



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

**FILED**

12-18-09  
04:59 PM

Order Instituting Rulemaking to Continue )  
Implementation and Administration of California )  
Renewables Portfolio Standard Program. )

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Rulemaking 08-08-009

(Filed August 21, 2008)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) 2010 RPS  
PROCUREMENT PLAN

**PUBLIC VERSION**

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Dated: December 18, 2009

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PROCUREMENT PLAN**

Pursuant to the November 2, 2009 Amended Scoping Memo and Ruling of Assigned Commissioner Regarding 2010 RPS Procurement Plans (“Scoping Memo”), Southern California Edison Company (“SCE”) respectfully submits its 2010 RPS Procurement Plan.

SCE’s 2010 RPS Procurement Plan consists of two parts: (1) the 2010 Written Plan and Appendices (including redlines against the 2009 Written Plan, as appropriate), which is set forth in accordance with the “Complete 2010 Plan” outline provided in the Scoping Memo, and (2) SCE’s 2010 solicitation materials (including redlines against the 2009 solicitation materials, as appropriate).

SCE’s 2010 Written Plan and Appendices are included as Attachment 1 to this pleading.<sup>1</sup> SCE strongly supports streamlining the RPS Procurement Plan process and appreciates the Scoping Memo’s option of allowing load-serving entities to propose continuation of their 2009 RPS Procurement Plans by filing a statement that there are no significant changes to such plans.<sup>2</sup>

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<sup>1</sup> The Appendices include a redline of the 2010 Written Plan against the Amended 2009 Written Plan submitted as part of SCE’s Amended 2009 RPS Procurement Plan on June 22, 2009 and a redline of SCE’s Written Description of Renewables Portfolio Standard (“RPS”) Proposal Evaluation and Selection Process and Criteria against the version of that document submitted as part of SCE’s Second Amended 2009 RPS Procurement Plan on June 26, 2009.

<sup>2</sup> Scoping Memo at 2-4.

As discussed in SCE's 2010 Written Plan, however, SCE's 2010 RPS Procurement Plan requests California Public Utilities Commission ("Commission") pre-approval to enter into a limited quantity of short-term renewable energy transactions and authority to enter into unbundled renewable energy credit transactions immediately upon issuance of a Commission decision allowing such renewable energy credits. SCE believes this increased regulatory flexibility to pursue all renewable procurement options is necessary to help meet California's aggressive renewable energy goals. SCE has also proposed other changes to make the renewable procurement process work more effectively including modifications to the project viability calculator, a more flexible process for updates to RPS Procurement Plans, workshops on improving the Transmission Ranking Cost Report process, and consideration of integration costs in the evaluation process. Additionally, SCE has updated its solicitation materials based on its contracting experience since it filed its 2009 RPS Procurement Plan, market changes, regulatory developments, and the response to its 2009 RPS solicitation. Accordingly, SCE is submitting a complete 2010 RPS Procurement Plan.

SCE's 2010 solicitation materials are included as Attachment 2 to this pleading. The bid solicitation materials include the following:

- Attachment 2-1: 2010 Procurement Protocol and Redline Version;<sup>3</sup>
- Attachment 2-2: 2010 Proposal Structure Letter and Redline Version;<sup>4</sup>
- Attachment 2-3: 2010 Seller's Proposal Template and Calculator;<sup>5</sup>
- Attachment 2-4: 2010 Outline of Contract Terms and Conditions;<sup>6</sup>

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<sup>3</sup> The 2010 Procurement Protocol is redlined against the Third Amended 2009 Procurement Protocol submitted as part of SCE's Third Amended 2009 RPS Procurement Plan on July 17, 2009.

<sup>4</sup> The 2010 Proposal Structure Letter is redlined against the 2009 Proposal Structure Letter submitted as part of SCE's Amended 2009 RPS Procurement Plan on June 22, 2009.

<sup>5</sup> SCE has not included a redline of the 2010 Seller's Proposal Template and Calculator because the document is an excel spreadsheet. The document is not substantially changed from the Amended 2009 Seller's Proposal Template submitted as part of SCE's Amended 2009 RPS Procurement Plan on June 22, 2009. However, as described in Section 7 of the 2010 Written Plan, sellers now agree to a short-term non-disclosure agreement by checking a box on the Seller's Proposal Template and Calculator.

<sup>6</sup> SCE has not included a redline of the 2010 Outline of Contract Terms and Conditions because the document is an excel spreadsheet. This document replaces the Term Sheet used in the 2009 RPS solicitation and is not substantially changed from the 2009 version.

- Attachment 2-5: 2010 Pro Forma Renewable Power Purchase and Sale Agreement and Redline Version;<sup>7</sup>
- Attachment 2-6: 2010 Pro Forma EEI Confirmation for Firm Product and Redline Version;<sup>8</sup>
- Attachment 2-7: 2010 Pro Forma EEI Confirmation for As-Available Product and Redline Version;
- Attachment 2-8: 2010 Pro Forma WSPP Confirmation for Firm Product and Redline Version;
- Attachment 2-9: 2010 Pro Forma WSPP Confirmation for As-Available Product and Redline Version; and
- Attachment 2-10: 2010 Form of Seller’s Proposal and Redline Version.<sup>9</sup>

These documents form the basis for SCE’s 2010 RPS Procurement Plan. SCE submits these documents for consideration and approval by the Commission.

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<sup>7</sup> The 2010 Pro Forma Renewable Power Purchase and Sale Agreement is redlined against the Amended 2009 Pro Forma Renewable Power Purchase and Sale Agreement submitted as part of SCE’s Amended 2009 RPS Procurement Plan on June 22, 2009.

<sup>8</sup> All of the 2010 Pro Forma Confirmations are redlined against the 2009 Pro Forma Confirmations submitted as part of SCE’s Third Amended 2009 RPS Procurement Plan on July 17, 2009.

<sup>9</sup> The 2010 Form of Seller’s Proposal is redlined against the Second Amended 2009 Form of Seller’s Proposal submitted as part of SCE’s Third Amended 2009 RPS Procurement Plan on July 17, 2009.

Respectfully submitted,

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/s/ Cathy A. Karlstad

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Dated: December 18, 2009

**VERIFICATION**

I am a Manager in the Renewable and Alternative Power Department of Southern California Edison Company and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing pleading are true.

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

Executed this **15th day of December, 2009**, at Rosemead, California.

/s/ Laura Genao

By: [Laura Genao](#)

SOUTHERN CALIFORNIA EDISON COMPANY

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# **ATTACHMENT 1**



An *EDISON INTERNATIONAL* Company

(U 338-E)

## **2010 Written Plan**

**December 18, 2009**

**PUBLIC VERSION**

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## **2010 Written Plan**

### **1. Overview: An assessment and discussion of:**

#### **1.1. Supplies and demand to determine the optimal mix of RPS resources**

Southern California Edison Company (“SCE”) has largely completed its 2008 Renewables Portfolio Standard (“RPS”) solicitation, submitting fourteen contracts from that solicitation to the California Public Utilities Commission (“Commission”) for approval.<sup>1</sup> In 2009, SCE also submitted for approval one contract resulting from its Renewables Standard Contract Program and seven contracts resulting from bilateral negotiations.<sup>2</sup> In addition, SCE executed one contract pursuant to its California Renewable Energy Small Tariff (“CREST”) program.<sup>3</sup> For purposes of the 2010 RPS Procurement Plan, SCE assumes that all of the contracts executed at this time will be approved by the Commission.

SCE received a robust response to its 2009 RPS solicitation. SCE recently completed the proposal evaluation process for its 2009 solicitation and submitted its short list of projects from that solicitation to the Commission and SCE’s Procurement Review Group (“PRG”). SCE is commencing negotiations with the short-listed projects. Since the negotiation process is just beginning, however, SCE is not in a position to fully assess the volume or resource type of the contracts that will result from the 2009 solicitation. Moreover, because of the lead time required to complete transmission studies, SCE still cannot fully assess how the transmission needs of some projects will affect viability, on-line dates, and potentially other commercial variables.

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<sup>1</sup> Two of SCE’s 2008 solicitation contracts have been approved by the Commission, and the Commission issued a draft resolution approving one additional 2008 solicitation contract that will be considered at the Commission’s December 17, 2009 meeting. The other 2008 solicitation contracts are pending Commission approval. SCE anticipates requesting Commission approval of one additional contract resulting from its 2008 solicitation in the near future.

<sup>2</sup> Two of the bilateral contracts have been approved by the Commission, and the Commission issued draft resolutions approving the Renewables Standard Contract and one bilateral contract that will be considered at the Commission’s December 17, 2009 meeting. The other contracts are pending Commission approval. SCE anticipates requesting Commission approval of additional contracts resulting from its Renewables Standard Contract program in the near future.

<sup>3</sup> Purchases pursuant to, and consistent with, the terms and conditions of the tariff need not be submitted to the Commission by advice letter; such purchases are *per se* reasonable. Decision (“D.”) 07-07-027 at 7.

As a result of these ongoing processes and contingencies, it is difficult to fully determine SCE's renewable procurement needs for 2010. Generally, however, SCE's planned procurement activities for 2010 will include seeking resources to augment those already under contract to the extent necessary to ensure that SCE meets the State's overall goal of 20% renewables as soon as possible. As discussed in more detail below, SCE considers "Base Case" and "High Need Case" procurement scenarios. SCE's Base Case assumes a 20% renewable energy goal. SCE's High Need Case assumes a 33% renewable energy goal. In addition to procuring resources to meet the 20% goal as soon as possible, SCE intends to procure renewable resources based on the High Need Case.

However, while SCE intends to procure enough renewable energy to reach 20% renewables as soon as possible and to meet a 33% renewable energy goal, there are significant barriers to achievement of these goals. Based on SCE's experience in RPS solicitations to date, transmission will continue to be a serious impediment to bringing new renewable resources on-line.<sup>4</sup> Increased procurement activity (i.e., execution of more contracts) will not accelerate the planning, permitting, and construction processes for new transmission and transmission upgrades. While SCE will continue to seek and contract with resources that can provide near-term deliveries, most proposals are expected to be limited by transmission. Additionally, the long and complicated process for siting and permitting of renewable generation projects, the uncertainty surrounding the federal production and investment tax credits, a heavily subscribed interconnection queue, developer performance issues, and lack of flexibility in the regulatory process to pursue all procurement options are all major challenges to meeting California's renewable energy goals. SCE's overall goal is to achieve 20% renewables as soon as possible, regardless of whether or not that goal can be accomplished by 2010.

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<sup>4</sup> The Commission has repeatedly recognized this in its Quarterly Reports to the Legislature. *See e.g.*, Renewables Portfolio Standard Quarterly Report at 7 (Q4 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2008); Renewables Portfolio Standard Quarterly Report at 5 (April 2008).

The magnitude of a 33% renewable energy goal increases the challenges to reaching the State’s goal. The Commission has stated that a 33% renewable energy goal is “highly ambitious, given the magnitude of the infrastructure buildout required.”<sup>5</sup> Indeed, the Commission found that reaching the 33% goal will require \$115 billion in new infrastructure investment in an uncertain financial environment, including seven major new transmission lines (in addition to the four major new transmission lines needed to reach 20% renewables).<sup>6</sup> The “highly ambitious” 33% renewable energy goal will not be achieved without addressing significant challenges including, among other things, the challenges discussed above. SCE addresses the impediments to reaching 20% and 33% renewables in more detail in Section 2 below.

Finally, SCE enters into contract discussions with renewable developers based on evaluation of project proposals relative to other proposals received in the solicitation. Generally, this process results in a diverse portfolio of technologies. After evaluating proposals based on quantitative factors, SCE evaluates proposals based on qualitative factors. This process is described in SCE’s Written Description of RPS Proposal Evaluation and Selection Process and Criteria (“LCBF Written Report”), which is attached as Appendix A. For example, SCE considers proposals’ delivery start dates, term lengths, and resource types in conjunction with SCE’s current portfolio of renewable contracts and renewable energy needs. With respect to resource type, if the quantitative evaluation results in a suboptimal mix (e.g., all wind projects ranked as the best proposals), SCE will apply its qualitative methodology to balance the mix of resources. By taking many quantitative and qualitative factors into consideration, SCE ensures that it will select projects best suited for its portfolio in order to meet customer needs and attain the State’s renewable energy goals.

## **1.2. The use of compliance flexibility mechanisms**

SCE projects that it will continue to satisfy part of its future annual procurement targets (“APTs”) by using its surplus procurement bank balance. As the Commission held, “[i]f eligible

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<sup>5</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 1 (June 2009).

<sup>6</sup> *Id.* at 1-4.

procurement is not used to meet the APT in the year in which it was procured, it may be reported as surplus procurement and may be banked and used to meet procurement targets in past or future years.”<sup>7</sup> SCE further projects that it will earmark future deliveries from RPS contracts to meet APTs. The Commission’s flexible compliance rules allow load-serving entities (“LSEs”) to earmark future deliveries from executed contracts as a temporary allowable reason for an RPS procurement deficit in excess of 0.25% of the LSE’s prior year’s retail sales, so long as the earmarked deliveries fill the deficit no more than three years after the year in which the deficit occurred.<sup>8</sup> Moreover, in D.08-02-008, the Commission held that LSEs are permitted to earmark from a pool of contracts that are eligible for earmarking and apply banked surplus generation if an earmarked contract does not deliver or delivers less than forecasted.<sup>9</sup> Flexible compliance continues to be a successful mechanism in encouraging and providing integrity to the renewable energy market, while ultimately benefiting electricity customers statewide.

With flexible compliance, SCE forecasted compliance with the 20% RPS goal through the planning horizon in its last RPS compliance report.<sup>10</sup> On November 20, 2009, the Commission adopted D.09-11-014, which changed the calculation of the APT for 2010 and any future years in which the APT is 20% from 20% of prior year retail sales to 20% of current year retail sales.<sup>11</sup> Using this new methodology and with flexible compliance, SCE continues to forecast compliance with the 20% RPS goal through the planning horizon.

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<sup>7</sup> D.06-10-050, Attachment A at 8.

<sup>8</sup> *Id.*, Attachment A at 9-10; D.08-02-008 at 12.

<sup>9</sup> D.08-02-008 at 16-17.

<sup>10</sup> *See* Southern California Edison Company’s (U 338-E) August 2009 Compliance Report Pursuant to California Renewables Portfolio Standard (August 3, 2009).

<sup>11</sup> D.09-11-014 at 13-14 (OP 2-4).

**1.3. A bid solicitation setting forth relevant need, online dates, and locational preferences, if any**

SCE's 2010 solicitation materials are provided as Attachments 2-1 through 2-10 to SCE's 2010 RPS Procurement Plan. SCE's 2010 Procurement Protocol includes, among other things, information related to relevant need, on-line dates, and locational preferences.<sup>12</sup>

**2. Workplan to Reach 20% By 2010 and 33% by 2020: A showing on each IOU's workplan to reach 20% by 2010, and 33% by 2020, including but not limited to:**

In its 2010 RPS solicitation, SCE intends to contract for the balance of renewable energy necessary to achieve the State's renewable energy goals, taking into account the renewable energy procured through SCE's 2009 RPS solicitation and success rate assumptions for executed contracts that are not yet on-line. To this end, SCE has developed a Base Case and a High Need Case of its renewable procurement needs. The Base Case assumes the 20% renewable energy goal set forth in the current RPS legislation.<sup>13</sup> The Base Case also uses the current expected on-line dates for all projects, excludes flexible compliance, assumes Direct Access is not re-opened, and assumes 100% delivered energy from contracts that are executed but not yet on-line. Appendix B shows SCE's current RPS-eligible energy forecast in the Base Case scenario.

SCE's High Need Case assumes a 33% renewable energy goal. The Governor has approved Executive Orders S-14-08 and S-21-09 setting forth a 33% target. Pursuant to Executive Order S-21-09, the California Air Resources Board ("CARB") is working to adopt a 33% Renewable Electricity Standard ("RES") regulation by July 31, 2010. While CARB held two initial workshops and issued a concept outline in connection with this proposed regulation in October and December 2009, no final rules have been adopted. Indeed, CARB has not yet released a proposed regulation. It is therefore unclear how the proposed RES program will be structured. Accordingly, SCE's High Need Case generally assumes the current RPS structure and rules as implemented by the Commission. Moreover, the High Need Case uses the current

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<sup>12</sup> The 2010 Procurement Protocol is Attachment 2-1 to SCE's 2010 RPS Procurement Plan.

<sup>13</sup> See Cal. Pub. Util. Code § 399.11 *et seq.*

expected on-line dates for all projects, excludes flexible compliance, assumes Direct Access is not re-opened, and assumes only 70% delivered energy from contracts that are executed but not yet on-line. This 70% success rate is modeled to represent project development success rates as well as any contingency that would make meeting the State's renewable energy goals less likely (e.g., delays due to transmission, material shortages, load growth beyond that which is forecasted, or less than expected output from resources). Appendix C shows SCE's current RPS-eligible energy forecast in the High Need Case scenario.

While the Base Case scenario indicates that procurement may not be needed from the 2010 RPS solicitation, the High Need Case does project a need for additional renewable energy deliveries in the future. In order to procure to meet the State's proposed 33% renewable energy goal, SCE intends to base its procurement activities for the 2010 solicitation on the High Need Case. SCE believes it is prudent to do so based on its experience in meeting the 20% renewable energy goal and the need to contract with projects early on in the process to support the development of needed transmission.

Along with its 2010 RPS solicitation, SCE plans to utilize other procurement options to help meet the State's renewable energy goals including SCE's Solar Photovoltaic Program, SCE's Renewables Standard Contract Program, and bilateral negotiations with competitive renewable energy projects.

However, SCE must reiterate that while its intentions are to procure to a 33% renewable energy goal, there are significant barriers preventing SCE from achieving both the 20% goal in the near-term and a 33% goal in the long-term. As detailed in Section 6, SCE requests approval for the use of unbundled renewable energy credits and a streamlined pre-approval process for short-term renewable energy transactions to help meet these goals.

### **2.1. Identification of any impediments that remain to reaching 20% by 2010, and 33% by 2020**

Five primary factors have affected SCE's ability to reach the overall RPS goal of 20% renewables and will continue to be issues in meeting a 33% renewable energy goal: permitting,

siting, approval, and construction of transmission and renewable generation projects; the uncertainty surrounding the federal production and investment tax credits; a heavily subscribed interconnection queue; developer performance; and lack of flexibility in the regulatory process to pursue all procurement options.<sup>14</sup>

The lack of sufficient transmission infrastructure and the prolonged process for permitting and approval of new transmission lines continues to be the most significant impediment to reaching the State's renewable energy goals. As discussed in previous filings, contract evaluation and negotiation often occur in the early stage of project development where little or no transmission information is known. SCE has received relatively few proposals from renewable generators that do not require significant transmission upgrades or new transmission development for the renewable energy to be deliverable. Based on the market responses in SCE's RPS solicitations, transmission and the lengthy process of siting, permitting, and building new transmission continues to be the single greatest issue to bringing new renewable resources on-line.

The challenges surrounding transmission are only compounded as the State's renewable energy goal increases from 20% to 33%, a 65% increase in renewable energy. The Commission has stated that "[s]erving 33% of California's energy needs with renewable sources will require an infrastructure build-out on a scale and timeline perhaps unparalleled anywhere in the world."<sup>15</sup> The Commission's 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results report also called a 33% renewable energy goal "highly ambitious, given the magnitude of the infrastructure buildout required."<sup>16</sup> Indeed, the Commission noted that the "magnitude of the infrastructure that California will have to plan, permit, procure, develop, and integrate in the next ten years is immense and unprecedented," including approximately \$115

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<sup>14</sup> Notably, the Commission has identified several of these factors as impediments to reaching the State's renewable energy goals. *See e.g.*, Renewables Portfolio Standard Quarterly Report at 7 (Q4 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2008); Renewables Portfolio Standard Quarterly Report at 5 (April 2008).

<sup>15</sup> Renewables Portfolio Standard Quarterly Report at 3 (October 2008).

<sup>16</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 1 (June 2009).

billion in new infrastructure investment in an uncertain financial environment and seven major new transmission lines (in addition to the four major new transmission lines needed to reach 20% renewables).<sup>17</sup>

An increase in California's renewable energy goal will also increase the grid reliability and integration issues associated with intermittent renewable resources. In addition to the Commission, CARB has also recognized these barriers to reaching the State's goals, stating that "[a] key prerequisite to reaching a target of 33 percent renewables will be to provide sufficient electric transmission lines to renewable resource zones and system changes to allow integration of large quantities of intermittent wind and solar generation," and that California will need to quickly address transmission and integration issues and permitting difficulties to reach a 33% renewable energy goal.<sup>18</sup>

The long and complicated permitting process for renewable generation facilities is also a barrier to meeting the State's renewable energy goals. The Commission recently observed that most RPS project delays "are due to lack of transmission or generation permitting at the county, state, or federal level."<sup>19</sup> The Commission's 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results report also noted that environmental concerns, legal challenges, and public opposition can impact the timeline for bringing renewable generation projects on-line.<sup>20</sup>

Another factor that has affected the abilities of SCE and other LSEs to reach the State's renewable energy goals is the uncertainty surrounding the federal production and investment tax credits. Many renewable generation projects rely on these tax credits, prompting the Commission to call this factor "the number one source of risk to new RPS generation expected to come online by 2010" in July 2008.<sup>21</sup> RPS contracts often have no fault termination rights if the

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<sup>17</sup> *Id.* at 1-4.

<sup>18</sup> Climate Change Scoping Plan at 45, Appendices, Volume I at C-127-C-128 (December 2008).

<sup>19</sup> Renewables Portfolio Standard Quarterly Report at 7 (Q4 2009).

<sup>20</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 4 (June 2009).

<sup>21</sup> Renewables Portfolio Standard Quarterly Report at 7 (July 2008).

tax credits are not extended. Sending signals to the renewables market that these credits will be available over the long-term will stimulate sustained investment in renewable resources rather than the “boom and bust” cycle induced by the uncertainty regarding whether the federal tax credits will be available.

The American Recovery and Reinvestment Act of 2009 (“ARRA 2009”) extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013.<sup>22</sup> The investment tax credit for solar was also extended until the end of 2016. In Section 1603 of the ARRA 2009, the U.S. Treasury Department launched a new program whereby eligible energy property can receive a cash grant in lieu of the production tax credit. This cash grant program has been well received by renewable generation developers. To qualify for the Section 1603 cash grant program, the eligible property must “start construction” by December 31, 2010, and be placed “in service” based on a schedule dependent on the type of generation (by January 1, 2013 for large wind and January 1, 2017 for solar).<sup>23</sup> These aggressive construction and in-service requirements have led the generation community to place increasing political pressure on regulatory bodies such as the Commission, the California Energy Commission (“CEC”), the Bureau of Land Management (“BLM”), along with SCE, to expedite the regulatory process to enable generators to come on-line sooner to take advantage of this stimulus program.

While the ARRA 2009’s extension of the tax credits relieved some uncertainty for near-term projects, the “on again, off again” nature of these tax credits continues to be a barrier to renewable development. In particular, the expiration of the production tax credit for wind at the end of 2012 currently impacts proposed wind generating facilities given the time needed for Commission approval of contracts, siting, permitting, construction, and development of needed transmission. Additionally, the uncertain future of the federal production and investment tax credits will likely continue to be a long-term barrier to meeting a 33% renewables goal.

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<sup>22</sup> See American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).

<sup>23</sup> See Payments for Specified Energy Property in Lieu of Tax Credits under the American Recovery and Reinvestment Act of 2009, U.S. Treasury Department Guidance Document (July 2009) (available at <http://www.treasury.gov/recovery/docs/guidance.pdf>).

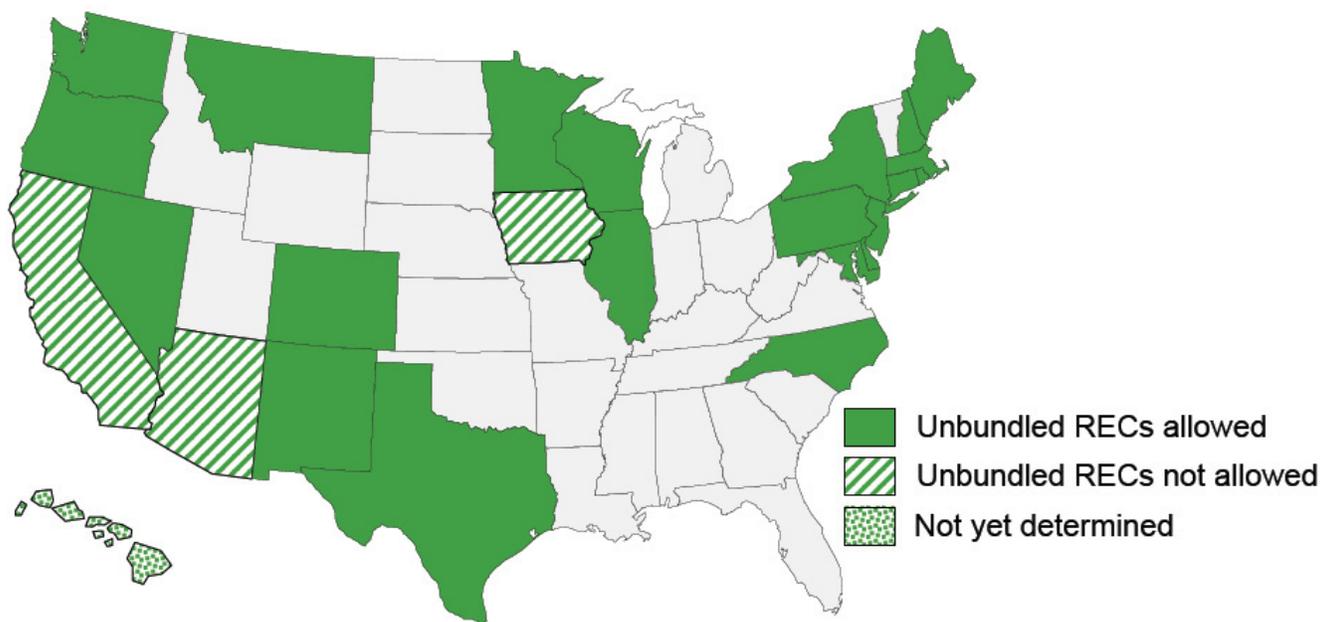
Heavy subscription to the California Independent System Operator (“CAISO”) interconnection queue is also a major barrier to achieving the State’s renewable energy goals. The number and aggregate capacity of projects in the CAISO interconnection queue are increasing at rates never before experienced in California. Although the CAISO’s interconnection reform effort is currently being implemented, whether or not the reforms will meet the expectations and goals of all stakeholders remains to be seen. The CAISO saw a significant amount of generation interconnection requests withdrawn in December 2008 and December 2009 resulting from implementation of the reformed Large Generator Interconnection Procedures. However, SCE has seen a substantial increase in the number of requests under 20 MW in its service territory under the Small Generator Interconnection Procedures. As of December 10, 2009, SCE had over 200 interconnection requests, comprising more than 30,000 MW in its interconnection process, inclusive of CAISO and WDAT requests.

Achieving the State’s renewable energy goals is also dependent on the performance of renewable developers. SCE has executed contracts with a large number of developers. To qualify for California’s RPS program, these developers must plan for, permit, construct, and operate their facilities according to milestones set in the contracts. Developers have significant hurdles during these activities and it is always possible that milestone schedules will be altered. To the extent delays occur, these delays will impact the amount of delivered energy on which SCE can rely to reach the State’s goals.

Finally, in view of these major challenges to achieving the State’s renewable energy goals, it is crucial that California expand the supply of renewable resources by allowing the broadest possible market of eligible renewable products. However, lack of flexibility in the regulatory process surrounding two procurement options – unbundled renewable energy credits (“RECs”) and short-term renewable energy transactions – impedes progress toward California’s goals.

Despite the fact that the Commission has been authorized to allow the use of unbundled RECs for California’s RPS program since Senate Bill (“SB”) 107 took effect in 2007,<sup>24</sup> the Commission has not yet allowed the use of such RECs. The Commission issued a proposed decision allowing the use of unbundled RECs in October 2008 and a revised proposed decision allowing the use of unbundled RECs in March 2009,<sup>25</sup> but has not yet acted on the issue.

Most states that have RPS programs allow the use of unbundled RECs for compliance with their programs. In fact, as shown in the map below, in 2008, 21 out of 25 states with an RPS allowed unbundled RECs for compliance.<sup>26</sup>



The use of unbundled RECs helps protect electricity customers from limitations in supply. Additionally, unbundled RECs provide renewable project owners and LSEs much needed flexibility and options in contracting for renewable energy. Additional contracting

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<sup>24</sup> See Cal. Pub. Util. Code § 399.16.

<sup>25</sup> See Proposed Decision Authorizing Use of Renewable Energy Credits for Compliance With the California Renewables Portfolio Standard, Rulemaking (“R.”) 06-02-012 (October 29, 2008); Proposed Decision Authorizing Use of Renewable Energy Credits for Compliance With the California Renewables Portfolio Standard, R.06-02-012 (March 26, 2009).

<sup>26</sup> Lawrence Berkeley National Laboratory, Research News, Berkeley Lab Examines State-level Renewables Portfolio Standard Policies, April 10, 2008 (available at <http://www.lbl.gov/Science-Articles/Archive/assets/images/2008/Apr/10-Thu/hires/Page7updatedRPSgraphics.pdf>).

flexibility leads to lower transaction costs in obtaining renewable attributes from renewable resources that have limited access to transmission or are located a far distance from their buyers. Ultimately, increased flexibility and lower transaction costs promote more liquid and price-competitive renewable energy markets and a better and more efficient RPS program in general, which in turn will help lead to more investment in renewable development. Given the importance of the State's renewable energy goals and the challenges facing renewable developers (in developing projects) and LSEs (with regard to RPS compliance), the additional flexibility provided by unbundled RECs warrants their authorization by the Commission as soon as possible. Unbundled RECs are in everyone's best interest: electricity customers, LSEs, and renewable developers and generators. The Commission should expeditiously authorize the use of unbundled RECs and allow SCE to enter into unbundled REC transactions immediately upon issuance of a Commission decision authorizing unbundled RECs as provided in Section 6.4.

Although investor-owned utilities ("IOUs") may enter into short-term renewable energy transactions, the current process for Commission approval of the IOUs' short-term renewable contracts limits the IOUs' ability to utilize short-term renewable transactions, since the process is commercially unworkable in the marketplace. In particular, the current process requiring each RPS contract to be submitted for approval via advice letter or application and reviewed and approved on a contract-by-contract basis does not allow sufficient time to obtain Commission approval of short-term transactions that may begin deliveries shortly after execution.

As with non-renewable generation under the Assembly Bill ("AB") 57 Procurement Plan process, Commission pre-approval of a certain amount of short-term renewable transactions is needed, especially since renewable resources are higher in the loading order. Otherwise, IOUs will not be able to compete for short-term contracts with other LSEs whose contracts do not require Commission approval, and IOU customers will be unfairly prejudiced, as they will likely end up paying higher prices for renewable energy as a result of this restriction. Indeed, as SCE stated in its briefing to its PRG on June 8, 2009, SCE's customers have already lost out on numerous short-term contracting opportunities due to the length of time needed to obtain

Commission approval or because counterparties have withdrawn their offers in favor of contracts with other LSEs who do not have Commission approval requirements for their contracts.

SCE previously sought pre-approval for a limited amount of short-term renewable transactions in its 2009 RPS Procurement Plan.<sup>27</sup> The Commission denied SCE's request and instead adopted a fast-track approval process for short-term renewable contracts that satisfy certain specific conditions.<sup>28</sup> This process does not adequately address SCE's concerns. The fast-track approval process severely limits the amount of renewable energy transactions eligible for approval under such a process and does not provide IOUs sufficient flexibility to execute short-term renewable transactions.

As explained in more detail in Section 6.3, there is a continued need for a pre-approval process for a limited amount of short-term renewable transactions. Such a process is needed to provide IOUs the same flexibility with respect to renewable resource procurement they already have for non-preferred resources in the AB 57 procurement process.

## **2.2. What the IOU is doing, or plans to do, to address each impediment, if anything**

Over the past few years, SCE has taken several actions to address the impediment of transmission to achieving California's renewable energy goals. For example, SCE has attempted to expedite the permitting and construction of renewable transmission facilities by: (1) proactively providing the upfront financing for needed transmission network upgrades, (2) seeking authorization to record costs associated with interconnection and environmental studies for renewable projects, (3) providing leadership to the CAISO's reform of the Large Generator Interconnection Procedures, and (4) requesting authority to study the feasibility of developing transmission capacity to deliver output from potential renewable resources.

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<sup>27</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 29-30 (September 15, 2008). *See also* Comments of Southern California Edison Company (U 338-E) on the Proposed Decision Establishing Price Benchmarks and Contract Review Processes for Short-Term and Bilateral Procurement Contracts for Compliance with the California Renewables Portfolio Standard at 5-8 (May 26, 2009).

<sup>28</sup> *See* D.09-06-050.

In June 2007, the Commission adopted Resolution E-4052, which directed SCE to coordinate its efforts and schedules to the greatest extent possible with the priorities, process, and schedules of the California Renewable Energy Transmission Initiative, now referred to as the Renewable Energy Transmission Initiative (“RETI”). SCE has been an active participant in all aspects of RETI since its formation, and is now an active participant in the CAISO’s RETI follow on efforts titled “Getting to 33% RPS by 2020 through a Comprehensive Renewable Transmission Planning Process.”

Additionally, SCE filed Application (“A.”) 08-03-014 for approval of its Renewable Integration and Advancement (“RIA”) Program to study the grid impacts of increased renewable integration. The program would provide \$30 million over two years to conduct evaluation, research, and real-world applications that test the feasibility of technologies like energy storage, voltage control, forecasting devices, and other applications to make renewables more compatible with the transmission and distribution systems. The Commission has not yet approved SCE’s application.

Despite these efforts, SCE still expects that transmission will continue to be a significant impediment to achieving the State’s renewable energy goals.

While the uncertainty associated with production tax credits and investment tax credits was outside the control of California state agencies, SCE’s policy advisors in Washington, D.C. worked with senators and legislators advocating for the extension of these tax credits. Additionally, SCE supported California Assembly Joint Resolution 50 that urged the U.S. Senate and President to extend the credits. As explained above, the ARRA 2009 extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013. The investment tax credit for solar was also extended until the end of 2016. SCE will continue to support extension of these tax credits in the future.

To address the interconnection queue impediment, SCE played a leadership role among California Participating Transmission Owners in the stakeholder process that lead to reforms of

the CAISO Large Generator Interconnection Procedures, which were approved by the Federal Energy Regulatory Commission in 2008 and are currently being implemented.

Furthermore, to proactively address development performance issues, SCE continues to reach out and communicate with project developers on a regular basis, discuss options and the status of project development, and provide guidance and direction as often as needed. SCE has also made several modifications to its solicitations materials in response to lessons learned from developers in previous solicitations. To overcome some of the development barriers, SCE has created an option to have SCE act as schedule coordinator, allowed for delivery points at the point of interconnection with the transmission provider's electric grid, and tailored certain terms and conditions to address market changes in equipment availability and supply.

SCE has also worked with developers to overcome local opposition to renewable projects through active education with city governments regarding the State's goals and the importance of renewable energy in California. Furthermore, SCE continually educates the renewable development community on its procurement opportunities. In order to explain SCE's various renewable contracting opportunities, SCE speaks to developers at industry-wide symposiums (e.g., American Wind Energy Association, the U.S. military's Enhanced-Use-Lease, Geothermal Resources Council, Solar One), hosts its own annual Bidders Conference in connection with each RPS solicitation, fields countless phone inquiries, and participates in CEC developer forums.

Finally, in order to gain increased regulatory flexibility to pursue additional procurement options, SCE is seeking approval to enter into transactions for unbundled RECs as part of its procurement authority immediately upon issuance of a Commission decision authorizing unbundled RECs. SCE is also seeking Commission pre-approval to enter into a limited quantity of short-term renewable energy transactions. Both of these proposals are outlined in more detail in Sections 6.3 and 6.4.

To further facilitate the use of unbundled RECs in the future, SCE has also organized and leads a stakeholder process, consisting of a wide range of industry participants, to develop a

standardized unbundled REC contract for use in the Western Electricity Coordinating Council (“WECC”). The contract is built to be adaptable to meet various state RPS requirements and will hopefully lead to increased liquidity and a robust unbundled REC market.

Additionally, to maximize contracting opportunities, SCE has pursued its Renewables Standard Contract Program as discussed in Section 6.1. SCE is also implementing a competitive solicitation offering 250 MW of long-term power contracts to independent solar photovoltaic (“PV”) power providers in conjunction with 250 MW of utility-owned generation as part of SCE’s Solar PV Program, as discussed in more detail in Section 3. This brings the total generating capacity of the Solar PV Program to 500 MW, the largest solar PV program ever undertaken.

**3. Build Own Resources: A showing on the IOU’s current consideration of whether or not to build its own renewable generation to reach 20% by 2010, and 33% by 2020**

While the RPS law permits renewable utility-owned generation, it does not require such utility-owned generation.<sup>29</sup> As explained below, SCE is pursuing renewable utility-owned generation through its Solar PV Program.<sup>30</sup> Consistent with the direction provided in the last two General Rate Case decisions (D.06-05-016 and D.09-03-025) described below, SCE’s Generation Project Development Division also evaluates the possibility of building other renewable generation resources.

On March 27, 2008, SCE submitted A.08-03-015, seeking authority to spend up to \$962.5 million (in 2008 dollars) in customer funds to develop the Solar PV Program to install 250 MW of capacity from solar PV panels on rooftops at the distribution level in urban areas of Southern California. The primary purpose of this program is to transform the solar PV market by reducing costs. SCE sees numerous customer benefits from its new solar program, among

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<sup>29</sup> In D.09-06-018, the Commission reiterated that utility-owned generation is not an RPS program requirement. D.09-06-018 at 49.

<sup>30</sup> See D.09-06-049.

them the hope of progressing the rooftop solar PV market to substantially lower costs, which will allow greater installation of solar PV by electricity customers in Southern California.<sup>31</sup>

On June 18, 2009, the Commission adopted a decision on A.08-03-015.<sup>32</sup> The Commission increased the size of SCE's Solar PV Program to 500 MW. Although SCE had proposed that the Solar PV Program include only utility-owned generation, the Commission added 250 MW owned by independent power producers to the program. The decision adopted cost-of-service treatment for the utility-owned generation portion of the Solar PV Program, including the amounts recorded in the memorandum account pursuant to Resolution E-4182. To date, installation on two major roof structures have been completed. One was completed in 2008 and a second in 2009. Each roof supports over 1 MW in installed renewable capacity. Negotiations and analyses are in final stages for a third roof. Additionally, SCE plans to put approximately 42 MW in service in 2010.

In addition to the Solar PV Program, SCE continues to evaluate the possibility of building renewable and other utility-owned generation resources. In SCE's Test Year 2006 and 2009 General Rate Case decisions, D.06-05-016 and D.09-03-025, the Commission approved SCE's request for cost recovery for certain so-called "support" functions associated with SCE's Generation Project Development Division.<sup>33</sup> These "support functions" include the following: "(1) analyze generation technologies and costs; (2) locate appropriate sites for potential generation development; (3) monitor and participate in generation-related regulatory and legislative activity; and (4) develop and maintain the best option outside negotiation (BOON) for relevant generation technologies."<sup>34</sup>

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<sup>31</sup> On March 27, 2008, SCE also submitted Advice Letter 2226-E seeking authority to record in a memorandum account invoiced costs for outside services, insurance expenses, and any capital-related revenue requirement associated with the first \$25 million of direct capital expenditures incurred in the Solar PV Program. SCE expected that this capital expenditure would provide 5 MW of rooftop solar PV electric energy connected at the distribution level in Southern California. On September 18, 2008, the Commission issued Resolution E-4182 approving the establishment of a memorandum account to record the revenue requirement for this first 5 MW of rooftop solar PV facilities.

<sup>32</sup> See D.09-06-049.

<sup>33</sup> D.09-03-025 at 40-42.

<sup>34</sup> *Id.* at 40.

Thus, base-rate funding was authorized for studying future generation needs, including renewable generation needs. Since the authorization of funding in SCE's Test Year 2006 General Rate Case decision, SCE has begun the generation studies contemplated in the decision. Among other things, the characteristics and costs for emerging generation technologies, potential sites, and transmission network upgrades are presently being studied.

The Commission, however, twice rejected SCE's request to include in rates, efforts by the Generation Project Development Division to engage in activities such as "develop[ing] and implement[ing] plans to advance projects from the development phase to the construction and operations phase."<sup>35</sup> These development activities include preparation of environmental assessments and applications for Certificates of Public Convenience and Necessity, which may take 30 to 36 months to prepare and process. Therefore, SCE is not currently authorized to recover funds to develop renewable generation. The costs for any specific proposed projects are only recoverable when those projects are selected through a solicitation.

#### **4. Imperial Valley Issues:**

##### **4.1. Bidders Conference**

SCE was required by the Commission to host an Imperial Valley Bidders Conference in addition to its annual Request for Proposals ("RFP") Bidders Conference.<sup>36</sup> On July 9, 2009, SCE hosted its Imperial Valley Bidders Conference in Los Angeles. Despite publicizing this event, attendance was not high. Prior to the Imperial Valley Bidders Conference, SCE received numerous questions from confused sellers about the purpose and goal of a separate conference for the Imperial Valley, which provides evidence to justify earlier concern that "a special conference might give the impression that a preference will be given to Imperial Valley developers, and that projects in other areas need not apply."<sup>37</sup> Accordingly, SCE recommends against requiring each IOU to conduct a special Imperial Valley Bidders Conference in 2010.

