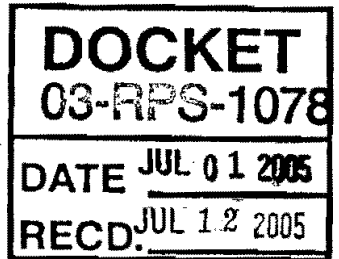




SAN DIEGO GAS AND ELECTRIC COMPANY
ELECTRIC AND GAS PROCUREMENT DEPARTMENT
8315 CENTURY PARK COURT, CP21D
SAN DIEGO, CA 92123



**REQUEST FOR
OFFERS**

ELIGIBLE RENEWABLE RESOURCES

ISSUED
JULY 1, 2004

PRE-BID CONFERENCE
JULY 19, 2004

OFFERS DUE
AUGUST 12, 2004

RFO WEBSITE
[HTTP://WWW.SDGE.COM/RENEWABLERFO](http://www.sdge.com/renewablerfo)

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1.0 SCOPE OF REQUEST

San Diego Gas & Electric Company (SDG&E) is issuing this Request for Offers (RFO) to solicit offers from eligible renewable energy resources (Respondents). By responding, Respondents are bound by the terms of this RFO. SDG&E is seeking resources to expand its renewable portfolio. SDG&E's goal is to achieve an overall resource portfolio comprising of 20% renewable energy by the year 2010.¹ Resources offered must meet the California state Renewable Portfolio Standard (RPS) eligibility criteria set forth by the California Energy Commission. (See Section 5.0 RPS Program Parameters for additional information.)

Respondents must offer a minimum of 1MW (net contract capacity) if the resource is within SDG&E's service area or 5MW (net contract capacity) if the resource is outside of SDG&E's service area. Deliveries must commence in the years specified within the RFO. All Renewable Energy Credits (REC's) associated with the plant shall be assigned to SDG&E and included in the contract price.

Proposed resources may include capacity and/or energy from:

- 1) Re-powering of existing facilities;
 - 2) Incremental capacity upgrades of existing facilities;
 - 3) New facilities;
 - 4) Existing facilities with expiring contracts; or
 - 5) Eligible resources currently under contract with SDG&E.
- SDG&E shall consider offers to extend terms of or expand contracted capacities for existing agreements.

Products may be for unit firm (Peaking, Baseload or Dispatchable) or as-available deliveries. Resources may be proposed on the basis of any of the alternatives described below. Additional resource criteria are described in Section 7.0 Resource Criteria. For purposes of this RFO, SDG&E considers its peak demand hours to be as shown below.

Guidelines for Peaking Resources

- July, August, September, October: MON-FRI 11am-7pm (excluding NERC Holidays); AND
- January – June and November – December: MON-FRI 1pm-9pm (excluding NERC Holidays)

POWER PURCHASE AGREEMENT

Respondent shall propose a 10, 15 or 20-year power purchase agreement for capacity and/or energy from an eligible renewable resource that can meet the criteria described herein. Offers for any other contract duration shall be considered; and, any resultant agreement shall be subject to CPUC approval. Deliveries must commence in 2005, 2006, 2007 or 2008. Resources located in Imperial Valley must commence in 2010, unless the resource has adequate transmission capability to deliver to SP-15. Any agreement executed with a Respondent offering resources from Imperial Valley

¹ For information on SDG&E's procurement target, refer to Appendix B of Decision 04-06-014, issued by the California Public Utilities Commission on June 14, 2004. See Section 5.0 RPS Program Parameters for a link to download the decision.

without such adequate transmission capability shall be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area. All resources must deliver to SP-15 and all pricing must reflect cost of energy at SP-15. The generating facility and transmission interconnection must be designed and constructed in conformance with the California Independent System Operator's (CAISO) various reliability agreements, procedures, protocols, tariffs and standards. The Respondent will own and operate the facilities and be responsible for development, land acquisition, fuel supply source and transportation, permitting, financing and construction for the facilities. Respondents must be poised to sign an agreement in substantially the form of the EEI Master Power Purchase and Sales Agreement, as amended (PPA). (See Section 14.0 Model Documents and Other Attachments).

ALTERNATIVE I. POWER PURCHASE AGREEMENT WITH SDG&E BUYOUT OPTION

In addition to the PPA described above, Respondents offering RPS eligible geothermal, photovoltaic or wind resources may also provide an option price for SDG&E to acquire the facility along with all environmental attributes, land rights, permits and other licenses – thus enabling SDG&E to own and operate the facility at the end of the PPA term. Deliveries must be located in and commence in accordance with the following:

- 1) Any photovoltaic or wind resource must be a new facility and must be sited within SDG&E's service area. Deliveries must commence in 2005, 2006, 2007 or 2008.
- 2) Any geothermal resource must be a new facility, must be sited within Imperial Valley. Any agreements executed with a Respondent offering resources from Imperial Valley shall be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area. Resources must commence deliveries in 2010.

