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The Pio Pico Energy Center (PPEC) is a simple-cycle power generation project that has been designed and developed to conform to the requirements of San Diego Gas and Electric (SDG&E) and the California Public Utilities Commission (CPUC). This project's primary goal is to meet the objectives of SDG&E's 2009 Request for Offers (RFO) and the resulting contractual requirements contained in the Power Purchase Agreement between SDG&E and Pio Pico Energy Center, LLC (PPEC LLC).

2.1 SDG&E REQUEST FOR OFFERS

The CPUC approved the SDG&E long-term resource plan. In this proceeding, SDG&E submitted its long-term resource needs and the increments of generation required to meet these load projections. SDG&E indicated that most of the required generation would be acquired to satisfy peaking and shoulder loads, and would be dispatchable. According to CPUC's decision that approves SDG&E's long-term resource plan, SDG&E was authorized and encouraged to seek new peaking dispatchable generation through a bidding process to satisfy projected system loads.

In response to this decision, SDG&E issued its 2009 RFO. SDG&E also indicated that, in accordance with the CPUC decision, SDG&E would utilize an "Independent Evaluator" to oversee the RFO process. SDG&E notified prospective bidders that their bids would be evaluated utilizing a number of factors, including market valuation, portfolio fit, transmission impact, environmental characteristics, and conformance with SDG&E's nonprice terms and conditions.

These RFO objectives are derived from a need for new electric power generation as projected and authorized by the CPUC and California Independent System Operator (CAISO). SDG&E, as authorized by the CPUC, issued an RFO in June 2009 and awarded PPEC LLC a Power Purchase Agreement in January 2011 under the RFO Product 2 category. Following is an excerpt from that Product 2 offering:

Product 2 - New Local Generation Projects, online in 2010 – 2014.

SDG&E seeks a minimum of 100 MW of peaking or intermediate-class resources as new construction or expansion projects within SDG&E's territory. Any resulting contract will be a tolling agreement with a term of 20 years and online dates of May 1- or October 1 in either 2010, 2011, 2012, 2013, or 2014. The generation must be located physically within SDG&E's service territory (as more specifically described in the Addendum) or have its sole generator transmission system interconnection (gen-tie) directly interconnected to the electric network internal to SDG&E's local area as currently defined by the California Independent System Operator ("CAISO") such that the unit supports SDG&E's Local RA requirement. ... Products offered in this category shall be capable of operating under all permits at annual capacity factors of a minimum of 30% with an availability of >98%. It is anticipated that heat rates will be no higher than 10,500 btu/kWh. For this product, SDG&E requires flexible resources that are capable of providing regulation during the morning and evening ramps and/or units that can be started and shut down as needed. In addition, SDG&E will include the

additional value provided from projects that can provide quick start operations in the ranking of Offers. SDG&E also requires that each Offer contain pricing for, and an option to provide, black start capability.

These SDG&E RFO objectives are listed below:

1. Be online by 2014.
2. Be a minimum of 100 megawatts (MW) of peaking and intermediate-class resources.
3. Locate in SDG&E service territory.
4. Operate under a fuel tolling agreement over a 20-year contract.
5. Be capable of operating under all permits at annual capacity factors of a minimum of 30% with an availability of >98%.
6. Heat rates will be no higher than 10,500 British thermal units per kilowatt hour (Btu/kWh).
7. Use flexible resources that can provide regulation during the morning and evening ramps and/or units that can be started and shut down as needed.
8. Provide quick start operations.

2.2 RESPONSE TO REQUEST FOR OFFERS

The Applicant, upon evaluation of all the RFO Product offerings, decided that Product 2 (peaking power) was the most compatible offering with the Applicant's power development experience. PPEC LLC was incorporated and a bid into the SDG&E RFO was submitted in August 2009. The PPEC team believes that a relatively large number of offers were submitted to SDG&E in response to its June 9, 2009, RFO.

In December 2009, PPEC LLC was informed by SDG&E that the PPEC bid had been short-listed and that power purchase agreement negotiations would begin in earnest. See Section 4.0, Alternatives, for more details on PPEC's RFO response. As noted above, a PPA was executed between SDG&E and PPEC, LLC in January 2011.

2.3 SDG&E CONTRACT

SDG&E evaluated the offers and created a short list of potential projects. Following the submittal of additional information to SDG&E, the list of projects was further shortened. In December 2009, SDG&E informed PPEC LLC that its project had been accepted on a final list, thereby commencing negotiations over contract terms and conditions. Rigorous negotiation ensued over contract terms that culminated in a contract signed in January 2011 for generation services.

Salient contract provisions include:

- A contract term of 20 years.
- PPEC would be constructed on a leased parcel of land located in San Diego County.
- PPEC would have three General Electric LMS100 combustion turbine machines.
- Each of these combustion turbines would provide approximately 100MW of capacity in summer peak conditions for a total of 300MW.
- A turbine efficiency level no higher than 10,500 Btu/kWh is to be produced at 100 percent rated capacity, summer peak conditions.
- SDG&E has the ability to dispatch each of the units as system conditions require.
- The entire three-turbine project is to be online and available for SDG&E to dispatch into the grid on or before May 27, 2014.