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<sup>35</sup> *Id.* at 40-42.

<sup>36</sup> D.09-06-018 at 78 (COL 6).

<sup>37</sup> *Id.* at 11.

#### **4.2. Remedial Measures for 2010**

In its 2009 RFP, SCE noted that its evaluation criteria would consider the benefit of projects locating near approved transmission infrastructure, such as the Sunrise Powerlink Transmission Project (“Sunrise”) and the Tehachapi Renewable Transmission Project. SCE received numerous proposals indicating an interconnection point to Sunrise in its 2009 solicitation. [REDACTED]

[REDACTED] SCE’s experience shows that Imperial Valley sellers are well aware of the solicitation process. SCE will continue to give a preference to projects located near approved transmission projects, including Sunrise, in its 2010 RPS solicitation.

At this time, SCE does not suggest any remedial measures relative to the Imperial Valley for 2010 as they are unnecessary to solicit interest from Imperial Valley projects, which are already participating in IOU RPS solicitations.

#### **5. Contract Amendments:**

SCE appreciates the Commission’s intent to streamline the renewable contract amendment review process.<sup>38</sup> However, the approach that SCE currently uses to determine whether a contract amendment should go into the Energy Resource Recovery Account (“ERRA”) reasonableness filing as opposed to an advice letter or application is functional, streamlined, and efficient. In its 2009 RPS Procurement Plan, SCE explained the ERRA process and proposed guidelines for the treatment of renewable contract amendments should the Commission determine further guidelines are necessary.<sup>39</sup> The proposal in the Scoping Memo is similar in some ways to the guidelines SCE proposed in 2009. Unfortunately, some aspects of the Scoping Memo proposal are directly contrary to the goal of streamlining the contract

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<sup>38</sup> Amended Scoping Memo and Ruling of Assigned Commissioner Regarding 2010 RPS Procurement Plans (“Scoping Memo”), Attachment A at 5 (November 2, 2009).

<sup>39</sup> Southern California Edison Company’s (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 21-22 (September 15, 2008).

amendment review process. In fact, the Scoping Memo proposal would likely make the review process for renewable contract amendments more complicated, burdensome, and time consuming. If read broadly, the Scoping Memo proposal could significantly increase the number of amendments that must be filed by advice letter, burdening the IOUs, their counterparties, and Commission staff, and delaying the approval of amendments that are required to allow renewable projects to come on-line.

SCE believes the current process for review of renewable contract amendments is working effectively. There is no evidence that a change in that process is required or desirable. However, if the Commission determines that additional guidelines are needed, the Scoping Memo proposal should be modified so that it can effectively streamline the process rather than adding additional complications and delay.

**A. SCE's Current Contract Amendment Process**

Since the early 1980s, all actions taken by the IOUs after contract execution have been within the scope of contract administration. All contract administration activities for RPS contracts, including contract amendments, are subject to review by the Commission. The Commission reviews these matters either through the annual ERRA Reasonableness of Operations review process, advice letters, and/or applications filed by the IOUs. The same general process is used for qualifying facility contracts and other contracts for non-renewable resources.

RPS contracts are complex and typically involve the development of new projects, often requiring hundreds of millions of dollars of capital investment and a lengthy development planning horizon. Any number and type of changes may occur over this horizon as well as the terms of the agreements. Many of the contract changes experienced with new generation projects involve revised on-line dates brought about by transmission interconnection issues, site permitting issues, or other unanticipated development hurdles. Contract changes have also been made to address changes in the market or regulatory environment. Most of these amendments are included in the annual ERRA reasonableness filing. SCE utilizes ERRA for contract

amendments when it can provide clear evidence that in agreeing to an amendment requested by a seller, SCE has secured a commensurate ratepayer benefit.<sup>40</sup> The function of the ERRA reasonableness proceeding is to ensure that contract administration actions are reasonable, consistent with Commission directives, administered equally, and consistent with utility and/or industry practice. It is the IOU's burden to demonstrate that its actions are reasonable through clear and convincing evidence.<sup>41</sup>

For amendments that substantially alter the contract, SCE would likely deem it necessary to submit an advice letter for approval of the contract amendment. Such contract amendments could be something unique to the contract, an increase in the contract price, or other material changes to the terms and conditions of the contract. In some less frequent cases, SCE may determine that an application for approval of a contract amendment is necessary.

Ultimately, SCE believes that the decision on how to bring an amendment to the Commission for approval should be left to the IOU to evaluate on a case-by-case basis at the time that the amendment arises. This decision is guided by the perceived reasonableness and risk to customers of the contemplated amendment and varies depending upon the time and circumstances. The Commission has established that IOUs must administer their contracts in a prudent manner. In other words, IOUs are expected to engage in those practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition.<sup>42</sup> The prudence standard is intended to include a range of acceptable practices, methods, or acts.<sup>43</sup> To the extent Commission direction on the acceptability of the contemplated action is clear, the IOU will likely feel comfortable with the reasonableness risk and include such an amendment in the

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<sup>40</sup> See D.88-10-032.

<sup>41</sup> D.87-07-026 at 19-20; D.88-03-036 at 5.

<sup>42</sup> D.87-06-021 at 19.

<sup>43</sup> See, e.g., D.90-09-088 at 14-16.

annual ERRA reasonableness filing. However, mandating that IOUs assume reasonableness risk absent upfront achievable standards places an unacceptable risk on the utility.<sup>44</sup>

Once SCE determines a specific contract amendment should go into ERRA, the information necessary to demonstrate the action is reasonable is assembled and included in the annual ERRA reasonableness filing. The filing is generally submitted on April 1 of each year. The Division of Ratepayer Advocates (“DRA”) is an active party in the review process and SCE receives and responds to multiple data requests from DRA. SCE submits specific information related to each request and prepares responses to fully address all questions or concerns. Once all of their data requests are addressed, DRA then submits a recommendation to the Commission. The Commission subsequently issues a decision on SCE’s ERRA reasonableness filing.

In this way, the entire filing is scrutinized for reasonable action and judgment on the part of the IOU. This process has been in place since Decision 85731, April 27, 1976, implementing the Energy Cost Adjustment Clause (which morphed into ERRA in 2003) and is sufficient for most contract amendments. Moreover, the ERRA reasonableness filing is transparent and includes a description of all contract amendments included in the filing. SCE is including a sample of RPS contract amendments from its April 2009 ERRA filing below:<sup>45</sup>

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<sup>44</sup> See Cal. Pub. Util. Code §§ 454.5(b)(7), (c)(3).

<sup>45</sup> ERRA Reasonableness of Operations, 2008, Chapters IX-XIV Public Testimony, A.09-04-002, at 41 (April 1, 2009).

*Table X-17  
RPS Contract Amendments  
January 1, 2008 through December 31, 2008*

<u>RAP ID</u>	<u>Project</u>	<u>Amendment Number and Description<sup>33</sup></u>	<u>Date Executed</u>
1209	Imperial Valley Resource Recovery, LLC	Letter agreement to purchase test energy and receive related RPS credits prior to initial operation for the period August 25, 2008 to August 31, 2008.	August 26, 2008
1209	Imperial Valley Resource Recovery, LLC	Letter agreement No. 2 to purchase test energy and receive related RPS credits prior to initial operation for the period September 1, 2008 to September 15, 2008.	September 11, 2008
1209	Imperial Valley Resource Recovery, LLC	Amendment No. 1 to extend the start-up deadline and continue to purchase test energy prior to initial operation to receive the RPS credits for the period September 16, 2008 through January 10, 2009. IVRR continues paying liquidated damages for delays in initial operation. See description in Section 9 "Other Contract Administration Activity."	September 12, 2008
1210	MM Tajiguas Energy, LLC	Consent and Waiver. Fortistar Acquisition, LLC acquired all membership interests of Tajiguas. In connection with the acquisition, Fortistar LLC or an affiliate thereof has provided a letter of credit satisfactory to SCE for the purpose of replacing the existing guaranty agreement from the previous owner of Tajiguas.	January 31, 2008
1210	MM Tajiguas Energy, LLC	First amended and restated Consent and Waiver. Assigns the rights, title, interest, and all assets of Tajiguas including the power purchase agreement and project to the security agent.	June 27, 2008
3107	Geysers Power	Letter agreement to allow Geysers Power an option to exchange a letter of credit provided by the project as security for the performance of its obligations under the power purchase agreement for performance assurance requirement for cash.	January 24, 2008

The current process for review of contract amendments is streamlined and flexible, and allows the IOUs to use their business judgment to apply Commission guidelines to specific amendments on a case-by-case basis. The current process also allows for robust public review of contract amendments. Accordingly, SCE does not believe there is any evidence that a change in the current process is required.

**B. Concerns with Scoping Memo Proposal**

SCE has three major concerns with the Scoping Memo proposal. First, the proposal to require contract amendments that result in "(a)ny increase in ratepayer cost that has not been pre-approved" to be submitted via Tier 3 advice letters could require a large percentage of renewable

contract amendments (many of which make only minor changes to the contracts) to be approved through the Tier 3 advice letter process.<sup>46</sup>

For example, SCE has entered into contract amendments with certain sellers in order to address issues related to the implementation of the CAISO's Market Redesign and Technology Upgrade ("MRTU"). In some cases, MRTU will require delivery point changes that may impact line losses and such changes may result in some increased costs to ratepayers. This is a normal cost of doing business and does not increase the energy price paid to the generator, although the generator may receive an overall benefit from lower line losses. Under the current process, this type of contract amendment can be reviewed through the ERRA reasonableness filing. The benefits of a specific contract amendment to ratepayers must be evaluated on an overall basis, and as discussed above, SCE includes a demonstration of the commensurate ratepayer benefit of amendments in its ERRA filing.

However, under the Scoping Memo proposal, an amendment that may include any increase in ratepayer costs would require a Tier 3 advice letter, even if the amendment provides overall benefits to ratepayers. Given that many more contract amendments are likely to be needed to address MRTU-related issues, the Scoping Memo proposal could lead to a substantial increase in the number of amendments that must be filed through Tier 3 advice letters.

Another example of a contract amendment that may result in some increased costs to ratepayers, but also commensurate ratepayer benefits, is SCE agreeing to become the scheduling coordinator for a renewable generation project. In its recent Pro Forma Renewable Power Purchase and Sale Agreements, SCE has agreed to take on the activities of scheduling coordinator. There are some additional costs to ratepayers when SCE is the scheduling coordinator. However, there are also commensurate ratepayer benefits such as SCE's ability to manage bidding/scheduling risk, the fact that confidential bidding data does not need to be shared with the seller, and eliminating gaps in the scheduling requirements for the CAISO

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<sup>46</sup> Scoping Memo at 6.

Participating Intermittent Resource Program. If SCE amends a contract and agrees to become scheduling coordinator it should be able to demonstrate the reasonableness of such amendment in its ERRA reasonableness filing. However, under the Scoping Memo proposal, such amendments would have to be reviewed through a Tier 3 advice letter.

These types of contract amendments are made in the normal course of contract administration and receive appropriate review in the ERRA process. The IOU has the burden to show reasonableness and commensurate ratepayer benefit through ERRA, and whether the IOU met such standards is subject to public and Commission review. Virtually all types of amendments including the specific ones mentioned here, certain changes in project on-line dates, or amendments to require seller participation in WREGIS may broadly be interpreted to result in an “increase in ratepayer cost.” While SCE agrees that any increases in contract energy prices should be reviewed through the Tier 3 advice letter process, SCE strongly disagrees that any amendment that could possibly increase ratepayer costs should be filed through a Tier 3 advice letter.<sup>47</sup> This interpretation of the Scoping Memo proposal could lead to virtually all of SCE’s contract amendments being reviewed through the Tier 3 advice letter process. This is directly contrary to the goal of streamlining the review process for contract amendments. It also undermines the usefulness of the ERRA reasonableness review process – a process that has been working well for many years.

Second, SCE is concerned with the Scoping Memo proposal’s distinction between “major modification to project milestones,” which must be filed via Tier 3 advice letters, and “minor modification of project milestones,” which can be submitted in the ERRA reasonableness filing.<sup>48</sup> There are no examples or direction for what would constitute major versus minor modification to project milestones. Without any direction on how to differentiate between these two types of amendments, it is likely that IOUs will submit most contract amendments that

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<sup>47</sup> For contracts that were allocated above-market funds (“AMFs”), SCE supports submitting any amendments that would increase the amount of AMFs allocated via a Tier 1 advice letter. This will allow Commission staff involved in AMF allocations to more quickly track AMF allocations.

<sup>48</sup> Scoping Memo at 6.

change contract milestones through the advice letter process in an attempt to comply with these guidelines. It would be more useful and practical for the Commission to provide a non-exhaustive list of what it views as routine contract administration to be included in the ERRA reasonableness filing versus what must be filed through the advice letter process. This will give more direction to the IOUs while leaving enough flexibility for IOUs to review specific contract amendments on a case-by-case basis. SCE has provided specific examples for consideration in the next section.

Finally, the Scoping Memo proposal that amendments for additional procurement at a Commission-approved price be filed through Tier 1 advice letters is somewhat vague. Some Commission-approved contracts already include a range of possible capacities. If a contract amendment sets a specific capacity within that range, a Tier 1 advice letter should not be required since the Commission already approved the range of possible capacities. The amendment should be reviewed in the ERRA reasonableness filing.

SCE interprets additional procurement at a Commission-approved price to include increases in contract capacity beyond the range originally set forth in the contract at the same price already approved by the Commission. Additionally, in the case of contracts for a specific amount of renewable energy (e.g., 500 GWh per year from a specific facility rather than all of the energy from a facility of a specific capacity), additional procurement at a Commission-approved price would include a contract amendment for additional energy at the same price already approved by the Commission. SCE believes that it would be helpful to clarify this category.

### **C. Suggested Changes to Scoping Memo Proposal**

As discussed above, SCE has specific concerns with the Scoping Memo proposal and suggests the Commission should continue with the current guidelines for review of renewable contract amendments. Should the Commission determine that additional guidelines are necessary, however, SCE suggests the following modified proposal for the reasons discussed above.

LEVEL OF REVIEW	EXAMPLES OF ELIGIBLE AMENDMENT
Annual ERRA reasonableness filing	Routine contract administration or remedies, including issues that may arise between the parties regarding contract interpretation (e.g., extension of on-line dates, amended consent and waivers, compliance with standard terms and conditions changes, changes related to transmission or site permitting issues, extension of termination rights, modifications to account for the purchase test energy, changes to interconnection or metering, and increases in capacity up to a Commission-approved amount).
Tier 1 Advice Letter	<p>Additional contracting at a Commission-approved price, including increases in capacity beyond the range approved in the original contract or, for contracts for the purchase of a specific amount of energy, increases in energy beyond the range approved in the original contract.</p> <p>Changes to contracts that were allocated AMFs that would increase the contract's AMF allocation.</p>
Tier 3 Advice Letter	<p>All others, including:</p> <ul style="list-style-type: none"> <li>a. Substantial changes to the contract (e.g., increases in contract capacity at a price not previously approved by the Commission).</li> <li>b. Further consideration relative to explicit term of power purchase agreement approval.<sup>49</sup></li> <li>c. Any increase in the energy price not at a Commission-approved price.</li> </ul>

**6. Other: Anything else necessary for a full and complete presentation to the Commission of the IOU's 2010 RPS Procurement Plan, as recommended by the IOU for Commission acceptance**

**6.1. SCE's Renewables Standard Contract Program**

In order to help small renewable energy projects contribute to the State's renewable energy goals, SCE voluntarily initiated a program to offer standardized contracts to eligible renewable energy facilities with capacities of 20 MW or less. SCE recognized that smaller projects have had difficulties in participating in SCE's annual solicitations. By eliminating the complex negotiation process that is needed for larger projects, these smaller projects are given

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<sup>49</sup> For example, if the Commission resolution explicitly approves only the first phase of a multi-phase project, applicant must file a Tier 3 advice letter for approval of a subsequent phase.

the opportunity to execute contracts with SCE and contribute to the State's renewable energy goals.

In 2009, SCE offered two different contracts which vary depending on the size of the generating facility. These contracts applied to facilities with capacities not greater than 5 MW and capacities not greater than 20 MW.<sup>50</sup> The Renewables Standard Contracts were offered to RPS-eligible resources for terms of 10, 15, and 20 years, and at an energy price set at the applicable Market Price Referent ("MPR"), multiplied by energy allocation factors for SCE's time-of-delivery periods. The contracts were based on a simplified version of the Pro Forma Renewable Power Purchase and Sale Agreement for SCE's RPS solicitation.<sup>51</sup>

SCE filed an advice letter on July 1, 2009 seeking approval of one Renewables Standard Contract.<sup>52</sup> Moreover, the Commission previously approved four contracts from SCE's Biomass Standard Contract Program (the predecessor to the Renewables Standard Contract Program). Late in 2009, SCE received a large number of applications to its Renewables Standard Contract Program, representing nearly double the program's goal of 250 MW. SCE is working to complete negotiations and intends to execute contracts with a large number of projects in the near future. Given that applications have greatly exceeded the program cap, after executing these contracts, SCE plans to suspend the Renewables Standard Contract Program and conduct an analysis to review options for restarting the program in 2010.

## **6.2. CREST Program**

In D.07-07-027, the Commission directed the IOUs to offer a feed-in tariff to eligible renewable energy resources sized 1.5 MW and less. SCE offers this tariff under the CREST contract, which purchases all energy delivered for a 10, 15, or 20-year term at the applicable

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<sup>50</sup> As noted below, the CREST program is available for facilities with capacities up to 1.5 MW.

<sup>51</sup> SCE's 2009 Renewables Standard Contract materials were filed with the Commission on May 8, 2009. Southern California Edison Company's (U 338-E) Renewables Standard Contract Materials (May 8, 2009).

<sup>52</sup> The Commission issued a draft resolution approving this contract which will be considered at the Commission's December 17, 2009 meeting.

MPR. The statewide program limit is 500 MW with SCE's portion being 247 MW. SCE has executed one contract under this tariff for 1.1 MW.

On October 11, 2009, SB 32 expanded this tariff up to 3 MW, to be effective January 2010. SCE will continue to offer the existing CREST contract until the Commission issues a proceeding to implement the 3 MW expansion.

### **6.3. Pre-Approval of a Limited Amount of Short-Term RPS-Eligible Transactions**

As outlined in Section 2, SCE has a need for near-term renewable energy. SCE is seeking Commission approval to enter into a limited quantity of short-term renewable energy transactions through a pre-approval process. These transactions would be governed by the then-current AB 57 Procurement Plan approved by the Commission. SCE will file an advice letter to amend its AB 57 Procurement Plan to include these upfront and achievable standards.

A pre-approval process is necessary to give IOUs the flexibility to capture market opportunities and compete with other LSEs for short-term transactions that will help California reach its renewable energy goals cost-effectively. The current Commission process for the review and approval of RPS contracts, including the fast-track approval process for short-term contracts adopted by the Commission in D.09-06-050, is not effective in capturing short-term opportunities. The requirements to be fast-track-eligible are too restrictive and impractical to work in the marketplace, as evidenced by the limited fast-track proposals submitted into SCE's 2009 RPS solicitation.<sup>53</sup> Indeed, to date, none of the three IOUs have submitted a contract under the fast-track approval process.

The fast-track approval process does not work for several reasons. First, the requirement that an eligible fast-track contract conform to the applicable pro forma contract with only minor modifications<sup>54</sup> has not been well received in the market. Almost all sellers request some changes to the pro forma contract. Changes to the pro forma contracts are usually necessary due

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<sup>53</sup> [REDACTED]

<sup>54</sup> D.09-06-050 at 38 (OP 1.f), 39 (OP 2.e).

to evolving market issues, project or technology-specific issues, or specific risk tolerance limits. Accordingly, very few, if any, sellers are willing to execute SCE's pro forma contracts with only minor modifications.

Second, the benchmark that is used to assess price reasonableness<sup>55</sup> for very short-term contracts is fundamentally flawed since it varies daily and is based on unrelated energy prices. Due to the uncertainty of the price reasonableness benchmark, sellers repeatedly alter pricing in negotiations in an attempt to game the highest pricing outcome. Ultimately, the market views the benchmark as a cap, not as *per se* reasonable. Moreover, for solicitation proposals, it is not clear if the proposed price will be above or below the benchmarks for very short-term or moderately short-term contracts since the MPRs are not issued until after the solicitation is closed.

Third, these opportunities are short-term in nature and ultimately fleeting. Accordingly, the requirement of Independent Evaluator ("IE") involvement and the minimum of 30 days to receive Commission approval through the Tier 2 advice letter process is an unacceptable delay for the market to hold the price. Counterparties will not hold an offer open for 30 days when electric service providers and other LSEs do not have this requirement.

Finally, a Tier 2 advice letter is only deemed approved if it not protested or otherwise suspended in 30 days.<sup>56</sup> Therefore, one protest may delay the process, even if that protest is wholly without merit. Although the Commission has not rejected any of SCE's RPS contracts, several of SCE's advice letters have been protested, particularly those that involve short-term contracts or out-of-state generating facilities.

In summary, the fast-track approval process is not an adequate solution to the problem SCE's proposed pre-approval process is attempting to address. Just as with non-renewable generation, Commission pre-approval of short-term renewable transactions is needed. Otherwise, IOUs will not be able to capture market opportunities to assist in meeting near-term

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<sup>55</sup> *Id.* at 37 (OP 1.d).

<sup>56</sup> *Id.* at 8 n.2.

renewable energy goals or compete with electric service providers, municipal utilities, and other LSEs for short-term renewable contracts. IOU customers will be unfairly prejudiced and will likely end up paying higher prices for renewables. Given the impediments to reaching California's renewable energy goals, the IOUs need more flexibility in the processes set out to meet the State's goals, not less. As the Director of the Commission's Energy Division has stated, the current RPS program includes "unnecessarily complex and outdated RPS requirements."<sup>57</sup> Accordingly, the best way to achieve a simple, flexible, and functional process for pre-approval of short-term contracts is to adopt a process similar to the one SCE proposed in its 2009 RPS Procurement Plan.<sup>58</sup>

SCE's proposal for pre-approval of a limited amount of short-term transactions is designed in a way that mirrors the procurement authority the Commission grants the three IOUs pursuant to their AB 57 Procurement Plans to enter into contracts less than five years in length without requiring Commission approval on a contract-by-contract basis subsequent to contract execution. SCE's proposed process would allow for limited authorization to enter into short-term contracts up to a predetermined amount of generation. Because renewable energy is a preferred resource in California, the rules for allowing pre-approval of short-term transactions for renewable energy should be simpler and easier, not more restrictive, than the rules applicable to procurement of resources lower in the loading order.

SCE's proposed pre-approval process would give SCE flexibility comparable to that granted to the IOUs for procurement of non-renewable resources. In contrast, the Commission's current process makes procuring renewable resources more difficult, burdensome, and time consuming than procuring non-renewable resources, contrary to the State's policy preference for

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<sup>57</sup> Memorandum from Julie Fitch, Director of the Commission's Energy Division to Senate Energy, Utilities & Communication Committee, Assembly Utilities & Commerce Committee, and Assembly Select Committee on Renewables re: Renewables Portfolio Standard (RPS) 33% Legislation at 1-2 (January 28, 2009).

<sup>58</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 29-30 (September 15, 2008).

renewables. Accordingly, the Commission should grant SCE's request for pre-approval of a limited amount of short-term transactions.

SCE proposes the following upfront standards and guidelines for this limited authority:

- Maximum of 5% of the expected cumulative APT (to meet a High Need Case procurement scenario) for the next five years. This would equal approximately 4,500 GWh of total cumulative procurement. The Director of the Energy Division shall be delegated the authority to increase this program up to a maximum of 10% of the APT or approximately 9,000 GWh total cumulative procurement if:
  - the IOU requests an increase,
  - there is a continuing need to procure renewable energy over the next five years forward from the date of such request,
  - the executed contracts within the program are deemed competitively priced as compared to the maximum valuation metric (see below),
  - the program has been effective in the market as measured by market response, and
  - the program has demonstrated it is an efficient way to procure RPS-eligible energy as compared to the Commission's other programs.
- Contract delivery term consistent with the current Long-Term Procurement Plan authorization (i.e., D.07-12-052 or successor decision). Currently, such limits would be: delivery must terminate in under five years of contract execution, except contracts with delivery start dates within one year of execution, which may include delivery terms under five years.
- Any delivery point and any product approved by the Commission to be used for RPS compliance and meeting the CEC guidelines for delivered RPS energy.
- Overseen by an IE and consultation with the PRG.

- The IOU would set a maximum valuation metric prior to initiating any procurement under this program. The IOU will share this maximum valuation metric and methodology for setting the maximum valuation metric with its PRG and the Energy Division. In no circumstances would the maximum valuation metric exceed the last marginal proposal received from the most recent RPS solicitation short list.
- To address viability concerns, procurement would only come from existing generating units or from those under construction with an expected commercial operation date within one year of contract execution.

Contracts entered into in accordance with these guidelines would be deemed *per se* reasonable and pre-approved by the Commission, including payments to be made by SCE, subject to Commission review of SCE's administration of the transactions. The transactions would be reviewed for compliance with these upfront standards as part of the existing procurement plan compliance report quarterly advice letter filing.<sup>59</sup> If the Commission approves SCE's proposal, SCE will file a detailed AB 57 Procurement Plan amendment advice letter including additional detail regarding these upfront and achievable standards.

#### **6.4. Approval to Enter Into Transactions for Unbundled RECs**

SCE continues to be hopeful that unbundled RECs will soon be recognized for RPS compliance purposes. As an integral part of approving this 2010 RPS Procurement Plan, SCE requests that the Commission approve SCE's ability to enter into unbundled REC transactions as part of its procurement authority immediately upon issuance of a Commission decision authorizing unbundled RECs. This specific approval would expedite SCE's ability to enter into unbundled REC transactions as soon as that product is authorized for compliance by the Commission. Depending on the date such authorization is received, SCE may include unbundled

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<sup>59</sup> The Commission is currently reviewing the format of the Procurement Plan Compliance Report Quarterly Advice Letter Filing for all utilities and is considering revisions, including the addition of renewable transactions.

RECs as an incremental product in the annual solicitation process as well as in the short-term pre-approval process outlined above.

SCE included this suggestion in the 2009 RPS Procurement Plan,<sup>60</sup> and while SCE was ordered to remove the discussion, unbundled RECs continue to be needed to meet the State's renewable energy goals. As discussed in Section 2, unbundled RECs would increase flexibility and opportunities for renewable procurement to meet the State's renewable energy goals.

SCE proposes that these unbundled REC transactions be entered into subject to the equivalent authority for bundled energy transactions.<sup>61</sup> In other words, short-term unbundled REC transactions would fall under the authority, limits, guidelines, and reporting as outlined in the previous Section 6.3. Long-term unbundled REC transactions would be filed with the Commission for approval consistent with existing practices.

#### **6.5. Feedback and Proposed Changes to Project Viability Calculator**

Consistent with D.09-06-018, SCE used the Commission's adopted project viability calculator ("PVC") in its 2009 RPS solicitation process.<sup>62</sup> During the course of the solicitation and evaluation of proposals, SCE, project developers, and SCE's IE gained useful experience with the PVC. As such, SCE and its IE have specific changes that SCE requests the Commission adopt for the 2010 RPS solicitation. Adoption of these changes will lead to a more useful tool, and will help to more accurately evaluate the viability of renewable projects relative to one another. SCE's proposed modifications to the PVC are attached as Appendix D.

#### **A. SCE's General Comments Regarding the PVC**

The major issues identified with the PVC used in the 2009 RPS solicitation were that the criteria scoring guidelines were too prescriptive to allow meaningful scoring, some essential criteria were not considered in the scoring, and there was no definition of particular terms.

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<sup>60</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 30-31 (September 15, 2008).

<sup>61</sup> Bundled energy transactions typically include energy and green attributes and may or may not also include other attributes such as capacity and ancillary services.

<sup>62</sup> D.09-06-018 at 24.

Additionally, the PVC instructions, pursuant to D.09-06-018, seemingly prohibit interpolating between the provided scores. For such 2009 PVC criteria as Site Control, discussed further below, this resulted in an all-or-nothing score.

Furthermore, the inclusion of an IE scoring column was interpreted to mean that the IE was also required to score all proposals submitted into the 2009 RPS solicitation. The IE role should be to monitor the solicitation process and ensure the all proposals are treated fairly. With hundreds of proposals to evaluate, requiring the IE to independently score all the proposals did not appear to significantly improve the results. It would be more effective to have the IE review SCE's approach to the PVC assessment and to independently review SCE's PVC scores to ensure equal and fair treatment between the proposals.

Many of the scoring guidelines did not provide a complete list of possible scenarios. This created great inflexibility in using the PVC to accurately reflect a project's viability. This was particularly evident in the Development Milestones category as described in detail below. To remedy this situation, SCE suggests the Commission specify that the scoring guidelines are merely examples, and that the IOU (in cooperation with the IE) can apply other scenarios to the scoring system to reflect varying proposals, changes in the market, and different proposal structures and product types. This would make the PVC more useful and allow the tool to be adjusted based on the proposals received in the solicitation instead of waiting for the next solicitation cycle to make changes.

As mentioned above, SCE found many deficiencies in the Development Milestones category, specifically in the areas of Permitting Status, Interconnection Progress, and Site Control. SCE provides specific changes to the scoring guidelines in Appendix D, as well as examples of some of the challenges with using the PVC, particularly in the Development Milestones category, to highlight the concerns.

#### **1. Permitting Status**

The current scoring guidelines do not consider the permitting jurisdiction given the project's location. For instance, New Mexico's permitting process is far less rigorous than

California's. As such, 0% completion of permitting in California is far different than 0% completion of permitting in New Mexico. It would be appropriate to clarify that, in states where no conditional use or other material permits or statewide approval is required, the developer should receive all or most of the points in this category. Notably, SCE's IE took this into consideration while SCE followed the strict PVC criteria, which was one reason for a divergence in PVC scores for some proposals.

## **2. Interconnection Progress**

The PVC focuses solely on interconnection and not transmission service. This is a potential issue impacting not only out-of-state projects, but those in California that are outside the CAISO. For example, there were some proposals in the Imperial Irrigation District that had interconnection agreements but no transmission service agreement necessary to transmit the energy through the respective control area to the proposed delivery point. An additional issue with this criterion is the fact it is focused primarily on the interconnection requirements in California. Since many proposals were for projects located outside of California it was difficult to relate those projects to the specific categories associated with the CAISO process. SCE has proposed similar criteria for out-of-state projects that are consistent with the CAISO requirements. SCE's proposed changes remedy these issues and should be incorporated for 2010.

## **3. Site Control**

There are three primary issues with the current PVC dealing with site control. First, the current PVC limits projects on BLM land so they can never score more than an eight. If a project on BLM land has a Record of Decision granting them the right to build, it should be eligible to receive the highest score of ten. There should not be a distinction between projects on BLM versus private land.

Second, it is not clear what constitutes "site." SCE interpreted site to mean all the land necessary for the project to generate and transmit the energy to the local transmission grid, including both the facility site and the land that houses the gen-tie connecting the facility to the

grid. SCE's IE interpreted site to mean only the facility site. In the end, there are merits to both approaches, but either a better definition of "site control" or the flexibility to allow the evaluator to revise or add to the existing criteria during the PVC evaluation process is required.

Third, if a developer has site control for a majority of the relevant land (e.g., 95%), current scoring guidelines would require the evaluator to score it with a zero because scoring is based on all or nothing extremes. The Commission should allow interpolation between the provided scores or the flexibility to more accurately evaluate a proposed project's viability.

#### **4. Technical Feasibility**

Another major issue with the current PVC deals with the interpretation of technical feasibility, particularly, the meaning of "commercially proven" technology. For this criterion, SCE considered a technology to be proven if the precise make, model, and version number had demonstrated successful operation. SCE's IE only considered the make and model, and not the version number. SCE's sees merit in only considering the first two factors, as the IE did, given that a more advanced version may have only a slight modification to the underlying technology as compared to the preceding version. But SCE chose to evaluate projects by strictly following the PVC criteria. Similar to the issue with various interpretation of site control, there merits for both modes of reasoning, but the PVC needs either a better definition of "technical feasibility" or the flexibility to allow the evaluator to revise or add to the existing criteria during the PVC evaluation process is required.

#### **B. IE's General Comments Regarding the PVC**

SCE's IE offered the following comments on the PVC:<sup>63</sup>

This 2009 Renewable RFP was the first solicitation in which the Energy Division's Project Viability Calculator ("PVC") was used by SCE for the qualitative evaluation.<sup>64</sup> In the IE's opinion, the Project Viability Calculator is an important step in assessing the viability of project proposals. We found several

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<sup>63</sup> Independent Evaluator Bid Evaluation and Short List Selection Process 2009 RPS Short List Report at 32-33, 35-36 (December 4, 2009). *See also id.* at 13-14.

<sup>64</sup> In previous RFPs, SCE has used a similar process for assessing the qualitative characteristics of each proposal. However, SCE applied the Project Viability Calculator proposed by the Energy Division for this RFP.

issues in applying the criteria included in the Project Viability Calculator. We have several suggestions with respect to the use of the PVC, the criteria used in the PVC, and in how evaluators should score projects based on the PVC. We will address some of the issues in this section but will further articulate our views and suggestions in the recommendations section of this IE Short List Report.

First, the process for evaluating proposals based on the PVC proved to be extremely time consuming given the large number of proposals received. Compounding this problem was the fact that a number of proposals were not within any reasonable range of competitive pricing and therefore had little if any chance of being shortlisted.

Second, several of the criteria (i.e. site control and resource quality) did not offer much resolution in the scoring of the bids. For example, in the case of site control, the criteria was generally an “all or nothing” option for awarding points, depending on whether the Seller had 100% site control or not. We feel that several criteria should be expanded to offer more options in the evaluation spectrum and/or the utility and IE should be allowed to interpolate between the PVC scores.

Third, in our view there are several important factors pertaining to project viability that are not encompassed in the PVC. For example, commercial access to major generating equipment is not a criterion. However, having the contract rights to wind turbines or other generating equipment (or being a manufacturer of such equipment with adequate production capacity), is an important factor in terms of a Seller’s ability to perform, especially with nearer term commercial operation dates. In renewable energy solicitations in other states, we often see commercial access to generating equipment as a non-price evaluation criterion. Even where a Seller does not have contractual rights, having a firm price quote or commitment letter from a manufacturer gives a level of credibility to a bid compared to a Seller that does not have firm access to equipment or price quotes.

Another factor pertains to “transaction execution risk” – the project might be viable, but the proposed transaction presents difficulties in being brought to fruition. For example, in order to contract with an out-of-state wind project for a long-term agreement that would allow the project to be financed might present significant difficulties in terms of product definition, obtaining the necessary transmission and structuring delivery requirements such that the risk allocation would satisfy both buyer and seller. This risk is not currently captured in the PVC.

As a general matter, the PVC is oriented toward in-state projects. The PVC should be reviewed and revised so that it would apply equally well to out-of-state projects. . . .

The PVC should be reviewed and revised so that it should apply more effectively and comparably to out-of-state projects, including recognition of the difference in interconnection requirements, permitting requirements and some of the matters discussed above pertaining to transaction execution risk. Finally, we have several suggestions regarding how the PVC could or should be applied in the evaluation of bids. First, there should be more specificity in the criteria (e.g. siting), granularity in different scoring levels, and the ability to interpolate (if necessary) between different point score levels based on the facts presented by a particular bid. Second, bids that have very low scores for multiple categories should be evaluated for low viability, as well as bids that have a fatal flaw (e.g. a required permit has been denied).

#### **6.6. Process for Modifications to RPS Procurement Plans**

The existing process for Commission approval of the IOUs' RPS Procurement Plans, including solicitation materials, makes it difficult for the solicitation materials to take into account market trends and the lessons learned from the IOUs' contracting experience because the solicitation materials must be filed with the Commission several months before the solicitation is to be issued. As a result of this time lag, the solicitation materials are inevitably out-of-date by the time they are approved by the Commission.

For example, SCE is filing this 2010 RPS Procurement Plan just as it is beginning negotiations with the sellers short-listed in its 2009 RPS solicitation. Therefore, SCE's 2010 solicitation materials cannot fully take into account the lessons SCE will learn in its 2009 solicitation. That experience may show SCE that a provision in its solicitation materials requires modification or that a new provision is required. SCE may also learn that one of the changes introduced for the 2009 RPS solicitation is not working and should not be included in the next solicitation.

Additionally, the renewable energy market moves quickly and the IOUs need the ability to make changes to their commercial documents to reflect current market and regulatory realities. The credit and financing markets can undergo significant changes in the time between the filing and approval of the RPS Procurement Plans that necessitate changes to the IOUs' solicitation materials. Changes can also be required because of new regulatory developments. It does not

benefit any party to require the IOUs to issue solicitations with stale commercial documents that require substantial modifications before they can be executed.

Going forward, SCE suggests that the Commission change the schedule for the IOUs' RPS Procurement Plans so that the solicitation materials are filed no more than three months before a final Commission decision on the plans. The IOUs should also be able to move for leave to file an update to their plans after they are filed if such an update is needed. The Scoping Memo for 2010 allows for such motions, but they must be filed by February 17, 2010, which may be four months before the Commission issues a proposed decision on the 2010 RPS Procurement Plans assuming such a proposed decision is issued in the second quarter of 2010 pursuant to the Scoping Memo schedule.<sup>65</sup> This could mean a five or six month (or possibly longer) time lag between any updates to the solicitation materials and the issuance of the solicitation. Such a schedule does not give the IOUs sufficient flexibility to incorporate lessons learned and changes in market and regulatory realities into their solicitation materials. The IOUs should be allowed to move for leave to update their solicitation materials at any time after they are filed.

#### **6.7. Discussion of Improvements to the Transmission Ranking Cost Report Process**

For the 2009 RPS solicitation, SCE sent a letter on August 6, 2008 to renewable energy developers requesting that they provide information regarding transmission to be used in SCE's 2009 Transmission Ranking Cost Report ("TRCR"). The deadline for interested parties to respond to this solicitation for information was August 20, 2008. Fifteen developers responded to SCE's information request. These developers identified up to 48 potential renewable resource projects, including 29 in SCE's service territory, for a total of 15,424 MW. There were five developers representing seven projects which provided incomplete or insufficient information. The majority of projects identified in the request for supplemental information were in fact already active projects in the CAISO interconnection queue.

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<sup>65</sup> Scoping Memo, Attachment C.

Based on the revisions to previous conceptual transmission plans to accommodate new interconnection requests of renewable resources made since the last TRCR and additional information obtained in response to SCE's request for information, SCE developed its 2009 TRCR.

Of those parties which provided information to SCE for its TRCR, [REDACTED] [REDACTED]. SCE believes that the current TRCR process provides an extremely rough approximation of transmission cost impacts for proposed generating facilities within SCE's service territory. However, it does not provide sufficient accuracy to make fine distinctions between projects in the proposal evaluation process. Furthermore, SCE has found that estimates in the TRCR are even more speculative for network upgrade costs for generating facilities that will be located at sites within or beyond the service territories of other CAISO transmission providers.

SCE proposes that the Commission undertake workshops to consider how to make the TRCR process more relevant and useful to the assessment of proposals actually received by the utilities.

#### **6.8. Consideration of Integration Cost in the Evaluation Process**

Integration costs are indirect costs that result from integrating and operating eligible renewable energy resources. They include the additional system costs required to provide sufficient ancillary service capability including load following and frequency regulation to integrate renewable resources. In D.04-07-029, the Commission required that integration cost adders be zero for the first year of RPS solicitations (i.e., 2004) due to the results from the CEC-commissioned "California Renewables Portfolio Standard Renewable Generation Integration Cost Analysis" ("RGICA") study, published in 2004.<sup>66</sup> The Commission stated that "at present levels of penetration, renewable generation causes no noticeable increase in the cost of these ancillary services, beyond those costs imposed by normal system variability."<sup>67</sup> However, the

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<sup>66</sup> D.04-07-029 at 12-14.

<sup>67</sup> *Id.* at 13.

Commission specifically stated that this was its ruling for the first year of RPS solicitations and that “further addition of intermittent renewables to the system may, in future years, cause us to change this determination.”<sup>68</sup> The Commission reiterated the direction to apply a zero adder for integration costs in D.07-02-011 without any analysis of developments since D.04-07-029.<sup>69</sup>

The CEC RGICA results do not support continuing to use a zero adder for integration costs in the least-cost/best-fit (“LCBF”) evaluation process. The RGICA was a multi-year study that analyzed 2002 to 2004 to determine the impact of renewable resources on integration costs over that timeframe. The RGICA results do not take into account any renewable projects that have been completed since 2004, the renewable projects that currently have purchase power contracts but are not yet on-line, or any future procurement needed to comply with the State’s renewable energy goals.

As California continues to procure additional intermittent renewable resources, SCE believes that current levels of intermittent renewables require an increase in the provision of the ancillary services mentioned above. An integration study that reflects updated regulatory and procurement expectations should be used as a basis for integration costs in the 2010 RPS solicitation, implemented as a cost adder in the LCBF analysis. SCE proposes to assess multiple integration cost studies, including the “CAISO Analysis of Operations and Integration Requirements Associated with 33% RPS,”<sup>70</sup> and whether they are representative of California’s market, and then use more updated results as the basis for evaluating integration costs in the evaluation process.