If SDG&E accepts the buyout option, SDG&E would notify the Respondent and exercise the option in Year 4 and pay for the buyout in Year 5. Otherwise, the PPA shall continue for another 10 years. The generating facility must be located on land owned or leased by the Respondent, with land rights assigned to or purchased by SDG&E as part of the facility acquisition. Any land lease, subject to SDG&E approval, must be in adequate form and for an adequate term (at least the life of the asset). The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's various reliability agreements, procedures, protocols, tariffs and standards. The offer shall include (1) the capacity and energy price in PPA Years 1-5; (2) a firm price for the buyout option; and (3) the capacity and energy price in PPA Years 6-15. Respondents may apply for and receive Supplemental Energy Payments during the PPA term (See Section 5.0 RPS Program Parameters). Photovoltaic and wind facilities proposed under Alternative I shall be designed and constructed in conformance with the specifications, available for download from the RFO Website. Geothermal specifications shall be negotiated. Respondents must be poised to sign a power purchase agreement in substantially the form of the EEI Master Power Purchase and Sales Agreement, as amended. (See Section 14.0 Model Documents and Other Attachments).

ALTERNATIVE II. TURNKEY ACQUISITION AGREEMENT

Respondent may propose to develop, permit, and construct a new RPS eligible geothermal, photovoltaic or wind generating facility to be acquired by SDG&E. Any geothermal resource must be a new facility, must be sited within Imperial Valley and must deliver to SP-15. Any photovoltaic

or wind resource must be a new facility and must be sited within SDG&E's service area. Deliveries must be located in and commence in accordance with the following:

- 1) Any photovoltaic or wind resource must be a new facility and must be sited within SDG&E's service area. Deliveries must commence in 2005, 2006, 2007 or 2008.
- 2) Any geothermal resource must be a new facility, must be sited within Imperial Valley. Any agreements executed with a Respondent offering resources from Imperial Valley shall be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area. Resources must commence deliveries in 2010.

The facility must be located on land owned or leased by the Respondent, with land rights assigned to or purchased by SDG&E as part of the generation facility acquisition. Any land lease, subject to SDG&E approval, must be in adequate form and for an adequate term (at least the life of the asset). The generating facility and transmission interconnection must be designed and constructed in conformance with CAISO's various reliability agreements, procedures, protocols, tariffs and standards. Respondents are also encouraged to propose options through alternative financing, sharing of commercial risks or utilizing utility-provided land that would reduce the cost to SDG&E. Photovoltaic and wind facilities proposed under Alternative II shall be designed and constructed in conformance with the specifications, available for download from the RFO Website. Geothermal specifications shall be negotiated.

2.0 RFO WEBSITE AND COMMUNICATION

The RFO and all subsequent revisions are available for download from the RFO Website. The website address is: <http://www.sdge.com/RenewableRFO>. Potential Respondents are responsible for checking the RFO Website for subsequent updates, notices and postings.

The RFO Website contains a "Restricted Area". This restricted area, which may only be accessed with a user ID and password, contains RFO attachments, a Question and Answer forum and other information. RESPONDENTS MUST HAVE ACCESS TO THE RESTRICTED AREA TO SUBMIT RFO-RELATED QUESTIONS AND UPLOAD ELECTRONIC OFFERS. E-mail registration requests to RenewableRFO@SempraUtilities.com. The following information is required of prospective Respondents in order to register and obtain a user ID and password:

- 1) Name of Company
- 2) Company Address
- 3) Company Representative:
 - a) Name
 - b) Phone number
 - c) E-mail address
- 4) Indication of intent to bid:
 - a) PPA-only, Alternative I or Alternative II
 - b) Technology Type
 - c) Product Type (as-available or unit firm)
 - d) Nameplate Capacity
 - e) Capacity Factor
 - f) Annual Expected MWH (as-available)
 - g) Contract Term (or delivery period)
 - h) Delivery Start Date

Instructions on access and use of the RFO Website will be sent to the prospective Respondent's e-mail address.

All questions or other communications regarding this RFO must be submitted via the Restricted Area of the RFO Website by the deadline specified in Section 3.0 RFO Schedule. SDG&E will not accept questions or comments in any other form, except during the pre-bid conference.

RFO Website:

<http://www.sdge.com/RenewableRFO>

3.0 RFO SCHEDULE

The pre-bid conference will be held at the following address starting at 1:00 pm (local prevailing time). Conference participants must sign in with Security in Building 6 prior to proceeding to Seminar Rooms 1, 2 and 3. A list of pre-bid conference participants will be provided on the RFO Website.

San Diego Gas & Electric Company
8326 Century Park Court
Building 6, Seminar Rooms 1, 2 and 3
San Diego, CA 92123-1593

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 accessing the RFO Website for updated schedules and possible amendments to the RFO or the solicitation process.

■ RFO Schedule ².

NO.	ITEM	DATE
1.	RFO Issued	07/01/2004
2.	Pre-bid conference, 1:00p.m (local prevailing time)	07/19/2004
3.	Question submittal cut-off date: 5:00 p.m. (local prevailing time)	07/22/2004
4.	CLOSING DATE: Offers must be uploaded to and received by the RFO Website by 5:00 p.m. (local prevailing time)	08/12/2004
5.	SDG&E notifies CPUC (Executive Director) that bidding has closed.	08/19/2004
6.	Respondents submits to SDG&E: Two original signed offers (hard-copies); AND One original signed offer (Redacted version); AND Electronic offers (Redacted version)	08/19/2004
7.	SDG&E notifies CPUC (Executive Director) that preliminary short list is complete.	09/16/2004
8.	Market Price Referent (MPR) issued by CPUC	TBD
9.	SDG&E meets with PRG and provides preliminary short list	1 week after MPR issued
10.	SDG&E adjusts preliminary short list, based upon results of PRG review, to CPUC and PRG	2 weeks after MPR issued
11.	SDG&E issues appreciation notices to unsuccessful Respondents	2 week after MPR issued
12.	SDG&E notifies short-listed Respondents	2 week after MPR issued
13.	Letter due from short-listed Respondents indicating: a. Withdrawal from SDG&E's solicitation; OR b. Acceptance of short-listed standing, withdrawal of participating in any other solicitation and evidence of withdrawal notice to all other solicitors.	5 Business Days after notification to short-listed Respondents

