

2014 Request for Offers GHG Offset Pre-Bid Conference

November 07, 2014 | 9:00am – 11:00am Pacific

Teleconference - Dial: (866)-244-4515

<https://engage.vevent.com/rt/sempra/index.jsp?seid=99>

Legal Disclaimers: Anti-Trust & Document Conflict

- Anti-trust Guidelines:
 - All participants in today's meeting shall comply with anti-trust guidelines. These guidelines direct meeting participants to avoid discussions of topics or behavior that would result in anti-competitive behavior, including restraint of trade and conspiracy to create unfair or deceptive business practices or discrimination, allocation of production, imposition of boycotts and exclusive dealing arrangements
- Document Conflict:
 - This presentation is intended to be a summary level discussion of the information and requirements established in this RFO. To the extent that there are any inconsistencies between the information provided in this presentation and the requirements in the RFO materials, the RFO materials shall govern

Agenda

- SDG&E Background
- SDG&E Offset RFO Team Introductions
- Independent Evaluator
- Supplier Diversity
- SDG&E Cap & Trade Obligations (C&T Background, Offset Procurement Requirements)
- RFO Timeline Overview
- Offset Master Agreement Overview
- Credit Requirement Overview (Including Agreement Exposure Examples)
- Offset Confirm
- Offer Form and Project Description Form Overview
- Questions

SDG&E Background

(Ana Garza-Beutz)

SDG&E Background

- SDG&E is a regulated public utility that provides energy service to 3.4 million people through 1.4 million electric meters and 860,000 natural gas meters in San Diego and southern Orange counties
- SDG&E's service territory spans about 4,100 square miles
- As part of serving its customers, SDG&E operates multiple generators and imports out of state power for which SDG&E needs to purchase GHG Compliance Instruments
- SDG&E purchases allowances and offsets to meet its compliance obligations under the Cap-and-Trade program

SDG&E's Offset RFO Team

Meet the Team

Name	Role
Bruce Mayberry	Program Manager, Diverse Business Enterprise
Brad Mantz	E&FP Diversity Lead
Ted Roberts	Origination and Portfolio Design, Origination Manager
Abby Snyder	Commercial Legal
Remi Raphael	Quantitative Risk & Controls Manager
Judy Delgadillo	Major Markets Credit and Collections
Ana Garza-Beutz	Electric & Fuel Procurement, GHG Procurement
Ryan Miller	Electric & Fuel Procurement, Trading Manager
Joe Pasquito	Electric & Fuel Procurement, Analytics Manager
Amanda White	Origination and Portfolio Design, Origination Analytics
Kelly Dyer	Energy Risk Advisor
Alan Taylor	Independent Evaluator (Sedway Consulting)

Offset RFO Independent Evaluator

(Alan Taylor)

Independent Evaluator

- Sedway Consulting has been retained as the Independent Evaluator (IE) for this solicitation
- Alan Taylor – Alan.Taylor@sedwayconsulting.com
(303) 581-4172
- The primary roles of the IE are to:
 - Monitor SDG&E’s solicitation process to ensure reasonable and uniform treatment of all potential counterparties
 - Monitor SDG&E’s valuation methodologies and selection processes to ensure reasonable, fair and equal treatment of all offers
 - The IE needs to receive all offer data in order to monitor fair and equal treatment and should be copied on all correspondence between SDG&E and bidders

SDG&E Supplier Diversity

**(Bruce Mayberry
and Brad Mantz)**

<http://www.sempra.com/about/supplier-diversity>

Background Diverse Supplier Initiative

- **General Order (GO) 156**
 - Adopted by the California Public Utilities Commission in 1986
 - Promote greater competition among utility suppliers by expanding the available supplier base and to encourage greater economic opportunity for women, minority, and disabled veteran owned businesses historically left out of utility procurement
- **Fast Forward to 2014 at SDG&E**
 - “Advancing supplier diversity is more than just a priority for San Diego Gas & Electric® (SDG&E®); it’s become part of our company’s DNA.” – *Jessie Knight, former CEO, SDG&E*
 - Supplier diversity goals are part of our compensation goals
 - In 2013, **45%** of our procurement dollars went to diverse business enterprises (DBEs)

New G0156 Electric Procurement Reporting Requirements

- Starting in 2012, Utilities were required to add separate reporting on electrical procurement spends
- The California IOUs developed standard reporting formats and definitions with the CPUC
- The IOUs continue their outreach efforts with DBE firms in all markets –conventional, renewable, capacity and other products including those that are being solicited in this RFO

Diverse Supplier Certification*

- Minority- or woman-owned company
 - California Public Utilities Commission (CPUC) Supplier Clearinghouse (free)
- Service Disabled Veteran Business
 - State of California, General Services Office of Small and Disabled Veteran Business (OSDC)
- NMSDC
 - Regional affiliates of the National Minority Supplier Development Council (NMSDC)
- Others
 - Small Business Administration 8(a) (SBA)
 - Women Business Enterprise Council (WBEC-WEST)
 - State and municipal government agencies