The Commission should grant SCE authority to consider integration costs in the 2010 RPS solicitation evaluation process and use a non-zero adder for integration costs.

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<sup>68</sup> *Id.*

<sup>69</sup> D.07-02-011 at 56.

<sup>70</sup> The results of this study are expected in the second quarter of 2010.

## **7. Important Changes: A statement identifying and summarizing the important changes between the 2009 and 2010 Plans.**

### **A. 2010 Written Plan and LCBF Written Report**

As discussed and explained in Section 2, SCE is now procuring based on a High Need Case assuming a 33% renewable energy goal. Additionally, most of the important changes in SCE's 2010 Written Plan and LCBF Written Report are described and explained in Section 6. As explained in Section 6.1, given the overwhelming response to SCE's Renewables Standard Contract Program, SCE plans to suspend the program and conduct an analysis to review options for restarting the program in 2010. As discussed in Section 6.3, SCE is requesting Commission pre-approval for a limited amount of short-term renewable energy transactions. SCE is also seeking approval to enter into unbundled REC transactions immediately upon a Commission decision allowing the use of unbundled RECs as detailed in Section 6.4. As explained in Section 6.5, SCE is proposing changes to the PVC for 2010. SCE also proposes more flexibility to update the RPS Procurement Plans and a workshop to discuss improvements to the TRCR process as discussed in Sections 6.6 and 6.7. Finally, as detailed in Section 6.8, SCE requests approval to consider integration costs in the 2010 RPS solicitation proposal evaluation process.

In addition to the changes discussed above, since SCE filed its LCBF Report as part of its Second Amended 2009 RPS Procurement Plan, SCE has made some changes to its LCBF Written Report to clarify the description of its evaluation and selection process and criteria. Some of these changes were included in the LCBF Written Report for SCE's 2009 RPS solicitation submitted to the Commission on December 4, 2009. In particular, proposals' capacity benefits are calculated in accordance with the Commission's updated resource adequacy accounting rules and energy benefits are calculated based on the estimated market value of energy.<sup>71</sup>

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<sup>71</sup> These changes were also made in SCE's 2010 Procurement Protocol.

**B. 2010 Solicitation Materials**

**1. General Changes**

The changes below affect more than one of the solicitation documents.

**a) Credit and Collateral Provisions**

SCE is making important changes to the credit and collateral provisions of its solicitation materials. First, SCE is increasing its development security requirements from \$60.00 per kW to \$90.00 per kW for baseload facilities, and from \$30.00 per kW to \$60.00 per kW for intermittent facilities. SCE believes this increased development period collateral requirement provides a reasonable (albeit not complete) security for SCE customers during the development phase of a generating facility. The proposed development security levels are consistent with the overall industry position on allocating project failure risks between project developers and utility customers.

Second, as a result of SCE's experience with the renewable energy and financial industries and SCE's previous negotiation experience, SCE is restructuring its performance assurance requirement. SCE has modified its solicitation materials to require that sellers' proposals be based upon a tiered performance assurance requirement. This structure begins with a lower performance assurance posting in the early term years (3% of total revenues seller expects to receive), and steps up (to 5% and 6%) for the mid-contract years. Then, the performance assurance level steps down (to 5% and 3%) for the remaining term years. Over the full term of the contract, the performance assurance amount averages 5% of the total revenues, the same as the performance assurance requirement in SCE's 2009 RPS Procurement Plan. However, the modified performance assurance structure reflects the risks related to different delivery terms and is responsive both to changes in SCE's estimated exposure during the contract term and to changes in the renewable energy and financing markets.

The proposed tiered mechanism for performance assurance is beneficial to both SCE's customers and sellers. SCE customers benefit in that the proposed structure of performance assurance better reflects SCE's estimated exposure during the contract term and brings down the

maximum exposure that customers face. Sellers benefit from a lesser total capital requirement in the early years of the delivery term when their access to capital is constrained.

Third, based upon experience in prior solicitations and document negotiations, SCE is eliminating the seller's debt to equity ratio requirement and the associated definitions. This credit provision often required a significant amount of negotiation and modification of SCE's Pro Forma Renewable Power Purchase and Sale Agreement language without a commensurate benefit to SCE. Additionally, ensuring compliance with this provision required follow-up documentation and verification, which complicates contract administration and management. SCE believes that the financial markets impose discipline on this issue which, combined with SCE's provision prohibiting additional debt other than debt for the development, construction and operation of the facility, provides adequate protection for SCE and its customers.

**b) Changes to Non-Disclosure Agreement Procedure**

SCE is modifying the procedure for executing non-disclosure agreements ("NDAs") in the 2010 RPS solicitation. In prior years, all sellers were required to submit a redlined version of SCE's pro forma NDA with their initial proposal documents. Because SCE must have an executed NDA before a seller can be informed of its short list status, SCE was required to potentially negotiate NDAs with all sellers – even those which were not going to be placed on SCE's short list – before those who made the short list could be notified. This was a cumbersome and time-intensive process with little benefit to anyone involved in it.

For the 2010 solicitation, SCE is requiring all sellers to agree to a "Short-term NDA," by checking a box on the 2010 Seller's Proposal Template and Calculator.<sup>72</sup> The Short-term NDA lasts until the latest of three dates: (1) if the proposal is placed on SCE's short list, seller's submission to SCE of its short list deposit, exclusivity agreement, copy of interconnection application, and a long-term NDA; (2) if the proposal is placed on SCE's short list, seller's notification to SCE that seller declines to pursue further negotiations; and (3) SCE's notification

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<sup>72</sup> The 2010 Seller's Proposal Template and Calculator is Attachment 2-3 to SCE's 2010 RPS Procurement Plan.

to seller that the proposal has not been placed on SCE's short list and SCE does not wish to negotiate the proposal. However, the obligation to keep confidential information submitted under the Short-term NDA survives for five years, so sellers need not fear that SCE will immediately disclose confidential information in their proposals.

A seller which is chosen for the short list will then submit SCE's "Long-term NDA." The Long-term NDA covers the negotiations related to a seller's proposal and, if the negotiations are successful, is incorporated into the final contract. It is hoped that this procedure will streamline the NDA negotiation process.

**c) Deletion of Alternate Wind Performance Standard**

In the last several RPS solicitations, SCE made available an "alternate wind performance standard" that sellers can consider in making their proposals. SCE discovered, however, that sellers generally do not review, or even consider, the alternate wind performance standard when compiling their proposal packages. Because SCE still recognizes that the alternate wind performance standard may be an appropriate option for a seller pursuing a wind-based renewable power purchase and sale agreement with SCE, SCE decided to take a different approach: instead of posting the alternate wind performance standard language on its website at the time of RFP launch and framing this option in its Procurement Protocol (and other solicitation materials), SCE will thoroughly present and explain this option to the short-listed developers of wind projects during the negotiation phase of the solicitation process. At that point, if a developer decides to pursue this option, SCE will then work with it throughout the negotiations to revise the renewable power purchase and sale agreement appropriately.

**2. Additional Changes in 2010 Procurement Protocol<sup>73</sup>**

**a) Additional Condition for the Forfeiture of a Short List Deposit**

SCE has added one additional condition under which a seller will forfeit its short list deposit: seller's breach of its exclusivity agreement.<sup>74</sup> This change was made to serve as a

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<sup>73</sup> The 2010 Procurement Protocol is Attachment 2-1 to SCE's 2010 RPS Procurement Plan.

<sup>74</sup> 2010 Procurement Protocol § 3.04(c)(a).

reasonable, serious, and adequate deterrence to simultaneously negotiating the same proposal with multiple utilities (and other buyers of power). Breaches of exclusivity agreements can be costly to SCE's customers, who pay for the negotiating resources.

**b) Term of Agreement**

SCE's 2010 Procurement Protocol complies with the Commission's requirement that SCE accept proposals for contracts with terms exceeding 20 years. While SCE does not discourage proposals with terms longer than 20 years, SCE does require a seller who submits a proposal with a term longer than 20 years to also submit a proposal (for the same generating facility) with a 20-year term.<sup>75</sup> This change was made so that SCE may compare proposals (e.g, expected costs, qualitative factors such as expectation of technology innovation, and portfolio risk tolerances) for contracts of longer than 20 years with the standard term length of 20 years.

**c) Integration Costs**

For the reasons set forth in Section 6.8 above, SCE has modified the quantitative assessment subsection of the Evaluation of Proposals section of the 2010 Procurement Protocol to include a detailed discussion of integration costs.<sup>76</sup>

**3. Additional Changes in 2010 Form of Seller's Proposal<sup>77</sup>**

**a) E-Binder**

SCE will now require sellers to send their proposals electronically, in an e-binder, rather sending printed copies.<sup>78</sup> This should reduce the enormous amount of paper associated with the RFP process.

**b) Delivery Point and Manner of Delivery**

SCE is requiring each seller to set forth the delivery point of its proposal with greater specificity.<sup>79</sup> SCE is also requiring a seller to detail its plan for transmitting energy to the

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<sup>75</sup> *Id.* § 2.06(a).

<sup>76</sup> *Id.* § 5.01(b).

<sup>77</sup> The 2010 Form of Seller's Proposal is Attachment 2-10 to SCE's 2010 RPS Procurement Plan.

<sup>78</sup> 2010 Form of Seller's Proposal § 3.01.

<sup>79</sup> *Id.* § 4.05.

delivery point and explain whether the costs of such delivery are included in the energy price. Obtaining this information from prospective sellers will better enable SCE to assess and compare different proposals.

**c) Generating Facility Description**

The Form of Seller's Proposal has been revised to require sellers to disclose any possible or anticipated manufacturing supply chain constraints or issues associated with producing any major and auxiliary equipment.<sup>80</sup> This change was recommended by SCE's IE to enable better assessment of the PVC component that addresses manufacturing supply chain.

**4. Changes in 2010 Seller's Acknowledgments**

SCE made the changes discussed below in the 2010 Seller's Acknowledgments, a document that each seller must submit as part of its proposal package.<sup>81</sup>

**a) Obtaining Necessary Approvals of a Renewable Power Purchase and Sale Agreement**

The prior language in Seller's Acknowledgments could have been read to require a seller to have obtained all necessary approvals of a renewable power purchase and sale agreement with SCE by the time that seller first submitted its proposal, which always occurs before the commencement of negotiations. SCE modified the language to clarify that seller will obtain all necessary approvals at the conclusion of negotiations.<sup>82</sup>

**b) Requirement that Seller be Bound by its Proposal**

The prior language in Seller's Acknowledgements required that a seller agree to be bound by the redlined Pro Forma Renewable Power Purchase and Sale Agreement submitted as part of its proposal. This requirement served to discourage frivolous proposals. The redlined Pro Forma Renewable Power Purchase and Sale Agreements, however, did not meaningfully advance negotiations because the redlines were generally incomplete. SCE now requires a seller

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<sup>80</sup> *Id.* § 4.03(a)(ii)(4).

<sup>81</sup> The 2010 Seller's Acknowledgments is Exhibit C to the 2010 Form of Seller's Proposal.

<sup>82</sup> 2010 Seller's Acknowledgements ¶ 3.

to submit a Outline of Contract Terms and Conditions<sup>83</sup> setting forth the key changes that seller seeks to the Pro Forma Renewable Power Purchase and Sale Agreement. Accordingly, SCE's modified language discourages frivolous proposals by requiring seller to make a commitment to negotiate with SCE in good faith.<sup>84</sup>

**c) Elimination of Requirement that Seller Submit CEC Audits**

SCE eliminated a requirement that seller submit CEC audits to establish that seller's proposed project is an eligible renewable energy resource.<sup>85</sup> In SCE's experience, these audits occur only once agreement is reached so the audits are better addressed in the renewable power purchase and sale agreement itself.

**5. Additional Changes in 2010 Pro Forma Renewable Power Purchase and Sale Agreement<sup>86</sup>**

**a) Seller Responsibilities for Invoicing**

Beginning with the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE will require sellers to produce a monthly payment invoice in order to receive payment.<sup>87</sup> There are several reasons for this change. First, requiring sellers to invoice SCE creates a check and balance between SCE's payment calculations and the seller's calculations for the desired payment. When sellers invoice SCE, SCE can compare sellers' computations with SCE's, validate the invoices, and pay or dispute accordingly. This modified procedure creates an independent validation for the calculation of payments.

Second, paying based on an invoice generated by an independent party (seller) conforms to SCE's standard process for generating, validating, and approving payments. To support appropriate internal controls and the segregation of duties, no payment is made without an invoice and no payments are made for greater than the invoiced amount. Modifying the Pro

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<sup>83</sup> The 2010 Outline of Contract Terms and Conditions is Attachment 2-4 to SCE's 2010 RPS Procurement Plan.

<sup>84</sup> 2010 Seller's Acknowledgements ¶ 7.

<sup>85</sup> *Id.* ¶ 8.

<sup>86</sup> The 2010 Pro Forma Renewable Power Purchase and Sale Agreement is Attachment 2-5 to SCE's 2010 RPS Procurement Plan.

<sup>87</sup> 2010 Pro Forma Renewable Power Purchase and Sale Agreement, Exhibit E.

Forma Renewable Power Purchase and Sale Agreement brings the practice for renewable contracts in line with that used for conventional generation and other SCE payments.

Third, the procedure is also consistent with industry standards for financial internal control frameworks, COSO (Committee of Sponsoring Organizations also referred to as the Treadway Commission), and GAAP (Generally Accepted Accounting Practices).

Finally, invoices act as third party documentation that SCE provides to its auditors (internal, external, regulatory, etc.) to support charges recorded on financial statements and financial and operations records.

**b) Changes to Curtailment Language**

Prior Pro Forma Renewable Power Purchase and Sale Agreements, including SCE's 2009 Pro Forma Renewable Power Purchase and Sale Agreement, gave SCE the right to curtail seller's project when SCE is so instructed by the CAISO. Those agreements also provided that SCE did not have to pay seller for energy deliveries that seller could have made but for curtailment or reduction of deliveries. SCE intends and understands this language to encompass any situation in which seller is asked to reduce or temporarily cease deliveries, including situations in which SCE, as seller's scheduling coordinator, advises seller to curtail because a bid relative to seller's facility was not scheduled and/or awarded in the CAISO's day-ahead integrated forward market or real-time market.

After post-MRTU discussions with potential sellers, however, SCE believes that it is beneficial to state this contractual right more specifically and accordingly modified the section addressing SCE's curtailment rights to expressly provide SCE the right to issue a curtailment or equivalent notice in those situations.<sup>88</sup> SCE made an analogous change in the payment section to specify that SCE does not have to pay for deliveries curtailed in those situations.<sup>89</sup>

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<sup>88</sup> *Id.* § 3.12(f).

<sup>89</sup> *Id.* § 4.01(c).

**c) Modified Startup Period**

Prior Pro Forma Renewable Power Purchase and Sale Agreements provided for a six month startup period between initial operation, when installation of the generating facility was generally complete, and firm operation, when the facility had resolved its initial issues and could be expected to meet its performance obligations. Because the resultant startup period was expected to be relatively short, seller received the contract price for energy deliveries starting as of initial operation, but the performance obligations did not commence until firm operation.

Based on market experience, SCE has modified the startup period to accommodate generating facilities (such as solar PV projects) that are installed incrementally. This modification allows the startup period to be customized to fit the installation needs of the particular technology. During the startup period, however, seller is subject to CAISO sanctions and receives CAISO revenue (market price) – not the contract price – for energy delivered. SCE also added the term “Commercial Operation” to signal the end of the installation period (what used to be “Initial Operation”) to better align with industry usage. “Firm Operation” is now thirty days after Commercial Operation to give SCE time to verify installation.<sup>90</sup>

**d) Compliance Expenditure Cap**

The 2009 Pro Forma Renewable Power Purchase and Sale Agreement contained a “Compliance Expenditure Cap,” which was a dollar limit on the costs a seller would be required to expend to ensure that the facility maintained its green attributes, capacity attributes, and resource adequacy benefits. The 2009 Compliance Expenditure Cap applied regardless of whether, over the term of the renewable power purchase and sale agreement, there was a change in law governing those requirements.

The 2010 Pro Forma Renewable Power Purchase and Sale Agreement substantially narrows the circumstances in which the cap applies. It will now apply only to situations where there is both (1) a change in law after the execution of the renewable power purchase agreement

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<sup>90</sup> The changes are global but relevant sections include Sections 1.04 and 2.03, Exhibit E, and the definition of “Startup Period” in Appendix A.

that causes the project to be disqualified as an eligible renewable energy resource (or causes its output to fail to meet RPS requirements), and (2) seller has expended “commercially reasonable efforts” to comply with such change in law. The change ensures that the Compliance Expenditure Cap is in line with the Commission’s non-modifiable standard term and condition on “Eligibility,”<sup>91</sup> as it defines, by a dollar amount, the term “commercially reasonable costs” used in that term.<sup>92</sup>

**e) Calculation of Energy Replacement Damage Amount**

The Energy Replacement Damage Amount is a penalty paid by seller when it fails to meet its annual (or two-year) energy delivery obligation.<sup>93</sup> In the 2009 Pro Forma Renewable Power Purchase and Sale Agreement (as well as prior Pro Forma Renewable Power Purchase and Sale Agreements), the formula for calculating the Energy Replacement Damage Amount required the parties to compare the contract energy price with the “Market Price” – a price that is skewed by the predominance of conventional, rather than renewable, generation. The formula in the 2010 Pro Forma Renewable Power Purchase and Sale Agreement will require parties to compare the contract energy price with the “Green Market Price,” or the price for renewable energy projects. SCE believes that the prices for renewable energy – not the market price – more accurately represent SCE’s damages when a seller fails to deliver renewable energy.

**f) NERC Requirements**

In the 2010 Pro Forma Renewable Power Purchase and Sale Agreement section relating to NERC Electric System Reliability Requirements,<sup>94</sup> SCE has added language designed to specify the proper allocation of the roles and responsibilities of SCE as scheduling coordinator for purposes of NERC compliance, and, on the other hand, seller as the generator operator. The language arises from SCE’s and the market’s experience with the NERC requirements gained in the approximately two and a half years since the requirements went into effect.

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<sup>91</sup> 2010 Pro Forma Renewable Power Purchase and Sale Agreement § 10.02(b).

<sup>92</sup> *Id.* § 10.02(c).

<sup>93</sup> *Id.*, Exhibit F.

<sup>94</sup> *Id.* § 3.29.

**g) Termination for Failure to Meet Commercial Operation Deadline**

The Pro Forma Renewable Power Purchase and Sale Agreement has been revised to provide that SCE may terminate the renewable power purchase and sale agreement and retain the development security under any one of six specific circumstances, the occurrence of any of which makes it unlikely that seller will be able to meet its commercial operation deadline.<sup>95</sup> The revisions eliminate a termination right which the market indicated was strongly disfavored by lenders, while ensuring that SCE can terminate projects in circumstances which indicate they will never be timely built.

**h) Election of Federal Tax Credit**

In the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE is requiring seller to inform SCE, before execution of the agreement, whether seller will seek an investment tax credit or a production tax credit (or no tax credit at all).<sup>96</sup> There are two reasons for this change, which will affect only those sellers who are able to use either type of tax credit.

First, commitment to a particular tax credit prevents a seller from using its termination right improperly. The 2010 Pro Forma Renewable Power Purchase and Sale Agreement allows a seller to terminate the agreement if the federal tax credit legislation applicable to seller is not enacted.<sup>97</sup> Requiring a seller to specify which federal tax credit it plans to use prevents seller from terminating its agreement when the other tax credit (the one seller is not using) is not enacted.

Second, commitment to a particular tax credit prevents a seller from claiming excess direct damages, should there be a dispute between seller and SCE. Under Article 7 of the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, direct damages include the value of

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<sup>95</sup> *Id.* § 3.06(d).

<sup>96</sup> *Id.* § 1.12.

<sup>97</sup> *Id.* § 2.04(a)(ii).

any federal tax credits that are lost by seller as a result of SCE's default.<sup>98</sup> Requiring a seller to specify which tax credit it plans to use prevents a seller from claiming, after the fact, that it would have used the tax credit that enabled seller to show the greater loss (and concomitantly, the greater amount of direct damages).

**i) Termination Rights of Both Parties**

In its 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE has divided into two sections the right of either party to terminate where seller failed to obtain permits. Each section addresses a different type of permit(s): (1) the CEC pre-certification, and (2) the construction permits.<sup>99</sup> The notice of termination by either party due to a seller's failure to obtain CEC pre-certification is to be provided on or before 13 months after the effective date of the agreement. The right to terminate by either party if seller does not obtain its construction permit has been modified to be open-ended, and agreed to by and between SCE and seller during negotiations, depending on a seller's individual needs. SCE has found through its experience in prior solicitations and document negotiations that the market requires more individually-tailored time periods for terminating contracts where there is a failure to obtain construction permits.

**j) Allocation of Standard Capacity Product Payments and Charges**

SCE has added this new section to address the responsibility of the Standard Capacity Product incentive payments and charges as defined in the CAISO tariff.<sup>100</sup>

**k) Delivery Loss Factor**

SCE has further modified the energy payment calculation formula to take into account delivery losses up to and at the delivery point as calculated by CAISO.<sup>101</sup> SCE's deletion of the delivery loss factor calculation beyond the delivery point and the associated definitions mirrors the current CAISO MRTU market.

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<sup>98</sup> *Id.*, Article 7.

<sup>99</sup> *Id.* §§ 2.04(a)(i)(2) and (3).

<sup>100</sup> *Id.* § 3.04.

<sup>101</sup> *Id.*, Exhibit A § 150, Exhibit E § 2.02.

## **D) Wind and Solar Performance Requirements**

Based upon experience in prior solicitations and document negotiations, SCE is changing its Pro Forma Renewable Power Purchase and Sale Agreement to accommodate the wind industry and provide for an equitable performance obligation. The performance obligation will be measured over a two-year period (instead of a one-year period) and requires a seller to equal or exceed 140% of the P-50 value in the final wind report.<sup>102</sup> Wind developers had expressed that the 2009 Pro Forma Renewable Power Purchase and Sale Agreement, which had a standard of P-95, was not equitable because the use of a P-95 value disadvantaged those projects that had been collecting data for a longer time, and because studies have shown that California has high wind variability from year-to-year.

By contrast, SCE's additional experience with solar projects has led SCE to determine that solar variability from year-to-year is minimal. SCE has changed the performance requirement accordingly, to reflect an obligation of 90% of the expected annual energy production.<sup>103</sup>

### **8. Redlined Copies: A version of the 2010 Plan that is "redlined" to identify the changes from the 2009 Plan, with a copy for Energy Division, the Administrative Law Judge and any party who requests a copy**

SCE has included redlines of its 2010 Written Plan and LCBF Written Report as Appendices E and F. SCE's proposed modifications to the PVC are shown in Appendix D; however, SCE has not provided a redline of the PVC since it is an excel file.

Additionally, as part of Attachment 2, SCE has included a redline of all of its solicitation materials with the exception of the 2010 Seller's Proposal Template and Calculator and 2010 Outline of Contract Terms and Conditions, which cannot be redlined since they are excel files.

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<sup>102</sup> *Id.* § 3.07(a)(i).

<sup>103</sup> *Id.*

# **APPENDIX A**

## **SCE's Written Description of Renewables Portfolio Standard Proposal Evaluation and Selection Process Criteria**

**Southern California Edison Company’s (“SCE”) Written Description of Renewables Portfolio Standard (“RPS”) Proposal Evaluation and Selection Process and Criteria (“LCBF Written Report”)**

**I. Introduction**

**A. Note relevant language in statute and CPUC decisions approving LCBF process and requiring LCBF Reports**

Under the direction of the California Public Utilities Commission (the “Commission” or “CPUC”), SCE conducts annual solicitations for the purpose of procuring power from eligible renewable energy resources to meet California’s RPS. SCE evaluates and ranks proposals based on least-cost/best-fit (“LCBF”) principles that comply with criteria set forth by the Commission in Decision (“D.”) 03-06-071 and D.04-07-029 (“LCBF Decisions”). *See also* Pub. Util. Code Section 399.14(a)(2)(B).

**B. Goals of proposal evaluation and selection criteria and processes**

The LCBF analysis evaluates both quantitative and qualitative aspects of each proposal to estimate its value to SCE’s customers and its relative value in comparison to other proposals.

**II. Proposal Evaluation and Selection Criteria**

While assumptions and methodologies have evolved slightly over time, the basic components of SCE’s evaluation and selection criteria and process for RPS contracts were established by the Commission’s LCBF Decisions. Consistent with those LCBF Decisions, the three main steps undertaken by SCE are: (i) initial data gathering and validation, (ii) a quantitative assessment of proposals, and (iii) adjustments to selection based on proposals’ qualitative attributes.

Prior to receiving proposals, SCE finalizes major assumptions and methodologies that drive valuation, including power and gas prices forecasts, existing and forecast resource portfolio, and capacity value forecast. Other assumptions, such as the Transmission Ranking Cost Report (“TRCR”), are filed with the Commission for approval prior to the release of solicitation materials.

Once proposals are received, SCE begins an initial review for completeness and conformity with the solicitation protocol. The review includes an initial screen for required submission criteria such as conforming delivery point, minimum project size, and submission of particular proposal package elements. Sellers lacking in any of these items are allowed a cure period to remedy any deficiencies. Following this initial screen, SCE conducts an additional review to determine the reasonableness of proposal parameters such as generation profiles and capacity factors. SCE works directly with sellers to resolve any issues and ensure data is ready for evaluation.

After these reviews, SCE performs a quantitative assessment of each proposal individually and subsequently ranks them based on the proposal’s benefit and cost relationship. Specifically, the total benefits and total costs are used to calculate the net levelized cost or

“Renewable Premium” per each complete and conforming proposal. Benefits are comprised of separate capacity and energy components, while costs include the contract payments, integration costs, transmission cost, and debt equivalence. SCE discounts the annual benefit and cost streams to a common base year. The result of the quantitative analysis is a merit-order ranking of all complete and conforming proposals’ Renewable Premiums that helps define the preliminary short list.

In parallel with the quantitative analysis, SCE conducts an in-depth assessment of each proposal’s qualitative attributes. This analysis utilizes the Project Viability Calculator to assess certain factors including the company/development team, technology, and development milestones. Additional attributes such as transmission area/cluster, seller concentration, portfolio fit of commercial on-line date, project size, and dispatchability and curtailability are also considered in the qualitative analysis. These qualitative attributes are then considered to either eliminate non-viable proposals or add projects with high viability to the final short list of proposals, or to determine tie-breakers, if any.

Following its analysis, SCE consults with its Procurement Review Group (“PRG”) regarding the final short list and specific evaluation criteria. Whether a proposal selected through this process results in an executed contract depends on the outcome of negotiations between SCE and sellers. Periodically, SCE updates the PRG regarding the progress of negotiations. SCE also consults with its PRG prior to the execution of any successfully negotiated contracts. Subsequently, SCE executes contracts and submits them to the Commission for approval via advice letter filings.

**A. Description of Criteria<sup>1</sup>**

**1. List and discuss the quantitative and qualitative criteria used to evaluate and select proposals. This section should include a full discussion of the following:**

**QUANTITATIVE ASSESSMENT**

SCE evaluates the quantifiable attributes of each proposal individually and subsequently ranks them based on the proposal’s benefit and cost relationship, specifically the net levelized cost of the project or Renewable Premium. SCE maintains the same individual quantitative components it used in 2009 – capacity benefits, energy benefits, contract payments, debt equivalence mitigation costs, integration costs, and transmission costs. In developing its relative or merit order ranking of proposals, SCE’s evaluation methodology incorporates information provided by sellers and assumptions prescribed and set by the Commission with its internal methodologies and forecasts of market conditions. The objective of the quantitative assessment and relative Renewable Premium ranking is to develop a preliminary short list that is further refined based on the non-quantifiable attributes discussed below. Each of the elements for the RPS quantitative analysis is described briefly below.

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<sup>1</sup> This LCBF Written Report discusses SCE’s proposal evaluation and selection criteria in a different order than in the Energy Division’s LCBF Template in order to more accurately explain SCE’s evaluation and selection process; however, all elements in the LCBF Template are addressed.

## Benefits

- Capacity Benefit

Each proposal is assigned capacity benefits based on SCE's forecast of net capacity value and a peak capacity contribution factor.

SCE's gross capacity value forecast consists of a combustion turbine ("CT") proxy. The CT proxy is based on the annual deferral value of a General Electric 7FA simple-cycle combustion turbine. The gross capacity value is then reduced by the expected profits that the assumed proxy plant would make from the energy markets to create the net capacity value.<sup>2</sup>

Peak capacity contribution factors are calculated in a manner consistent with the Commission's Resource Adequacy accounting rules (D.09-06-028) utilizing a 70% exceedance factor methodology. Peak capacity contribution factors will be both technology and location-specific. Technological differentiation does not refer to the fuel source, but rather the method of converting other energy sources into electricity (e.g., solar trough, photovoltaic). For proposals with dispatchable capabilities at SCE's control, the peak capacity contribution factor will be based on the availability of the proposed project.

Monthly capacity benefits are the product of SCE's net capacity value forecast, the total monthly proposed alternating current nameplate capacity of the project, SCE's relative loss-of-load probability factors, and the peak capacity contribution factor. The monthly capacity benefits are aggregated to annual capacity benefits.

- Energy Benefit

SCE measures the energy benefits of a proposal by evaluating the estimated market value of energy. The evaluation of energy benefits is performed with a base portfolio and system that is consistent with SCE's most recent Long-Term Procurement Plan ("LTPP"), with some updates to account for the latest gas price and load forecasts and the results of recent procurement activities.

For proposals with must-take energy, SCE calculates the energy benefits of a proposal based on the estimated market value of additional blocks of no-cost, must-take, flat-profile energy with SCE's base resource portfolio. The impacts are assessed through the use of Ventyx's ProSym model. A series of ProSym runs are performed with varying size blocks with the base portfolio. The ProSym runs consist of an hourly, least-cost dispatch of the base portfolio plus the generic energy block against SCE's current demand and price forecasts. The hourly market price impact for each proposal is then calculated by taking the seller provided generation for the hour and interpolating the hourly market prices based on the market prices of the generic energy block runs. The hourly energy benefit for the proposal is the resulting market price multiplied by the hourly seller-provided generation profile.

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<sup>2</sup> Energy profits are the difference between market revenues and variable cost of generation, as determined by performing a least-cost dispatch of the proxy station against SCE's power price forecast.

For proposals with dispatchable capabilities at SCE's control, SCE calculates the net energy benefits based on market value of the energy when the proposed resource dispatches. ProSym determines the dispatch economics for the proposed resource according to the unit characteristics provided by the seller.

SCE's resource portfolio is dispatched against an SCE area power price forecast. For out-of-area resource proposals, congestion charges may be applied to calculate the net energy benefits based on SCE's internal congestion pricing forecasts. SCE's gas price forecast is based on a near-term market view and a longer-term fundamental view of prices, while power price forecasts are based on a fundamental view.

The simulation model, and hence the energy benefit calculation, captures additional quantitative effects that SCE has been asked to consider by the Commission, including dispatchability. The dispatchability benefits are implied in the energy benefit and are not addressed separately.

SCE's LCBF quantitative evaluation process inherently captures the impact of portfolio fit. For example, as different proposals are added to the overall portfolio, the resultant residual net short or net long position is impacted. Projects that more often increase SCE's net long positions are assigned less energy benefits than those projects that are more often filling net short positions. As such, a project that provides more energy when it is most needed and less energy in periods of low need will receive the greatest energy benefit.

### Costs

- Debt Equivalence

"Debt equivalence" is the term used by credit rating agencies to describe the fixed financial obligation resulting from long-term power purchase contracts. Pursuant to D.04-12-048, the Commission permitted the investor-owned utilities ("IOUs") to recognize costs associated with the effect debt equivalence has on the IOUs' credit quality and cost of borrowing in their evaluation process. In D.07-12-052, the Commission reversed this position. However, SCE filed a petition for modification of D.07-12-052. In November 2008, the Commission issued D.08-11-008, which authorized the IOUs to recognize the effects of debt equivalence when comparing power purchase agreements in their bid evaluations, but not when a utility-owned generation project is being considered. Given the new decision, SCE considers debt equivalence in the evaluation process.

- Contract Payments

The primary costs associated with each proposal are the contract payments that SCE makes to sellers for the expected renewable energy deliveries.

Proposals typically include an all-in price for delivered renewable energy, which is adjusted in each time-of-delivery period by energy payment allocation factors ("TOD factors"). SCE develops and submits its TOD factors for each solicitation to the Commission for approval prior to the issuance of the Request for Proposals ("RFP"). Total payments are then determined using the TOD-adjusted generation, based on the generation profile provided in the proposal, and

the contract price. For projects that include a capacity-related payment in addition to an energy price, the total payments are determined by using the TOD-adjusted generation based on the generation profile provided in the proposal, the energy price, and the capacity payment.

- Integration Costs

Integration costs are the additional system costs required to provide sufficient ancillary service capability including load following and frequency regulation to integrate renewable resources. In D.04-07-029, the Commission required that integration cost adders be zero for the first year of RPS solicitations (i.e., 2004) due to the results from the California Energy Commission (“CEC”)-commissioned “California Renewables Portfolio Standard Renewable Generation Integration Cost Analysis” study, published in 2004.<sup>3</sup> The Commission stated that “at present levels of penetration, renewable generation causes no noticeable increase in the cost of these ancillary services.”<sup>4</sup> However, the Commission specifically stated that this was its ruling for the first year of RPS solicitations and that “further addition of intermittent renewables to the system may, in future years, cause us to change this determination.”<sup>5</sup>

As California continues to procure additional intermittent renewable resources, SCE believes that current levels of intermittent renewable resources require an increase in the provision of the ancillary services mentioned above. An integration study that reflects updated regulatory and procurement expectations should be used as a basis for integration costs in the 2010 RPS solicitation, which will be implemented as a cost adder in the LCBF analysis. As discussed in Section 6.8 of SCE’s 2010 Written Plan, SCE proposes to assess multiple integration cost studies, including the “CAISO Analysis of Operations and Integration Requirements Associated with 33% RPS,”<sup>6</sup> and whether they are representative of California’s market, and then use more updated results as the basis for evaluating integration costs in the LCBF evaluation.<sup>7</sup>

- Transmission Cost

For resources that do not have an existing interconnection to the electric system or a completed facilities study, system transmission upgrade costs are estimated utilizing the TRCR methodology and specific proposal details provided by sellers in the RFP process. Network upgrade costs and scope from interconnection studies are used to the extent they are available and applicable. To the extent studies are not available, transmission cost adders for new generation are based on unit cost guides used in interconnection cluster studies.

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<sup>3</sup> D.04-07-029 at 12-14.

<sup>4</sup> *Id.* at 13.

<sup>5</sup> *Id.*

<sup>6</sup> The results are expected in the second quarter of 2010.

<sup>7</sup> In previous solicitations, the integration cost adder for all proposals was zero pursuant to D.04-07-029, as clarified in D.07-02-011.

- **Discuss how much detailed transmission cost information the IOU requires for each project**

Other than the assumptions provided in a seller’s proposal, SCE does not require additional transmission information, unless the seller has completed a transmission provider study. If one or more transmission provider studies have been completed with respect to the proposed project, then the seller must provide the results.

- **Discuss whether cost adders are always imputed for projects in transmission-constrained areas, or whether and how costs for alternative commercial transactions (i.e., swapping, remarketing) are substituted**

SCE uses the best available information it can find when determining the cost of potential upgrades for projects in transmission-constrained areas. For those projects outside SCE’s service area, the TRCRs of Pacific Gas and Electric Company or San Diego Gas & Electric Company are used as appropriate. SCE applies the required upgrade costs to get the project delivered to the nearest defined market (e.g., NP15, SP15, ZP 26 Generation Trading Hubs). For projects with an assumed delivery point outside the California Independent System Operator (“CAISO”), SCE applies a power swapping methodology, where the power is assumed to be sold into the local market.

#### QUALITATIVE ASSESSMENT

In addition to the benefits and costs quantified during SCE’s evaluation, SCE assesses non-quantifiable characteristics of each proposal by conducting a comprehensive analysis of each project’s qualitative attributes. These qualitative attributes are used to consider inclusion of additional sellers on the short list due to the strength of a particular seller’s proposal. Pursuant to D.04-07-029, the presence of demonstrated qualitative attributes may justify moving a proposal onto SCE’s short list of proposals if (a) the initial proposal rank is within reasonable valuation proximity to those selected for the short list and (b) SCE consults with, and receives general support from, its PRG prior to elevating the proposal based on qualitative factors.

This assessment may also result in the exclusion of proposals from the short list due to the relative weakness of highly-ranked proposals or other identified issues such as potential seller and/or supply chain concentration concerns.

In other instances, where there are weaknesses in some of these factors (although these may not be significant enough to exclude a proposal from the short list), SCE utilizes additional contract requirements to manage these issues during the development of the project.

Each of the elements for the qualitative analysis is described briefly below.

#### Project Viability

SCE assesses the following attributes using the Project Viability Calculator:

- Company/Development Team

- Project Development Experience
- Ownership/O&M Experience
- Technology
  - Technical Feasibility
  - Resource Quality
  - Manufacturing Supply Chain
- Development Milestones
  - Site Control
  - Permitting Status
  - Project Financing Status
  - Interconnection Progress
  - Transmission Requirements
  - Reasonableness of Commercial Operation Date (“COD”)

#### Additional Qualitative Attributes

Following the Project Viability Calculator qualitative assessment, SCE considers additional qualitative characteristics to determine advancement onto the short list or tie-breakers, if any. These additional characteristics may include:

- Transmission area (e.g., Tehachapi, Sunrise, within SCE’s load pocket)
- Portfolio fit of COD
- Seller concentration
- Expected generation (GWh/year)
- Dispatchability and curtailability
- Contract price
- Alternative Renewable Premium (i.e., Renewable Premium including integration costs)
- Environmental impacts of seller’s proposed project on California’s water quality and use
- Resource diversity
- Benefits to minority and low income communities
- Local reliability
- Environmental stewardship

#### OTHER CONSIDERATIONS

##### Credit and Collateral Requirements

In order to ensure comparable pricing for ranking, SCE requires sellers to commit to posting SCE’s pro forma performance assurance amount as specified in Section 7.03 of the RFP Procurement Protocol. Performance assurance is the collateral posted by the seller during the operating period.

## Out-of-State Projects

- **Discuss how evaluation process differs for out-of-state projects**

The overall evaluation methodology is applied consistently to projects regardless of location. Energy benefits for those projects outside of the CAISO will be based on the pricing at the seller-elected liquid trading hub or CAISO intertie according to SCE's fundamental price forecast for hubs across the Western Electricity Coordinating Council ("WECC"). For projects that deliver at the busbar, SCE will evaluate the energy benefits based upon the regional price forecast where the energy is likely to be managed. Capacity benefits will be based on SCE's forecast of the regional capacity value, the nameplate capacity of the project, and the peak capacity contribution factor of the project.

For those projects within or connected directly to the CAISO, SCE applies the cost to customers of new CAISO network upgrades required for deliverability of the new project. SCE customers are not liable for any network upgrades outside of the CAISO (outside of any costs that may be imbedded within the contract pricing) so transmission cost adders are zero for out-of-state projects.

### **B. Criteria Weightings**

1. **If a weighting system is used, please describe how each LCBF component is assigned a quantitative or qualitative weighting compared to other components. Discuss the rationale for the weightings.**

SCE does not apply a weighing system in its LCBF evaluation.

2. **If a weighting system is not used, please describe how the LCBF evaluation criteria are used to rank proposals**

SCE's LCBF quantitative evaluation of the proposals incorporates energy and capacity benefits with contract payments, transmission and integration costs, and debt equivalence to create individual benefit and cost relationships, namely, the Renewable Premium. It is the Renewable Premium that is used to rank and compare each project. Qualitative attributes of each proposal are then considered to further screen the short list and determine tie-breakers to arrive at a final short list of proposals.

3. **Discuss how the IOU LCBF methodology evaluates project commercial operation date relative to transmission upgrades required for the project**

As part of the qualitative assessment, SCE considers sellers' proposed on-line dates for the project in conjunction with a variety of critical project milestones. Such milestones include network upgrade status and scope, status of major equipment procurement and lead times, and permitting status. For those projects which SCE has concerns over the viability of the timeframe, a range of on-line dates (and transmission facilities availability) are evaluated to determine the sensitivity of the results to the timing. If the project ranking does not change in a

manner that would change its original selection status over a range that SCE deems reasonable, then the original assessment is used. For projects whose selection is dependent on the timing of the project and the availability of upgraded transmission facilities, further analysis of the timing of the projects is required.

**4. Discuss how the LCBF methodology takes into account proposals that may be more expensive, but have a high likelihood of resulting in viable projects**

SCE's LCBF methodology incorporates project viability in a qualitative assessment after the preliminary ranking of proposals has been completed and in determining the size of the short list. Proposals that are more expensive tend to be lower on the quantitative ranking of projects, and, therefore, may fall beyond the initial short list cut-point. SCE may pull such projects onto the short list if, from its qualitative assessment, it determines the project maintains high viability and the initial proposal rank is within reasonable valuation proximity to those selected for the short list. In this situation, the quantitative ranking is still considered as part of the overall decision, but the viability becomes the key driver.