² This schedule based upon the schedule set forth in the draft decision, Opinion Adopting Criteria for the Selection Least-Cost and Best-Fit Renewable Resources, issued on 06/25/2004. A final decision on this matter is on the CPUC calendar for 07/08/2004. To the extent the final decision requires revision of this schedule, SDG&E will post the changes on the RFO Website and email notification to all registered users of the website.

NO.	ITEM	DATE
14.	SDG&E begins contract negotiations with remaining short listed offerors	5 Business Days after notification to short-listed Respondents
15.	FINAL SHORT LIST: Final screening and PRG review (portfolio fit and other transmission upgrade costs)	≈10 weeks after Closing Date
16.	Negotiations Complete Negotiations for Alternative I and Alternative II may take longer than 17 weeks.	≈17 weeks after negotiations commences
17.	PRG Review	≈1 week after negotiations completed
18.	Sign Contracts	1 week after PRG Review
19.	Advice Letter Filed to Obtain CPUC approval of contracts	≈3 to 4 weeks after negotiation completed
20.	SDG&E informs CPUC and CEC of proposed contracts that are subject to SEP	1 week after PRG Review
21.	Sellers applies for SEP and forwards proposed contracts to CEC	1 week after PRG Review
22.	CEC evaluates proposed contracts for SEP availability and the need for caps	1 to 30 days after receiving proposed contracts
23.	PGC Funding Confirmations consist of letters from Renewables Committee to: (1) CPUC, who sees all bidders' proposed awards, (2) IOUs, who see proposed awards from bidders in their solicitation; and, (3) individual offerors, who only see their own proposed awards. Awards are contingent upon the receipt of necessary environmental permits Letters will identify any caps imposed.	30 days after receiving proposed contracts
24.	If necessary, SDG&E and bidders restructure payment terms based on the amount of the SEP award. Generators have the option to re-structure IOU payment streams in their contract based on availability of SEPs and whether caps are imposed. If the SEP award is insufficient to satisfy the needs of the generator, the IOUs and sellers follow the first right of refusal provisions in the Standard Contract Terms and Conditions	3 weeks after PGC Funding Confirmations
25.	Sellers confirm PGC funding with utility Sellers have 120 days to confirm PGC funding awards, and must transmit notice of PGC funding award to buyers 10 days after CEC provides it	130 days after execution of contract
26.	CEC signs formal PGC funding award agreements with Seller PGC funding award agreements are not effective until Sellers have their environmental permits, and the agreement has been approved at CEC business meeting and signed by all parties	TBD
27.	SDG&E signs revised contracts with Sellers holding PGC funding award agreements.	2 Business Days after formal PGC funding award agreements signed
28.	SDG&E submits supplemental advice letters to CPUC for approval of proposed contracts containing revised terms necessitated by allocation of PGC funding.	5 Business Day after contracts signed
29.	CPUC issues Resolutions approving RPS contracts ALs are approved pursuant to standard Commission procedure, following CEC signing of PGC funding award agreements	TBD

4.0 RFO RESPONSE INSTRUCTIONS

All offers submitted pursuant to this RFO must contain, at a minimum, the following:

- 1) The information requested on the Offer Response Forms;
- 2) The Credit Application;
- 3) The information requested on the Additional Narrative Information Sheet (Alternative I and Alternative II offers only);
- 4) The list of Confidential and Proprietary terms in accordance with Section 10 Confidentiality; and,
- 5) Redline comments (if any) to the model PPA, specifications and documents listed in Section 14.0 Model Documents and Other Attachments.

Respondents may download all Offer Response Forms, the Credit Application, model PPA and specifications from the RFO Website.

All offers must be uploaded to and received by the Registered Users Area of the RFO Website by 5:00 p.m. local prevailing time, on 08/12/2004. (The Website's upload capability shall begin on 07/30/2004.) The Offer Response Forms must be in Excel or Excel-compatible format. The Credit Application, any narratives and redline comments to the model PPA and specifications may be in Word or .pdf format.

No later than 08/19/2004, Respondent shall provide to SDG&E the following:

- 1) Hard copy printouts - Two hardcopy printouts of the original offer signed by an authorized officer of the Respondent. The original signed offer must be IDENTICAL to the electronic offer submittal. All offer materials and information submitted shall be subject to the confidentiality provisions of Section 10.0 Confidentiality of this RFO.
- 2) Electronic REDACTED offers - Another set of electronic documents highlighting all text and items Respondent wants to REDACT when SDG&E files the offers to the CPUC. This item may be mailed in a CD-ROM as instructed below.
- 3) Hardcopy REDACTED offers - One hardcopy printout of the redacted offer.

Items 1 – 3 above must be sent to the address shown below and must be received by SDG&E no later than 08/19/2004 (which is 5 Business Days after the due date of electronic copies).