**Certification does not guarantee any business enterprise the right to bid or receive a contract*

Supplier Diversity Contact Information

Bruce Mayberry

DBE Program Manager

BMayberry@semprautilities.com

858-654-8772

Brad Mantz

E&FP Diversity Lead

EMantz@semprautilities.com

858-654-1588

SDG&E's Cap-and-Trade Obligations

(Ana Garza-Beutz)

Cap-and-Trade Background

- AB 32, signed into law by Governor Arnold Schwarzenegger, requires California to lower greenhouse gas (GHG) emissions to 1990 levels by 2020
- Cap-and-Trade is one of the programs the state has instituted to reach that goal
- The Cap-and-Trade Program requires covered entities to purchase allowances (permits to pollute) or offsets (projects with GHG reductions) for every metric ton of GHG it emits
- SDG&E is a covered entity in the Cap-and-Trade program and thus needs to acquire allowances and potentially offsets to cover its emissions

SDG&E Offset Procurement Requirements

- SDG&E is also a regulated utility and as such its procurement activity (including GHG) is regulated by the California Public Utilities Commission (CPUC)
- As part of the Long Term Procurement Plan (LTPP*) proceeding, the CPUC requires SDG&E to:
 - purchase offsets via an RFO
 - procure only CARB-approved Offsets
 - contract only with sellers who will “assume the risk of invalidation and to post appropriate collateral”

* Note that a public version of SDG&E’s LTPP is available on the RFO website

SDG&E is seeking....

- **Offsets with the following characteristics:**
 - **Vintage 2014 (or earlier)**
 - **CARB approved** before delivery
 - **“Existing Projects”** (projects that have received at least one Positive Offset Verification Statement by ARB)
 - **Shortened invalidation** period (3 years max)
 - Offsets from a **seller who takes on the invalidation risk**
 - **Fixed price** offsets
 - Delivery by **August 03, 2015**
- **Offset Quantities:**
 - Minimum offer size: **10,000 MT**
 - **Offset target volume is dependent on pricing.** Quantity could be as low as 0 or if pricing is favorable, SDG&E could procure beyond its 8% offset cap
 - ARB has published the 2013 compliance obligations on its website. As a reference, SDG&E’s 2013 direct compliance obligation was 3.05 million MT*. (Volume includes emissions from SDG&E’s in-state power plants and from electricity imported into California by SDG&E. It does not include SDG&E’s GHG contractual obligations)

* SDG&E’s 2013 verified emissions are not necessarily indicative of SDG&E’s emissions in other compliance years

2014 Offset RFO

(Amanda White)

RFO Timeline

NO.	ITEM	DATE
1.	RFO Issued	10/31/2014
2.	Pre-Bidder's Conference in San Diego, California (including dial-in / webinar)	11/07/2014
3.	DEADLINE TO SUBMIT QUESTIONS Question submittal cut-off date. Answers to all questions will be posted on the RFO website http://www.sdge.com/2014GHGOffsetRFO no later than 1 week following question submittal cutoff date.	11/11/2014
4.	CLOSING DATE: Offers must be e-mailed to SDG&E at GHGOffsetRFO@semprautilities.com no later than 11:59pm (local prevailing time) – cc provided to the Independent Evaluator at Alan.Taylor@sedwayconsulting.com	11/20/2014
5.	SDG&E briefs its PRG on RFO progress to date (including short-list)	11/21/2014
6.	SDG&E notifies short-listed Bidders	12/02/2014
7.	Letter due from short-listed Bidders indicating: a. Withdrawal from SDG&E's solicitation; OR b. Acceptance of short-listed standing	12/05/2014
8.	SDG&E and short listed Bidders commence negotiations (credit terms / contract language)	12/05/2014
9.	SDG&E issues appreciation notices to unsuccessful Bidders	12/08/2014

GHG Agreements Overview

(Abby Snyder)

GHG Agreements

- Master Agreement
- Collateral Annex
- Confirmation(s)
- Redline to SDG&E's templates due at bid
- Changes to deal terms may affect shortlisting

Credit Requirement Overview Including Agreement Exposure Examples

(Remi Raphael)

Credit Requirements

- Recall that the LTPP instructed SDG&E to require appropriate collateral be posted to protect SDG&E ratepayers from offset invalidation risk
- Collateral postings may be required based on creditworthiness of seller and exposure to SDG&E

Agreement Exposure and Performance Assurance

- **Agreement Exposure** = (Settlement Amount) + (Net accounts payable and receivable) + (Invalidation Security Amount)
 - Settlement Amount (mark-to-market) = market price of allowance credits – contract price of offset credit
 - Net accounts payable and receivable = amounts owed by the parties, but not yet paid
 - Invalidation Security Amount = 20% of the Notional Value of offsets that have been delivered and paid for
- **Threshold** is the amount of unsecured credit that SDG&E will extend to its counterparty. Threshold is determined by the SDG&E Credit Department
- **Performance Assurance** is calculated based on the Agreement Exposure (defined above) and the Threshold assigned by the SDG&E Credit Group
 - Performance Assurance = (Agreement Exposure) – (Threshold)
 - Performance Assurance is a credit posting (Cash or Letters of Credit)
- **Independent Amount** is additional collateral required for unrated sellers which is held in addition to Performance Assurance