**C. Evaluation of utility-owned, turnkey, buyouts, and utility-affiliate projects**

**1. Describe how utility-owned projects are evaluated against power purchase agreements ("PPAs")**

SCE views utility-owned cost-of-service generation as a necessary and good option for customers to have. SCE does not evaluate proposed utility-owned projects against PPAs, as utility-owned generation and contracted-for generation are fundamentally different products. As such, any attempt to do a numerical comparison of them is unworkable. This topic is discussed in detail in the Supplemental Testimony to SCE's 2006 LTPP (Section I.B, pgs 2-5). Moreover, approval of a utility-owned project would not be submitted through the solicitation process, but through a formal application.

**2. Describe how turnkey projects are evaluated against PPAs**

Turnkey projects are similar to utility-owned projects. Refer to the response above.

**3. Describe how buyout projects are evaluated against PPAs**

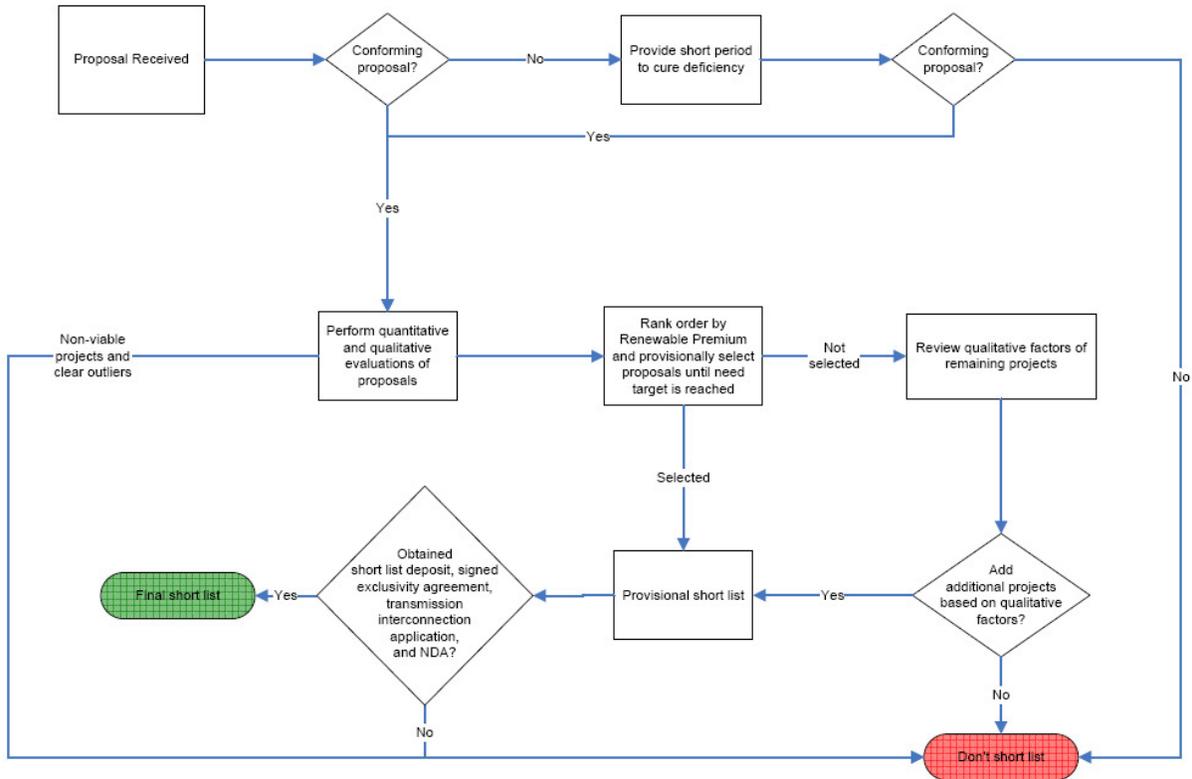
Project buyout options are essentially a hybrid of utility-owned projects and PPAs. Refer to the response above.

**4. Describe how utility-affiliate projects are evaluated against non-affiliate projects**

Utility-affiliate projects are evaluated in the same manner as non-affiliate projects. In addition, evaluation of utility affiliate projects would be subject to review by the Independent Evaluator, the PRG, and the Commission through the approval process.

## II. Proposal Evaluation and Selection Process

### A. What is the process by which proposals are received and evaluated, selected or not selected for short list inclusion, and further evaluated once on the short list?



### B. What is the typical amount of time required for each part of the process?

The typical amount of time required for the short-listing process depends on the volume of proposals received by SCE during a solicitation. Historically, it has taken SCE no more than eight weeks to complete the LCBF evaluation process, which includes quality control of sellers' information, transmission assessment, quantitative assessment, qualitative assessment, management review, and PRG meetings. Many of the components in the overall process overlap and may require additional time if clarification from sellers is needed.

### C. How is the size of the short list determined?

The size of SCE's short list is determined largely by an assessment of the attractiveness of RPS-eligible energy proposals and a desire for a robust, inclusive set of developer proposals. The short list is expanded well beyond the point that is needed for SCE to meet its RPS goals, as there is an expectation that some projects that are selected will not join the short list and that negotiations will not be successful with some short-listed sellers.

**D. Are sellers that are not selected to be short-listed told why they were not short-listed? If so, what is the process?**

Sellers are informed by e-mail that their proposals were not short-listed. The e-mail does not contain specific reasons for a seller's proposal not being selected for short-listing. However, sellers often contact SCE to obtain specificity regarding their projects and what can be improved for future solicitations. In such cases, SCE refers the seller to the RFP documentation in conjunction with a discussion of the seller's project quantitative and qualitative scoring.

**E. Were any proposals rejected for non-conformance? If so, how many and what were the non-conforming characteristics?**

It is unknown how many proposals will be rejected for non-conformance since the 2010 solicitation has not yet been issued. However, SCE has generally established its conformance criteria as follows:

1. Acceptable offer submittal package
2. Delivery point within WECC
3. Seller's Proposal Template and Calculator
4. Proposed facility is, or SCE reasonably expects facility to qualify as, an eligible renewable energy resource
5. Minimum size is 1.5 MW
6. Non-disclosure Agreement
7. Seller's Acknowledgements
8. Proposal Structure Letter

Proposals conforming to these criteria will be included in SCE's LCBF methodology used to determine its short list. Sellers lacking in any of these items are allowed a cure period to remedy any deficiencies. If any deficiencies are not cured, proposals lacking in one or more of these criteria will be considered ineligible for short list consideration.

**F. Describe involvement of the Independent Evaluator**

The Independent Evaluator monitors SCE's RPS solicitations, provides an independent review of SCE's process, models, assumptions, and the proposals it may receive, and helps the Commission and SCE's PRG participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the most appropriate resources were short-listed. The Independent Evaluator also provides an assessment of SCE's RPS solicitation from the initial phase of the solicitation (i.e., the publicizing of the issuance of the RFP) through the development of a short list of proposals with whom SCE has commenced negotiations.

**G. Describe involvement of the Procurement Review Group**

SCE consults with its PRG during each step of the renewable procurement process. Among other things, SCE provides access to the solicitation materials and pro forma contracts to the PRG for review and comment before commencing the RFP; informs the PRG of the initial

results of the RFP; explains the evaluation process; and updates the PRG periodically concerning the status of contract formation.

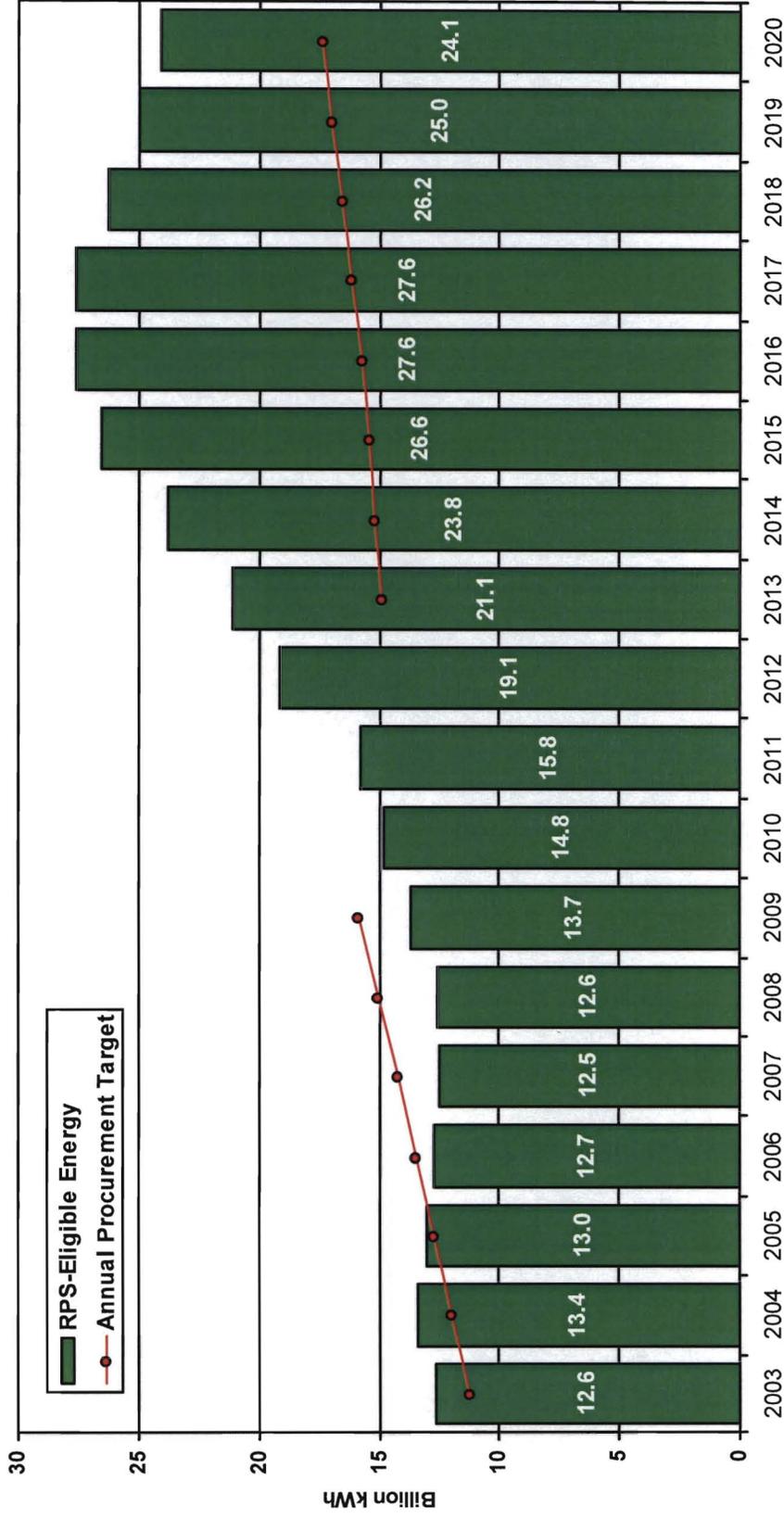
**H. Discuss whether and how feedback on the solicitation process is requested from sellers (both successful and unsuccessful) after the solicitation is complete**

SCE regularly receives feedback during the normal course of its solicitation process. Shortly after the 2009 RPS RFP Bidders Conference, SCE solicited feedback from participants via a web based survey. The results of this feedback was shared with SCE's PRG. In addition, SCE anticipates it will formally solicit feedback either through a survey, workshop or other similar method from participants in the 2009 solicitation. SCE plans to follow this same approach for 2010.

# **APPENDIX B**

## **SCE's RPS-Eligible Energy Forecast (Base Case)**

# SCE's RPS-Eligible Energy Forecast (Base Case)

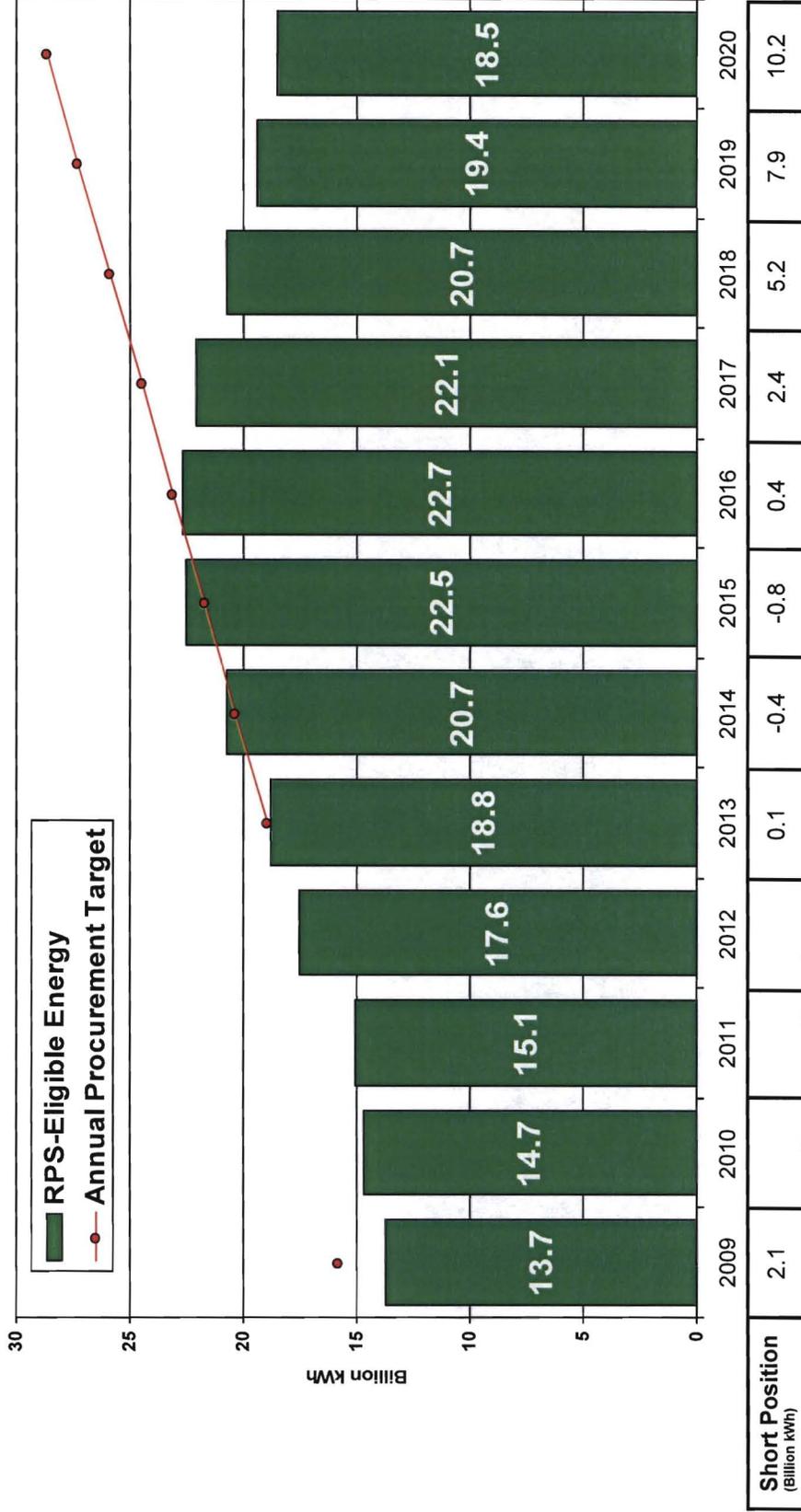


- Excludes Flexible Compliance, all data is based on projected meter-spin
- Annual Procurement Target (APT) based on Sept. 2009 bundled sales forecast
- 20% RPS targets; 20% goal in 2010 & beyond based on current year retail sales per D.09-11-014; assumes Direct Access is not re-opened
- Includes all contracts executed through 8/31/09; Assumes 100% deliveries from executed contracts not yet on-line
- Assumes deliveries from all years of the CDWR Mountain View wind contract and 100% of 2007 deliveries from Colmac are eligible

# **APPENDIX C**

## **SCE's RPS-Eligible Energy Forecast (High Need Case)**

# SCE's RPS-Eligible Energy Forecast (High Need Case)



- Excludes Flexible Compliance, all data is based on projected meter-spin
- Annual Procurement Target (APT) based on Sept. 2009 bundled sales forecast
- Assumes 33% goal in 2020; Goal in 2010 & beyond is based on current year retail sales per D.09-11-014
- Includes all contracts executed through 8/31/09; Assumes 70% deliveries from executed contracts not yet on-line
- Assumes Direct Access is not re-opened

# **APPENDIX D**

## **Proposed Modifications to Project Viability Calculator**

# ***Proposed Modifications to Project Viability Calculator (“PVC”)***

**Black = Southern California Edison Company (“SCE”) comments**

**Blue = Independent Evaluator (“IE”) comments**

## **SPECIFIC PVC COMMENTS (Included in Proposed 2010 PVC)**

### **Calculator Worksheet**

- IE should not have to provide its own scores. With hundreds of proposals to evaluate it is difficult to reconcile all the discrepancies between the IE’s scores and the investor-owned utility’s (“IOU”) scores. SCE deleted the columns for IE scores in the PVC.
- There are 15 fields under Project Summary that require input for a proposal’s general characteristics; however, this section should be scaled down to four or five key items. While it is possible to automate the population of some fields, having 15 fields is onerous. It is extremely time consuming to validate and evaluate the hundreds of proposals that SCE receives. SCE is already required to provide lists and reports detailing all these characteristics if the California Public Utilities Commission (“CPUC”) needs the information. Therefore, SCE deleted extraneous project summary fields and made some optional.

### **Criteria Scoring Guidelines Worksheet**

#### **PROJECT DEVELOPMENT**

- Scores of 7 and 8 should be switched because completion of 2+ projects of any technology and capacity does not necessarily make a company or development team more adept at building a project of a specific technology and capacity than one who has completed at least 1 project of similar technology and capacity.

#### **OWNERSHIP/O&M EXPERIENCE**

- Scores of 7 and 8 should be switched because completion of 2+ projects of any technology and capacity does not necessarily make a company or development team more adept at building a project of a specific technology and capacity than one who has completed at least 1 project of similar technology and capacity.

#### **TECHNOLOGICAL FEASIBILITY**

- The score of 2 is overly punitive. SCE’s interpretation is if, for example, GE issues a new version of a commercially proven wind turbine whereby minimal modifications were made, the project would only get a 2. This is just one of many examples where the CPUC’s prescriptive scoring is not appropriate. SCE added an additional scoring option of 8 in this criterion to make this criterion more relevant.

#### **MANUFACTURING SUPPLY CHAIN**

- There can be numerous scenarios that do not fit the three scenarios provided in the PVC. In this case, the project would receive a 0 (None of the above). Changes were made to generically capture the various levels of manufacturing supply chain issues. The CPUC’s guidelines are still in the criteria but now only as examples.

#### **SITE CONTROL**

- The scoring is far too rigid and practically binary, either a 0 or a 10. For example, there are no scoring options if 90% of site control has been obtained. Another issue is the definition of

## ***Proposed Modifications to Project Viability Calculator (“PVC”)***

“site.” For instance, it is unclear whether the transmission corridor for the gen-tie is included in “site.” In addition, there is a distinction between Bureau of Land Management (“BLM”) land and private land, whereby BLM land currently cannot receive a score of 10. More iteration in the scoring guidelines is needed. SCE’s suggested changes are to expand the highest score, and add majority and limited scores. Additionally, the project site and gen-tie line scores were divided into two separate criteria with similar scoring methodologies.

- The PVC does not provide for sufficient resolution to take into consideration the real differences between bids. For example, in assessing site control there should be a distinction between control over the property rights to the project site as opposed to the property rights needed for the gen-tie and other interconnection facilities. Also, the PVC was not clear regarding whether it was just addressing control over the project site, as the IE interpreted it, or over both the site and all real estate required for the gen-tie/interconnection facilities, as SCE interpreted it. We plan to provide an example of scoring criteria for site control with more resolution in our report on the procurement process.

### PERMITTING

- There should be a score for projects on BLM land. Developers do not file for a Conditional Use Permit (“CUP”) or an Application for Certification (“AFC”) in the BLM process. The score of 10 in Permitting Status should include the Record of Decision from BLM or equivalent federal agency.
- The “fatal flaw” concept used in the score of 5 is problematic. It is unclear how a project should be scored if the developer has started the permitting even though it is aware there are protected species somewhere on the site. Currently, the project would most likely receive a 0. Mitigation requirements that will not stop the developer from building should not result in a 0 score. SCE clarified that “fatal flaws” are only those that would stop the developer from building.
- The “fatal flaw” concept used in the score of 2 is also problematic. The second half of the first sentence should be eliminated because it does not tie in with the sentence before – that they have been successful in permitting another project. As in the 5 score, SCE clarified that “fatal flaws” are only those that would stop the developer from building.
- The current scoring guidelines do not consider the permitting jurisdiction given the project’s location. For instance, New Mexico’s permitting process is far less rigorous than California’s. As such, 0% completion of permitting in California is far different than 0% completion of permitting in New Mexico. SCE revised the criteria to include more lenient scoring for jurisdictions where the permitting process is generally not an issue in the development process.

### PROJECT FINANCING

- We suggest a sub-category below the top scoring sub-category (the project will be “balance sheet” financed or has obtained project financing) and the second sub-category (the project will rely on PPA financing and the bidder has experience in financing at least one project of similar size and technology). There are a number of companies that have the capability to, and have used, balance sheet financing in the past that may not plan to do so in the future. However, that capability provides flexibility that reduces the risk of project delay or failure in obtaining financing. We think it should be considered in the evaluation.

## ***Proposed Modifications to Project Viability Calculator (“PVC”)***

### INTERCONNECTION PROGRESS

- The PVC only contemplated the California Independent System Operator (“CAISO”) interconnection process. SCE made changes to the PVC to retain CAISO elements but also accommodate interconnection processes of other transmission providers or balancing authorities.

### TRANSMISSION REQUIREMENTS

- Transmission Requirements only considered physical upgrades and did not address any firm transmission service that may also be required. Transmission service is often an issue for facilities outside the CAISO. SCE made changes to the PVC to capture the developer’s status of obtaining transmission service.
1. If the project is in the cluster process and has a Phase I study, it is equated to a project that has completed a System Impact (“SIS”) study.
  2. If a project has Phase II study, it is equated to a project that has completed a Facilities (“FAC”) study.
  3. Scoring Guidelines SCE used:

[Proposed Final Capacity] < 5 MW	Score
Not yet submitted interconnection application:	4
Submitted application but no SIS or FAC study received:	6
SIS or FAC Study received:	Assign score as per information contained in SIS or FAC study**

[Proposed Final Capacity] = Between 5 - 20 MW	Score
Not yet submitted interconnection application:	2
Submitted application but no SIS or FAC study received:	4
SIS or FAC Study received:	Assign score as per information contained in SIS or FAC study**

[Proposed Final Capacity] > 20 MW	Score
Not yet submitted interconnection application:	0
Submitted application but no SIS or FAC study received:	2
SIS or FAC Study received:	Assign score as per information contained in SIS or FAC study**

#### Scenarios for a perfect score of 10

- Project already in service, and no physical alterations (e.g., repowering) to be made.
- Repower or greenfield project with a signed Large Generator Interconnection Agreement (“LGIA”) explicitly stating no required system upgrades.

#### Scenarios for a score of 8

- As per SIS or FAC study\*\*

## ***Proposed Modifications to Project Viability Calculator (“PVC”)***

Additional scoring guidelines:

\*\*If project has a Feasibility study and no SIS or FAC study, then a score that corresponds to “Submitted application but no SIS or FAC study received” is selected.

If a certain interconnection study (SIS, FAC, Phase 1, Phase 2) does not provide a specific date when a project can interconnect, but instead states that the project can interconnect X years from signing the LGIA, then:

- Add 18 months to account for the time from SIS/Phase 1 to LGIA signing (if only a SIS/Phase 1 study has been conducted), and
- Add 6 months to account for the time from FAC/Phase 2 to LGIA signing (if the seller can provide either a FAC or Phase 2 study).
  - For example, the Phase 1 study states that “the facility can interconnect in 3 years” from LGIA execution. Assume 18 months + 3 years = 4.5 years until interconnection. Accordingly, the project would receive a 4 since 4 = Transmission access expected in less than 5 years.

# PROJECT VIABILITY CALCULATOR

2010 RPS Solicitation

## *purpose and use*

The project viability calculator (PVC) is a tool for the utilities to evaluate the viability of a renewable energy project, relative to all other projects that bid into the California utilities' Renewables Portfolio Standard (RPS) solicitations. Pursuant to Decision (D) 09-06-018, the utilities are required to use the PVC to evaluate all bids received in response to their 2009 RPS solicitation.

RPS stakeholders made significant contributions in developing the PVC. Staff considered all comments and recommendations it received. Staff incorporated recommendations which were most consistent with the objective of developing a tool which produces meaningful results, increases transparency of the RPS procurement process and employs standardized evaluation criteria.

The PVC uses standardized categories and criteria to quantify a project's strengths and weaknesses in key areas of renewable project development. A project's score is only indicative of a project's likelihood to achieve commercial development. Specifically, in D.09-06-018 the Commission stated that the PVC is to be used as a screening tool, not to determine the exact merit of a particular project or contract. Utilities ultimately remain responsible for the recommendations they make regarding projects to meet their RPS Program targets.

Each project viability criteria is defined to guide scoring between zero and ten (0 - 10). Refer to the Criteria\_Scoring Guidelines tab.

Utilities may modify the PVC, with conditions, if necessary. For example, the utilities may adjust the priority ranking of criteria and may add criteria. Pursuant to D.09-06-018, the utilities may not add new categories, may not change or delete criteria, and cannot modify the criteria scoring guidelines. Any addition or change must be documented.

Yellow highlighted cells identify areas where the user will input criteria scores, and may adjust weighting percentages and criteria priority ranking. Refer to the Calculator tab.

<b>Bidder Information</b>	
Project Name	<project name>
Solicitation Bid Number (1,2,3...)	<bid number>
Company Name	<company>
New or Existing Facility?	<select one>
<b>Project Information</b>	
Technology	<select one>
Nameplate Capacity (MW)	
<b>Project Detail</b>	
Interconnection Point / Substation	
<b>Optional Information</b>	
Annual Generation (GWh)	
Annual Capacity Factor (%)	
Type of cooling	<select one>
Contract Length (years)	
Commercial Operation Date	<01/15/10>
Interconnection Status	

Project Viability Calculator

2010 RPS Solicitation

Category and Criteria Weighting

Category	Criteria	Priority	Weight
Company / Development Team	Project Development Experience	VH	4
	Ownership / O&M Experience	L	1
Category Weight	25%		
Technology	Technical Feasibility	VH	4
	Resource Quality	M	2
	Manufacturing Supply Chain	H	3
Category Weight	35%		
Development Milestones	Site Control	VH	4
	Permitting Status	VH	4
	Project Financing Status	VH	4
	Interconnection Progress	VH	4
	Transmission Requirements	H	3
Reasonableness of COD	H	3	
Category Weight	40%		

*must equal 100% -> 100%*

Criteria Ranking				
Priority	VH	H	M	L
Weight	4	3	2	1

Project Scoring range 0 - 10 - score card - Comments

weight	Category	Criteria	Score	Comments
25%	Company / Development Team	Project Development Experience	5	"Normalized Category" makes each category the same range of values while incorporating the weighting within each category. Therefore, a normalized category score should be "100" if the project receives the maximum score (10) for each criteria, regardless of the criteria weighting (1 - 4).
		Ownership / O&M Experience	4	
		Total Category	9	
		Weighted Criteria	24	
		Normalized Category	48.00	
35%	Technology	Technical Feasibility		
		Resource Quality		
		Manufacturing Supply Chain		
		Total Category	0	
		Weighted Criteria	0	
40%	Development Milestones	Site Control		
		Permitting Status		
		Project Financing Status		
		Interconnection Progress		
		Transmission Requirements		
Reasonableness of COD				
Total Category	0			
Weighted Criteria	0			
Normalized Category	0.00			
Weighted Category	0.00			
<b>Total Weighted Score</b>			<b>12.00</b>	

Project Strengths

Project Weaknesses

## Score Card

## Company / Development Team

Project Development Experience	0	10	The company and/or the development team has completed 2 or more projects of similar technology and capacity (e.g., 20 MW photovoltaic facility (thin-film)).
		8	Either (i) the company and/or the development team has completed at least one project of similar technology and capacity; or (ii) begun construction of at least one other similar project.
		7	The company and/or the development team has completed 2 or more projects of any technology and capacity (wholesale generation).
		5	Either (i) the company and/or the development team has completed at least one project of any technology and capacity (wholesale generation); or (ii) begun construction of at least one other similar project.
		0	None of the above.
Ownership / O&M Experience	0	10	The company, development team or subcontractor has experience with 2 or more projects of similar technology and capacity. (e.g., 20 MW photovoltaic facility (thin-film))
		8	The company, development team or subcontractor has experience with at least one project with similar technology.
		7	The company, development team or subcontractor has experience with 2 or more projects of any technology and capacity (wholesale generation).
		5	The company, development team or subcontractor has experience with at least 1 project of any technology and capacity (wholesale generation).
		0	None of the above.
<b>Technology</b>			
Technical Feasibility	0	10	Project will use commercialized technology that is currently in use at a minimum of 2 operating facilities of similar capacity (worldwide).
		8	Project will use commercialized technology that is nearly identical (e.g., a wind turbine with modest upgrades from the last model) to technology currently in use at a minimum of 2 operating facilities of similar capacity (worldwide).
		5	Project will use commercialized technology that is currently in use at a minimum of 2 operating facilities, but at first-of-its-kind scale. For example, existing projects do not exceed 20 MW and the proposed project is for greater than 50 MW.
		2	Either (i) the project will use key components of commercialized technology, but in an application that has not yet been commercially proven; or (ii) project feasibility is supported by third party, independent engineer's report that verifies the cost and performance. (Technology is not commercially proven)
		0	None of the above.
Resource Quality	0	10	Bidder demonstrated that the resource can support the production profile. For example: <ul style="list-style-type: none"> <li>- <i>Geothermal</i>: Based on results of test wells, verified third party resource assessment or comparable facilities in the region.</li> <li>- <i>Wind</i>: Based on meteorological tower data, verified third party resource assessment or comparable facilities in the region.</li> <li>- <i>Biomass</i>: Sufficient quantities of fuel stock under control or contract for a minimum of five years.</li> <li>- <i>Solar</i>: Based on verified third party resource assessment or comparable facilities in the region.</li> </ul>
		5	The resource appears sufficient to support the project's production profile. Assumptions are reasonable but not supported by data or assessment in section above.
		0	None of the above.
Manufacturing Supply Chain	0	10	There are no known or anticipated supply chain constraints.
		6	There may be modest or possible supply chain constraints (e.g., many developers submitting projects from same manufacturer).

Score Card

		2	There is evidence of fairly significant supply chain constraints (e.g., project development is dependent on new manufacturing capacity).
		0	There is evidence of serious supply chain constraints (e.g., project will rely on proprietary technical design for its key component(s), not currently in use commercially, project development is dependent on new manufacturing capacity).
<b>Development Milestones</b>			
<b>Site Control</b>	0	10	Project has 100% site control for project site and gen-tie line corridor connecting the facility to the local grid (control may be in the form of direct ownership, a lease, or an option to lease or purchase; includes BLM-confirmed application and Record of Decision since both confer site exclusivity).
		7	Project has a majority of control over the project site and gen-tie corridor.
		2	Project has limited amount of control over project site and gen-tie corridor.
		0	None of the above.
<b>Permitting Status</b>	0	10	At a minimum, bidder has received its Conditional Use Permit (CUP), Application for Certification (AFC), or Record of Decision from BLM or equivalent federal agency.
		7	No material permits are obtained, but project is located in jurisdiction where permitting process is generally not an issue in the development process.
		5	Bidder has applied for its CUP or AFC, the application has been deemed data adequate and/or the designated agency has initiated its review. No fatal flaws have been identified (e.g., protected species and/or land, high land mitigation requirement) that will stop developer from building.
		2	Bidder has not initiated permitting. No fatal flaws have been identified (e.g., protected species and/or land, high land mitigation requirement) that will stop developer from building.
		0	None of the above.
<b>Project Financing Status</b>	0	10	Either (i) the project will be "balance sheet" financed; or (ii) the project will rely on a power purchase agreement (PPA) for its financing and bidder can verify that such financing has been secured.
		8	The project will not be "balance sheet" financed but the company has the capability to, and have used, "balance sheet" financing
		6	Project will rely on PPA financing. The bidder has obtained financing for at least 1 project of similar technology and capacity (e.g., 20 MW photovoltaic facility (thin-film)).
		5	Project will rely on PPA financing. The bidder has obtained financing for at least 1 project of any technology and capacity (wholesale generation).
		0	None of the above.
<b>Interconnection Progress</b>	0	10	The project has obtained its Interconnection Agreement.
		8	The project is either in one of the following processes or in a comparable process: Phase II of the CAISO's Large Generator Interconnection Process (LGIP), has initiated its Facilities Study, etc.
		8	The project can either interconnect through CAISO Small Generator Interconnection Procedures or project's small size otherwise permits expedited interconnection treatment.
		5	The project is either in one of the following processes or in a comparable process: Phase I of the CAISO's LGIP, has initiated its System Impact Study, etc.
		3	The project has only submitted its Interconnection Request.
		0	None of the above.

Score Card

<b>Transmission Requirements</b>	0	10	For all projects: No transmission system upgrades required (i.e., project already in service, and no physical alterations [e.g., repowering] to be made. Repower or greenfield project with a signed LGIA explicitly stating no required system upgrades). For outside CAISO projects: Developer has firm transmission service to CAISO intertie, into CAISO or to an acceptable trading hub (or there is no perceived issue by not having firm service).
		8	For in-CAISO projects: Transmission access expected in less than 2 years. (As per System Impact or Facilities Study.)
		6	For in-CAISO projects: Transmission access expected in less than 3 years (i.e., less than 5 MW proposed capacity that has submitted an application but no System Impact or Facilities study received).
		4	For in-CAISO projects: Transmission access expected in less than 5 years (i.e., 5-20 MW proposed capacity that has submitted an application but no System Impact or Facilities study received. Less than 5 MW proposed capacity that has not submitted an interconnection application). For outside CAISO projects: No transmission system upgrades required but developer has no firm transmission service for transmitting energy to an acceptable location.
		2	For in-CAISO projects: Transmission access expected in greater than 5 years (i.e., greater than 20 MW proposed capacity that has submitted an application but no System Impact or Facilities study received. 5-20 MW proposed capacity that has not submitted an interconnection application). For outside CAISO projects:
		0	For all projects: None of the above (i.e., greater than 20 MW proposed capacity that has not submitted an interconnection application).
		<b>Reasonableness of COD</b> Utility should validate the reasonableness of project's commercial online date (COD)	0
8	Utility reasonably expects project's COD to occur within 12 - 24 months of the proposed		
6	Utility reasonably expects project's COD to occur within 24 - 36 months of the proposed		
2	Utility reasonably expects project's COD to occur within 36 - 48 months of the proposed		
0	Utility reasonably expects project's COD to occur more than 48 months after the proposed		

# **APPENDIX E**

## **Redline of 2010 Written Plan**

**ATTACHMENT 1**



SOUTHERN CALIFORNIA  
**EDISON**

An *EDISON INTERNATIONAL* Company

(U 338-E)

**~~Amended 2009~~2010 Written Plan**

**~~June 22,~~December 18, 2009**

**PUBLIC VERSION**

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## SCE's Amended 2009/2010 Written Plan

### 1. Overview: An assessment and discussion of:

#### 1.1. Supplies and demand to determine the optimal mix of RPS resources

~~At the time~~ Southern California Edison Company ("SCE") ~~filed its 2009 RPS Procurement Plan, SCE was in the process of completing its 2007~~ has largely completed its 2008 Renewables Portfolio Standard ("RPS") solicitation. ~~SCE is now in the process of completing its 2008 RPS solicitation. To date, SCE has submitted eight, submitting fourteen~~ contracts from ~~its 2007 solicitation and nine contracts from its 2008~~ that solicitation to the California Public Utilities Commission (~~the~~ "Commission") for approval.<sup>1</sup> ~~SCE anticipates requesting Commission approval of three more executed contracts resulting from its 2008 solicitation in the near future. Thus far in 2008 and 2009, SCE has~~ In 2009, SCE also submitted for ~~Commission approval four contracts as part of SCE's Biomass~~ approval one contract resulting from its Renewables Standard Contract ~~program~~ Program and ~~two~~ seven contracts resulting from bilateral negotiations.<sup>2</sup> In addition, SCE executed one contract pursuant to its California Renewable Energy Small Tariff ("CREST") program.<sup>3</sup> For purposes of the ~~2009/2010~~ RPS Procurement Plan, SCE ~~assumed~~ assumes that all of the contracts executed at ~~the~~ this time ~~it filed its 2009 RPS Procurement Plan would~~ will be approved by the Commission ~~and result in deliveries that begin as represented by the counterparties.~~

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<sup>1</sup> ~~Four of SCE's 2007 solicitation contracts and one~~ Two of SCE's 2008 solicitation contracts have ~~already~~ been approved by the Commission. ~~SCE withdrew its request for Commission approval of one of its 2007 solicitation contracts because SCE requires additional time to prepare and present material relevant to the Commission's consideration of the matter, and the Commission issued a draft resolution approving one additional 2008 solicitation contract that will be considered at the Commission's December 17, 2009 meeting. The other 2007 and 2008 solicitation contracts are pending Commission approval. SCE anticipates requesting Commission approval of one additional contract resulting from its 2008 solicitation in the near future.~~

<sup>2</sup> ~~The four contracts resulting from SCE's Biomass Standard Contract program and the two~~ Two of the bilateral contracts have been approved by the Commission, ~~and the Commission issued draft resolutions approving the Renewables Standard Contract and one bilateral contract that will be considered at the Commission's December 17, 2009 meeting. The other contracts are pending Commission approval.~~ SCE anticipates requesting Commission approval of additional contracts resulting from its ~~Biomass~~ Renewables Standard Contract program ~~and bilateral negotiations~~ in the near future.

<sup>3</sup> Purchases pursuant to, and consistent with, the terms and conditions of the tariff need not be submitted to the Commission by advice letter; such purchases are per se reasonable. Decision ("D.") 07-07-027 at 7.

~~When SCE filed~~received a robust response to its 2009 RPS Procurement Plan in  
~~September 2008, SCE had~~solicitation. SCE recently completed the initial bid proposal evaluation  
process for its ~~2008 RPS~~2009 solicitation and submitted its short- list of projects from that  
solicitation to the Commission ~~on July 15, 2008. SCE has now executed 12 contracts resulting~~  
~~from its 2008 solicitation. The solicitation, however, is still ongoing and~~and SCE's Procurement  
Review Group ("PRG"). SCE is commencing negotiations with the short-listed projects. Since  
the negotiation process is just beginning, however, SCE is not in a position to fully assess the  
volume or resource type of the contracts that will result from the ~~2008~~2009 solicitation.  
Moreover, because of the lead time required to complete transmission studies, SCE still cannot  
fully assess how the transmission needs of some projects will affect viability-~~or,~~ on-line dates,  
and potentially other commercial variables.

As a result of these ongoing processes and contingencies, it is difficult to fully  
~~assess~~determine SCE's renewable procurement needs for ~~2009-2010.~~ Generally, however,  
SCE's planned procurement activities for ~~2009-2010~~ will include seeking resources to augment  
those already under contract ~~as a result of prior solicitations~~ to the extent necessary to ensure that  
SCE meets the State's overall goal of 20% renewables as soon as possible. As discussed in more  
detail below, SCE ~~also~~ considers "Base Case" and "High Need Case" procurement scenarios  
~~based on project development success rate assumptions across SCE's current portfolio. SCE's~~  
Base Case assumes a 20% renewable energy goal. SCE's High Need Case assumes a 33%  
renewable energy goal. In addition to procuring resources to meet the 20% goal as soon as  
possible, SCE intends to procure renewable resources based on the High Need Case ~~procurement~~  
~~scenario in order to account for potential project success rates and other contingencies.~~

However, while SCE's ~~intentions are~~ intends to procure enough renewable energy to  
reach 20% renewables as soon as possible and to meet a 33% renewable energy goal, there are  
significant barriers to ~~the~~ achievement of ~~this goal in the very near term. As discussed in~~  
~~previous filings and herein, SCE has received relatively few bids from renewable generators that~~

~~do not require significant transmission upgrades for the renewable energy to be deliverable.<sup>3</sup>~~  
~~Based on market responses to completed~~these goals. Based on SCE's experience in RPS  
solicitations to date, transmission will continue to be a serious impediment to bringing new  
renewable resources on-line ~~in the near term and achieving the State's goal of 20% renewables~~  
~~by the target date of 2010.~~<sup>4</sup> Increased procurement activity (i.e., execution of more contracts)  
will not accelerate the planning, permitting, and construction processes for new transmission and  
transmission upgrades. While SCE will continue to seek and contract with resources that can  
~~begin delivery prior to 2010, very few proposals are expected that are not limited by~~  
~~transmission~~provide near-term deliveries, most proposals are expected to be limited by  
transmission. Additionally, the long and complicated process for siting and permitting of  
renewable generation projects, the uncertainty surrounding the federal production and investment  
tax credits, a heavily subscribed interconnection queue, developer performance issues, and lack  
of flexibility in the regulatory process to pursue all procurement options are all major challenges  
to meeting California's renewable energy goals. SCE's overall goal is to achieve 20%  
renewables as soon as possible, regardless of whether or not that goal can be accomplished by  
2010.