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

Offers must include narratives containing adequate detail to allow SDG&E to evaluate the merits and credibility of the proposed resources. Respondents must address the following topics in the order listed:

- 1) Name of Company, Address, and Company Representative (name, phone number and email address)
- 2) Technology Type
- 3) Type of Offer: PPA-only, Alternative I and/or Alternative II
- 4) Resource origin: repowered/upgraded/new facility or extend existing agreement with SDG&E;
- 5) Product Type: as-available or unit firm
- 6) Nameplate Capacity and Net Contract Capacity
- 7) Annual expected output (as available only)
- 8) Pricing (reflecting cost of energy at SP-15)
- 9) Operational characteristics including maintenance, delivery profile (peak and off-peak, hourly, daily, seasonal, annual), curtail-ability and dispatch-ability. Documentation supporting delivery characteristics must be submitted.
 - a. Respondent may offer the ability to dispatch-down deliveries for a certain amount of hours per year. This option may be exercised by SDG&E for any reason, including economic reasons. If this option is being offered, Respondent shall discuss terms and operational conditions for dispatching-down and indicate on the Offer Form the number of annual hours resource can be dispatch-down, the amount of curtailable capacity and the unit cost to SDG&E per curtailed MWH.
- 10) Interconnection plan and costs
- 11) Reliability of proposed technology
- 12) Project location, the merits of selected site, and the proposed land rights (includes permitting issues)
- 13) Delivery point
- 14) Fuel source and plan, if applicable
- 15) Financing plan including, if applicable, on-going debt/equity ratio to be carried by the project during construction (if not yet constructed) and during operation.

- 16) Duration between contract signing and online date
- 17) Contract Term (delivery period starting from online date)
- 18) Overall project and construction schedule
Include major milestones such as completion of permitting, financing, regulatory requirements, major construction, testing, on line date, etc...
- 19) Corporate profile and Respondent's experience developing similar projects
- 20) Other projects of a similar nature and technology, developed by Respondent, currently in operation
- 21) A list summarizing parts, sections and elements of the offer that are confidential or proprietary.
- 22) Respondents offering geothermal or wind resources under Alternative I and Alternative II shall provide the information listed in the Additional Narrative Information Sheet (Geothermal and Wind Resources). The sheet can be downloaded from the RFO Website.
- 23) Respondents offering photovoltaic resources under Alternative I and Alternative II shall provide the information listed in the Additional Narrative Information Sheet (Photovoltaic Resources). The sheet can be downloaded from the RFO Website.

Respondents submitting offers that include the construction of new generation facilities must provide adequate detail to allow SDG&E to determine whether the proposed capacity will economically and reliably meet SDG&E's resource requirements.

Respondents anticipating the need for subsidies, grants, Supplemental Energy Payments, Production Tax Credits (PTC's) or any other third party monetary awards shall detail finances associated with monetary awards and discuss how such funding or lack of funding shall impact the offer or any PPA.

Respondents who would rely on PTC's if such credits were to be made available shall submit two price offers: one if PTC credit is available and one if PTC credit is unavailable.

Respondents currently receiving SB90 awards must declare current receipt of the award and state whether Respondent shall relinquish the award prior to execution of an agreement. A Respondent who chooses to keep existing SB90 awards shall be ineligible for supplemental energy payments. Similarly, projects receiving Public Goods Charge Funds from the existing Renewable Facilities Program under Section 383.5 would not qualify for supplemental energy payments.

SDG&E will review and may utilize all information, if any, submitted by a Respondent that is not specifically requested as a part of the Response Forms or Credit Application. During all stages of the RFO process, 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. SDG&E also reserves the unilateral right to waive any technical or format requirements contained in the RFO.

Respondents offering the same capacity and/or energy from one resource to multiple solicitations are hereby advised that if SDG&E notifies Respondent that the offer is being short-listed, the Respondent MUST immediately withdraw their offer from all other solicitations or risk being removed from the short list. Respondent's shall confirm such withdrawal by submitting to SDG&E a copy of the written correspondence sent to all other solicitations 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.

5.0 RPS PROGRAM PARAMETERS

CALIFORNIA RPS PROGRAM

California's RPS Program was established when the Governor of California signed into law Senate Bill 1078 on September 20, 2002. The law requires Investor Owned Utilities (IOU's) to comply with two requirements: (1) annually increase its procurement of renewable resources by 1% of its retail sales and (2) procure renewable energy in the amount of 20% of its retail sales by 2017. In response, the California Public Utilities Commission (CPUC) issued D.03-06-071 on June 19, 2003. The decision established various RPS Program parameters by which IOU's and Respondents must abide. The CPUC issued Decision D.04-06-014 on June 9, 2004, a follow-up decision that established additional RPS Program criteria.

This RFO is being issued and conducted in compliance with the law and all CPUC directives. Requirements set forth within the law and all directives shall be incorporated herein by reference. A full text of the law and CPUC decisions can be downloaded from the Internet via the following URL's. Respondents are encouraged to review all RPS-related, CPUC issued directives available on the same Internet websites and are responsible for understanding and abiding by all RPS provisions:

Senate Bill 1078: <http://www.energy.ca.gov/portfolio/documents/index.html>
CPUC D.03-06-071: http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/27360.htm
CPUC D.04-06-014: http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/37401.htm

RPS ELIGIBILITY CRITERIA

Respondents successfully signing agreements with SDG&E must warrant that the resources being offered in response to this solicitation are certifiable as an "eligible renewable resource" by the California Energy Commission (CEC). Eligibility criteria are set forth by the CEC in its Renewable Portfolio Standard Eligibility Guidebook. The CEC guidebook can be downloaded from the following internet website: <http://www.energy.ca.gov/portfolio/documents/index.html>. Respondents are encouraged to review all RPS-related, CEC issued directives available on the same Internet website and are responsible for understanding and abiding by all RPS provisions. All requirements set forth within this guidebook and all RPS-related documents shall be incorporated herein by reference.