Agreement Exposure/ Performance Assurance

Example 1

- SDG&E and Company ABC enter into the following agreement:
 - Contract Price = \$10.00
 - Contract Volume = 1 offset (let's make the math easy)
 - Independent Amount (set @ 10% of notional amount for unrated sellers) = \$1.00
 - Threshold (Calculated by SDG&E Credit Department) = \$0.00
- Agreement Exposure Day One of the Agreement (Pre-Delivery)
 - Allowance Price (Replacement Cost) = \$12.00
 - Agreement Exposure on Day One of the Deal(Pre-Delivery)
 - Settlement Amount (mark-to-market) = $(\$12 - \$10) = \$2.00$
 - Net accounts payable and receivable = \$0.00
 - Invalidation Security Amount = \$0.00
 - Agreement Exposure on Day One = $(\$2.00) + (-\$0.00) + (\$0.00) = \2.00
- Performance Assurance on Day One of the Deal (Pre-Delivery)
 - Recall that the calculation excludes Independent Amount
 - Performance Assurance = (Agreement Exposure) – (Threshold)
 - Performance Assurance = $(\$2.00) - (\$0.00) = \$2.00$
- In addition to the \$1.00 Independent Amount, Company ABC owes SDG&E \$2.00 of Performance Assurance

Agreement Exposure/ Performance Assurance

Example 2

- SDG&E and Company ABC enter into the following agreement
 - Contract Price = \$10.00
 - Contract Volume = 1 offset (let's make the math easy)
 - Independent Amount (set @ 10% of notional amount for unrated sellers) = \$1.00
 - Threshold (Calculated by SDG&E Credit Department) = \$0.00
- Agreement Exposure on Day Y of the Deal (Post-Delivery , Post-Payment & within Invalidation Period)
 - Allowance Price (Replacement Cost) = \$15.00
 - SDG&E takes delivery and pays \$10.00 to Counterparty
 - Invalidation Security Amount set @ 20% of notional amount = \$2.00
 - Agreement Exposure on Day Y of the Deal (Post-Delivery , Post-Payment & within Invalidation Period)
 - Settlement Amount (mark-to-market) = $(\$15 - \$10) = \$5.00$
 - Net accounts payable and receivable = \$0.00
 - Invalidation Security Amount = \$2.00
 - Agreement Exposure on Day Y = $(\$5.00) + (\$0.00) + (\$2.00) = \7.00
- Performance Assurance on Day Y of the Deal (Post-Delivery, Post-Payment & within Invalidation Period)
 - Recall that the calculation excludes Independent Amount
 - Performance Assurance = (Agreement Exposure) – (Threshold)
 - Performance Assurance = $(\$7.00) - (\$0.00) = \$7.00$
 - Since Performance Assurance on Day One = \$2.00, then an additional \$5.00 is required to post appropriate Performance Assurance of \$7.00

Credit Application

CREDIT APPLICATION FOR GHG RFO

General Information

Legal Company Name _____

Doing Business As (DBA) _____

Credit Support Provider (Legal company name of Guarantor) _____

Street Address _____

City _____

State _____

Zip Code _____

Federal Tax ID # _____

Organized & existing under the laws of: (State) _____

Year Incorporated/Established _____

Primary Contacts:

Credit Issues Contact:

Name _____ Title _____ Phone _____ FAX _____ E-Mail _____

Business Issues Contact:

Name _____ Title _____ Phone _____ FAX _____ E-Mail _____

Please provide the following information with this application:

- *Most recent three (3) fiscal years', CPA-audited, financial statements including notes to the financial statements.*
- *The most recent interim financial statements.*
- *A list of corporate affiliates, including addresses and relationship to your company/entity (Corporate Organization Chart).*
- *When using a credit support provider, include most recent three (3) fiscal years', CPA-audited, financial statements of the credit support provider.*
- *No need to attach financial statements when they are available in the web, provide address: _____*

Offer Form and Project Description Overview

Offer Form – Information & Pricing Tabs

- Provides SDG&E
 - Offering Company and Project Company Contact Info
 - CITSS Accounts Info
 - Project Names
 - Offer Details: Vintage Years, Pricing, Delivery Dates, ARBOC Issuance Dates, Verification Dates

Note: Multiple Projects may require multiple Offer Information Tabs

Offer Form – Project Viability Tab and Project Description Form

- Provides SDG&E Information about:
 - Management of the Project
 - Potential Risks associated with the Project
 - Potential Lawsuits
 - Project Permits
 - Environmental impacts of the project
 - Project Operator Experience and History
 - Project Verifier - Experience
 - Project verifiers, projects
 - Offset Project Issuance and Listing information
 - Protocol –Specific Project information

Note: Multiple Projects may require multiple Project Viability Tabs and Project Description Forms

Questions

- Questions should be asked either at the Pre-Bid conference or via email
- Subsequent questions will not be accepted via phone
- Question answered at the pre-bid conference will be posted along with their answer on the Offset RFO website
- Questions received via email will not be answered via email, but instead will be posted on the RFO website with the answer