The magnitude of a 33% renewable energy goal increases the challenges to reaching the  
State's goal. The Commission has stated that a 33% renewable energy goal is "highly ambitious,  
given the magnitude of the infrastructure buildout required."<sup>5</sup> Indeed, the Commission found  
that reaching the 33% goal will require \$115 billion in new infrastructure investment in an  
uncertain financial environment, including seven major new transmission lines (in addition to the  
four major new transmission lines needed to reach 20% renewables).<sup>6</sup> The "highly ambitious"

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<sup>3</sup> ~~See SCE's Amended 2008 RPS Procurement Plan.~~

<sup>4</sup> The Commission has repeatedly recognized this in its Quarterly Reports to the Legislature. See e.g.,  
Renewables Portfolio Standard Quarterly Report, ~~April 2008, at 5~~ at 7 (Q4 2009); Renewables Portfolio  
Standard Quarterly Report, ~~July 2008, at 7~~ at 7 (July 2009); Renewables Portfolio Standard Quarterly Report at  
7 (July 2008); Renewables Portfolio Standard Quarterly Report at 5 (April 2008).

<sup>5</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 1 (June 2009).

<sup>6</sup> Id. at 1-4.

33% renewable energy goal will not be achieved without addressing significant challenges including, among other things, the challenges discussed above. SCE addresses the impediments to reaching 20% and 33% renewables in more detail in Section 2 below.

Finally, ~~SCE's procurement activities are not based on an optimal mix of resources. SCE enters into contract discussions with renewable developers based on the evaluation of the project proposals relative to other bids proposals received in the solicitation. Generally, this process results in a diverse portfolio of technologies. However, SCE does not make procurement decisions based on a lack of or excess of one technology over another. By not discriminating between projects based solely on technology~~ After evaluating proposals based on quantitative factors, SCE evaluates proposals based on qualitative factors. This process is described in SCE's Written Description of RPS Proposal Evaluation and Selection Process and Criteria ("LCBF Written Report"), which is attached as Appendix A. For example, SCE considers proposals' delivery start dates, term lengths, and resource types in conjunction with SCE's current portfolio of renewable contracts and renewable energy needs. With respect to resource type, if the quantitative evaluation results in a suboptimal mix (e.g., all wind projects ranked as the best proposals), SCE will apply its qualitative methodology to balance the mix of resources. By taking many quantitative and qualitative factors into consideration, SCE ensures that it will select projects that are best suited for attaining the 20% goal. its portfolio in order to meet customer needs and attain the State's renewable energy goals.

## **1.2. The use of compliance flexibility mechanisms**

SCE projects that it will continue to satisfy part of its future annual procurement ~~target~~ targets ("APT") ~~requirements~~ APTs) by using its surplus procurement bank balance. As the Commission held, "~~if~~ if eligible procurement is not used to meet the APT in the year in which it was procured, it may be reported as surplus procurement and may be banked and used to meet procurement targets in past or future years."<sup>57</sup> SCE further projects that it will earmark

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<sup>57</sup> Decision ("D.") 06-10-050, Attachment A at 8.

future deliveries from RPS contracts to meet ~~future~~-APTs. The Commission's flexible compliance rules ~~for RPS procurement~~ allow load-serving entities ("LSEs") to earmark future deliveries from executed contracts as a temporary allowable reason for ~~an~~ RPS procurement deficit in excess of 0.25% of the LSE's prior year's retail sales, so long as the earmarked deliveries fill the deficit no more than three years after the year in which the deficit occurred.<sup>68</sup> Moreover, in D.08-02-008, the Commission held that LSEs are permitted to earmark from a pool of contracts that are eligible for earmarking and apply banked surplus generation if an earmarked contract does not deliver or delivers less than forecasted.<sup>79</sup> Flexible compliance continues to be a successful mechanism in encouraging and providing integrity to the renewable energy market, while ultimately benefiting electricity customers statewide.

~~SCE's August 2008 RPS Compliance Report and March 2009 RPS Compliance Report spreadsheets, which are attached as Appendix F, contain forecasts of SCE's RPS procurement for 2009 through 2020. With flexible compliance, SCE forecasts RPS procurement compliance throughout the planning horizon.~~

With flexible compliance, SCE forecasted compliance with the 20% RPS goal through the planning horizon in its last RPS compliance report.<sup>10</sup> On November 20, 2009, the Commission adopted D.09-11-014, which changed the calculation of the APT for 2010 and any future years in which the APT is 20% from 20% of prior year retail sales to 20% of current year retail sales.<sup>11</sup> Using this new methodology and with flexible compliance, SCE continues to forecast compliance with the 20% RPS goal through the planning horizon.

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<sup>68</sup> Id., Attachment A at 9-10; D.08-02-008 at 12.

<sup>79</sup> Id. D.08-02-008 at 16-17.

<sup>10</sup> See Southern California Edison Company's (U 338-E) August 2009 Compliance Report Pursuant to California Renewables Portfolio Standard (August 3, 2009).

<sup>11</sup> D.09-11-014 at 13-14 (OP 2-4).

**1.3. A bid solicitation setting forth relevant need, online dates, and locational preferences, if any:**

SCE's ~~amended 2009 bid~~2010 solicitation materials are provided ~~along with this Amended 2009 Written~~as Attachments 2-1 through 2-10 to SCE's 2010 RPS Procurement Plan. SCE's ~~Amended 2009~~2010 Procurement Protocol includes, among other things, information related to relevant need, on-line dates, and locational preferences.<sup>12</sup>

~~2. Program Metrics: Data and information for each year from 2003 through 2013 (with actuals, estimates or forecasts drawn from the most recently filed Project Development Status Report and/or Compliance Report, as appropriate) of:~~

~~2.1. Retail sales~~

~~Information related to SCE's actual and forecasted retail sales from 2003 through 2013 is provided in SCE's August 2008 RPS Compliance Report and March 2009 RPS Compliance Report spreadsheets, which are attached as Appendix F.~~

~~2.2. Annual procurement targets~~

~~Information related to SCE's actual and forecasted APTs from 2003 through 2013 is provided in SCE's August 2008 RPS Compliance Report and March 2009 RPS Compliance Report spreadsheets, which are attached as Appendix F.~~

~~2.3. RPS-eligible procurement~~

~~Information related to SCE's actual and forecasted RPS-eligible procurement is provided in SCE's August 2008 RPS Compliance Report and March 2009 RPS Compliance Report spreadsheets, which are attached as Appendix F.~~

~~2.4. Use of flexible compliance~~

~~With flexible compliance, SCE forecasts that it will meet its 2009 APT as detailed in SCE's August 2008 RPS Compliance Report and March 2009 RPS Compliance Report spreadsheets, which are attached as Appendix F. SCE projects that it will satisfy part of its 2009~~

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<sup>12</sup> The 2010 Procurement Protocol is Attachment 2-1 to SCE's 2010 RPS Procurement Plan.

~~APT requirement by using its surplus procurement bank balance and by earmarking future deliveries from RPS contracts.~~

#### ~~2.5. Use of above market funds (“AMFs”)~~

~~As set forth in more detail in SCE’s pre-workshop and post-workshop comments regarding implementation of Senate Bill (“SB”) 1036,<sup>8</sup> SCE believes that the Commission should take a first-come, first-served approach when evaluating competing AMF requests. Allocating AMFs on a first-come, first-served basis is a simple and transparent way to streamline the contract approval process and minimize delay. In addition, the existing reasonableness review standard for RPS power purchase agreements (“PPAs”) provides the appropriate level of review for allocation of AMFs. As such, AMF requests should not be subject to a separate standard.~~

~~Allocating AMFs based on some other criteria would complicate and delay the contract approval process by requiring not one but two review processes. The delay in contract approvals may lead to delays in project financing, development, and construction, and ultimately, to increased projects costs for developers and utility customers. Additionally, implementing a second review process for AMFs alone would increase approval uncertainty for both developers and the investor-owned utilities (“IOUs”), at least until the process and its actual implementation are understood by the developers and the IOUs.~~

~~Since SCE filed its 2009 RPS Procurement Plan, the Commission approved a resolution establishing the rules regarding the limitation on utility costs for contract prices above the Market Price Referent (“MPR”).<sup>9</sup> However, it remains to be seen how the RPS program will operate when once the IOUs’ AMF accounts are exhausted. Because short-list decisions are~~

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<sup>8</sup>—~~See Pre-Workshop Comments of Southern California Edison Company Regarding SB-1036 Implementation, May 9, 2008; Joint Post-Workshop Comments of Pacific Gas and Electric Company; Southern California Edison Company; San Diego Gas & Electric Company; and California Wind Energy Association/Large Scale Solar Association Regarding Implementation of SB 1036, July 8, 2008; Southern California Edison Company’s Post-Workshop Comments on Implementation of Senate Bill 1036, July 8, 2008; Southern California Edison Company’s Post-Workshop Reply Comments on Implementation of Senate Bill 1036, July 14, 2008.~~

<sup>9</sup>—~~See Resolution E-4199.~~

~~made prior to the issuance of the applicable MPR, AMF impacts are not directly considered in the decision-making process. As described in Section 6 and Appendix D, SCE uses the results from its contract evaluation process for procurement decisions.~~

~~Information regarding SCE's current estimate of AMFs required for its executed contracts with prices above the MPR is located in Appendix G.<sup>10</sup>~~

~~**2.6. Reasonable use of a procurement margin of safety to account for potential contract failure and other contingencies**~~

**2. Workplan to Reach 20% By 2010 and 33% by 2020: A showing on each IOU's workplan to reach 20% by 2010, and 33% by 2020, including but not limited to:**

In its ~~2009~~2010 RPS solicitation, SCE intends to contract for the balance of renewable energy necessary to achieve ~~20% renewables as soon as possible~~the State's renewable energy goals, taking into account the renewable energy procured through ~~its 2008~~SCE's 2009 RPS solicitation and success rate assumptions for executed contracts that are not yet on-line. To this end, SCE has developed a "Base Case"<sup>22</sup> and "a High Need Case"<sup>22</sup> of ~~the~~its renewable procurement ~~needed to reach the 20% goal. The Base Case assumes 100% delivery at the currently expected on-line dates of all executed contracts. The High Need Case~~needs. The Base Case assumes the 20% renewable energy goal set forth in the current RPS legislation.<sup>13</sup> The Base Case also uses the current expected on-line dates for all projects, excludes flexible compliance, assumes Direct Access is not re-opened, and assumes 100% delivered energy from contracts that are executed but not yet on-line. Appendix B shows SCE's current RPS-eligible energy forecast in the Base Case scenario.

SCE's High Need Case assumes a 33% renewable energy goal. The Governor has approved Executive Orders S-14-08 and S-21-09 setting forth a 33% target. Pursuant to Executive Order S-21-09, the California Air Resources Board ("CARB") is working to adopt a 33% Renewable Electricity Standard ("RES") regulation by July 31, 2010. While CARB held

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<sup>10</sup> ~~SCE has updated its estimate of AMFs since it filed its 2009 RPS Procurement Plan in September 2008.~~

<sup>13</sup> See Cal. Pub. Util. Code § 399.11 et seq.

two initial workshops and issued a concept outline in connection with this proposed regulation in October and December 2009, no final rules have been adopted. Indeed, CARB has not yet released a proposed regulation. It is therefore unclear how the proposed RES program will be structured. Accordingly, SCE's High Need Case generally assumes the current RPS structure and rules as implemented by the Commission. Moreover, the High Need Case uses the current expected on-line dates for all projects, excludes flexible compliance, assumes Direct Access is not re-opened, and assumes only 70% delivered energy from contracts that are executed; but not yet delivering contracts. The High Need Case on-line. This 70% success rate is modeled to represent project development success rates as well as any contingency that would make meeting RPS the State's renewable energy goals less likely (e.g., delays due to transmission, material shortages, load growth beyond that which is forecasted, or less than expected output from resources). Appendix C shows SCE's current RPS-eligible energy forecast in the High Need Case scenario.

~~Therefore, in~~ While the Base Case scenario indicates that procurement may not be needed from the 2010 RPS solicitation, the High Need Case does project a need for additional renewable energy deliveries in the future. In order to procure at a reasonable margin that accounts for potential project success rates and other contingencies, to meet the State's proposed 33% renewable energy goal, SCE intends to base its procurement activities for 2009 the 2010 solicitation on the High Need Case. SCE believes it is prudent to do so based on its experience in meeting the 20% renewable energy goal and the need to contract with projects early on in the process to support the development of needed transmission.

Along with its 2010 RPS solicitation, SCE plans to utilize other procurement options to help meet the State's renewable energy goals including SCE's Solar Photovoltaic Program, SCE's Renewables Standard Contract Program, and bilateral negotiations with competitive renewable energy projects.

However, SCE must reiterate that while its intentions are to procure to ~~this level~~ a 33% renewable energy goal, there are significant barriers preventing SCE from achieving ~~this~~ both the

20% goal in the ~~very near term~~ near-term and a 33% goal in the long-term. As detailed in Section 6, SCE requests approval for the use of unbundled renewable energy credits and a streamlined pre-approval process for short-term renewable energy transactions to help meet these goals.

~~2.7. Any other relevant data and information regarding sales, targets, procurement, flexible compliance, margins of safety or other related matters to make a complete presentation on program metrics~~

~~The Commission has granted a petition to open a rulemaking regarding whether, when, or how direct access should be restored.<sup>±±</sup> If the suspension of direct access is lifted, the IOUs, including SCE, could potentially lose customers to other retail providers. Under such a scenario, SCE's retail sales would drop and, given that SCE has almost exclusively executed long-term agreements with its RPS-eligible resources, SCE's percentage of energy procured from renewable resources in relation to its retail sales would increase. Obviously, this scenario would have a positive impact on SCE's ability to meet its RPS goals. However, at this stage of the proceeding, it is impossible for SCE to quantify the impact of lifting the suspension of direct access on SCE's retail sales.~~

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~~<sup>±±</sup>—See generally R.07-05-025.~~

### **3. Standard Terms and Conditions**

~~A matrix outlining the differences between the standard contract terms and conditions identified in D.08-04-009 and D.08-08-028 against the corresponding terms and conditions found in SCE's Amended 2009 *Pro Forma* Agreement is attached as Appendix B.<sup>12</sup> In addition to the matrix, Appendix B also includes explanations and justifications for the modifications to the standard terms.~~

~~Given that the creation of the standard terms and conditions matrix is a particularly time-intensive process and the matrix itself contains redundant information, SCE proposes that for subsequent procurement plans, the standard terms and conditions section of the plan be simplified. Specifically, in lieu of a matrix, each IOU could provide a redline version of the Commission's standard terms and conditions against the provisions the IOU proposes for its plan. This is the information that is essentially captured in the third column of the matrix. This modified response would eliminate much of the formatting time associated with preparing a matrix, would significantly shorten the response to the Commission's request, and yet would preserve the most valuable portion of the matrix—the language proposed by the IOU and a comparison with the Commission's standard terms and conditions. In addition, SCE proposes that the four non-modifiable standard terms and conditions be removed from the matrix altogether and replaced with a statement in the text following the matrix indicating that the IOU has included the non-modifiable terms verbatim in its procurement plan.~~

~~**4. Transmission and Flexible Delivery:** A statement of specific considerations, if any, to facilitate Program success relative to:~~

~~**4.1.** Transmission, including use of flexible delivery points, efforts to ensure the availability of needed transmission, and efforts to construct needed facilities (re: Pub. Util. Code § 399.14(a)(2)(C)(ii))~~

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<sup>12</sup>~~—A redline of the Amended Standard Terms and Conditions Matrix included as Appendix B compared to the Standard Terms and Conditions Matrix included in SCE's 2009 RPS Procurement Plan filed in September 2008 is attached as Appendix C.~~

~~Transmission interconnection of proposed renewable generation projects continues to be the single largest barrier to achieving RPS procurement targets. Contract evaluation and negotiation often occur in the early stage of project development where little or sometimes no transmission information is known. With this in mind and as described above, SCE has modified its *Pro Forma* Agreement to allow for more flexibility in delivery points. Specifically, SCE now allows generating facilities that are interconnected to the California Independent System Operator (“CAISO”) to use as their delivery point the first point of interconnection with the CAISO-controlled grid rather than SP-15.~~

~~In addition to the need for delivery point flexibility, SCE believes that a generator’s ability to finance the costs of transmission network upgrades is an important factor in facilitating the development of transmission for renewable energy resources. SCE has proactively sought and proposed novel financing and cost recovery mechanisms to help remove this barrier. For example, in March 2005, SCE filed a petition for declaratory order with the **Federal Energy Regulatory Commission** (“FERC”) seeking rolled-in rate treatment for the first three segments of the Antelope/Tehachapi transmission upgrades.<sup>13</sup> Although Segments 1 and 2 of the Antelope facilities would be network facilities if approved as described in SCE’s **Certificate of Public Convenience and Necessity** (“CPCN”) applications, submitted in Application (“A.”) 04-12-007 and A.04-12-008, Segment 3 would, by FERC’s definitions, appear to be a non-network, generation tie line. Ordinarily under FERC’s rules, such lines are paid for by interconnecting generators without refund. Because such an arrangement potentially presents a barrier to generators who would be interconnected using such a generation tie line, SCE sought an exception from the usual FERC rules through the declaratory order petition.<sup>14</sup>~~

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<sup>13</sup> ~~See FERC Docket EL05-80.~~

<sup>14</sup> ~~In addition to seeking permission to roll in the costs of the Segment 3 generation tie, SCE sought confirmation from FERC that Segments 1 and 2 would be considered network upgrades. SCE also sought relief from FERC’s limitation of a maximum of 50% recovery of abandoned transmission plant costs since independent generation developers, not SCE, will make the decisions to pursue or abandon the generation resources that cause the need for the transmission upgrades.~~

~~This concept was further developed in October of 2007 by the CAISO under its Location Constrained Resource Interconnection (“LCRI”) tariff.<sup>15</sup> SCE played a leadership role in the stakeholder process that developed the LCRI principles and tariff language. Under the LCRI tariff, a transmission line qualifies as a LCRI facility if it interconnects multiple generators, operates at high voltage under CAISO control, is not a network facility as defined by FERC, and is located in a renewable energy resource area. Under the LCRI tariff, each generator that interconnects to the LCRI facility pays its pro-rata share (based on its installed capacity and the total capacity of the LCRI facility) of the annual revenue requirement when it interconnects to the LCRI facility. The revenue requirement for any unsubscribed portion of the LCRI facility is recovered in the CAISO transmission access charge. Several qualification measures are included in the LCRI tariff. For example, the total investment required for any given LCRI facility is capped at 15% of the net high-voltage transmission plant investment of all California participating transmission operators. In addition, the generators connecting to the LCRI facility must demonstrate “adequate commercial interest” of 60% of the line capacity prior to commencement of construction. The CAISO’s LCRI tariff amendment was approved by FERC on December 21, 2007.<sup>16</sup> SCE filed its first application to the CAISO under the LCRI tariff in December 2008 for a non-network line segment in the Tehachapi region. The CAISO Board of Governors conditionally approved the application on May 18, 2009, with final approval expected after a sufficient number of generators execute Large Generation Interconnection Agreements (“LGIAs”) in order to meet the “commercial interest” test.<sup>17</sup>~~

In some cases, SCE has agreed to exercise its option to fund upfront transmission network upgrades for needed renewable resources, subject to cost recovery assurances from the Commission. For example, on December 15, 2006, SCE committed to the CAISO that it would provide upfront funding for all network upgrades associated with the Tehachapi Renewable

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<sup>15</sup> See FERC Docket ER08-140.

<sup>16</sup> Order Conditionally Accepting Tariff Revisions, 121 FERC 61,286 (2007).

<sup>17</sup> CAISO Press Release, “California ISO okays first location constrained transmission project” (May 18, 2009).

~~Transmission Project. Upfront funding is contingent on the Commission's authorization of backstop cost recovery of the transmission upgrade costs pursuant to Public Utilities Code Section 399.25. SCE's commitment to finance the Tehachapi project was also confirmed at the CAISO Board of Governors meeting on January 24, 2007, at which time the Tehachapi plan of service was approved. Additional generator requests for SCE to finance network upgrades continue to be evaluated on a case-by-case basis.~~

~~SCE has also taken the lead in developing conceptual transmission "master plans" in anticipation of generation interconnection requests. For example, in SCE's Advice Letter Filing 2062-E in November of 2006, followed by an amended 2062-E-A in April 2007, SCE sought \$6 million to develop conceptual transmission plans for several renewable-rich areas within California, Western Nevada, and Western Arizona.<sup>18</sup> These filings inspired the Commission, along with the California Energy Commission ("CEC"), the CAISO, and other stakeholders, to embark on the Renewable Energy Transmission Initiative ("RETI").<sup>19</sup> RETI's objectives are: (i) to identify and evaluate the resource base within California and neighboring states and countries; (ii) to rank the identified resource areas, called **competitive renewable energy** zones or "CREZs," by cost-effectiveness, environmental attributes, and access to existing or proposed transmission; and (iii) to develop detailed transmission plans to deliver energy from the top-ranking CREZs in the most cost-effective and environmentally benign manner.~~

~~Finally, in order to achieve delivery of generation over the CAISO-controlled transmission system, renewable generators must enter their projects into the CAISO-administered large or small generation interconnection process. With the development of the competitive solicitation process, the acceleration of the California RPS requirement such that~~

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<sup>18</sup>—Southern California Edison Company's Request to Establish a Renewable Transmission Feasibility Study Costs Memorandum Account to Record Costs of Studying the Feasibility of Developing Transmission to Access and Deliver Output From Eligible Renewable Resources Located in Western Nevada, Inyo and Eastern San Bernardino Counties, the Salton Sea Area in California, and Western Arizona, Advice 2062-E-A (April 2, 2007).

<sup>19</sup>—RETI is a statewide initiative to help identify the transmission projects needed to accommodate California's renewable energy goals, support future energy policy, and facilitate transmission corridor designation and transmission and generation siting and permitting.

20% of a retail seller's retail sales must be procured from eligible renewable energy resources ("ERRs") by no later than 2010, and the discussion of a goal of 33% of retail energy sales procured from ERRs by 2020, the CAISO has seen a surge of interconnection requests in recent years. As of July 31, 2008, the CAISO had 361 active requests to interconnect to its system. These requests totaled 105,000 MW of capacity (68,000 MW of which is for ERRs) for a system with an all-time peak load of 50,270 MW.<sup>20</sup>

This large number of requests led to congestion and a general slowdown of the interconnection process. In response, the CAISO launched a statewide stakeholder process in January 2008, known as the Generation Interconnection Process Reform or the "GIPR," to reform its interconnection procedures. The primary objective of the GIPR is to clear the existing backlogged queue by developing new procedures and requirements to study the collective impact of interconnection requests, rather than the current serial study process. Additionally, GIPR reforms seek to reduce barriers to transmission development by providing generators with greater cost certainty as to their ultimate cost responsibility for network upgrades and interconnection facilities. The generators are also provided their cost responsibility information in a more timely manner (after Phase I studies) under the GIPR than under the current serial study approach. In addition, the GIPR requires that generators pay higher upfront deposits to enter the interconnection process and requires additional financial security that increases the generator's financial commitment as it proceeds through the interconnection process. The GIPR promotes better integration of generation interconnection and the CAISO annual transmission planning process, which previously had been two largely separate processes.

The CAISO filed a waiver request at FERC in May 2008 which, among other things, divided the current interconnection queue into a Serial Group in which late-stage projects are to be processed under the existing CAISO procedures, and a Transition Cluster in which early-stage

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<sup>20</sup>—California Independent System Operator Corporation Generator Interconnection Process Reform Tariff Amendment, FERC Docket No. ER08-1317-000, July 28, 2008, at 6.

~~projects to be processed under the reformed CAISO procedures.<sup>21</sup> The waiver request was approved by FERC in July of 2008.<sup>22</sup> The CAISO filed a tariff amendment to implement the GIPR reforms on July 28, 2008,<sup>23</sup> which was approved by FERC on September 26, 2008.<sup>24</sup> SCE has actively participated in the development of the GIPR principles and is a key partner with the CAISO in implementing the necessary reforms. Implementation of the GIPR has begun, and the CAISO saw a significant amount of generation interconnection requests withdrawn in December 2008. However, there still remain more than 43,000 MW of active generator interconnection requests in SCE's interconnection process, inclusive of CAISO and WDAT requests.~~

~~4.2. Anything else on transmission and flexible delivery necessary for a full consideration of this issue:~~

~~SCE has no additional comments on this issue.~~

~~**5. Transmission Ranking Cost Report (TRCR):** Discuss experience with the current TRCR process, and recommended improvements for consideration, if any, including:~~

~~5.1. Given the Generation Interconnection Process Reform (GIPR) of the California Independent System Operator (CAISO), and the proposed timing for interconnection studies, should negotiations only occur with those projects that are part of the Serial Group, are part of the Transition Cluster, or apply for interconnection before the closing of the "First Queue Cluster Window?"~~

~~There should be no restriction placed on IOUs or developers to negotiate contracts based on whether or not the project is part of the Serial Group or the Transition Cluster. However, all parties should understand that if a project is not in one of these groups, the operational dates for that project will be significantly delayed in all cases.~~

~~5.2. Should information from the Scoping and Results Meetings scheduled in 2009 for the GIPR Transition Cluster be used, as available, to update TRCRs, other estimates of transmission costs, and proposed outline dates being applied in bid evaluations and contract negotiations?~~

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<sup>21</sup>—California Independent System Operator Corporation Petition for Waiver of Tariff Provisions to Accommodate Transition to Reformed Large Generator Interconnection Procedures, and Motion to Shorten Comment Period, FERC Docket No. ER08-960-000, May 15, 2008.

<sup>22</sup>—*Order on Petition for Waiver*, 124 FERC ¶ 63,031 (2008)

<sup>23</sup>—California Independent System Operator Corporation Generator Interconnection Process Reform Tariff Amendment, FERC Docket No. ER08-1317-000, July 28, 2008.

<sup>24</sup>—*Order Conditionally Approving Tariff Amendment*, 124 FERC ¶ 61,292 (2008).

~~SCE utilized the information that is included in the CAISO interconnection queue when it developed its 2009 TRCR submitted in October 2008. The current calendar reflects that the Phase I interconnection study results meetings for the projects in the Transition Cluster will be accomplished in August and September 2009, therefore the 2009 TRCR will not be updated to include the results from those meetings. SCE's 2009 RPS solicitation schedule requires bids by August 2009 and short listing in fall 2009. To the extent feasible, SCE will include the Transition Cluster information when evaluating relevant proposals.~~

~~5.3. If so, are there any procedural problems which must be considered to ensure that information from these Scoping and Results Meetings may be integrated into the IOUs' evaluations and negotiations?~~

~~No.~~

#### **6. Bid Evaluation:**

~~SCE's proposal evaluation has been modified from SCE's Amended 2008 RPS Procurement Plan filed February 29, 2008. SCE's current proposal evaluation and selection process and criteria are detailed in Appendix D. A redline of the changes between the proposal evaluation and selection process and criteria filed as part of SCE's 2009 RPS Procurement Plan and the proposal evaluation and selection process and criteria filed as part of this Amended 2009 RPS Procurement Plan is attached as Appendix E. Because SCE's proposal evaluation methodology is designed to handle any proposal through analysis at a granular level, the proposal's contract length should not and does not drive the proposal evaluation methodology. Therefore, SCE uses the same proposal evaluation methodology detailed in Appendix D for short-term contracts as it uses for long-term proposals.~~

~~Although the methodology for evaluating and ranking of out-of-state resources is unchanged from the 2008 RPS Procurement Plan, the paragraph below details the process SCE uses to evaluate those proposals.<sup>25</sup>~~

~~The overall evaluation methodology is applied consistently to projects regardless of location. Energy benefits for those projects outside of the CAISO will be based on the pricing at the nearest liquid trading hub according to SCE's fundamental price forecast for hubs across the Western Electricity Coordinating Council ("WECC"). Capacity benefits will be based on SCE's forecast of the regional capacity value, the nameplate capacity of the project, and the effective load carrying capability of the project. For those projects within or connected directly to the CAISO, SCE applies the cost to customers of new CAISO network upgrades required for deliverability of the new project. SCE customers are not liable for any network upgrades outside of the CAISO so transmission cost adders are zero for out-of-state projects.~~

### **7. Resource Planning:**

~~SCE conducted renewable solicitations in 2002, 2003, 2005, 2006, and 2007, and is currently conducting its 2008 RPS solicitation. Thus far, these solicitations, along with bilateral negotiations, have resulted in 47 active contracts with a maximum renewable energy delivery of 27 billion kWh. As addressed in Section 2.6, SCE intends to base its procurement activities for 2009 on a High Need Case, which assumes only 70% delivered energy from executed, but not yet delivering, contracts. It has been SCE's experience that the initially expected on-line dates of RPS contracts are delayed for various reasons, a major one of which is transmission. SCE also takes this into account when developing a needs assessment to reflect the best estimate of when projects will actually come on-line. This evaluation of on-line dates combined with the High Needs Case assessment allows for the development of a needs assessment that better represents~~

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<sup>25</sup>—This methodology is also explained in SCE's Amended Written Description of RPS Proposal Evaluation and Selection Process and Criteria, attached as Appendix D, under the heading "Out-of-state Projects."

~~SCE's expectation of renewable resource gaps to be filled by the solicitation and procurement process.~~

~~In response to these needs, SCE is planning to conduct an RPS solicitation in 2009. SCE used a similar needs assessment in the 2008 RPS Procurement Plan and determined that a solicitation was necessary. SCE anticipates that it will continue to solicit renewable power and to negotiate bilateral contracts in order to meet and maintain compliance with California's goals.~~

~~**8. Coordination of Procurement Process:** Should the Commission take a position on whether or not an IOU may execute exclusivity agreements with bidders prior to formal notification to all bidders?~~

~~No, the Commission should let the IOUs individually decide the details related to the competitive solicitation process. The Commission should focus on the policy objectives and compliance requirements for all LSEs.~~

~~**8.1. Does an IOU now have the option when to execute an exclusivity agreement?**~~

~~Yes, SCE is not aware of any statute or Commission decision that prevents an IOU from executing an exclusivity agreement with a bidder once that bidder is short-listed. The renewable market is competitive at the moment and IOUs are competing against many different buyers. Flexibility should be maintained so that IOUs are not disadvantaged compared to other buyers in the market. Most notably, the municipal utilities do not have the same restrictions for procurement and are formidable competitors in the market. The option to execute an exclusivity agreement in this type of market is necessary. Energy service producers are less of a concern due to their almost exclusive reliance on short-term contracts and possible reliance on **renewable energy credits**.~~

~~**8.2. What are the reasons for and against IOUs either (a) being permitted discretion if and when to execute an exclusivity agreement or (b) being required to execute an exclusivity agreement no sooner than a certain date in the procurement cycle?**~~

~~An IOU should have the maximum flexibility possible in order to procure the resources that best fit the needs of that particular IOU and support California's renewable goals. The market situation evolves quickly and applying overly prescriptive requirements, such as restrictions on when negotiations may or must begin, is unnecessary and further limits the IOUs'~~

~~options in the market. The ability to make a decision and move forward quickly is appreciated by most market participants and can be viewed as an advantage when competition for viable, cost-effective resources is at an historical high. Similarly, one IOU may need more time than another IOU during a particular evaluation period in order to make the best decision possible for that solicitation. SCE does not see any benefit to artificially slowing down or expediting an IOU's evaluation process simply to keep the IOUs on the same schedule for each step of the process. The result of such a lock-step process may be that an IOU that is ready to short-list and execute an exclusivity agreement with a viable and cost-effective project will lose that project to a municipal utility or other entity that is not on a Commission-mandated schedule. It is not in the best interest of IOU customers to limit the IOUs' ability to compete with other buyers for the most viable and cost-effective resources.~~

### **2.1. Identification of any impediments that remain to reaching 20% by 2010, and 33% by 2020**

Five primary factors have affected SCE's ability to reach the overall RPS goal of 20% renewables and will continue to be issues in meeting a 33% renewable energy goal: permitting, siting, approval, and construction of transmission and renewable generation projects; the uncertainty surrounding the federal production and investment tax credits; a heavily subscribed interconnection queue; developer performance; and lack of flexibility in the regulatory process to pursue all procurement options.<sup>14</sup>

The lack of sufficient transmission infrastructure and the prolonged process for permitting and approval of new transmission lines continues to be the most significant impediment to reaching the State's renewable energy goals. As discussed in previous filings, contract evaluation and negotiation often occur in the early stage of project development where little or no transmission information is known. SCE has received relatively few proposals from

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<sup>14</sup> Notably, the Commission has identified several of these factors as impediments to reaching the State's renewable energy goals. See e.g., Renewables Portfolio Standard Quarterly Report at 7 (Q4 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2009); Renewables Portfolio Standard Quarterly Report at 7 (July 2008); Renewables Portfolio Standard Quarterly Report at 5 (April 2008).

renewable generators that do not require significant transmission upgrades or new transmission development for the renewable energy to be deliverable. Based on the market responses in SCE's RPS solicitations, transmission and the lengthy process of siting, permitting, and building new transmission continues to be the single greatest issue to bringing new renewable resources on-line.

The challenges surrounding transmission are only compounded as the State's renewable energy goal increases from 20% to 33%, a 65% increase in renewable energy. The Commission has stated that "[s]erving 33% of California's energy needs with renewable sources will require an infrastructure build-out on a scale and timeline perhaps unparalleled anywhere in the world."<sup>15</sup> The Commission's 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results report also called a 33% renewable energy goal "highly ambitious, given the magnitude of the infrastructure buildout required."<sup>16</sup> Indeed, the Commission noted that the "magnitude of the infrastructure that California will have to plan, permit, procure, develop, and integrate in the next ten years is immense and unprecedented," including approximately \$115 billion in new infrastructure investment in an uncertain financial environment and seven major new transmission lines (in addition to the four major new transmission lines needed to reach 20% renewables).<sup>17</sup>

An increase in California's renewable energy goal will also increase the grid reliability and integration issues associated with intermittent renewable resources. In addition to the Commission, CARB has also recognized these barriers to reaching the State's goals, stating that "[a] key prerequisite to reaching a target of 33 percent renewables will be to provide sufficient electric transmission lines to renewable resource zones and system changes to allow integration of large quantities of intermittent wind and solar generation," and that California will need to

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<sup>15</sup> Renewables Portfolio Standard Quarterly Report at 3 (October 2008).

<sup>16</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 1 (June 2009).

<sup>17</sup> Id. at 1-4.

quickly address transmission and integration issues and permitting difficulties to reach a 33% renewable energy goal.<sup>18</sup>

The long and complicated permitting process for renewable generation facilities is also a barrier to meeting the State’s renewable energy goals. The Commission recently observed that most RPS project delays “are due to lack of transmission or generation permitting at the county, state, or federal level.”<sup>19</sup> The Commission’s 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results report also noted that environmental concerns, legal challenges, and public opposition can impact the timeline for bringing renewable generation projects on-line.<sup>20</sup>

Another factor that has affected the abilities of SCE and other LSEs to reach the State’s renewable energy goals is the uncertainty surrounding the federal production and investment tax credits. Many renewable generation projects rely on these tax credits, prompting the Commission to call this factor “the number one source of risk to new RPS generation expected to come online by 2010” in July 2008.<sup>21</sup> RPS contracts often have no fault termination rights if the tax credits are not extended. Sending signals to the renewables market that these credits will be available over the long-term will stimulate sustained investment in renewable resources rather than the “boom and bust” cycle induced by the uncertainty regarding whether the federal tax credits will be available.

The American Recovery and Reinvestment Act of 2009 (“ARRA 2009”) extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013.<sup>22</sup> The investment tax credit for solar was also extended until the end of 2016. In Section 1603 of the ARRA 2009, the U.S. Treasury Department launched a new program whereby eligible energy property can receive a cash grant in lieu of the production tax credit. This cash

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<sup>18</sup> Climate Change Scoping Plan at 45, Appendices, Volume I at C-127-C-128 (December 2008).

<sup>19</sup> Renewables Portfolio Standard Quarterly Report at 7 (Q4 2009).

<sup>20</sup> 33% Renewables Portfolio Standard Implementation Analysis Preliminary Results at 4 (June 2009).

<sup>21</sup> Renewables Portfolio Standard Quarterly Report at 7 (July 2008).

<sup>22</sup> See American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).

grant program has been well received by renewable generation developers. To qualify for the Section 1603 cash grant program, the eligible property must “start construction” by December 31, 2010, and be placed “in service” based on a schedule dependent on the type of generation (by January 1, 2013 for large wind and January 1, 2017 for solar).<sup>23</sup> These aggressive construction and in-service requirements have led the generation community to place increasing political pressure on regulatory bodies such as the Commission, the California Energy Commission (“CEC”), the Bureau of Land Management (“BLM”), along with SCE, to expedite the regulatory process to enable generators to come on-line sooner to take advantage of this stimulus program.

While the ARRA 2009’s extension of the tax credits relieved some uncertainty for near-term projects, the “on again, off again” nature of these tax credits continues to be a barrier to renewable development. In particular, the expiration of the production tax credit for wind at the end of 2012 currently impacts proposed wind generating facilities given the time needed for Commission approval of contracts, siting, permitting, construction, and development of needed transmission. Additionally, the uncertain future of the federal production and investment tax credits will likely continue to be a long-term barrier to meeting a 33% renewables goal.

Heavy subscription to the California Independent System Operator (“CAISO”) interconnection queue is also a major barrier to achieving the State’s renewable energy goals. The number and aggregate capacity of projects in the CAISO interconnection queue are increasing at rates never before experienced in California. Although the CAISO’s interconnection reform effort is currently being implemented, whether or not the reforms will meet the expectations and goals of all stakeholders remains to be seen. The CAISO saw a significant amount of generation interconnection requests withdrawn in December 2008 and December 2009 resulting from implementation of the reformed Large Generator Interconnection Procedures. However, SCE has seen a substantial increase in the number of requests under 20

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<sup>23</sup> See Payments for Specified Energy Property in Lieu of Tax Credits under the American Recovery and Reinvestment Act of 2009, U.S. Treasury Department Guidance Document (July 2009) (available at <http://www.treasury.gov/recovery/docs/guidance.pdf>).

MW in its service territory under the Small Generator Interconnection Procedures. As of December 10, 2009, SCE had over 200 interconnection requests, comprising more than 30,000 MW in its interconnection process, inclusive of CAISO and WDAT requests.

Achieving the State’s renewable energy goals is also dependent on the performance of renewable developers. SCE has executed contracts with a large number of developers. To qualify for California’s RPS program, these developers must plan for, permit, construct, and operate their facilities according to milestones set in the contracts. Developers have significant hurdles during these activities and it is always possible that milestone schedules will be altered. To the extent delays occur, these delays will impact the amount of delivered energy on which SCE can rely to reach the State’s goals.

Finally, in view of these major challenges to achieving the State’s renewable energy goals, it is crucial that California expand the supply of renewable resources by allowing the broadest possible market of eligible renewable products. However, lack of flexibility in the regulatory process surrounding two procurement options – unbundled renewable energy credits (“RECs”) and short-term renewable energy transactions – impedes progress toward California’s goals.

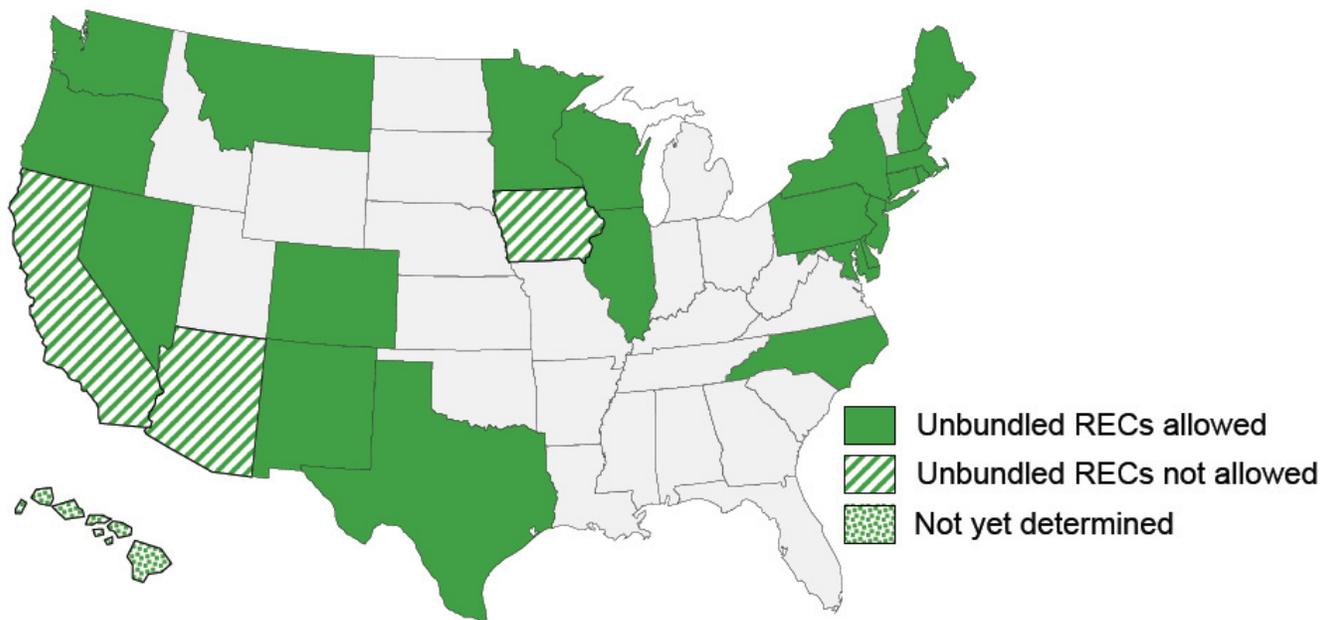
Despite the fact that the Commission has been authorized to allow the use of unbundled RECs for California’s RPS program since Senate Bill (“SB”) 107 took effect in 2007,<sup>24</sup> the Commission has not yet allowed the use of such RECs. The Commission issued a proposed decision allowing the use of unbundled RECs in October 2008 and a revised proposed decision allowing the use of unbundled RECs in March 2009,<sup>25</sup> but has not yet acted on the issue.