Respondents are encouraged, although not required, to apply for pre-certification from the CEC in advance of submitting a offer. Pre-certification forms are available from the above-entitled guidebook. An excerpt of the eligibility requirements is provided at the end of this section.

SUPPLEMENTAL ENERGY PAYMENTS

Senate Bill 1078 assigns the CEC the task of allocating and rewarding Supplemental Energy Payments (SEP) to “eligible renewable energy resources to cover above-market cost of renewable energy.” An IOU’s payment obligation to eligible renewable providers is capped at the CPUC established Market Price Referent (MPR). SEP’s are necessary to cover any above-MPR costs.

Respondents successfully signing agreements with SDG&E as part of this competitive solicitation must independently apply for SEP with the CEC. The criterion that deems a resource an “eligible” renewable resource may not be the same eligibility criterion for SEP. Respondents are encouraged to review the CEC guidebook, New Renewable Facilities Program. It establishes eligibility requirements, application procedures and payment terms for SEP’s. Respondents should review the guidebook for information on how to apply for and receive SEP’s. The guidebook can be downloaded from the following Internet website: <http://www.energy.ca.gov/portfolio/documents/index.html>. Respondents are encouraged to review all RPS-related documents available on the same Internet website and are responsible for understanding and abiding by all RPS provisions. All requirements set forth within this guidebook and all RPS-related documents shall be incorporated herein by reference.

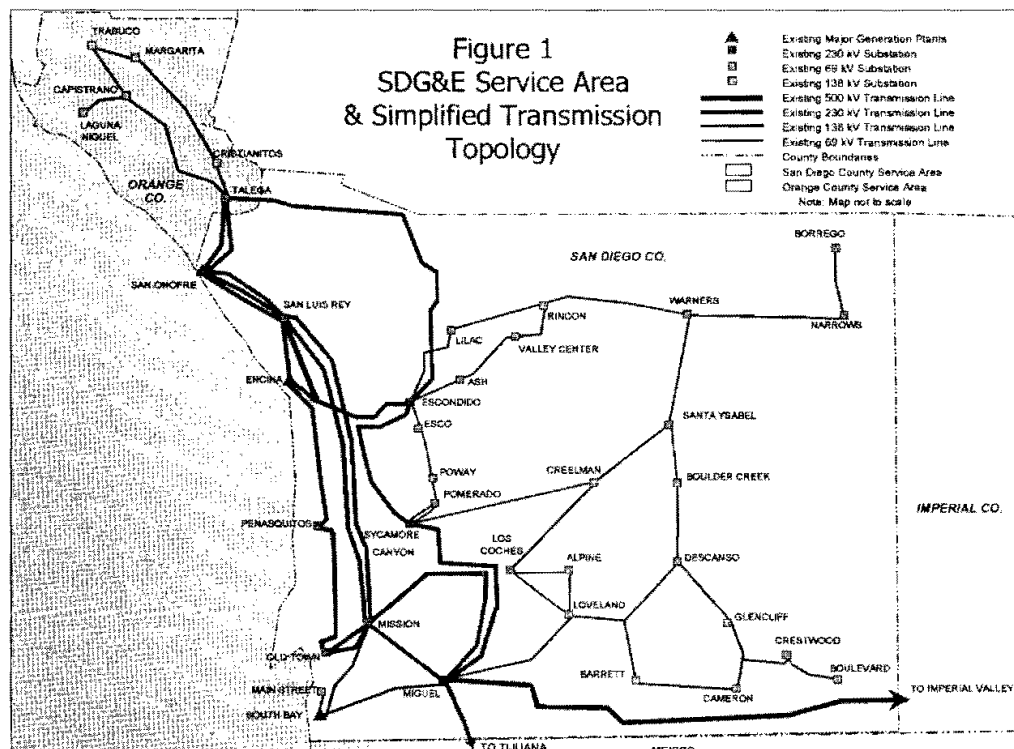
PRODUCTION TAX CREDIT

The CPUC issued a ruling on September 29, 2003. For each respondent who would rely on PTC’s if such credits were to be made available, the ruling stipulates a respondent shall submit two price offers: one if PTC credit is available and one if PTC credit is unavailable. A full text of the ruling can be downloaded from the following Internet website: <http://www.cpuc.ca.gov/PUBLISHED/RULINGS/30260.htm>.

PROCUREMENT REVIEW GROUP

The Procurement Review Group (PRG), a CPUC-endorsed entity, is composed of non-market participants 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 Decision D.03-06-071 established the role of the PRG in the RPS Program. 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 bid evaluation to contract negotiation, IOU’s 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 10 Confidentiality. Respondents must clearly identify, as part of its offer, what type of information it considers to be confidential.



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 are the Encina plant (connected into SDG&E's grid at 138 kV and 230 kV), the South Bay plant (connected at 69 kV and 138 kV), 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 (SWPL), 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 – SDG&E's only direct interconnection with the CAISO Service Area.