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<sup>24</sup> See Cal. Pub. Util. Code § 399.16.

<sup>25</sup> See Proposed Decision Authorizing Use of Renewable Energy Credits for Compliance With the California Renewables Portfolio Standard, Rulemaking (“R.”) 06-02-012 (October 29, 2008); Proposed Decision Authorizing Use of Renewable Energy Credits for Compliance With the California Renewables Portfolio Standard, R.06-02-012 (March 26, 2009).

Most states that have RPS programs allow the use of unbundled RECs for compliance with their programs. In fact, as shown in the map below, in 2008, 21 out of 25 states with an RPS allowed unbundled RECs for compliance.<sup>26</sup>



The use of unbundled RECs helps protect electricity customers from limitations in supply. Additionally, unbundled RECs provide renewable project owners and LSEs much needed flexibility and options in contracting for renewable energy. Additional contracting flexibility leads to lower transaction costs in obtaining renewable attributes from renewable resources that have limited access to transmission or are located a far distance from their buyers. Ultimately, increased flexibility and lower transaction costs promote more liquid and price-competitive renewable energy markets and a better and more efficient RPS program in general, which in turn will help lead to more investment in renewable development. Given the

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<sup>26</sup> [Lawrence Berkeley National Laboratory, Research News, Berkeley Lab Examines State-level Renewables Portfolio Standard Policies, April 10, 2008 \(available at http://www.lbl.gov/Science-Articles/Archive/assets/images/2008/Apr/10-Thu/hires/Page7updatedRPSgraphics.pdf\).](http://www.lbl.gov/Science-Articles/Archive/assets/images/2008/Apr/10-Thu/hires/Page7updatedRPSgraphics.pdf)

importance of the State's renewable energy goals and the challenges facing renewable developers (in developing projects) and LSEs (with regard to RPS compliance), the additional flexibility provided by unbundled RECs warrants their authorization by the Commission as soon as possible. Unbundled RECs are in everyone's best interest: electricity customers, LSEs, and renewable developers and generators. The Commission should expeditiously authorize the use of unbundled RECs and allow SCE to enter into unbundled REC transactions immediately upon issuance of a Commission decision authorizing unbundled RECs as provided in Section 6.4.

Although investor-owned utilities ("IOUs") may enter into short-term renewable energy transactions, the current process for Commission approval of the IOUs' short-term renewable contracts limits the IOUs' ability to utilize short-term renewable transactions, since the process is commercially unworkable in the marketplace. In particular, the current process requiring each RPS contract to be submitted for approval via advice letter or application and reviewed and approved on a contract-by-contract basis does not allow sufficient time to obtain Commission approval of short-term transactions that may begin deliveries shortly after execution.

As with non-renewable generation under the Assembly Bill ("AB") 57 Procurement Plan process, Commission pre-approval of a certain amount of short-term renewable transactions is needed, especially since renewable resources are higher in the loading order. Otherwise, IOUs will not be able to compete for short-term contracts with other LSEs whose contracts do not require Commission approval, and IOU customers will be unfairly prejudiced, as they will likely end up paying higher prices for renewable energy as a result of this restriction. Indeed, as SCE stated in its briefing to its PRG on June 8, 2009, SCE's customers have already lost out on numerous short-term contracting opportunities due to the length of time needed to obtain Commission approval or because counterparties have withdrawn their offers in favor of contracts with other LSEs who do not have Commission approval requirements for their contracts.

SCE previously sought pre-approval for a limited amount of short-term renewable transactions in its 2009 RPS Procurement Plan.<sup>27</sup> The Commission denied SCE's request and instead adopted a fast-track approval process for short-term renewable contracts that satisfy certain specific conditions.<sup>28</sup> This process does not adequately address SCE's concerns. The fast-track approval process severely limits the amount of renewable energy transactions eligible for approval under such a process and does not provide IOUs sufficient flexibility to execute short-term renewable transactions.

As explained in more detail in Section 6.3, there is a continued need for a pre-approval process for a limited amount of short-term renewable transactions. Such a process is needed to provide IOUs the same flexibility with respect to renewable resource procurement they already have for non-preferred resources in the AB 57 procurement process.

## **2.2. What the IOU is doing, or plans to do, to address each impediment, if anything**

Over the past few years, SCE has taken several actions to address the impediment of transmission to achieving California's renewable energy goals. For example, SCE has attempted to expedite the permitting and construction of renewable transmission facilities by: (1) proactively providing the upfront financing for needed transmission network upgrades, (2) seeking authorization to record costs associated with interconnection and environmental studies for renewable projects, (3) providing leadership to the CAISO's reform of the Large Generator Interconnection Procedures, and (4) requesting authority to study the feasibility of developing transmission capacity to deliver output from potential renewable resources.

In June 2007, the Commission adopted Resolution E-4052, which directed SCE to coordinate its efforts and schedules to the greatest extent possible with the priorities, process, and schedules of the California Renewable Energy Transmission Initiative, now referred to as the

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<sup>27</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 29-30 (September 15, 2008). See also Comments of Southern California Edison Company (U 338-E) on the Proposed Decision Establishing Price Benchmarks and Contract Review Processes for Short-Term and Bilateral Procurement Contracts for Compliance with the California Renewables Portfolio Standard at 5-8 (May 26, 2009).

<sup>28</sup> See D.09-06-050.

Renewable Energy Transmission Initiative (“RETI”). SCE has been an active participant in all aspects of RETI since its formation, and is now an active participant in the CAISO’s RETI follow on efforts titled “Getting to 33% RPS by 2020 through a Comprehensive Renewable Transmission Planning Process.”

Additionally, SCE filed Application (“A.”) 08-03-014 for approval of its Renewable Integration and Advancement (“RIA”) Program to study the grid impacts of increased renewable integration. The program would provide \$30 million over two years to conduct evaluation, research, and real-world applications that test the feasibility of technologies like energy storage, voltage control, forecasting devices, and other applications to make renewables more compatible with the transmission and distribution systems. The Commission has not yet approved SCE’s application.

Despite these efforts, SCE still expects that transmission will continue to be a significant impediment to achieving the State’s renewable energy goals.

While the uncertainty associated with production tax credits and investment tax credits was outside the control of California state agencies, SCE’s policy advisors in Washington, D.C. worked with senators and legislators advocating for the extension of these tax credits. Additionally, SCE supported California Assembly Joint Resolution 50 that urged the U.S. Senate and President to extend the credits. As explained above, the ARRA 2009 extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013. The investment tax credit for solar was also extended until the end of 2016. SCE will continue to support extension of these tax credits in the future.

To address the interconnection queue impediment, SCE played a leadership role among California Participating Transmission Owners in the stakeholder process that lead to reforms of the CAISO Large Generator Interconnection Procedures, which were approved by the Federal Energy Regulatory Commission in 2008 and are currently being implemented.

Furthermore, to proactively address development performance issues, SCE continues to reach out and communicate with project developers on a regular basis, discuss options and the

status of project development, and provide guidance and direction as often as needed. SCE has also made several modifications to its solicitations materials in response to lessons learned from developers in previous solicitations. To overcome some of the development barriers, SCE has created an option to have SCE act as schedule coordinator, allowed for delivery points at the point of interconnection with the transmission provider's electric grid, and tailored certain terms and conditions to address market changes in equipment availability and supply.

SCE has also worked with developers to overcome local opposition to renewable projects through active education with city governments regarding the State's goals and the importance of renewable energy in California. Furthermore, SCE continually educates the renewable development community on its procurement opportunities. In order to explain SCE's various renewable contracting opportunities, SCE speaks to developers at industry-wide symposiums (e.g., American Wind Energy Association, the U.S. military's Enhanced-Use-Lease, Geothermal Resources Council, Solar One), hosts its own annual Bidders Conference in connection with each RPS solicitation, fields countless phone inquiries, and participates in CEC developer forums.

Finally, in order to gain increased regulatory flexibility to pursue additional procurement options, SCE is seeking approval to enter into transactions for unbundled RECs as part of its procurement authority immediately upon issuance of a Commission decision authorizing unbundled RECs. SCE is also seeking Commission pre-approval to enter into a limited quantity of short-term renewable energy transactions. Both of these proposals are outlined in more detail in Sections 6.3 and 6.4.

To further facilitate the use of unbundled RECs in the future, SCE has also organized and leads a stakeholder process, consisting of a wide range of industry participants, to develop a standardized unbundled REC contract for use in the Western Electricity Coordinating Council ("WECC"). The contract is built to be adaptable to meet various state RPS requirements and will hopefully lead to increased liquidity and a robust unbundled REC market.

Additionally, to maximize contracting opportunities, SCE has pursued its Renewables Standard Contract Program as discussed in Section 6.1. SCE is also implementing a competitive solicitation offering 250 MW of long-term power contracts to independent solar photovoltaic (“PV”) power providers in conjunction with 250 MW of utility-owned generation as part of SCE’s Solar PV Program, as discussed in more detail in Section 3. This brings the total generating capacity of the Solar PV Program to 500 MW, the largest solar PV program ever undertaken.

**9.3. Build Own Resources: A showing on the IOU’s current consideration of whether or not to build its own renewable generation to reach 20% by ~~2010~~2010, and 33% by 2020**

While the RPS law permits renewable utility-owned generation, it does not require such utility-owned generation.<sup>2629</sup> As explained below, SCE is pursuing renewable utility-owned generation through its Solar ~~Photovoltaic~~ (“PV”) Program.<sup>2730</sup> ~~SCE is also evaluating~~Consistent with the direction provided in the last two General Rate Case decisions (D.06-05-016 and D.09-03-025) described below, SCE’s Generation Project Development Division also evaluates the possibility of building other renewable generation resources.

On March 27, 2008, SCE submitted A.08-03-015, seeking authority to spend up to ~~\$972.5~~962.5 million (in 2008 dollars) in customer funds to develop the Solar PV Program to install 250 MW of capacity from solar PV panels on rooftops at the distribution level in urban areas of Southern California. The primary purpose of this program is to ~~help meet the Governor’s Million Solar Roof goal~~transform the solar PV market by reducing costs. SCE sees numerous customer benefits from its new solar program, among them the hope of ~~transforming~~progressing the rooftop solar PV market to substantially lower costs, which will allow greater installation of solar PV by electricity customers in Southern California.<sup>2831</sup>

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<sup>2629</sup> In D.09-06-018, the Commission reiterated that utility-owned generation is not an RPS program requirement. D.09-06-018 at 49.

<sup>2730</sup> See ~~A.08-03-015~~D.09-06-049.

<sup>2831</sup> On March 27, 2008, SCE also submitted Advice Letter 2226-E seeking authority to record in a memorandum account invoiced costs for outside services, insurance expenses, and any capital-related revenue requirement associated with the first \$25 million of direct capital expenditures incurred in the Solar PV Program. SCE expected that this capital expenditure would provide 5 MW of rooftop solar PV electric energy

Continued on the next page

On June 18, 2009, the Commission adopted a decision on A.08-03-015.<sup>29,32</sup> The Commission increased the size of SCE's Solar PV Program to 500 MW. Although SCE had proposed that the Solar PV Program include only utility-owned generation, the Commission added 250 MW owned by independent power producers to the program. The decision adopted cost-of-service treatment for the utility-owned generation portion of the Solar PV Program, including the amounts recorded in the memorandum account pursuant to Resolution E-4182. To date, installation on two major roof structures have been completed. One was completed in 2008 and a second in 2009. Each roof supports over 1 MW in installed renewable capacity. Negotiations and analyses are in final stages for a third roof. Additionally, SCE plans to put approximately 42 MW in service in 2010.

In addition to the Solar PV Program, SCE continues to evaluate the possibility of building renewable and other utility-owned generation resources. In SCE's Test Year 2006 and 2009 General Rate Case decisions, D.06-05-016 and D.09-03-025, the Commission approved SCE's request for cost recovery for certain so-called "support" functions associated with SCE's ~~proposed~~ Generation Project Development Division ("PDD").<sup>30,33</sup> These "support functions" include the following: "(1) analyze generation technologies and costs; (2) locate appropriate sites for potential generation development; (3) monitor and participate in generation-related regulatory and legislative activity; and (4) develop and maintain the best option outside negotiation (BOON) for relevant generation technologies."<sup>31,34</sup>

Thus, base-rate funding was authorized for studying future generation needs, including renewable generation needs. Since the authorization of funding in SCE's Test Year 2006 General Rate Case decision, SCE has begun the generation studies contemplated in the decision.

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Continued from the previous page

connected at the distribution level in Southern California. On September 18, 2008, the Commission issued Resolution E-4182 approving the establishment of a memorandum account to record the revenue requirement for this first 5 MW of rooftop solar PV facilities.

~~29~~—The decision number was not yet available at the time SCE finalized this Amended 2009 RPS Procurement Plan.<sup>32</sup> See D.09-06-049.

~~30,33~~ See D.09-03-025 at 40-42.

~~31,34~~ *Id.* at 40.

Among other things, the characteristics and costs for emerging generation technologies, potential sites, and transmission network upgrades are presently being studied.

The Commission, however, twice rejected SCE's request to include in rates, efforts by the ~~PDD~~[Generation Project Development Division](#) to engage in activities such as “develop[ing] and implement[ing] plans to advance projects from the development phase to the construction and operations phase.”<sup>3235</sup> These development activities include preparation of environmental assessments and applications for ~~CPCNs~~[Certificates of Public Convenience and Necessity](#), which may take 30 to 36 months to prepare and process. Therefore, SCE is not currently authorized to recover funds to develop renewable generation. The costs for any specific proposed projects are only recoverable when those projects are selected through a solicitation.

~~10. Workplan to Reach 20% By 2010: A showing on each IOU's workplan to reach 20% by 2010, including but not limited to:~~

~~10.1. Identification of any impediments that remain to reaching 20% by 2010~~

~~Four primary factors have affected SCE's ability to reach the overall RPS goal of 20% renewables: transmission constraints, the uncertainty surrounding the federal production and investment tax credits, an increasingly congested interconnection queue, and developer performance.<sup>33</sup> Transmission continues to be a significant impediment to reaching the 20% RPS target. As discussed in previous filings, contract evaluation and negotiation often occur in the early stage of project development where little or no transmission information is known.~~

~~SCE has received relatively few bids from renewable generators that do not require significant transmission upgrades or new transmission development for the renewable energy to be deliverable. Based on the market responses in SCE's RPS solicitations, transmission and the lengthy process of siting, permitting and building new transmission continues to be the single~~

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<sup>3235</sup> *Id.* at 40-42.

<sup>33</sup> Notably, the Commission has also identified these four factors, in some form, as risk factors for 2010 RPS generation. See Renewable Portfolio Standard Quarterly Report, July 2008, at 7.

~~greatest issue to bringing new renewable resources on line in the near term. The Commission's RPS Quarterly Report, which analyzes the risk associated with all RPS projects approved or submitted for approval, identified transmission-related issues as the second largest risk factor for future RPS generation.~~

~~Another factor that has affected the abilities of SCE and other LSEs to reach the State's RPS goals is the uncertainty surrounding the federal production and investment tax credits. Many RPS projects rely on these tax credits, prompting the Commission to call this factor "the number one source of risk to new RPS generation expected to come online by 2010."<sup>34</sup> Therefore, as the Commission has noted, RPS contracts often have no fault termination rights if the tax credits are not extended.<sup>35</sup> Sending signals to the renewables market that these credits will be available over the long term will stimulate sustained investment in renewable resources rather than the "boom and bust" cycle induced by the uncertainty regarding whether the federal tax credits will be available.~~

~~Since SCE filed its 2009 RPS Procurement Plan in September 2008, the American Recovery and Reinvestment Act of 2009 was signed into law by President Obama.<sup>36</sup> The American Recovery and Reinvestment Act of 2009 extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013. The investment tax credit for solar was also extended until the end of 2016. Accordingly, uncertainty surrounding the federal production and investment tax credits is no longer a barrier to reaching the State's RPS goals in the near term, but may still be a barrier in the long term.~~

~~Increased congestion in the CAISO interconnection queue is also a major barrier to RPS compliance. The number and aggregate capacity of projects in the CAISO interconnection queue are increasing at rates never before experienced in California. Although the CAISO's interconnection reform effort is currently being implemented, whether or not the reforms will~~

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<sup>34</sup> ~~Id.~~

<sup>35</sup> ~~Id.~~ at 6.

<sup>36</sup> ~~See American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).~~

~~meet the expectations and goals of all stakeholders remains to be seen. As mentioned above, the CAISO saw a significant amount of generation interconnection requests withdrawn in December 2008, resulting from implementation of their interconnection reforms. However, there still remain more than 43,000 MW of active generator interconnection requests in SCE's interconnection process, inclusive of CAISO and WDAT requests.~~

~~Finally, SCE has entered contracts with a large number of developers. To qualify for California's RPS program, these developers must plan for, permit, construct, and operate their facilities according to milestones set in contracts. Developers have significant hurdles during these activities and it is always possible that milestone schedules will be altered. To the extent delays occur, these delays will impact the amount of delivered energy on which SCE can rely for present year compliance and earmarking.~~

~~**10.2. What the IOU is doing, or plans to do, to address each impediment, if anything**~~

~~Over the past few years, SCE has taken several actions to address the impediment of transmission to achieving 20% renewables by 2010. For example, SCE has attempted to expedite the permitting and construction of renewable transmission facilities by: (1) proactively seeking financing for transmission network upgrades, (2) seeking authorization to record costs associated with interconnection and environmental studies for renewable projects, and (3) requesting authority to study the feasibility of developing transmission capacity to deliver output from potential renewable resources.<sup>37</sup> Despite these efforts, SCE still expects that transmission will continue to be a significant impediment to achieving the State's RPS goal of 20% renewables.~~

~~While the uncertainty associated with production tax credits and investment tax credits was outside the control of California state agencies, SCE's policy advisors in Washington, D.C. worked with senators and legislators advocating for the extension of these tax credits.~~

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~~<sup>37</sup>—As discussed in Section 4.1, these actions led to the creation of RETI.~~

~~Additionally, SCE supported California Assembly Joint Resolution 50 that urged the U.S. Senate and President to extend the credits. Since SCE filed its 2009 RPS Procurement Plan, the American Recovery and Reinvestment Act of 2009 was signed into law by President Obama. The American Recovery and Reinvestment Act of 2009 extended the production tax credit for wind until the end of 2012, and for other technologies until the end of 2013. The investment tax credit for solar was also extended until the end of 2016.~~

~~To address the interconnection queue impediment, SCE is working with the CAISO on the GIPR to improve the management of the reformed queue process.~~

~~SCE continues to reach out and communicate with project developers on a regular basis, discuss options and status of project development, and provide guidance and direction as often as needed. SCE has also made several modifications to its bid solicitations materials in response to lessons learned from developers in previous solicitations. To overcome some of the development barriers, SCE has created an option to have SCE act as schedule coordinator, allowed for delivery points at the point of interconnection with the transmission provider's electric grid, provided an optional performance standard for wind generating facilities, and tailored certain terms and conditions to address market changes in equipment availability and supply.~~

~~SCE has also worked with developers to overcome local opposition to renewable projects through active education with city governments regarding the State's goals and the importance of renewable energy in California.~~

~~Additionally, to expand and maximize contracting opportunities, SCE is working to expand the eligibility of its biomass standard contracts and make them available to other eligible renewable projects less than 20 MW, as discussed in Section 13.~~

#### 4. Imperial Valley Issues:

##### 4.1. Bidders Conference

SCE was required by the Commission to host an Imperial Valley Bidders Conference in addition to its annual Request for Proposals (“RFP”) Bidders Conference.<sup>36</sup> On July 9, 2009, SCE hosted its Imperial Valley Bidders Conference in Los Angeles. Despite publicizing this event, attendance was not high. Prior to the Imperial Valley Bidders Conference, SCE received numerous questions from confused sellers about the purpose and goal of a separate conference for the Imperial Valley, which provides evidence to justify earlier concern that “a special conference might give the impression that a preference will be given to Imperial Valley developers, and that projects in other areas need not apply.”<sup>37</sup> Accordingly, SCE recommends against requiring each IOU to conduct a special Imperial Valley Bidders Conference in 2010.

#### **4.2. Remedial Measures for 2010**

In its 2009 RFP, SCE noted that its evaluation criteria would consider the benefit of projects locating near approved transmission infrastructure, such as the Sunrise Powerlink Transmission Project (“Sunrise”) and the Tehachapi Renewable Transmission Project. SCE received numerous proposals indicating an interconnection point to Sunrise in its 2009 solicitation. [REDACTED] SCE’s experience shows that Imperial Valley sellers are well aware of the solicitation process. SCE will continue to give a preference to projects located near approved transmission projects, including Sunrise, in its 2010 RPS solicitation.

At this time, SCE does not suggest any remedial measures relative to the Imperial Valley for 2010 as they are unnecessary to solicit interest from Imperial Valley projects, which are already participating in IOU RPS solicitations.

#### **4.5. Contract Amendments:**

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<sup>36</sup> D.09-06-018 at 78 (COL 6).

<sup>37</sup> Id. at 11.

SCE appreciates the Commission’s intent to streamline the renewable contract amendment review process.<sup>38</sup> However, the approach that SCE currently uses to determine whether a contract amendment should go into the Energy Resource Recovery Account (“ERRA”) reasonableness filing as opposed to an advice letter or application is functional, streamlined, and efficient. In its 2009 RPS Procurement Plan, SCE explained the ERRA process and proposed guidelines for the treatment of renewable contract amendments should the Commission determine further guidelines are necessary.<sup>39</sup> The proposal in the Scoping Memo is similar in some ways to the guidelines SCE proposed in 2009. Unfortunately, some aspects of the Scoping Memo proposal are directly contrary to the goal of streamlining the contract amendment review process. In fact, the Scoping Memo proposal would likely make the review process for renewable contract amendments more complicated, burdensome, and time consuming. If read broadly, the Scoping Memo proposal could significantly increase the number of amendments that must be filed by advice letter, burdening the IOUs, their counterparties, and Commission staff, and delaying the approval of amendments that are required to allow renewable projects to come on-line.

SCE believes the current process for review of renewable contract amendments is working effectively. There is no evidence that a change in that process is required or desirable. However, if the Commission determines that additional guidelines are needed, the Scoping Memo proposal should be modified so that it can effectively streamline the process rather than adding additional complications and delay.

**A. SCE’s Current Contract Amendment Process**

Since the early 1980s, all actions taken by the IOUs after contract execution have been within the scope of contract administration. All contract administration activities for RPS contracts, including contract amendments, are subject to review by the Commission. The

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<sup>38</sup> Amended Scoping Memo and Ruling of Assigned Commissioner Regarding 2010 RPS Procurement Plans (“Scoping Memo”), Attachment A at 5 (November 2, 2009).

<sup>39</sup> Southern California Edison Company’s (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 21-22 (September 15, 2008).

Commission reviews these matters either through the annual Energy Resource Recovery Account (“ERRA”) ERRA Reasonableness of Operations review process, advice letters, and/or applications filed by the IOUs. The same general process is used for qualifying facility contracts and other contracts for non-renewable resources.

RPS contracts are complex and typically involve the development of new projects, often requiring hundreds of millions of dollars of capital investment and a lengthy development planning horizon. Any number and type of changechanges may occur over this horizon as well as the termterms of the agreements. Many of the contract changes experienced with new generation projects involve revised on-line dates, brought about by transmission interconnection issues, site permitting issues, or other unanticipated development hurdles. Contract changes have also been made to comply with the Commission’s updated standard terms and conditions. Many of these changes in the past have been handled through address changes in the market or regulatory environment. Most of these amendments are included in the annual ERRA reasonableness filing. SCE also utilizes ERRA for projectcontract amendments when it can provide clear evidence that in agreeing to an amendment requested by a seller, SCE has secured a commensurate customer benefit.<sup>38</sup> ratepayer benefit.<sup>40</sup> On the other hand The function of the ERRA reasonableness proceeding is to ensure that contract administration actions are reasonable, consistent with Commission directives, administered equally, and consistent with utility and/or industry practice. It is the IOU’s burden to demonstrate that its actions are reasonable through clear and convincing evidence.<sup>41</sup>

For amendments that substantially alter the contract, SCE would likely deem it necessary to submit an advice letter for increases in approval of the contract amendment. Such contract amendments could be something unique to the contract, an increase in the contract price, or other material changes to the terms and conditions of a contract the contract. In some less frequent cases, SCE may determine that an application for approval of a contract amendment is necessary.

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<sup>38</sup><sup>40</sup> See D.88-10-032.

<sup>41</sup> D.87-07-026 at 19-20; D.88-03-036 at 5.

Ultimately, SCE believes that the decision on how to bring an amendment to the Commission for approval should be left to the IOU to evaluate on a case-by-case basis at the time that the amendment arises. This decision is ~~often based on~~guided by the perceived reasonableness and risk to SCE customers of the contemplated amendment. ~~This risk will vary and varies~~ depending upon the time and circumstances. The Commission has established that IOUs must exercise good utility practice in administering~~administer their~~ contracts; in a prudent manner. In other words, ~~utilities~~IOUs are expected to engage in those practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition.<sup>42</sup> The prudence standard is intended to include a range of acceptable practices, methods, or acts.<sup>39</sup><sup>43</sup> To the extent Commission direction on the acceptability of the contemplated action is clear, the IOU will likely feel comfortable with the reasonableness risk and include such an amendment in the annual ERRA reasonableness filing. However, mandating that ~~the IOU~~IOUs assume reasonableness risk absent upfront achievable standards places an unacceptable risk on the utility.<sup>40</sup><sup>44</sup>

~~The matrix below captures SCE's current or anticipated practice with respect to contract amendments and, SCE believes, preserves SCE's critical need for flexibility to make decisions on a case-by-case basis.~~

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<sup>42</sup> D.87-06-021 at 19.

<sup>39</sup><sup>43</sup> See, e.g., D.90-09-088 at pp. 14-16.

<sup>40</sup><sup>44</sup> See Cal. Pub. Util. Code §§ 454.5(b)(7), (c)(3).

<u>Commission Review</u>	<u>ERRA</u>	<u>Tier 1 Advice Letter</u>	<u>Tier 3 Advice Letter</u>	<u>Application</u>
Appropriate Commission review for categories of RPS PPA amendments	Routine contract administration activities—e.g., extension of on-line dates, compliance with standard terms and conditions changes, or changes related to transmission or site permitting issues	Additional procurement at pre-approved prices, such as MPR, an expressly applicable contract price, or an index adjusted price	Most changes in energy price and material changes to other key terms and conditions of the contract (e.g., increases in capacity not covered by Tier 1 advice letters or contract amendments and restatements that materially change a significant number of key terms and conditions to conform to more recent pro forma PPA)	Modification of non-modifiable standard terms and conditions

**12. Cost Containment Issues: IOUs are asked to address cost containment as it relates to the 2009 Plans and going forward.**

**12.1. Generally:**

As detailed in Section 13 of this plan, SCE is proposing to expand the Biomass Standard Contracts program to include other renewable technologies. In addition, renewable energy credits (“RECs”) will promote a more robust renewable energy market in California once they are authorized by the Commission.<sup>4±</sup> Once unbundled and tradable RECs have been approved, the Commission should consider the issue of relaxing or removing the in-state delivery requirements of the RPS program for both RECs and bundled renewable power. To the extent out-of-state resources are able to provide a lower cost and more abundant source of RECs and bundled renewable electricity, California customers will benefit. SCE recognizes that this change to the RPS program would likely require legislation; however, SCE believes this is a worthy topic for comment and discussion.

The Order Instituting Rulemaking Regarding Implementation and Administration of the Renewables Portfolio Standard Program, Rulemaking (“R.”) 08-08-009, successor docket to

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<sup>4±</sup> RECs are defined in D.08-08-028.

~~R.06-05-027, identifies the issue of cost containment as a topic of the ongoing implementation and administration of the RPS program.<sup>42</sup> SCE believes that cost containment measures, and any general changes that can be made to the overall RPS program, should be considered outside the context of the 2009 RPS Procurement Plan in order to avoid complication of the review, approval and implementation of the annual procurement plans. Once changes have been identified and outlined in the rulemaking, IOUs can begin to implement those changes in their annual procurement plans and solicitations.~~

~~**12.2. Specifically:**~~

~~**12.2.1. Does your RPS Procurement Plan and/or model contract(s) fix TOU periods and allocation factors for the life of the contract?**~~

~~Yes.~~

~~**12.2.2. If they are not fixed, what are your proposed methods to update TOU periods and allocation factors?**~~

~~Not applicable.~~

~~**12.2.3. If they are fixed, is it reasonable that TOU periods and allocation factors remain fixed over the life of the contract? Please state reasons in support and against fixing these terms for the life of the contract.**~~

~~Yes, it is reasonable that time-of use (“TOU”) periods and allocation factors remain fixed over the life of the contracts. A requirement to change the TOU periods and allocation factors would likely have a negative impact on the RPS program as a whole in that it would bring a level of uncertainty in the revenue streams of RPS projects that would hinder the development of new RPS resources. Therefore, for reasons discussed in more detail below, the TOU periods and allocation factors in executed contracts should not be modified or updated during the contract term.~~

~~The adopted TOU periods and allocation factors in an IOU’s procurement plan are used in its RPS agreements as a multiplier to the non-time differentiated energy price~~

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<sup>42</sup>—Order Instituting Rulemaking Regarding Implementation and Administration of the Renewables Portfolio Standard Program, R.08-08-009, at 6.

~~in order to weigh payments according to the value of electricity delivered during various periods (e.g., energy delivered during the on-peak summer period is valued more than the off-peak winter period). These TOU factors are published and known to bidders prior to their bid submittals and are factored into their bids. As much as the energy price of the agreement itself, the TOU periods and allocation factors govern the payments made by an IOU to its counterparty. Certainty in these payments is critical to the IOUs and the renewable developers in that it forms the expected revenue stream of a renewable generating facility that the developer must rely on in order to receive financing for a project. Any suggestion that the IOUs should alter these TOU periods and allocation factors in executed contracts as a matter of on-going contract administration would create uncertainty regarding the future revenue stream associated with an agreement. This suggestion would likely have a large, negative impact on RPS contracting in California.~~

~~At the very least, in the development of a contract, the IOUs' counterparties will require an increase in the energy price in order to account for the uncertainty surrounding future changes to their revenue streams. A worse, yet more plausible, outcome is that developers will elect not to or be unable to enter into RPS agreements with the California IOUs because of regulatory uncertainty regarding their expected revenue stream and an inability to obtain financing. Under either scenario, altering the TOU periods and allocation factors in executed contracts may have the opposite effect in that it may cause the price of renewable energy to increase or may prevent the development of new RPS resources all together.~~

~~The marginal benefit, if any, gained in applying more accurate TOU periods and allocation factors would be completely lost in what would likely amount to contentious disputes regarding updated TOU factors. These unknowns, and the potential disputes they create, only result in additional barriers to the execution of RPS agreements.~~

Once SCE determines a specific contract amendment should go into ERRA, the information necessary to demonstrate the action is reasonable is assembled and included in the

annual ERRA reasonableness filing. The filing is generally submitted on April 1 of each year. The Division of Ratepayer Advocates (“DRA”) is an active party in the review process and SCE receives and responds to multiple data requests from DRA. SCE submits specific information related to each request and prepares responses to fully address all questions or concerns. Once all of their data requests are addressed, DRA then submits a recommendation to the Commission. The Commission subsequently issues a decision on SCE’s ERRA reasonableness filing.

In this way, the entire filing is scrutinized for reasonable action and judgment on the part of the IOU. This process has been in place since Decision 85731, April 27, 1976, implementing the Energy Cost Adjustment Clause (which morphed into ERRA in 2003) and is sufficient for most contract amendments. Moreover, the ERRA reasonableness filing is transparent and includes a description of all contract amendments included in the filing. SCE is including a sample of RPS contract amendments from its April 2009 ERRA filing below:<sup>45</sup>

~~**12.2.4. If they are fixed, are there reasonable ways to allow updates to TOU periods and allocation factors once or more over the life of the contract? What are the possible options? Please identify advantages and disadvantages of the options.**~~

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<sup>45</sup> ERRA Reasonableness of Operations, 2008, Chapters IX-XIV Public Testimony, A.09-04-002, at 41 (April 1, 2009).

~~As explained above, TOU periods and allocation factors should not be updated over the life of an executed contract due to the negative impact to the RPS program.~~

<i>Table X-17 RPS Contract Amendments January 1, 2008 through December 31, 2008</i>			
<u>RAP ID</u>	<u>Project</u>	<u>Amendment Number and Description<sup>33</sup></u>	<u>Date Executed</u>
1209	Imperial Valley Resource Recovery, LLC	Letter agreement to purchase test energy and receive related RPS credits prior to initial operation for the period August 25, 2008 to August 31, 2008.	August 26, 2008
1209	Imperial Valley Resource Recovery, LLC	Letter agreement No. 2 to purchase test energy and receive related RPS credits prior to initial operation for the period September 1, 2008 to September 15, 2008.	September 11, 2008
1209	Imperial Valley Resource Recovery, LLC	Amendment No. 1 to extend the start-up deadline and continue to purchase test energy prior to initial operation to receive the RPS credits for the period September 16, 2008 through January 10, 2009. IVRR continues paying liquidated damages for delays in initial operation. See description in Section 9 "Other Contract Administration Activity."	September 12, 2008
1210	MM Tajiguas Energy, LLC	Consent and Waiver. Fortistar Acquisition, LLC acquired all membership interests of Tajiguas. In connection with the acquisition, Fortistar LLC or an affiliate thereof has provided a letter of credit satisfactory to SCE for the purpose of replacing the existing guaranty agreement from the previous owner of Tajiguas.	January 31, 2008
1210	MM Tajiguas Energy, LLC	First amended and restated Consent and Waiver. Assigns the rights, title, interest, and all assets of Tajiguas including the power purchase agreement and project to the security agent.	June 27, 2008
3107	Geysers Power	Letter agreement to allow Geysers Power an option to exchange a letter of credit provided by the project as security for the performance of its obligations under the power purchase agreement for performance assurance requirement for cash.	January 24, 2008

The current process for review of contract amendments is streamlined and flexible, and allows the IOUs to use their business judgment to apply Commission guidelines to specific amendments on a case-by-case basis. The current process also allows for robust public review of contract amendments. Accordingly, SCE does not believe there is any evidence that a change in the current process is required.

## **B. Concerns with Scoping Memo Proposal**

SCE has three major concerns with the Scoping Memo proposal. First, the proposal to require contract amendments that result in “(a)ny increase in ratepayer cost that has not been pre-approved” to be submitted via Tier 3 advice letters could require a large percentage of renewable contract amendments (many of which make only minor changes to the contracts) to be approved through the Tier 3 advice letter process.<sup>46</sup>

For example, SCE has entered into contract amendments with certain sellers in order to address issues related to the implementation of the CAISO’s Market Redesign and Technology Upgrade (“MRTU”). In some cases, MRTU will require delivery point changes that may impact line losses and such changes may result in some increased costs to ratepayers. This is a normal cost of doing business and does not increase the energy price paid to the generator, although the generator may receive an overall benefit from lower line losses. Under the current process, this type of contract amendment can be reviewed through the ERRA reasonableness filing. The benefits of a specific contract amendment to ratepayers must be evaluated on an overall basis, and as discussed above, SCE includes a demonstration of the commensurate ratepayer benefit of amendments in its ERRA filing.

However, under the Scoping Memo proposal, an amendment that may include any increase in ratepayer costs would require a Tier 3 advice letter, even if the amendment provides overall benefits to ratepayers. Given that many more contract amendments are likely to be needed to address MRTU-related issues, the Scoping Memo proposal could lead to a substantial increase in the number of amendments that must be filed through Tier 3 advice letters.

Another example of a contract amendment that may result in some increased costs to ratepayers, but also commensurate ratepayer benefits, is SCE agreeing to become the scheduling coordinator for a renewable generation project. In its recent Pro Forma Renewable Power Purchase and Sale Agreements, SCE has agreed to take on the activities of scheduling

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<sup>46</sup> Scoping Memo at 6.

coordinator. There are some additional costs to ratepayers when SCE is the scheduling coordinator. However, there are also commensurate ratepayer benefits such as SCE’s ability to manage bidding/scheduling risk, the fact that confidential bidding data does not need to be shared with the seller, and eliminating gaps in the scheduling requirements for the CAISO Participating Intermittent Resource Program. If SCE amends a contract and agrees to become scheduling coordinator it should be able to demonstrate the reasonableness of such amendment in its ERRA reasonableness filing. However, under the Scoping Memo proposal, such amendments would have to be reviewed through a Tier 3 advice letter.

These types of contract amendments are made in the normal course of contract administration and receive appropriate review in the ERRA process. The IOU has the burden to show reasonableness and commensurate ratepayer benefit through ERRA, and whether the IOU met such standards is subject to public and Commission review. Virtually all types of amendments including the specific ones mentioned here, certain changes in project on-line dates, or amendments to require seller participation in WREGIS may broadly be interpreted to result in an “increase in ratepayer cost.” While SCE agrees that any increases in contract energy prices should be reviewed through the Tier 3 advice letter process, SCE strongly disagrees that any amendment that could possibly increase ratepayer costs should be filed through a Tier 3 advice letter.<sup>47</sup> This interpretation of the Scoping Memo proposal could lead to virtually all of SCE’s contract amendments being reviewed through the Tier 3 advice letter process. This is directly contrary to the goal of streamlining the review process for contract amendments. It also undermines the usefulness of the ERRA reasonableness review process – a process that has been working well for many years.

Second, SCE is concerned with the Scoping Memo proposal’s distinction between “major modification to project milestones,” which must be filed via Tier 3 advice letters, and “minor

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<sup>47</sup> For contracts that were allocated above-market funds (“AMFs”), SCE supports submitting any amendments that would increase the amount of AMFs allocated via a Tier 1 advice letter. This will allow Commission staff involved in AMF allocations to more quickly track AMF allocations.

modification of project milestones,” which can be submitted in the ERRA reasonableness filing.<sup>48</sup> There are no examples or direction for what would constitute major versus minor modification to project milestones. Without any direction on how to differentiate between these two types of amendments, it is likely that IOUs will submit most contract amendments that change contract milestones through the advice letter process in an attempt to comply with these guidelines. It would be more useful and practical for the Commission to provide a non-exhaustive list of what it views as routine contract administration to be included in the ERRA reasonableness filing versus what must be filed through the advice letter process. This will give more direction to the IOUs while leaving enough flexibility for IOUs to review specific contract amendments on a case-by-case basis. SCE has provided specific examples for consideration in the next section.

Finally, the Scoping Memo proposal that amendments for additional procurement at a Commission-approved price be filed through Tier 1 advice letters is somewhat vague. Some Commission-approved contracts already include a range of possible capacities. If a contract amendment sets a specific capacity within that range, a Tier 1 advice letter should not be required since the Commission already approved the range of possible capacities. The amendment should be reviewed in the ERRA reasonableness filing.

SCE interprets additional procurement at a Commission-approved price to include increases in contract capacity beyond the range originally set forth in the contract at the same price already approved by the Commission. Additionally, in the case of contracts for a specific amount of renewable energy (e.g., 500 GWh per year from a specific facility rather than all of the energy from a facility of a specific capacity), additional procurement at a Commission-approved price would include a contract amendment for additional energy at the same price already approved by the Commission. SCE believes that it would be helpful to clarify this category.

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<sup>48</sup> Scoping Memo at 6.

### C. Suggested Changes to Scoping Memo Proposal

As discussed above, SCE has specific concerns with the Scoping Memo proposal and suggests the Commission should continue with the current guidelines for review of renewable contract amendments. Should the Commission determine that additional guidelines are necessary, however, SCE suggests the following modified proposal for the reasons discussed above.

**13.**

<u>LEVEL OF REVIEW</u>	<u>EXAMPLES OF ELIGIBLE AMENDMENT</u>
<u>Annual ERRA reasonableness filing</u>	<u>Routine contract administration or remedies, including issues that may arise between the parties regarding contract interpretation (e.g., extension of on-line dates, amended consent and waivers, compliance with standard terms and conditions changes, changes related to transmission or site permitting issues, extension of termination rights, modifications to account for the purchase test energy, changes to interconnection or metering, and increases in capacity up to a Commission-approved amount).</u>
<u>Tier 1 Advice Letter</u>	<u>Additional contracting at a Commission-approved price, including increases in capacity beyond the range approved in the original contract or, for contracts for the purchase of a specific amount of energy, increases in energy beyond the range approved in the original contract.</u>  <u>Changes to contracts that were allocated AMFs that would increase the contract's AMF allocation.</u>
<u>Tier 3 Advice Letter</u>	<u>All others, including:</u> <u>a. Substantial changes to the contract (e.g., increases in contract capacity at a price not previously approved by the Commission).</u> <u>b. Further consideration relative to explicit term of power purchase agreement approval.<sup>49</sup></u> <u>c. Any increase in the energy price not at a Commission-approved price.</u>

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<sup>49</sup> For example, if the Commission resolution explicitly approves only the first phase of a multi-phase project, applicant must file a Tier 3 advice letter for approval of a subsequent phase.

**6. Other: Anything else necessary for a full and complete presentation of its 2009 to the Commission of the IOU's 2010 RPS Procurement Plan for the Commission's consideration, as recommended by respondent the IOU for Commission adoption. acceptance**

~~In addition to the 2009 solicitation, SCE will employ two other contracting options in order to maximize the contracting opportunities with renewable resource providers. In 2007, SCE developed and released a Biomass Standard Contracts program that makes available a set of standard contracts to biomass projects of up to 20 MW. In 2009, SCE is proposing to expand this program to include other renewable technologies. Second, pursuant to Public Utilities Code Section 399.20, SCE, along with other stakeholders and the Commission, developed the Water Agency Tariff for Eligible Renewables, known as "WATER," which is available to public water and wastewater agencies that are retail customers of SCE for the purchase of eligible renewable energy. The terms of the tariff are available to these agencies in the form of a standard contract.~~

~~In addition, in the decision implementing Public Utilities Code Section 399.20, the Commission also required SCE to offer a similar standard contract to any other retail customer. As a result, SCE developed the California Renewable Energy Small Tariff, known as "CREST." Under WATER and CREST, generating facilities cannot exceed 1.5 MW. More detailed discussions of the Biomass Standard Contracts program and the WATER and CREST program are provided below. Complete, user friendly information on SCE's annual Renewable Request for Proposals, the Biomass Standard Contracts program, and the WATER and CREST program is made available on SCE's web site at <http://www.sce.com/EnergyProcurement>.~~

**13.1. SCE's Biomass Standard Contracts**

**6.1. SCE's Renewables Standard Contract Program**

~~In order to help small biomass renewable energy projects contribute to the State's RPS goals and to support California Governor Arnold Schwarzenegger's goal to promote energy~~

~~production from biomass fuel sources,<sup>43</sup>renewable energy goals,~~ SCE voluntarily initiated a program ~~in 2007~~ to offer standardized contracts to ~~biomass~~eligible renewable energy facilities with capacities of 20 MW or less. SCE recognized that smaller ~~biomass~~ projects have had difficulties in participating in SCE's annual solicitations. ~~This has been especially true for projects with generating capacities between 100 kW and 1 MW.~~ By eliminating the complex negotiation process that is needed for larger projects, these smaller projects are given the opportunity to execute contracts with SCE and contribute to the State's ~~RPS~~renewable energy goals.

In ~~2007 and 2008,2009,~~ SCE offered ~~threetwo~~ different contracts which vary depending on the size of the generating facility. These contracts applied to facilities with capacities ~~of less than 1 MW, 1 MW through 5 MW, or greater than 5 MW through 20 MW.~~ ~~A copy of the procurement protocol, application, and the three standard contracts for this program was filed in this proceeding by SCE on June 22, 2007.<sup>44</sup> In summary, all three contracts are offered to RPS-eligible biomass~~not greater than 5 MW and capacities not greater than 20 MW.<sup>50</sup> The Renewables Standard Contracts were offered to RPS-eligible resources for terms of 10, 15, and 20 years, and at an energy price set at the ~~MPR~~applicable Market Price Referent ("MPR"), multiplied by energy allocation factors for SCE's ~~TOU~~time-of-delivery periods. The contracts ~~are~~were based on ~~SCE's Pro Forma Agreement and include the non-modifiable standard terms and conditions as required by the Commission. Originally, the program was to remain open until the earlier of December 31, 2007 or until such time SCE has signed contracts totaling 250 MW in aggregate. In early 2008, SCE extended the program into 2008 and kept the 250 MW cap in place. In 2009, the biomass contract for facilities with capacities less than 1 MW will be replaced by the CREST contract, which allows all types of ERR generators up to 1.5 MW. The 1 MW to 5 MW biomass contract will be revised to be applicable to facilities not greater than 5~~

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<sup>43</sup> See Executive Order S-06-06.

<sup>44</sup> In addition, all of these documents can be found on SCE's website at: <http://www.sce.com/EnergyProcurement/bse.htm>

<sup>50</sup> As noted below, the CREST program is available for facilities with capacities up to 1.5 MW.

~~MW and will be applicable to all ERRs. Similarly, the 5 MW to 20 MW biomass contract will be revised to be applicable to facilities not greater than 20 MW and will also be applicable to all ERRs. Accordingly, in 2009, SCE will offer standard contracts for ERRs in steps of up to 1.5 MW, up to 5 MW, and up to 20 MW.~~<sup>45</sup>a simplified version of the Pro Forma Renewable Power Purchase and Sale Agreement for SCE's RPS solicitation.<sup>51</sup>

~~Important differences between the three standard contracts exist. A table outlining these differences is provided below:~~

SCE filed an advice letter on July 1, 2009 seeking approval of one Renewables Standard Contract.<sup>52</sup> Moreover, the Commission previously approved four contracts from SCE's Biomass Standard Contract Program (the predecessor to the Renewables Standard Contract Program). Late in 2009, SCE received a large number of applications to its Renewables Standard Contract Program, representing nearly double the program's goal of 250 MW. SCE is working to complete negotiations and intends to execute contracts with a large number of projects in the near future. Given that applications have greatly exceeded the program cap, after executing these contracts, SCE plans to suspend the Renewables Standard Contract Program and conduct an analysis to review options for restarting the program in 2010.

## **6.2. CREST Program**

In D.07-07-027, the Commission directed the IOUs to offer a feed-in tariff to eligible renewable energy resources sized 1.5 MW and less. SCE offers this tariff under the CREST contract, which purchases all energy delivered for a 10, 15, or 20-year term at the applicable MPR. The statewide program limit is 500 MW with SCE's portion being 247 MW. SCE has executed one contract under this tariff for 1.1 MW.

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<sup>45</sup>~~Information on SCE's Renewables Standard Contracts can be found on SCE's website at <http://www.sce.com/EnergyProcurement/renewables/renewables-standard-contracts.htm>. Additionally, SCE filed its SCE's 2009 Renewables Standard Contract Materials related to its contracts for facilities not greater than 5 MW and not greater than 20 MW materials were filed with the Commission on May 8, 2009. See Southern California Edison Company's (U 338-E) Renewables Standard Contract Materials (May 8, 2009).~~

<sup>52</sup> The Commission issued a draft resolution approving this contract which will be considered at the Commission's December 17, 2009 meeting.



Accordingly, very few, if any, sellers are willing to execute SCE's pro forma contracts with only minor modifications.

Second, the benchmark that is used to assess price reasonableness<sup>55</sup> for very short-term contracts is fundamentally flawed since it varies daily and is based on unrelated energy prices. Due to the uncertainty of the price reasonableness benchmark, sellers repeatedly alter pricing in negotiations in an attempt to game the highest pricing outcome. Ultimately, the market views the benchmark as a cap, not as *per se* reasonable. Moreover, for solicitation proposals, it is not clear if the proposed price will be above or below the benchmarks for very short-term or moderately short-term contracts since the MPRs are not issued until after the solicitation is closed.

Third, these opportunities are short-term in nature and ultimately fleeting. Accordingly, the requirement of Independent Evaluator ("IE") involvement and the minimum of 30 days to receive Commission approval through the Tier 2 advice letter process is an unacceptable delay for the market to hold the price. Counterparties will not hold an offer open for 30 days when electric service providers and other LSEs do not have this requirement.

Finally, a Tier 2 advice letter is only deemed approved if it not protested or otherwise suspended in 30 days.<sup>56</sup> Therefore, one protest may delay the process, even if that protest is wholly without merit. Although the Commission has not rejected any of SCE's RPS contracts, several of SCE's advice letters have been protested, particularly those that involve short-term contracts or out-of-state generating facilities.

In summary, the fast-track approval process is not an adequate solution to the problem SCE's proposed pre-approval process is attempting to address. Just as with non-renewable generation, Commission pre-approval of short-term renewable transactions is needed. Otherwise, IOUs will not be able to capture market opportunities to assist in meeting near-term renewable energy goals or compete with electric service providers, municipal utilities, and other

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<sup>55</sup> *Id.* at 37 (OP 1.d).

<sup>56</sup> *Id.* at 8 n.2.

LSEs for short-term renewable contracts. IOU customers will be unfairly prejudiced and will likely end up paying higher prices for renewables. Given the impediments to reaching California's renewable energy goals, the IOUs need more flexibility in the processes set out to meet the State's goals, not less. As the Director of the Commission's Energy Division has stated, the current RPS program includes "unnecessarily complex and outdated RPS requirements."<sup>57</sup> Accordingly, the best way to achieve a simple, flexible, and functional process for pre-approval of short-term contracts is to adopt a process similar to the one SCE proposed in its 2009 RPS Procurement Plan.<sup>58</sup>

SCE's proposal for pre-approval of a limited amount of short-term transactions is designed in a way that mirrors the procurement authority the Commission grants the three IOUs pursuant to their AB 57 Procurement Plans to enter into contracts less than five years in length without requiring Commission approval on a contract-by-contract basis subsequent to contract execution. SCE's proposed process would allow for limited authorization to enter into short-term contracts up to a predetermined amount of generation. Because renewable energy is a preferred resource in California, the rules for allowing pre-approval of short-term transactions for renewable energy should be simpler and easier, not more restrictive, than the rules applicable to procurement of resources lower in the loading order.

SCE's proposed pre-approval process would give SCE flexibility comparable to that granted to the IOUs for procurement of non-renewable resources. In contrast, the Commission's current process makes procuring renewable resources more difficult, burdensome, and time consuming than procuring non-renewable resources, contrary to the State's policy preference for renewables. Accordingly, the Commission should grant SCE's request for pre-approval of a limited amount of short-term transactions.

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<sup>57</sup> Memorandum from Julie Fitch, Director of the Commission's Energy Division to Senate Energy, Utilities & Communication Committee, Assembly Utilities & Commerce Committee, and Assembly Select Committee on Renewables re: Renewables Portfolio Standard (RPS) 33% Legislation at 1-2 (January 28, 2009).

<sup>58</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 29-30 (September 15, 2008).

SCE proposes the following upfront standards and guidelines for this limited authority:

- Maximum of 5% of the expected cumulative APT (to meet a High Need Case procurement scenario) for the next five years. This would equal approximately 4,500 GWh of total cumulative procurement. The Director of the Energy Division shall be delegated the authority to increase this program up to a maximum of 10% of the APT or approximately 9,000 GWh total cumulative procurement if:
  - the IOU requests an increase,
  - there is a continuing need to procure renewable energy over the next five years forward from the date of such request,
  - the executed contracts within the program are deemed competitively priced as compared to the maximum valuation metric (see below),
  - the program has been effective in the market as measured by market response, and
  - the program has demonstrated it is an efficient way to procure RPS-eligible energy as compared to the Commission's other programs.
- Contract delivery term consistent with the current Long-Term Procurement Plan authorization (i.e., D.07-12-052 or successor decision). Currently, such limits would be: delivery must terminate in under five years of contract execution, except contracts with delivery start dates within one year of execution, which may include delivery terms under five years.
- Any delivery point and any product approved by the Commission to be used for RPS compliance and meeting the CEC guidelines for delivered RPS energy.
- Overseen by an IE and consultation with the PRG.
- The IOU would set a maximum valuation metric prior to initiating any procurement under this program. The IOU will share this maximum valuation metric and methodology for setting the maximum valuation metric with its PRG

and the Energy Division. In no circumstances would the maximum valuation metric exceed the last marginal proposal received from the most recent RPS solicitation short list.

- To address viability concerns, procurement would only come from existing generating units or from those under construction with an expected commercial operation date within one year of contract execution.

Contracts entered into in accordance with these guidelines would be deemed *per se* reasonable and pre-approved by the Commission, including payments to be made by SCE, subject to Commission review of SCE's administration of the transactions. The transactions would be reviewed for compliance with these upfront standards as part of the existing procurement plan compliance report quarterly advice letter filing.<sup>59</sup> If the Commission approves SCE's proposal, SCE will file a detailed AB 57 Procurement Plan amendment advice letter including additional detail regarding these upfront and achievable standards.

#### **6.4. Approval to Enter Into Transactions for Unbundled RECs**

SCE continues to be hopeful that unbundled RECs will soon be recognized for RPS compliance purposes. As an integral part of approving this 2010 RPS Procurement Plan, SCE requests that the Commission approve SCE's ability to enter into unbundled REC transactions as part of its procurement authority immediately upon issuance of a Commission decision authorizing unbundled RECs. This specific approval would expedite SCE's ability to enter into unbundled REC transactions as soon as that product is authorized for compliance by the Commission. Depending on the date such authorization is received, SCE may include unbundled RECs as an incremental product in the annual solicitation process as well as in the short-term pre-approval process outlined above.

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<sup>59</sup> The Commission is currently reviewing the format of the Procurement Plan Compliance Report Quarterly Advice Letter Filing for all utilities and is considering revisions, including the addition of renewable transactions.

SCE included this suggestion in the 2009 RPS Procurement Plan,<sup>60</sup> and while SCE was ordered to remove the discussion, unbundled RECs continue to be needed to meet the State's renewable energy goals. As discussed in Section 2, unbundled RECs would increase flexibility and opportunities for renewable procurement to meet the State's renewable energy goals.

SCE proposes that these unbundled REC transactions be entered into subject to the equivalent authority for bundled energy transactions.<sup>61</sup> In other words, short-term unbundled REC transactions would fall under the authority, limits, guidelines, and reporting as outlined in the previous Section 6.3. Long-term unbundled REC transactions would be filed with the Commission for approval consistent with existing practices.

### **6.5. Feedback and Proposed Changes to Project Viability Calculator**

Consistent with D.09-06-018, SCE used the Commission's adopted project viability calculator ("PVC") in its 2009 RPS solicitation process.<sup>62</sup> During the course of the solicitation and evaluation of proposals, SCE, project developers, and SCE's IE gained useful experience with the PVC. As such, SCE and its IE have specific changes that SCE requests the Commission adopt for the 2010 RPS solicitation. Adoption of these changes will lead to a more useful tool, and will help to more accurately evaluate the viability of renewable projects relative to one another. SCE's proposed modifications to the PVC are attached as Appendix D.

#### **A. SCE's General Comments Regarding the PVC**

The major issues identified with the PVC used in the 2009 RPS solicitation were that the criteria scoring guidelines were too prescriptive to allow meaningful scoring, some essential criteria were not considered in the scoring, and there was no definition of particular terms. Additionally, the PVC instructions, pursuant to D.09-06-018, seemingly prohibit interpolating

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<sup>60</sup> Southern California Edison Company's (U 338-E) 2009 RPS Procurement Plan, Attachment 1 at 30-31 (September 15, 2008).

<sup>61</sup> Bundled energy transactions typically include energy and green attributes and may or may not also include other attributes such as capacity and ancillary services.

<sup>62</sup> D.09-06-018 at 24.

between the provided scores. For such 2009 PVC criteria as Site Control, discussed further below, this resulted in an all-or-nothing score.

Furthermore, the inclusion of an IE scoring column was interpreted to mean that the IE was also required to score all proposals submitted into the 2009 RPS solicitation. The IE role should be to monitor the solicitation process and ensure the all proposals are treated fairly. With hundreds of proposals to evaluate, requiring the IE to independently score all the proposals did not appear to significantly improve the results. It would be more effective to have the IE review SCE's approach to the PVC assessment and to independently review SCE's PVC scores to ensure equal and fair treatment between the proposals.

Many of the scoring guidelines did not provide a complete list of possible scenarios. This created great inflexibility in using the PVC to accurately reflect a project's viability. This was particularly evident in the Development Milestones category as described in detail below. To remedy this situation, SCE suggests the Commission specify that the scoring guidelines are merely examples, and that the IOU (in cooperation with the IE) can apply other scenarios to the scoring system to reflect varying proposals, changes in the market, and different proposal structures and product types. This would make the PVC more useful and allow the tool to be adjusted based on the proposals received in the solicitation instead of waiting for the next solicitation cycle to make changes.

As mentioned above, SCE found many deficiencies in the Development Milestones category, specifically in the areas of Permitting Status, Interconnection Progress, and Site Control. SCE provides specific changes to the scoring guidelines in Appendix D, as well as examples of some of the challenges with using the PVC, particularly in the Development Milestones category, to highlight the concerns.

### **1. Permitting Status**

The current scoring guidelines do not consider the permitting jurisdiction given the project's location. For instance, New Mexico's permitting process is far less rigorous than California's. As such, 0% completion of permitting in California is far different than 0%

completion of permitting in New Mexico. It would be appropriate to clarify that, in states where no conditional use or other material permits or statewide approval is required, the developer should receive all or most of the points in this category. Notably, SCE's IE took this into consideration while SCE followed the strict PVC criteria, which was one reason for a divergence in PVC scores for some proposals.

## **2. Interconnection Progress**

The PVC focuses solely on interconnection and not transmission service. This is a potential issue impacting not only out-of-state projects, but those in California that are outside the CAISO. For example, there were some proposals in the Imperial Irrigation District that had interconnection agreements but no transmission service agreement necessary to transmit the energy through the respective control area to the proposed delivery point. An additional issue with this criterion is the fact it is focused primarily on the interconnection requirements in California. Since many proposals were for projects located outside of California it was difficult to relate those projects to the specific categories associated with the CAISO process. SCE has proposed similar criteria for out-of-state projects that are consistent with the CAISO requirements. SCE's proposed changes remedy these issues and should be incorporated for 2010.

## **3. Site Control**

There are three primary issues with the current PVC dealing with site control. First, the current PVC limits projects on BLM land so they can never score more than an eight. If a project on BLM land has a Record of Decision granting them the right to build, it should be eligible to receive the highest score of ten. There should not be a distinction between projects on BLM versus private land.

Second, it is not clear what constitutes "site." SCE interpreted site to mean all the land necessary for the project to generate and transmit the energy to the local transmission grid, including both the facility site and the land that houses the gen-tie connecting the facility to the grid. SCE's IE interpreted site to mean only the facility site. In the end, there are merits to both

approaches, but either a better definition of “site control” or the flexibility to allow the evaluator to revise or add to the existing criteria during the PVC evaluation process is required.

Third, if a developer has site control for a majority of the relevant land (e.g., 95%), current scoring guidelines would require the evaluator to score it with a zero because scoring is based on all or nothing extremes. The Commission should allow interpolation between the provided scores or the flexibility to more accurately evaluate a proposed project’s viability.

**4. Technical Feasibility**

Another major issue with the current PVC deals with the interpretation of technical feasibility, particularly, the meaning of “commercially proven” technology. For this criterion, SCE considered a technology to be proven if the precise make, model, and version number had demonstrated successful operation. SCE’s IE only considered the make and model, and not the version number. SCE’s sees merit in only considering the first two factors, as the IE did, given that a more advanced version may have only a slight modification to the underlying technology as compared to the preceding version. But SCE chose to evaluate projects by strictly following the PVC criteria. Similar to the issue with various interpretation of site control, there merits for both modes of reasoning, but the PVC needs either a better definition of “technical feasibility” or the flexibility to allow the evaluator to revise or add to the existing criteria during the PVC evaluation process is required.

**B. IE’s General Comments Regarding the PVC**

	<b>Up to 1.5 MW (WATER/CREST)</b>	<b>Up to 5 MW</b>	<b>Up to 20 MW</b>
<b>Location Restrictions</b>	Must be an SCE retail customer	Must be within CAISO control area	Must be within CAISO control area
<b>Startup Deadline</b>	Within 18 months of contract signing	Within five years of contract signing	Within five years of contract signing
<b>Development Security</b>	None	None	Baseload: \$60/kW Intermittent: \$30/kW
<b>Performance</b>	None	None	5% of expected total project revenues over

<del>Assurance</del>			<del>term of contract, but not less than \$1 million</del>
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~~Finally, it should be noted that SCE is not necessarily seeking approval of its standard contracts for generators greater than 1.5 MW as part of its 2009 RPS Procurement Plan.<sup>46</sup> Instead, SCE will file an advice letter, along with a set of executed agreements, seeking approval for any agreements signed pursuant to this standard contract program. SCE filed such advice letters on January 23, 2008 and December 5, 2008 seeking approval of four biomass standard contracts.<sup>47</sup> The Commission approved all four contracts.<sup>48</sup> [SCE's IE offered the following comments on the PVC:<sup>63</sup>](#)~~

~~**13.2. Decision Implementing Public Utilities Code Section 399.20**~~

~~In D.07-07-027, the Commission implemented Public Utilities Code Section 399.20, which requires that the IOUs make a tariff available to public water and wastewater agencies for the purchase of~~

~~[This 2009 Renewable RFP was the first solicitation in which the Energy Division's Project Viability Calculator \("PVC"\) was used by SCE for the qualitative evaluation.<sup>64</sup> In the IE's opinion, the Project Viability Calculator is an important step in assessing the viability of project proposals. We found several issues in applying the criteria included in the Project Viability Calculator. We have several suggestions with respect to the use of the PVC, the criteria used in the PVC, and in how evaluators should score projects based on the PVC. We will address some of the issues in this section but will further articulate our views and suggestions in the recommendations section of this IE Short List Report.](#)~~

~~[First, the process for evaluating proposals based on the PVC proved to be extremely time consuming given the large number of proposals received. Compounding this problem was the fact that a number of proposals were not within any reasonable range of competitive pricing and therefore had little if any chance of being shortlisted.](#)~~

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~~<sup>46</sup> WATER and CREST are already approved.~~

~~<sup>47</sup> See Advice Letter 2203-E; Advice 2294-E.~~

~~<sup>48</sup> See Resolution E 4159; Resolution E 4230.<sup>63</sup> [Independent Evaluator Bid Evaluation and Short List Selection Process 2009 RPS Short List Report at 32-33, 35-36 \(December 4, 2009\). See also id. at 13-14.](#)~~

~~<sup>64</sup> In previous RFPs, SCE has used a similar process for assessing the qualitative characteristics of each proposal. However, SCE applied the Project Viability Calculator proposed by the Energy Division for this RFP.~~

Second, several of the criteria (i.e. site control and resource quality) did not offer much resolution in the scoring of the bids. For example, in the case of site control, the criteria was generally an “all or nothing” option for awarding points, depending on whether the Seller had 100% site control or not. We feel that several criteria should be expanded to offer more options in the evaluation spectrum and/or the utility and IE should be allowed to interpolate between the PVC scores.

Third, in our view there are several important factors pertaining to project viability that are not encompassed in the PVC. For example, commercial access to major generating equipment is not a criterion. However, having the contract rights to wind turbines or other generating equipment (or being a manufacturer of such equipment with adequate production capacity), is an important factor in terms of a Seller’s ability to perform, especially with nearer term commercial operation dates. In renewable energy solicitations in other states, we often see commercial access to generating equipment as a non-price evaluation criterion. Even where a Seller does not have contractual rights, having a firm price quote or commitment letter from a manufacturer gives a level of credibility to a bid compared to a Seller that does not have firm access to equipment or price quotes.

Another factor pertains to “transaction execution risk” – the project might be viable, but the proposed transaction presents difficulties in being brought to fruition. For example, in order to contract with an out-of-state wind project for a long-term agreement that would allow the project to be financed might present significant difficulties in terms of product definition, obtaining the necessary transmission and structuring delivery requirements such that the risk allocation would satisfy both buyer and seller. This risk is not currently captured in the PVC.

As a general matter, the PVC is oriented toward in-state projects. The PVC should be reviewed and revised so that it would apply equally well to out-of-state projects. . . .

The PVC should be reviewed and revised so that it should apply more effectively and comparably to out-of-state projects, including recognition of the difference in interconnection requirements, permitting requirements and some of the matters discussed above pertaining to transaction execution risk. Finally, we have several suggestions regarding how the PVC could or should be applied in the evaluation of bids. First, there should be more specificity in the criteria (e.g. siting), granularity in different scoring levels, and the ability to interpolate (if necessary) between different point score levels based on the facts presented by a particular bid. Second, bids that have very low scores for multiple categories should be evaluated for low viability, as well as bids that have a fatal flaw (e.g. a required permit has been denied).

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## 6.6. Process for Modifications to RPS Procurement Plans

The existing process for Commission approval of the IOUs' RPS Procurement Plans, including solicitation materials, makes it difficult for the solicitation materials to take into account market trends and the lessons learned from the IOUs' contracting experience because the solicitation materials must be filed with the Commission several months before the solicitation is to be issued. As a result of this time lag, the solicitation materials are inevitably out-of-date by the time they are approved by the Commission.

For example, SCE is filing this 2010 RPS Procurement Plan just as it is beginning negotiations with the sellers short-listed in its 2009 RPS solicitation. Therefore, SCE's 2010 solicitation materials cannot fully take into account the lessons SCE will learn in its 2009 solicitation. That experience may show SCE that a provision in its solicitation materials requires modification or that a new provision is required. SCE may also learn that one of the changes introduced for the 2009 RPS solicitation is not working and should not be included in the next solicitation.

Additionally, the renewable energy market moves quickly and the IOUs need the ability to make changes to their commercial documents to reflect current market and regulatory realities. The credit and financing markets can undergo significant changes in the time between the filing and approval of the RPS Procurement Plans that necessitate changes to the IOUs' solicitation materials. Changes can also be required because of new regulatory developments. It does not benefit any party to require the IOUs to issue solicitations with stale commercial documents that require substantial modifications before they can be executed.

Going forward, SCE suggests that the Commission change the schedule for the IOUs' RPS Procurement Plans so that the solicitation materials are filed no more than three months before a final Commission decision on the plans. The IOUs should also be able to move for leave to file an update to their plans after they are filed if such an update is needed. The Scoping Memo for 2010 allows for such motions, but they must be filed by February 17, 2010, which may be four months before the Commission issues a proposed decision on the 2010 RPS Procurement Plans assuming such a proposed decision is issued in the second quarter of 2010

pursuant to the Scoping Memo schedule.<sup>65</sup> This could mean a five or six month (or possibly longer) time lag between any updates to the solicitation materials and the issuance of the solicitation. Such a schedule does not give the IOUs sufficient flexibility to incorporate lessons learned and changes in market and regulatory realities into their solicitation materials. The IOUs should be allowed to move forward to update their solicitation materials at any time after they are filed.

### **6.7. Discussion of Improvements to the Transmission Ranking Cost Report Process**

For the 2009 RPS solicitation, SCE sent a letter on August 6, 2008 to renewable energy developers requesting that they provide information regarding transmission to be used in SCE's 2009 Transmission Ranking Cost Report ("TRCR"). The deadline for interested parties to respond to this solicitation for information was August 20, 2008. Fifteen developers responded to SCE's information request. These developers identified up to 48 potential renewable resource projects, including 29 in SCE's service territory, for a total of 15,424 MW. There were five developers representing seven projects which provided incomplete or insufficient information. The majority of projects identified in the request for supplemental information were in fact already active projects in the CAISO interconnection queue.

Based on the revisions to previous conceptual transmission plans to accommodate new interconnection requests of renewable resources made since the last TRCR and additional information obtained in response to SCE's request for information, SCE developed its 2009 TRCR.

Of those parties which provided information to SCE for its TRCR, [REDACTED] [REDACTED]. SCE believes that the current TRCR process provides an extremely rough approximation of transmission cost impacts for proposed generating facilities within SCE's service territory. However, it does not provide sufficient accuracy to make fine distinctions between projects in the proposal evaluation process. Furthermore, SCE has found

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<sup>65</sup> Scoping Memo, Attachment C.

that estimates in the TRCR are even more speculative for network upgrade costs for generating facilities that will be located at sites within or beyond the service territories of other CAISO transmission providers.

SCE proposes that the Commission undertake workshops to consider how to make the TRCR process more relevant and useful to the assessment of proposals actually received by the utilities.

### **6.8. Consideration of Integration Cost in the Evaluation Process**

Integration costs are indirect costs that result from integrating and operating eligible renewable energy. The decision approved, with certain changes, SCE's standard contract, which makes the terms of the WATER tariff available to these agencies, and required SCE to make a similar standard contract available to all parties other than water and wastewater agencies. The resulting standard contract, CREST, has also been approved by the Commission. The amount of capacity SCE is required to enter into under the decision is limited to approximately 124 MW for each standard contract. Both standard contracts are further limited to facilities of 1.5 MW or less.

**14. Efforts to Coordinate:** A statement that describes the efforts undertaken to coordinate the form and format of the 2009 Plans, plus improvements to the model contracts.

With varying levels of success, the IOUs have attempted to coordinate various aspects of their 2009 RPS procurement plans through a series of telephone conferences and e-mail exchanges. Business representatives and attorneys from all three IOUs participated during these communications. These efforts have included discussions regarding: (1) a simplified Standard Terms and Conditions Matrix, (2) procedures for contract amendment approval, (3) synchronized solicitation schedules, (4) standardized formatting of the plan, and (5) standardized formatting of the bid solicitation materials.

First, with respect to the Standard Terms and Conditions Matrix, the IOUs agreed that the matrix was long and time-consuming, and exchanged suggestions on how the matrix could be

~~reduced in length and preparation time. SCE's proposed changes for subsequent matrices are discussed in Section 3 of this plan.~~

~~Second, with respect to the procedures for contract amendment, the IOUs have largely agreed upon a standardized matrix that identifies possible types of contract amendments and the appropriate filing for each type of change. This matrix is presented in Section 11.~~

~~Third, regarding the synchronized solicitation schedules, SCE believes that certain details of the solicitation process, such as when the IOUs may notify parties of their short list status or when exclusivity agreements may be executed, should remain at the discretion of the individual IOUs to maximize each utility's ability to react to market conditions and opportunities. Therefore, the IOUs were unable to agree to a synchronized solicitation schedule.~~

~~Fourth, with respect to the form and format of the plan, the IOUs will continue to file a cover pleading for the written plan and to provide the actual contents of the plan in a separate document, as they agreed to do during coordination efforts for the 2008 RPS Procurement Plans. Furthermore, the IOUs will continue to use the same template with common headings for the written procurement plan. This template is based on the specific information requested in the Ruling. The IOUs hope that their efforts to coordinate the written procurement plan will continue to ease the review of this document for the Commission and stakeholders.~~

~~Lastly, regarding bid solicitation materials, the IOUs face significant challenges in attempting to make the bid solicitation materials substantively similar. The IOUs' bid solicitation materials diverged several years ago and, from an operational standpoint, it would be extremely difficult to agree to documents that were identical or even similar. Moreover, the IOUs' bid solicitation materials have incorporated lessons learned through the years that are specific to each IOU. Any requirement of using a single set of documents could potentially omit these lessons learned. Finally, it simply does not make sense to hold what would essentially be negotiations between the IOUs in order to develop "standard" bid solicitation materials. The enormous amount of time and effort it would take to develop such common documents would not produce any additional contracts nor would it streamline contracting time, because~~

~~developers always demand changes to the terms of the agreement. Thus, SCE strongly recommends that beyond coordinating the written procurement plan, the Commission should not attempt to create additional similarities between the bid solicitation materials of the IOUs.~~

~~**15. Lessons Learned:** Identify and summarize any important lessons learned over the last few years and procurement cycles.~~

~~SCE's experience in renewable contracting has successfully resulted in the ability to agree to terms with a diverse variety of projects and counterparties. This success is the result of recognizing the unique characteristics of each situation and working toward a balanced and mutually acceptable agreement. To this end, SCE continues to refine both its solicitation process and its *Pro Forma* Agreement as a result of lessons SCE has learned over the past several years in order to address common issues SCE has faced in previous solicitations. This effort, among other things, has resulted in the following changes: (a) replacing the SCE EEI master agreement with a customized RPS agreement; (b) converting to all in energy pricing (*i.e.*, a single contract price for both energy and capacity), thereby eliminating a firm capacity requirement and establishing an annual energy delivery performance obligation; (c) modifying policies regarding credit and performance collateral; (d) modifying interconnection applications deadlines; (e) assuming responsibility for scheduling the generating facility's output with the CAISO; (f) reducing development security requirements for intermittent resources as compared to baseload facilities; (g) addressing concerns about changes in electric market design; (h) eliminating the proposal fee; and (i) expanding on and improving the functionality of the "revenue calculator" used as part of the proposal solicitation package. Each of these items was discussed in detail in SCE's 2007 RPS Procurement Plan.~~

In addition, as discussed in SCE's 2008 RPS Procurement Plan, SCE has also made the following changes: (1) for CAISO interconnected facilities, allowing the first point of delivery to the CAISO controlled grid as the delivery point instead of SP-15; (2) eliminating provisions in the 2007 *Pro Forma* Agreement for the computation and sharing of risks related to changes in CAISO market design related to [the CAISO's Market Redesign and Technology Upgrade](#)

~~(“MRTU”) implementation; and (3) modifying its 2008 *Pro Forma* Agreement to accommodate early wind development.~~

~~Finally, as a result of its experience in prior solicitations, SCE has significantly modified its credit and collateral provisions in its 2009 *Pro Forma* Agreement as described in Section 16 below.~~ resources. They include the additional system costs required to provide sufficient ancillary service capability including load following and frequency regulation to integrate renewable resources. In D.04-07-029, the Commission required that integration cost adders be zero for the first year of RPS solicitations (i.e., 2004) due to the results from the CEC-commissioned “California Renewables Portfolio Standard Renewable Generation Integration Cost Analysis” (“RGICA”) study, published in 2004.<sup>66</sup> The Commission stated that “at present levels of penetration, renewable generation causes no noticeable increase in the cost of these ancillary services, beyond those costs imposed by normal system variability.”<sup>67</sup> However, the Commission specifically stated that this was its ruling for the first year of RPS solicitations and that “further addition of intermittent renewables to the system may, in future years, cause us to change this determination.”<sup>68</sup> The Commission reiterated the direction to apply a zero adder for integration costs in D.07-02-011 without any analysis of developments since D.04-07-029.<sup>69</sup>

The CEC RGICA results do not support continuing to use a zero adder for integration costs in the least-cost/best-fit (“LCBF”) evaluation process. The RGICA was a multi-year study that analyzed 2002 to 2004 to determine the impact of renewable resources on integration costs over that timeframe. The RGICA results do not take into account any renewable projects that have been completed since 2004, the renewable projects that currently have purchase power contracts but are not yet on-line, or any future procurement needed to comply with the State’s renewable energy goals.

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<sup>66</sup> D.04-07-029 at 12-14.

<sup>67</sup> Id. at 13.

<sup>68</sup> Id.

<sup>69</sup> D.07-02-011 at 56.

As California continues to procure additional intermittent renewable resources, SCE believes that current levels of intermittent renewables require an increase in the provision of the ancillary services mentioned above. An integration study that reflects updated regulatory and procurement expectations should be used as a basis for integration costs in the 2010 RPS solicitation, implemented as a cost adder in the LCBF analysis. SCE proposes to assess multiple integration cost studies, including the “CAISO Analysis of Operations and Integration Requirements Associated with 33% RPS,”<sup>70</sup> and whether they are representative of California’s market, and then use more updated results as the basis for evaluating integration costs in the evaluation process.

The Commission should grant SCE authority to consider integration costs in the 2010 RPS solicitation evaluation process and use a non-zero adder for integration costs.

**16.7. Important Changes: A statement identifying and summarizing the important changes between ~~Plans for 2008~~the 2009 and ~~2009~~<sup>49</sup> 2010 Plans.**

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<sup>70</sup> The results of this study are expected in the second quarter of 2010.

<sup>49</sup> ~~Important changes made since SCE filed its 2009 RPS Procurement Plan in September 2008 are identified at the beginning of SCE’s Amended 2009 RPS Procurement Plan.~~

## 2009 Plan

~~The most important changes to SCE's 2009 RPS Procurement Plan are described in Section 13. First, SCE is expanding its Biomass Standard Contracts program beyond biomass facilities to include other ERRs, as explained in Section 13.1. Second, as a result of the Commission's implementation of Public Utilities Code Section 399.20, SCE is offering the CREST and WATER tariffs to water and wastewater facilities and other small ERRs. Details on the WATER and CREST program are located in Section 13.2. Finally, SCE has made changes to respond to new or revised topics proposed by the Commission in its Ruling outlining the requirements for the 2009 plans.~~

### A. 2010 Written Plan and LCBF Written Report

As discussed and explained in Section 2, SCE is now procuring based on a High Need Case assuming a 33% renewable energy goal. Additionally, most of the important changes in SCE's 2010 Written Plan and LCBF Written Report are described and explained in Section 6. As explained in Section 6.1, given the overwhelming response to SCE's Renewables Standard Contract Program, SCE plans to suspend the program and conduct an analysis to review options for restarting the program in 2010. As discussed in Section 6.3, SCE is requesting Commission pre-approval for a limited amount of short-term renewable energy transactions. SCE is also seeking approval to enter into unbundled REC transactions immediately upon a Commission decision allowing the use of unbundled RECs as detailed in Section 6.4. As explained in Section 6.5, SCE is proposing changes to the PVC for 2010. SCE also proposes more flexibility to update the RPS Procurement Plans and a workshop to discuss improvements to the TRCR process as discussed in Sections 6.6 and 6.7. Finally, as detailed in Section 6.8, SCE requests approval to consider integration costs in the 2010 RPS solicitation proposal evaluation process.

In addition to the changes discussed above, since SCE filed its LCBF Report as part of its Second Amended 2009 RPS Procurement Plan, SCE has made some changes to its LCBF Written Report to clarify the description of its evaluation and selection process and criteria. Some of these changes were included in the LCBF Written Report for SCE's 2009 RPS

solicitation submitted to the Commission on December 4, 2009. In particular, proposals' capacity benefits are calculated in accordance with the Commission's updated resource adequacy accounting rules and energy benefits are calculated based on the estimated market value of energy.<sup>71</sup>

**B. Bid 2010 Solicitation Materials**

**1. General Changes**

~~SCE has made a number of important~~The changes to its bid~~below affect more than one of the solicitation materials, as described below.~~documents.

**a) Credit and Collateral Provisions**

~~First, as a result of its experiences in previous negotiations, SCE has eliminated the Reduced Development Security option from its *Pro Forma* Agreement. This provision allowed sellers to post half of the normally requested cash or cash equivalent development security, supported by a first priority lien on the seller's generating facility and related assets. This option was only available to a seller over the short term, pre-construction period during which no third parties had been granted senior liens on the seller's assets or to projects completing balance sheet financing. Additionally, it required the negotiation and filing of a suite of security documents consisting of a deed of trust, a security agreement and a pledge of the seller's equity. SCE believes that the benefits of this provision were outweighed by the increased complexity of the development security process, the added negotiation and administration time, the short duration of the secured interest, and the limited value of a security interest in a pre-construction project without significant assets. The elimination of the Reduced Development Security option streamlines the development security process and the *Pro Forma* Agreement.~~

~~Second, SCE is increasing its Development Security requirements from twenty dollars (\$20.00) per kW to sixty dollars (\$60.00)~~

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<sup>71</sup> These changes were also made in SCE's 2010 Procurement Protocol.

SCE is making important changes to the credit and collateral provisions of its solicitation materials. First, SCE is increasing its development security requirements from \$60.00 per kW to \$90.00 per kW for baseload facilities ~~and from ten dollars (\$10.00) per kW to thirty dollars (\$30.00), and from \$30.00 per kW to \$60.00 per kW for intermittent facilities.~~ SCE believes this increased upfront development period collateral requirement provides ~~more substantial, yet reasonable, collateral for SCE and its customers and will, through self-selection, produce more viable proposals in the bidding process.~~ These changes are reflected in the Procurement Protocol as well.

~~Next, based on its experiences in prior solicitations, SCE has eliminated the subordinated security interest provisions from its *Pro Forma* Agreement. These collateral provisions, which cover the operating period of the contract, often require a significant amount of negotiation and some modification of the *pro forma* language without a commensurate benefit to SCE in the executed power purchase agreement. Like the Reduced Development Security option, these provisions also require follow-up documentation, the security agreements, to be provided well after execution of the power purchase agreement, which complicates the administration of the contract. Finally, the security documents usually require the scrutiny and approval of sellers' third party lenders, which again may lead to additional rounds of negotiation between SCE, the seller and the lender. SCE believes that eliminating the subordinated security interest provisions from the *Pro Forma* Agreement will benefit both SCE and potential sellers by shortening the contracting process and simplifying performance assurance discussions.~~

~~In conjunction with the elimination of the subordinated lien, SCE has revised its requirement for sellers to post performance assurance to reflect~~ a reasonable (albeit not complete) security for SCE customers during the development phase of a generating facility. The proposed development security levels are consistent with the overall industry position on allocating project failure risks between project developers and utility customers.