SDG&E is in the process of planning transmission upgrades to accommodate import capabilities from Imperial Valley. If approved by the Commission, the upgrades will accommodate offers from Imperial Valley.

INTERCONNECTION STUDIES

If a proposed resource is located within SDG&E's service area and if a Respondent has previously obtained interconnection studies pursuant to SDG&E's Transmission Owner Tariff (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, SDG&E will conduct a preliminary interconnection study at its own cost in order to estimate interconnection and network upgrade costs for the purpose of bid evaluation. However, SDG&E shall not be bound by its preliminary estimates; and, prior to actual interconnection, successful Respondents will be responsible for all costs associated with performing more detailed interconnection studies pursuant to SDG&E'S tariff.

7.0 RESOURCE CRITERIA

As stated in RFO Section 1.0 Scope of Request, SDG&E seeks resources with the minimum characteristics described below.

- 1) Proposed resources must be CEC-certifiable as an eligible renewable resource;
- 2) The Net Contract Capacity must be $\geq 1\text{MW}$, net of all auxiliary and station parasitic loads; (if within SDG&E service area)
- 3) The Net Contract Capacity must be $\geq 5\text{MW}$, net of all auxiliary and station parasitic loads; (if outside of SDG&E service area)
- 4) Deliveries must be located in and commence in accordance with the following:
 - a) For PPA offers, deliveries must commence in 2005, 2006, 2007 or 2008. Resources located in Imperial Valley must commence in 2010, unless the resource has adequate transmission capability to deliver to SP-15. SDG&E encourages but does not require resources to be located in SDG&E's service area. Resources outside of SP-15 must deliver to SP-15.
 - b) For Alternative I and Alternative II offers,
 - i. Photovoltaic and wind resources must be sited within SDG&E's service area and must commence deliveries in 2005, 2006, 2007 or 2008.
 - ii. Geothermal resources must be sited within Imperial Valley and must commence deliveries in 2010. Any agreements executed with a Respondent offering resources from Imperial Valley shall be contingent upon SDG&E obtaining approval for and being able to license and construct a new 500 kV line from Imperial Valley to the San Diego area. Resources must commence deliveries in 2010.
- 5) All REC's must be tendered to SDG&E without any additional costs or conditions.

In addition to the minimum characteristic described above, additional requirements expected from Respondents successfully entering into an agreement with SDG&E include, but is not limited to:

- 1) Respondents shall be financially and operationally responsible for the transmission gen-tie up to the point of interconnection with the local transmission/distribution network in accordance with applicable laws.
- 2) For the PPA, Respondents must have a verifiable fuel resource plan for the duration of the PPA.
- 3) For the PPA and during the PPA term of Alternative I, Respondents shall serve as their own scheduling coordinator or make arrangements for a third party scheduling

coordinator at Respondent's cost. Respondent or their third party scheduling coordinator shall be responsible for all CAISO imbalance costs, fees and penalties.

- 4) For the PPA and during the PPA term of Alternative I, Respondent will provide personnel required to operate the Facility.
- 5) For the PPA and during the PPA term of Alternative I, resource operations will be scheduled in accordance with the California Independent System Operator's (CAISO) Tariff Schedules and Bids Protocols (Original Sheet No. 536 et seq.), and Dispatch Protocol (Original Sheet 453 et seq.), as from time to time modified. CAISO compliant real-time metering of the generation will be required for Energy Management System (EMS) data.
- 6) For the PPA and during the PPA term of Alternative I, Respondents must execute Participating Generator Agreements and Meter Service Agreements as required by the CAISO.
- 7) For the PPA and during the PPA term of Alternative I, to facilitate monthly settlement processes, Respondents shall authorize Buyer to view the Facility's CAISO on-line meter data by identifying SDG&E as an authorized user with "read only" privileges on Schedule 3 of Respondent's Meter Service Agreement with the CAISO.
- 8) For Alternative I and Alternative II, Respondents shall include as part of its offer a proposal to provide a 10-year O&M servicing agreement for the proposed resource during SDG&E's ownership.
- 9) New Security 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. The provisions do not apply to turn key projects. Some general guidelines for determining whether consolidation must occur 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, does the contract contain fixed long-term prices or does pricing vary over the term of the agreement based on market conditions or other factors

For any PPA that meets 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 a PPA:

- a) Complete financial statements and notes to financial statements and
- b) Financial schedules underlying the financial statements, all within 15 days of the end of each quarter.

- c) 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).

Any information provided to SDG&E shall be treated confidentially and only disclosed on an aggregate basis with other similar entities for which SDG&E has power-purchase contracts. The information will only be used for financial statement purposes and shall not be otherwise shared with internal or external parties.

8.0 EVALUATION CRITERIA

Offers that meet RFO requirements will be evaluated on the basis of a least cost/best fit (LCBF) analysis. Three components of the LCBF analysis that are of primary importance to SDG&E in its evaluation of offers are:

- 1) Energy costs delivered to SP-15.
- 2) Overall fit with SDG&E's resource portfolio.
- 3) Transmission system upgrade costs.

SDG&E encourages (but does not require) the development of projects located within SDG&E's service area. Local projects offering firm delivery have intrinsic grid reliability values associated with their operation. However, SDG&E will rank ALL offers, regardless of location, based on their overall value on a least cost/best fit basis. Advantages associated with local projects will be evaluated in accordance with LCBF Item 3 below.

SDG&E is evaluating offers in accordance with CPUC direction and criteria established for the RPS Program. SDG&E will place high emphasis on the offer pricing in its evaluations, not only in terms of the initial cost to SDG&E, but also the long-term costs.

The LCBF process will generally include the following steps:

- 1) Rank the offers by total cost "downstream" from the generator tie.³ Offers will be evaluated relative to the all-in price (including energy and capacity), including transmission system expansion costs (e.g., network upgrades associated with interconnection and delivery) to the extent such information can be extracted from SDG&E's Transmission Cost Ranking Reports and the bidder submits corresponding cost information for transmission upgrades outside of SDG&E's service territory if applicable.
- 2) Eliminate offers within each category that are noticeably more expensive across the entire range of expected operating conditions, with a cross-check to determine whether the remaining offers meet or exceed the desired quantity for procurement. This process will be used to short-list offers. Offers that are eliminated may be reconsidered should an offer that was initially short-listed be rejected or withdrawn during negotiations.
- 3) Evaluate the remaining offers' fit relative to SDG&E's existing portfolio and other potential purchase opportunities. Facilities located within SDG&E's service area will be credited for Reliability Must Run (RMR) and ancillary services value to the extent that the ISO accepts the given technology as meeting RMR and applicable ancillary services.

³ Each Respondent shall be responsible for including "gen-tie" cost in its Offer as presently required by the FERC.

- 4) The transmission cost analysis may be further refined to reflect the short-listed offers as may be appropriate. Such analysis will be presented to SDG&E's PRG. The offers will be re-ranked relative to the total cost basis.
- 5) Differentiate offers of similar cost⁴ by reviewing qualitative factors including: (in no particular order of preference)
 - a) Location
 - b) Benefits to minority and low income areas
 - c) Resource diversity
 - d) Environmental stewardship

These factors will be used to differentiate offers with similar costs for those resources under consideration near the annual procurement target. SDG&E requests that Respondents elaborate in their offer on the benefits of their project with regard to these factors.

- 6) Differentiate offers of similar cost by reviewing other factors including: (in no particular order of preference):
 - a) Reliability
 - b) Ability to advance schedule
 - c) Technology
 - d) Likelihood project will be able to develop and achieve Commercial Operation within established timeframes.
 - e) Operational flexibility (curtailability, dispatchability, etc...)
 - f) Development risk
 - g) Financing plan
 - h) Corporate capabilities, credit, and proven experience

These factors will be used to differentiate offers with similar costs for those resources under consideration near the annual procurement target. SDG&E requests that Respondents elaborate in their offer on the benefits of their project with regard to these factors.

- 7) Final selection will be from those least-cost/best-fit offers chosen for purposes of meeting its RPS requirements.
- 8) The evaluation process and results will be presented to SDG&E's PRG for its review and input. After addressing PRG comments and recommendations, SDG&E will submit the results to the CPUC for its consideration, review, and approval.

⁴ The term "similar cost" is used to indicate expected indifference by the PRG and CPUC as to the cost of one bid or another. The PRG will have access to SDG&E's evaluation and the quantitative and qualitative components of those bids prior to SDG&E's recommendation filing to the CPUC.

The process outlined above contemplates the integration of least-cost and best-fit concepts. Furthermore, best-fit is relevant not only to the overall portfolio, but to transmission assessment, where the attributes of the various offers are reflected in an overall cost basis, thereby allowing for ranking and selection. The above process, by its reliance on the overall fit with SDG&E's existing resource portfolio, encourages the use of least-cost resources. This will encompass the concept of minimizing excess energy sales resulting from the new resources added to the portfolio.

SDG&E will utilize 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.

9.0 REJECTION OF OFFERS

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 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, 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 ATTEMPT TO MAINTAIN THE CONFIDENTIALITY OF ALL OFFERS AS DESIGNATED BY THE RESPONDENT TO THE EXTENT PERMISSABLE UNDER ALL APPLICABLE LAWS, RULES AND ORDERS, PROVIDED, HOWEVER, THAT SUCH INFORMATION IS CLEARLY IDENTIFIED BY RESPONDENT AS "PROPRIETARY AND CONFIDENTIAL" ON THE PAGE ON WHICH PROPRIETARY INFORMATION APPEARS. RESPONDENT SHALL 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 AND TECHNOLOGY TYPE (EITHER COLLECTIVELY OR INDIVIDUALLY) ARE TO BE CONSIDERED AS "PROPRIETARY AND CONFIDENTIAL". WITHIN FIVE (5) BUSINESS DAYS OF SUBMITTING A BID, RESPONDENT MUST SEND SDG&E A REDACTED REDLINE VERSION OF THE OFFER COVERING THE SAME INFORMATION LISTED AS "PROPRIETARY AND CONFIDENTIAL" FROM THE FIRST STEP. SDG&E WILL DISCLOSE OFFER INFORMATION IN ACCORDANCE WITH D.04-06-014.

INFORMATION LABELLED AS CONFIDENTIAL MAY, HOWEVER, BE MADE AVAILABLE TO SDG&E'S AGENTS, ATTORNEYS, ADVISORS, OR CONTRACTORS FOR THE PURPOSE OF EVALUATING RESPONDENT'S OFFER, BUT SUCH AGENTS, ADVISORS, OR CONTRACTORS SHALL BE REQUIRED TO OBSERVE THE SAME CARE WITH RESPECT TO DISCLOSURE AS SDG&E. SDG&E WILL OTHERWISE KEEP RESPONDENT'S OFFER CONFIDENTIAL. RESPONDENT ACKNOWLEDGES, HOWEVER, THAT ALL INFORMATION CONTAINED IN A OFFER MAY BE SUBJECT TO REVIEW BY THE PRG, ONE OR MORE OF THE REGULATORY COMMISSIONS HAVING JURISDICTION OVER SDG&E, INCLUDING THEIR STAFFS IN CONNECTION WITH REGULATORY PROCEEDINGS, AND ANY OTHER GOVERNMENTAL AUTHORITY OR JUDICIAL BODY WITH JURISDICTION OVER THE SUBJECT OF THIS RFO. SUCH INFORMATION MAY ALSO BE SUBJECT TO LEGAL DISCOVERY. IN ACCORDANCE WITH CPUC ESTABLISHED RULES FOR TREATMENT OF CONFIDENTIAL INFORMATION, SDG&E, UPON SUCCESSFUL SIGNING OF AN AGREEMENT, SHALL RELEASE PROJECT INFORMATION IN ACCORDANCE WITH THE SIGNED AGREEMENT.

BY SUBMITTING AN OFFER, RESPONDENT AGREES TO ALLOW SDG&E TO SUBMIT ITS OFFERS FOR REVIEW BY THE PRG AND THE CPUC, PROVIDED,

HOWEVER THAT SDG&E SHALL REASONABLY REQUEST CONFIDENTIAL TREATMENT OF SUCH OFFERS BY THE PRG AND THE CPUC. IN ADDITION, THE RESPONDENT AGREES TO ALLOW SDG&E TO USE THE RESULTS OF THE RFO AS INFORMATION, TESTIMONY, OR EVIDENCE IN ANY PROCEEDING BEFORE ANY REGULATORY COMMISSION WITH JURISDICTION OVER SDG&E, OR IN ANY PROCEEDING BEFORE ANY OTHER GOVERNMENTAL AUTHORITY OR JUDICIAL BODY WITH JURISDICTION RELATING TO THE SUBJECT OF THIS RFO. SDG&E, SEMPRA ENERGY, AND ANY OF THEIR SUBSIDIARIES, HOWEVER, DISCLAIM ANY AND ALL LIABILITY TO A RESPONDENT FOR DAMAGES OF ANY KIND RESULTING FROM DISCLOSURE OF ANY OF RESPONDENT'S INFORMATION.

11.0 CREDIT TERMS AND CONDITIONS

SDG&E has the unilateral 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.

All credit support arrangements (e.g., parent guaranty, deed of trust, letter of credit) must be negotiated prior to an offer being accepted as a winning offer. A model guaranty and a model letter of credit may be downloaded from the RFO Website as attachments to the PPA.

For questions regarding credit terms, please contact Mr. Brent Mishler at (213) 244-3908. Questions and answers will not be subject to disclosure to other parties.

RFO Website:

<http://www.sdge.com/RenewableRFO>

12.0 CPUC APPROVAL

SDG&E shall submit all signed contracts to the CPUC for approval. All signed contracts will contain the condition precedent language that has been standardized by the CPUC for this purpose and which the Model PPA contains.

13.0 OFFER RESPONSE FORMS AND DOCUMENTS

Attached to this RFO and available for download from the RFO Website are the following documents. Respondents must submit all relevant documents in response to this RFO.

- 1) Offer Response Form - Respondents shall pay careful attention to the response forms. The forms are in Excel format and each Excel file contains multiple sheets - one sheet accommodating an offer assuming PTC credit is unavailable (or is not being requested), one sheet accommodating an offer assuming PTC credit is available and other sheets where Respondents shall provide detailed operating variables. Please be aware that some of the cell ranges in the detailed operating sheets are input cells and some are calculated cells. SDG&E will use your input data to calculate the performance criteria for determining whether your project fits within its resource portfolio. Please utilize the standard worksheets as much as possible to describe your project. However, if you choose to change the standard format or use a different format, please use an Excel spreadsheet and explain your changes or assumptions on the sheet(s). Also, some sheets may contain more than a single page. Respondents shall be responsible for submitting all appropriate sheets required for their offer(s). The forms available for download are:
 - a) PPA Offer Form
 - b) Alternative I Offer Form
 - c) Alternative II Offer Form
- 2) Credit Application
- 3) Additional Narrative Information Sheet – These sheets apply to Alternative I and Alternative II only. The sheets available for download are:
 - a) Additional Narrative Information Sheet (Geothermal and Wind)
 - b) Additional Narrative Information Sheet (Photovoltaic)

RFO Website:

<http://www.sdge.com/RenewableRFO>

14.0 MODEL DOCUMENTS AND OTHER ATTACHMENTS

Attached to this RFO and available for download from the RFO Website are the following documents. Respondents shall review all documents in advance of submitting offers and submit any redline changes or comments.

- 1) Model EEI Power Purchase and Sales Agreement
 - a) EEI Master Agreement (Version 2.1 4/25/00)
 - b) Form EEI Cover
 - c) Form Confirmation (Unit Firm)
 - d) Form Confirmation (As-Available)
 - e) Additional EEI Exhibits
- 2) Alternative I
 - a) Wind Resource Specifications
 - b) Photovoltaic Resource Specifications
- 3) Alternative II
 - a) Wind Resource Specifications
 - b) Photovoltaic Resource Specifications

RFO Website:

<http://www.sdge.com/RenewableRFO>