Second, as a result of SCE's experience with the renewable energy and financial industries and SCE's previous negotiation experience, SCE is restructuring its performance

assurance requirement. SCE has modified its solicitation materials to require that sellers' proposals be based upon a tiered performance assurance requirement. This structure begins with a lower performance assurance posting in the early term years (3% of total revenues seller expects to receive), and steps up (to 5% and 6%) for the mid-contract years. Then, the performance assurance level steps down (to 5% and 3%) for the remaining term years. Over the full term of the contract, the performance assurance amount averages 5% of the total revenues, the same as the performance assurance requirement in SCE's 2009 RPS Procurement Plan. However, the modified performance assurance structure reflects the risks related to different delivery terms ~~of a contract rather than six or twelve months of revenue regardless of delivery terms. Specifically, SCE has modified the Procurement Protocol to require that seller proposals be based on posting performance assurance during the operating period equal to 5% of total revenues that the sellers expect to receive throughout the entire term of the Agreement, but not less than \$1 million. This change is consistent with the posting requirements used by other utilities, and simplifies performance assurance discussions.~~

#### Other Changes

~~In the *Pro Forma* Agreement, SCE also has (i) revised the insurance provisions to reflect current market conditions, (ii) added North American Electric Reliability Council ("NERC") requirements to reflect the existing obligations of applicable generating facilities, (iii) added a cap on the expenditures required by sellers to comply with changes in RPS requirements, (iv) deleted the Commission's standard term and condition No. 3 (Supplemental Energy Payments (SEP) Awards, Contingencies) in accordance with D.08-04-009 and replaced that term with an AMFs provision, (v) modified certain provisions, such as the delivery point, to take into account the CAISO's planned MRTU, and (vi) modified the definition of "Green Attributes" in accordance with D.08-08-028.~~

~~In addition, formatting, structural and grammatical changes were made to the *Pro Forma* Agreement, Procurement Protocol, Form of Seller's Proposal and and is responsive both to~~

changes in SCE's estimated exposure during the contract term and to changes in the renewable energy and financing markets.

The proposed tiered mechanism for performance assurance is beneficial to both SCE's customers and sellers. SCE customers benefit in that the proposed structure of performance assurance better reflects SCE's estimated exposure during the contract term and brings down the maximum exposure that customers face. Sellers benefit from a lesser total capital requirement in the early years of the delivery term when their access to capital is constrained.

Third, based upon experience in prior solicitations and document negotiations, SCE is eliminating the seller's debt to equity ratio requirement and the associated definitions. This credit provision often required a significant amount of negotiation and modification of SCE's Pro Forma Renewable Power Purchase and Sale Agreement language without a commensurate benefit to SCE. Additionally, ensuring compliance with this provision required follow-up documentation and verification, which complicates contract administration and management. SCE believes that the financial markets impose discipline on this issue which, combined with SCE's provision prohibiting additional debt other than debt for the development, construction and operation of the facility, provides adequate protection for SCE and its customers.

**b) Changes to Non-Disclosure Agreement Procedure**

SCE is modifying the procedure for executing non-disclosure agreements ("NDAs") in the 2010 RPS solicitation. In prior years, all sellers were required to submit a redlined version of SCE's pro forma NDA with their initial proposal documents. Because SCE must have an executed NDA before a seller can be informed of its short list status, SCE was required to potentially negotiate NDAs with all sellers – even those which were not going to be placed on SCE's short list – before those who made the short list could be notified. This was a cumbersome and time-intensive process with little benefit to anyone involved in it.

For the 2010 solicitation, SCE is requiring all sellers to agree to a “Short-term NDA,” by checking a box on the 2010 Seller’s Proposal Template and Calculator.<sup>72</sup> The Short-term NDA lasts until the latest of three dates: (1) if the proposal is placed on SCE’s short list, seller’s submission to SCE of its short list deposit, exclusivity agreement, copy of interconnection application, and a long-term NDA; (2) if the proposal is placed on SCE’s short list, seller’s notification to SCE that seller declines to pursue further negotiations; and (3) SCE’s notification to seller that the proposal has not been placed on SCE’s short list and SCE does not wish to negotiate the proposal. However, the obligation to keep confidential information submitted under the Short-term NDA survives for five years, so sellers need not fear that SCE will immediately disclose confidential information in their proposals.

A seller which is chosen for the short list will then submit SCE’s “Long-term NDA.” The Long-term NDA covers the negotiations related to a seller’s proposal and, if the negotiations are successful, is incorporated into the final contract. It is hoped that this procedure will streamline the NDA negotiation process.

c) **Deletion of Alternate Wind Performance** ~~Obligation in a continuous effort to improve SCE’s bid solicitation materials and provide greater clarity to potential bidders.~~ **Standard**

In the last several RPS solicitations, SCE made available an “alternate wind performance standard” that sellers can consider in making their proposals. SCE discovered, however, that sellers generally do not review, or even consider, the alternate wind performance standard when compiling their proposal packages. Because SCE still recognizes that the alternate wind performance standard may be an appropriate option for a seller pursuing a wind-based renewable power purchase and sale agreement with SCE, SCE decided to take a different approach: instead of posting the alternate wind performance standard language on its website at the time of RFP launch and framing this option in its Procurement Protocol (and other solicitation materials),

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<sup>72</sup> The 2010 Seller’s Proposal Template and Calculator is Attachment 2-3 to SCE’s 2010 RPS Procurement Plan.

SCE will thoroughly present and explain this option to the short-listed developers of wind projects during the negotiation phase of the solicitation process. At that point, if a developer decides to pursue this option, SCE will then work with it throughout the negotiations to revise the renewable power purchase and sale agreement appropriately.

**2. Additional Changes in 2010 Procurement Protocol**<sup>73</sup>

**a) Additional Condition for the Forfeiture of a Short List Deposit**

SCE has added one additional condition under which a seller will forfeit its short list deposit: seller's breach of its exclusivity agreement.<sup>74</sup> This change was made to serve as a reasonable, serious, and adequate deterrence to simultaneously negotiating the same proposal with multiple utilities (and other buyers of power). Breaches of exclusivity agreements can be costly to SCE's customers, who pay for the negotiating resources.

**b) Term of Agreement**

SCE's 2010 Procurement Protocol complies with the Commission's requirement that SCE accept proposals for contracts with terms exceeding 20 years. While SCE does not discourage proposals with terms longer than 20 years, SCE does require a seller who submits a proposal with a term longer than 20 years to also submit a proposal (for the same generating facility) with a 20-year term.<sup>75</sup> This change was made so that SCE may compare proposals (e.g., expected costs, qualitative factors such as expectation of technology innovation, and portfolio risk tolerances) for contracts of longer than 20 years with the standard term length of 20 years.

**c) Integration Costs**

For the reasons set forth in Section 6.8 above, SCE has modified the quantitative assessment subsection of the Evaluation of Proposals section of the 2010 Procurement Protocol to include a detailed discussion of integration costs.<sup>76</sup>

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<sup>73</sup> The 2010 Procurement Protocol is Attachment 2-1 to SCE's 2010 RPS Procurement Plan.

<sup>74</sup> 2010 Procurement Protocol § 3.04(c)(a).

<sup>75</sup> Id. § 2.06(a).

<sup>76</sup> Id. § 5.01(b).

### **3. Additional Changes in 2010 Form of Seller's Proposal**<sup>77</sup>

#### **a) E-Binder**

SCE will now require sellers to send their proposals electronically, in an e-binder, rather than sending printed copies.<sup>78</sup> This should reduce the enormous amount of paper associated with the RFP process.

#### **b) Delivery Point and Manner of Delivery**

SCE is requiring each seller to set forth the delivery point of its proposal with greater specificity.<sup>79</sup> SCE is also requiring a seller to detail its plan for transmitting energy to the delivery point and explain whether the costs of such delivery are included in the energy price. Obtaining this information from prospective sellers will better enable SCE to assess and compare different proposals.

#### **c) Generating Facility Description**

The Form of Seller's Proposal has been revised to require sellers to disclose any possible or anticipated manufacturing supply chain constraints or issues associated with producing any major and auxiliary equipment.<sup>80</sup> This change was recommended by SCE's IE to enable better assessment of the PVC component that addresses manufacturing supply chain.

### **4. Changes in 2010 Seller's Acknowledgments**

SCE made the changes discussed below in the 2010 Seller's Acknowledgments, a document that each seller must submit as part of its proposal package.<sup>81</sup>

#### **a) Obtaining Necessary Approvals of a Renewable Power Purchase and Sale Agreement**

The prior language in Seller's Acknowledgments could have been read to require a seller to have obtained all necessary approvals of a renewable power purchase and sale agreement with

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<sup>77</sup> The 2010 Form of Seller's Proposal is Attachment 2-10 to SCE's 2010 RPS Procurement Plan.

<sup>78</sup> 2010 Form of Seller's Proposal § 3.01.

<sup>79</sup> Id. § 4.05.

<sup>80</sup> Id. § 4.03(a)(ii)(4).

<sup>81</sup> The 2010 Seller's Acknowledgments is Exhibit C to the 2010 Form of Seller's Proposal.

SCE by the time that seller first submitted its proposal, which always occurs before the commencement of negotiations. SCE modified the language to clarify that seller will obtain all necessary approvals at the conclusion of negotiations.<sup>82</sup>

**b) Requirement that Seller be Bound by its Proposal**

The prior language in Seller's Acknowledgements required that a seller agree to be bound by the redlined Pro Forma Renewable Power Purchase and Sale Agreement submitted as part of its proposal. This requirement served to discourage frivolous proposals. The redlined Pro Forma Renewable Power Purchase and Sale Agreements, however, did not meaningfully advance negotiations because the redlines were generally incomplete. SCE now requires a seller to submit a Outline of Contract Terms and Conditions<sup>83</sup> setting forth the key changes that seller seeks to the Pro Forma Renewable Power Purchase and Sale Agreement. Accordingly, SCE's modified language discourages frivolous proposals by requiring seller to make a commitment to negotiate with SCE in good faith.<sup>84</sup>

**c) Elimination of Requirement that Seller Submit CEC Audits**

SCE eliminated a requirement that seller submit CEC audits to establish that seller's proposed project is an eligible renewable energy resource.<sup>85</sup> In SCE's experience, these audits occur only once agreement is reached so the audits are better addressed in the renewable power purchase and sale agreement itself.

**5. Additional Changes in 2010 Pro Forma Renewable Power Purchase and Sale Agreement<sup>86</sup>**

**a) Seller Responsibilities for Invoicing**

Beginning with the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE will require sellers to produce a monthly payment invoice in order to receive payment.<sup>87</sup>

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<sup>82</sup> 2010 Seller's Acknowledgements ¶ 3.

<sup>83</sup> The 2010 Outline of Contract Terms and Conditions is Attachment 2-4 to SCE's 2010 RPS Procurement Plan.

<sup>84</sup> 2010 Seller's Acknowledgements ¶ 7.

<sup>85</sup> *Id.* ¶ 8.

<sup>86</sup> The 2010 Pro Forma Renewable Power Purchase and Sale Agreement is Attachment 2-5 to SCE's 2010 RPS Procurement Plan.

There are several reasons for this change. First, requiring sellers to invoice SCE creates a check and balance between SCE's payment calculations and the seller's calculations for the desired payment. When sellers invoice SCE, SCE can compare sellers' computations with SCE's, validate the invoices, and pay or dispute accordingly. This modified procedure creates an independent validation for the calculation of payments.

Second, paying based on an invoice generated by an independent party (seller) conforms to SCE's standard process for generating, validating, and approving payments. To support appropriate internal controls and the segregation of duties, no payment is made without an invoice and no payments are made for greater than the invoiced amount. Modifying the Pro Forma Renewable Power Purchase and Sale Agreement brings the practice for renewable contracts in line with that used for conventional generation and other SCE payments.

Third, the procedure is also consistent with industry standards for financial internal control frameworks, COSO (Committee of Sponsoring Organizations also referred to as the Treadway Commission), and GAAP (Generally Accepted Accounting Practices).

Finally, invoices act as third party documentation that SCE provides to its auditors (internal, external, regulatory, etc.) to support charges recorded on financial statements and financial and operations records.

**b) Changes to Curtailment Language**

Prior Pro Forma Renewable Power Purchase and Sale Agreements, including SCE's 2009 Pro Forma Renewable Power Purchase and Sale Agreement, gave SCE the right to curtail seller's project when SCE is so instructed by the CAISO. Those agreements also provided that SCE did not have to pay seller for energy deliveries that seller could have made but for curtailment or reduction of deliveries. SCE intends and understands this language to encompass any situation in which seller is asked to reduce or temporarily cease deliveries, including situations in which SCE, as seller's scheduling coordinator, advises seller to curtail because a bid

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Continued from the previous page

87 2010 Pro Forma Renewable Power Purchase and Sale Agreement, Exhibit E.

relative to seller's facility was not scheduled and/or awarded in the CAISO's day-ahead integrated forward market or real-time market.

After post-MRTU discussions with potential sellers, however, SCE believes that it is beneficial to state this contractual right more specifically and accordingly modified the section addressing SCE's curtailment rights to expressly provide SCE the right to issue a curtailment or equivalent notice in those situations.<sup>88</sup> SCE made an analogous change in the payment section to specify that SCE does not have to pay for deliveries curtailed in those situations.<sup>89</sup>

**c) Modified Startup Period**

Prior Pro Forma Renewable Power Purchase and Sale Agreements provided for a six month startup period between initial operation, when installation of the generating facility was generally complete, and firm operation, when the facility had resolved its initial issues and could be expected to meet its performance obligations. Because the resultant startup period was expected to be relatively short, seller received the contract price for energy deliveries starting as of initial operation, but the performance obligations did not commence until firm operation.

Based on market experience, SCE has modified the startup period to accommodate generating facilities (such as solar PV projects) that are installed incrementally. This modification allows the startup period to be customized to fit the installation needs of the particular technology. During the startup period, however, seller is subject to CAISO sanctions and receives CAISO revenue (market price) – not the contract price – for energy delivered. SCE also added the term “Commercial Operation” to signal the end of the installation period (what used to be “Initial Operation”) to better align with industry usage. “Firm Operation” is now thirty days after Commercial Operation to give SCE time to verify installation.<sup>90</sup>

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<sup>88</sup> Id. § 3.12(f).

<sup>89</sup> Id. § 4.01(c).

<sup>90</sup> The changes are global but relevant sections include Sections 1.04 and 2.03, Exhibit E, and the definition of “Startup Period” in Appendix A.

**d) Compliance Expenditure Cap**

The 2009 Pro Forma Renewable Power Purchase and Sale Agreement contained a “Compliance Expenditure Cap,” which was a dollar limit on the costs a seller would be required to expend to ensure that the facility maintained its green attributes, capacity attributes, and resource adequacy benefits. The 2009 Compliance Expenditure Cap applied regardless of whether, over the term of the renewable power purchase and sale agreement, there was a change in law governing those requirements.

The 2010 Pro Forma Renewable Power Purchase and Sale Agreement substantially narrows the circumstances in which the cap applies. It will now apply only to situations where there is both (1) a change in law after the execution of the renewable power purchase agreement that causes the project to be disqualified as an eligible renewable energy resource (or causes its output to fail to meet RPS requirements), and (2) seller has expended “commercially reasonable efforts” to comply with such change in law. The change ensures that the Compliance Expenditure Cap is in line with the Commission’s non-modifiable standard term and condition on “Eligibility,”<sup>91</sup> as it defines, by a dollar amount, the term “commercially reasonable costs” used in that term.<sup>92</sup>

**e) Calculation of Energy Replacement Damage Amount**

The Energy Replacement Damage Amount is a penalty paid by seller when it fails to meet its annual (or two-year) energy delivery obligation.<sup>93</sup> In the 2009 Pro Forma Renewable Power Purchase and Sale Agreement (as well as prior Pro Forma Renewable Power Purchase and Sale Agreements), the formula for calculating the Energy Replacement Damage Amount required the parties to compare the contract energy price with the “Market Price” – a price that is skewed by the predominance of conventional, rather than renewable, generation. The formula in the 2010 Pro Forma Renewable Power Purchase and Sale Agreement will require parties to

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<sup>91</sup> 2010 Pro Forma Renewable Power Purchase and Sale Agreement § 10.02(b).

<sup>92</sup> Id. § 10.02(c).

<sup>93</sup> Id., Exhibit F.

compare the contract energy price with the “Green Market Price,” or the price for renewable energy projects. SCE believes that the prices for renewable energy – not the market price – more accurately represent SCE’s damages when a seller fails to deliver renewable energy.

**f) NERC Requirements**

In the 2010 Pro Forma Renewable Power Purchase and Sale Agreement section relating to NERC Electric System Reliability Requirements,<sup>94</sup> SCE has added language designed to specify the proper allocation of the roles and responsibilities of SCE as scheduling coordinator for purposes of NERC compliance, and, on the other hand, seller as the generator operator. The language arises from SCE’s and the market’s experience with the NERC requirements gained in the approximately two and a half years since the requirements went into effect.

**g) Termination for Failure to Meet Commercial Operation Deadline**

The Pro Forma Renewable Power Purchase and Sale Agreement has been revised to provide that SCE may terminate the renewable power purchase and sale agreement and retain the development security under any one of six specific circumstances, the occurrence of any of which makes it unlikely that seller will be able to meet its commercial operation deadline.<sup>95</sup> The revisions eliminate a termination right which the market indicated was strongly disfavored by lenders, while ensuring that SCE can terminate projects in circumstances which indicate they will never be timely built.

**h) Election of Federal Tax Credit**

In the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE is requiring seller to inform SCE, before execution of the agreement, whether seller will seek an investment tax credit or a production tax credit (or no tax credit at all).<sup>96</sup> There are two reasons for this change, which will affect only those sellers who are able to use either type of tax credit.

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<sup>94</sup> Id. § 3.29.

<sup>95</sup> Id. § 3.06(d).

<sup>96</sup> Id. § 1.12.

First, commitment to a particular tax credit prevents a seller from using its termination right improperly. The 2010 Pro Forma Renewable Power Purchase and Sale Agreement allows a seller to terminate the agreement if the federal tax credit legislation applicable to seller is not enacted.<sup>97</sup> Requiring a seller to specify which federal tax credit it plans to use prevents seller from terminating its agreement when the other tax credit (the one seller is not using) is not enacted.

Second, commitment to a particular tax credit prevents a seller from claiming excess direct damages, should there be a dispute between seller and SCE. Under Article 7 of the 2010 Pro Forma Renewable Power Purchase and Sale Agreement, direct damages include the value of any federal tax credits that are lost by seller as a result of SCE's default.<sup>98</sup> Requiring a seller to specify which tax credit it plans to use prevents a seller from claiming, after the fact, that it would have used the tax credit that enabled seller to show the greater loss (and concomitantly, the greater amount of direct damages).

#### **i) Termination Rights of Both Parties**

In its 2010 Pro Forma Renewable Power Purchase and Sale Agreement, SCE has divided into two sections the right of either party to terminate where seller failed to obtain permits. Each section addresses a different type of permit(s): (1) the CEC pre-certification, and (2) the construction permits.<sup>99</sup> The notice of termination by either party due to a seller's failure to obtain CEC pre-certification is to be provided on or before 13 months after the effective date of the agreement. The right to terminate by either party if seller does not obtain its construction permit has been modified to be open-ended, and agreed to by and between SCE and seller during negotiations, depending on a seller's individual needs. SCE has found through its experience in prior solicitations and document negotiations that the market requires more individually-tailored time periods for terminating contracts where there is a failure to obtain construction permits.

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<sup>97</sup> Id. § 2.04(a)(ii).

<sup>98</sup> Id., Article 7.

<sup>99</sup> Id. §§ 2.04(a)(i)(2) and (3).

**j) Allocation of Standard Capacity Product Payments and Charges**

SCE has added this new section to address the responsibility of the Standard Capacity Product incentive payments and charges as defined in the CAISO tariff.<sup>100</sup>

**k) Delivery Loss Factor**

SCE has further modified the energy payment calculation formula to take into account delivery losses up to and at the delivery point as calculated by CAISO.<sup>101</sup> SCE's deletion of the delivery loss factor calculation beyond the delivery point and the associated definitions mirrors the current CAISO MRTU market.

**l) Wind and Solar Performance Requirements**

Based upon experience in prior solicitations and document negotiations, SCE is changing its Pro Forma Renewable Power Purchase and Sale Agreement to accommodate the wind industry and provide for an equitable performance obligation. The performance obligation will be measured over a two-year period (instead of a one-year period) and requires a seller to equal or exceed 140% of the P-50 value in the final wind report.<sup>102</sup> Wind developers had expressed that the 2009 Pro Forma Renewable Power Purchase and Sale Agreement, which had a standard of P-95, was not equitable because the use of a P-95 value disadvantaged those projects that had been collecting data for a longer time, and because studies have shown that California has high wind variability from year-to-year.

By contrast, SCE's additional experience with solar projects has led SCE to determine that solar variability from year-to-year is minimal. SCE has changed the performance requirement accordingly, to reflect an obligation of 90% of the expected annual energy production.<sup>103</sup>

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<sup>100</sup> Id. § 3.04.

<sup>101</sup> Id., Exhibit A § 150, Exhibit E § 2.02.

<sup>102</sup> Id. § 3.07(a)(i).

<sup>103</sup> Id.

**17.8. Redlined Copies: A version of the 20092010 Plan that is “redlined” to identify the changes from the 20082009 Plan, with a copy for Energy Division, the Administrative Law Judge and any party who requests a copy:**

SCE has included ~~the following in Attachment 2:~~

- ~~Attachment 2-1: Amended 2009 Procurement Protocol;~~
- ~~Attachment 2-2: 2009 Proposal Structure Letter, Amended~~redlines of its 2010 Written Plan and LCBF Written Report as Appendices E and F. SCE’s proposed modifications to the PVC are shown in Appendix D; however, SCE has not provided a redline of the PVC since it is an excel file.

Additionally, as part of Attachment 2, SCE has included a redline of all of its solicitation materials with the exception of the 2010 Seller’s Proposal Template, ~~and Term Sheet;~~

- ~~Attachment 2-3: Amended 2009 Pro Forma Agreement;~~
- ~~Attachment 2-4: Amended 2009 Form of Seller’s Proposal;~~
- ~~Attachment 2-5: 2009 Alternate Wind Performance Standard;~~
- ~~Attachment 2-6: Project Viability Calculator~~
- ~~Attachment 2-7: Redline of Amended 2009 Procurement Protocol;~~
- ~~Attachment 2-8: Redline of Amended 2009 Pro Forma Agreement; and~~
- ~~Attachment 2-9: Redline of Amended 2009 Form of Seller’s Proposal, and~~  
Calculator and 2010 Outline of Contract Terms and Conditions, which cannot be redlined since they are excel files.

Document comparison by Workshare Professional on Wednesday, December 16, 2009  
6:14:30 PM

Input:	
Document 1 ID	PowerDocs://LAW/1665354/3
Description	LAW-#1665354-v3-R.08-08-009_Amended_2009_RPS_Procurement_Plan_-_Attachment_1_Written_Plan
Document 2 ID	PowerDocs://LAW/1692786/1
Description	LAW-#1692786-v1-R.08-08-009_2010_RPS_Procurement_Plan_-_Attachment_1_2010_Written_Plan_(Public_Version)
Rendering set	Standard

Legend:	
<a href="#">Insertion</a>	
<del>Deletion</del>	
<del>Moved from</del>	
<u>Moved to</u>	
Style change	
Format change	
<del>Moved deletion</del>	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

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Insertions	652
Deletions	461
Moved from	41
Moved to	41
Style change	0
Format changed	0
Total changes	1195

# **APPENDIX F**

## **Redline of SCE's Written Description of Renewables Portfolio Standard Proposal Evaluation and Selection Process and Criteria**

Attachment 1, Appendix D

~~SCE's Second Amended Written Description of RPS Proposal Evaluation and Selection Process and Criteria~~  
Southern California Edison Company's ("SCE") Second Amended Written Description of Renewables Portfolio Standard ("RPS") Proposal Evaluation and Selection Process and Criteria ("LCBF Written Report")

**I. Introduction**

**A. Note relevant language in statute and CPUC decisions approving LCBF process and requiring LCBF Reports**

Under the direction of the California Public Utilities Commission (the "Commission" or "CPUC"), SCE conducts annual solicitations for the purpose of procuring power from eligible renewable energy resources to meet California's RPS. SCE evaluates and ranks proposals based on least-cost/best-fit ("LCBF") principles that comply with criteria set forth by the Commission in Decision ("D.") 03-06-071 and D.04-07-029 ("LCBF Decisions"). *See also* Pub. Util. Code Section 399.14(a)(2)(B).

**B. Goals of proposal evaluation and selection criteria and processes**

The LCBF analysis evaluates both quantitative and qualitative aspects of each proposal to estimate its value to SCE's customers and its relative value in comparison to other proposals.

**II. Proposal Evaluation and Selection Criteria**

While assumptions and methodologies have evolved slightly over time, the basic components of SCE's evaluation and selection criteria and process for RPS contracts were established by the Commission's LCBF Decisions. Consistent with those ~~decisions~~LCBF Decisions, the three main steps undertaken by SCE are: (i) initial data gathering and ~~verification~~validation, (ii) a quantitative assessment of proposals, and (iii) adjustments to selection based on proposals' qualitative attributes.

Prior to receiving proposals, SCE finalizes major assumptions and methodologies that drive valuation, including power and gas prices forecasts, existing and forecast resource portfolio, and ~~firm~~ capacity value forecast. Other assumptions, such as the Transmission Ranking Cost Report ("TRCR"), are filed with the Commission for approval prior to the release of solicitation materials.

Once proposals are received, SCE begins an initial review for completeness and conformity with the solicitation protocol. The review includes ~~a screen for~~an initial screen for required submission criteria such as conforming delivery point, minimum project size, and submission of particular proposal package elements. Sellers lacking in any of these items are allowed a cure period to remedy any deficiencies. Following this initial screen, SCE conducts an additional review to determine the reasonableness of proposal parameters such as generation profiles and capacity factors. SCE works directly with sellers to resolve any issues and ensure data is ready for evaluation.

After ~~the initial review~~these reviews, SCE performs a quantitative assessment of each proposal individually and subsequently ranks them based on the proposal's benefit and cost relationship. Specifically, the total benefits and total costs are used to calculate the net levelized cost or "Renewable Premium" per each complete and conforming proposal. Benefits are comprised of separate capacity and energy components, while costs include the contract payments, integration costs, transmission cost, and debt equivalence. SCE discounts the annual benefit and cost streams to a common base year. The result of the quantitative analysis is a ~~relative Renewable Premium~~merit-order ranking of all complete and conforming proposals' Renewable Premiums that helps define the preliminary short list.

In parallel with the quantitative analysis, SCE conducts an in-depth assessment of each proposal's qualitative attributes. This analysis utilizes the ~~Commission's prescribed~~ Project Viability Calculator to ~~assesses such~~assess certain factors ~~as~~including the company/development team, technology, and development milestones. Additional attributes such as transmission area/cluster, seller concentration, portfolio fit of commercial on-line date, project size, and dispatchability and curtailability are also considered in the qualitative analysis. These qualitative attributes are then considered to either eliminate non-viable proposals or add projects with high viability to the final short list of proposals, or to determine tie-breakers, if any.

Following its analysis, SCE consults with its Procurement Review Group ("PRG") regarding the final short list and specific evaluation criteria. Whether a proposal selected through this process results in an executed contract depends on the outcome of negotiations between SCE and sellers. Periodically, SCE updates the PRG regarding the progress of negotiations. SCE ~~and the PRG~~ also ~~review contracts~~consults with its PRG prior to ~~their~~the execution of any successfully negotiated contracts. Subsequently, SCE executes contracts and submits them to the Commission for approval via advice letter filings.

#### A. Description of Criteria<sup>1</sup>

1. List and discuss the quantitative and qualitative criteria used to evaluate and select proposals. This section should include a full discussion of the following:

##### QUANTITATIVE ASSESSMENT

SCE evaluates the quantifiable attributes of each proposal individually and subsequently ranks them based on the proposal's benefit and cost relationship, specifically the net levelized cost of the project or Renewable Premium. SCE maintains the same individual quantitative components it used in ~~2008~~2009 – capacity benefits, energy benefits, contract payments, debt equivalence mitigation costs, integration costs, and transmission costs. In developing its relative or merit order ranking of proposals, SCE's evaluation methodology incorporates information provided by sellers and assumptions prescribed and set by the Commission ~~and California Energy Commission~~ ("CEC") with its internal methodologies and forecasts of market conditions. The objective of the quantitative assessment and relative Renewable Premium ranking is to

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<sup>1</sup> This LCBF Written Report discusses SCE's proposal evaluation and selection criteria in a different order than in the Energy Division's LCBF Template in order to more accurately explain SCE's evaluation and selection process; however, all elements in the LCBF Template are addressed.

develop a preliminary short list that is further refined based on the non-quantifiable attributes discussed below. Each of the elements for the RPS quantitative analysis is described briefly below.

### Benefits

- Capacity Benefit

Each proposal is assigned capacity benefits based on SCE's forecast of net capacity value and a ~~technology specific effective load carrying capability ("ELCC")~~ peak capacity contribution factor.

SCE's gross capacity value forecast consists of a combustion turbine ("CT") proxy. The CT proxy is based on the annual deferral value of a General Electric 7FA simple-cycle combustion turbine. The gross capacity value is then reduced by the expected profits that the assumed proxy plant would make from the energy markets to create the net capacity value.<sup>±2</sup>

~~ELCC values will be calculated based on the average summer on-peak capacity factor of the hourly generating profile for bids received in this solicitation and previous solicitations, eliminating outliers and limiting developer concentration. ELCCs will be developed not only by technology, but potentially by the location of the proposed project~~ Peak capacity contribution factors are calculated in a manner consistent with the Commission's Resource Adequacy accounting rules (D.09-06-028) utilizing a 70% exceedance factor methodology. Peak capacity contribution factors will be both technology and location-specific. Technological differentiation does not refer to the fuel source, but rather the method of converting other energy sources into electricity (e.g., solar trough, photovoltaic). For proposals with dispatchable capabilities at SCE's control, the ~~ELCC~~ peak capacity contribution factor will be based on the availability of the proposed project.

Monthly capacity benefits are the product of SCE's net capacity value forecast, the total monthly proposed alternating current nameplate capacity of the project, SCE's relative loss-of-load probability factors,<sup>±2</sup> and the ~~ELCC~~ peak capacity contribution factor. The monthly capacity benefits are aggregated to annual capacity benefits.

- Energy Benefit

SCE measures the energy benefits of a proposal by evaluating ~~its effect on the total production cost of SCE's forecasted resource portfolio to serve its bundled customer load~~ the estimated market value of energy. The evaluation of energy benefits is performed with a base portfolio and system that is consistent with SCE's most recent Long-Term Procurement Plan ("LTPP"), with some updates to account for the latest gas price and load forecasts and the results of recent procurement activities.

For proposals with must-take energy, SCE calculates the energy benefits of a proposal based on the ~~impacts~~ estimated market value of additional blocks of no-cost, must-take, flat-

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<sup>±2</sup> Energy profits are the difference between market revenues and variable cost of generation, as determined by performing a least-cost dispatch of the proxy station against SCE's power price forecast.

profile energy ~~on the hourly production cost as compared to the hourly production cost of~~with SCE's base resource portfolio. The impacts are assessed through the use of Ventyx's ProSym model. A series of ProSym runs are performed with varying size blocks with the base portfolio; ~~described above, as the reference case.~~ The ProSym runs consist of an hourly, least-cost dispatch of the base portfolio plus the generic energy block against SCE's current demand and price forecasts. The hourly ~~production cost~~market price impact for each proposal is then calculated by taking the seller provided generation for the hour and interpolating the hourly ~~production cost~~market prices based on the ~~results~~market prices of the generic energy block runs. ~~The difference between the interpolated hourly production cost and the reference case hourly production cost is the~~ The hourly energy benefit for the proposal is the resulting market price multiplied by the hourly seller-provided generation profile.

For proposals with dispatchable capabilities at SCE's control, SCE calculates the net energy benefits based on market value of the impacts of energy when the proposed ~~additional resource on the hourly production cost as compared to the hourly production cost of SCE's base portfolio.~~ ProSym is run with the base portfolio and the proposed resource to determine the annual production cost. ~~The net energy benefits for the unit are calculated as the difference in annual production costs between the reference case and the proposed case~~resource dispatches. ProSym determines the dispatch economics for the proposed resource according to the unit characteristics provided by the seller.

SCE's resource portfolio is dispatched against an SCE area power price forecast. For out-of-area resource proposals, congestion charges may be applied to calculate the net energy benefits based on SCE's internal congestion pricing forecasts. SCE's ~~power and~~ gas price ~~forecasts are both~~forecast is based on a near-term market view and a longer-term fundamental view of prices, while power price forecasts are based on a fundamental view.

The simulation model, and hence the energy benefit calculation, captures additional quantitative effects that SCE has been asked to consider by the Commission, including dispatchability ~~and curtailability.~~ The dispatchability benefits ~~of these characteristics~~ are implied in the energy benefit and are not addressed separately.

SCE's LCBF quantitative evaluation process inherently captures the impact of portfolio fit. For example, as different proposals are added to the overall portfolio, the resultant residual net short or net long position is impacted. Projects that more often increase SCE's net long positions are assigned less energy benefits than those projects that are more often filling net short positions. As such, a project that provides more energy when it is most needed and less energy in periods of low need will receive the greatest energy benefit.

### Costs

- Debt Equivalence

"Debt equivalence" is the term used by credit rating agencies to describe the fixed financial obligation resulting from long-term ~~purchased~~ power purchase contracts. Pursuant to D.04-12-048, the Commission permitted the investor-owned utilities ("IOUs") to recognize costs associated with the effect debt equivalence has on the ~~utilities~~IOUs' credit quality and cost of

borrowing in their evaluation process. In D.07-12-052, the Commission reversed this position. However, SCE filed a petition for modification of D.07-12-052. In November 2008, the Commission issued D.08-11-008, which authorized the ~~investor-owned utilities (“IOUs”)~~ to recognize the effects of debt equivalence when comparing power purchase agreements in their bid evaluations, but not when a utility-owned generation project is being considered. Given the new decision, SCE ~~will consider~~considers debt equivalence in the evaluation process.

- Contract Payments

The primary costs associated with each proposal are the contract payments that SCE makes to sellers for the expected renewable energy deliveries.

Proposals typically include an all-in price for delivered renewable energy, which is adjusted in each time-of-delivery period by energy payment allocation factors (“TOD factors”). SCE develops and submits its TOD factors for each solicitation to the Commission for approval prior to the issuance of the Request for Proposals (“RFP”). Total payments are then determined using the TOD adjusted generation, based on the generation profile provided in the proposal, and the contract price. For projects that include a capacity-related payment in addition to an energy price, the total payments are determined by using the TOD-adjusted generation based on the generation profile provided in the proposal, the energy price, and the capacity payment.

- Integration Costs

Integration costs are the additional system costs required to provide sufficient ancillary service capability including load following and frequency regulation ~~as a result of integrating various~~to integrate renewable resources. ~~Pursuant to In D.04-07-029, as clarified in D.07-02-011, the Commission required that integration cost adder for all proposals is zero. Adders be zero for the first year of RPS solicitations (i.e., 2004) due to the results from the California Energy Commission (“CEC”)-commissioned “California Renewables Portfolio Standard Renewable Generation Integration Cost Analysis” study, published in 2004.<sup>3</sup> The Commission stated that “at present levels of penetration, renewable generation causes no noticeable increase in the cost of these ancillary services.”<sup>4</sup> However, the Commission specifically stated that this was its ruling for the first year of RPS solicitations and that “further addition of intermittent renewables to the system may, in future years, cause us to change this determination.”<sup>5</sup>~~

As California continues to procure additional intermittent renewable resources, SCE believes that current levels of intermittent renewable resources require an increase in the provision of the ancillary services mentioned above. An integration study that reflects updated regulatory and procurement expectations should be used as a basis for integration costs in the 2010 RPS solicitation, which will be implemented as a cost adder in the LCBF analysis. As discussed in Section 6.8 of SCE’s 2010 Written Plan, SCE proposes to assess multiple integration cost studies, including the “CAISO Analysis of Operations and Integration

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<sup>3</sup> D.04-07-029 at 12-14.

<sup>4</sup> Id. at 13.

<sup>5</sup> Id.

Requirements Associated with 33% RPS,”<sup>6</sup> and whether they are representative of California’s market, and then use more updated results as the basis for evaluating integration costs in the LCBF evaluation.<sup>7</sup>

- Transmission Cost

~~System transmission upgrade costs are estimated utilizing the TRCR corresponding to the service territory location for~~ For resources that do not have an existing interconnection to the electric system or a completed facilities study. ~~TRCRs are published prior to the release of the solicitation and are based on responses to a request for prospective/potential proposals and include active generator interconnection requests. Transmission, system transmission upgrade costs are estimated utilizing the TRCR methodology and specific proposal details provided by sellers in the RFP process. Network upgrade costs and scope from interconnection studies are used to the extent they are available and applicable. To the extent studies are not available, transmission~~ cost adders for new generation are ~~assigned by cluster, or regions, and are based on standard off-the-shelf unit cost guides. Proposals received in the actual solicitation that do not fit into the clusters defined by the TRCR will have adders developed using the same methodology as was used in the original TRCR. unit cost guides used in interconnection cluster studies.~~

- **Discuss how much detailed transmission cost information the IOU requires for each project**

Other than the assumptions provided in a seller’s proposal, SCE does not require additional transmission information, unless the seller has completed a transmission provider study. If one or more transmission provider studies have been completed with respect to the proposed project, then the seller must provide the results.

- **Discuss whether cost adders are always imputed for projects in transmission-constrained areas, or whether and how costs for alternative commercial transactions (i.e., swapping, remarketing) are substituted.**

SCE uses the best available information it can find when determining the cost of potential upgrades for projects in transmission-constrained areas. For those projects ~~whose transmission upgrade costs cannot be determined from SCE’s TRCR~~ outside SCE’s service area, the TRCRs of Pacific Gas and Electric Company or San Diego Gas & Electric Company are used as appropriate. SCE applies the required upgrade costs to get the project delivered to the nearest defined market (e.g., NP15, SP15, ZP 26 Generation Trading Hubs). For projects with an assumed delivery point outside the California Independent System Operator (“CAISO”), SCE

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<sup>6</sup> The results are expected in the second quarter of 2010.

<sup>7</sup> In previous solicitations, the integration cost adder for all proposals was zero pursuant to D.04-07-029, as clarified in D.07-02-011.

applies a power swapping methodology, where the power is assumed to be sold into the local market.

### QUALITATIVE ASSESSMENT

In addition to the benefits and costs quantified during SCE's evaluation, SCE assesses non-quantifiable characteristics of each proposal by conducting a comprehensive analysis of each project's qualitative attributes. These qualitative attributes are used to consider inclusion of additional sellers on the short list due to the strength of a particular seller's proposal. Pursuant to D.04-07-029, the presence of demonstrated qualitative attributes may justify moving a proposal onto SCE's short list of proposals if (a) the initial proposal rank is within reasonable valuation proximity to those selected for the short list and (b) SCE consults with, and receives general support from its PRG prior to ~~elevate~~elevating the proposal based on qualitative factors.

This assessment may also result in the exclusion of proposals from the short list due to the relative weakness of highly-ranked proposals or other identified issues such as potential seller and/or supply chain concentration concerns.

In other instances, where there are weaknesses in some of these factors (although these may not be significant enough to exclude a proposal from the short list), SCE utilizes additional contract requirements to manage these issues during the development of the project.

Each of the elements for the qualitative analysis is described briefly below.

#### Project Viability

SCE assesses the following attributes using the ~~Commission's prescribed~~ Project Viability Calculator:

- Company/Development Team
  - Project Development Experience
  - Ownership/O&M Experience
- Technology
  - Technical Feasibility
  - Resource Quality
  - Manufacturing Supply Chain
- Development Milestones
  - Site Control
  - Permitting Status
  - Project Financing Status
  - Interconnection Progress
  - Transmission Requirements
  - Reasonableness of Commercial Operation Date ("COD")

#### Additional Qualitative Attributes

Following the Project Viability Calculator qualitative assessment, SCE considers additional qualitative characteristics to determine advancement onto the short list or tie-breakers, if any. These additional characteristics may include:

- Transmission ~~Area~~area (e.g., Tehachapi, Sunrise, within SCE’s load pocket)
- Portfolio ~~Fit~~fit of COD
- Seller ~~Concentration~~concentration
- ~~Performance Assurance amount that Seller intends to post~~
- Expected ~~Generation~~generation (GWh/year)
- ~~\$/CO<sub>2</sub> Reduction~~
- Dispatchability and ~~Curtailability~~curtailability
- Contract ~~Price~~price
- Alternative Renewable Premium (i.e., Renewable Premium including ~~Integration Costs~~integration costs)
- Environmental impacts of ~~Seller~~seller’s proposed project on California’s water quality and use
- Resource ~~Diversity~~diversity
- Benefits to minority and low income communities
- Local ~~Reliability~~reliability
- Environmental ~~Stewardship~~stewardship

## OTHER CONSIDERATIONS

### Credit and Collateral Requirements

In order to ensure comparable pricing for ranking, SCE requires sellers to commit to posting SCE’s pro forma performance assurance amount as specified in Section 7.03 of the RFP Procurement Protocol. Performance assurance is the collateral posted by the seller during the operating period.

### Out-of-~~state~~State Projects

- **Discuss how evaluation process differs for out-of-state projects**

The overall evaluation methodology is applied consistently to projects regardless of location. ~~As previously discussed, energy~~Energy benefits for those projects outside of the CAISO will be based on the pricing at the ~~nearest~~seller-elected liquid trading hub or CAISO intertie according to SCE’s fundamental price forecast for hubs across the Western Electricity Coordinating Council (“WECC”). For projects that deliver at the busbar, SCE will evaluate the energy benefits based upon the regional price forecast where the energy is likely to be managed. Capacity benefits will be based on SCE’s forecast of the regional capacity value, the nameplate capacity of the project, and the ~~ELCC~~peak capacity contribution factor of the project.

For those projects within or connected directly to the CAISO, SCE applies the cost to customers of new CAISO network upgrades required for deliverability of the new project. SCE customers are not liable for any network upgrades outside of the CAISO ([outside of any costs that may be imbedded within the contract pricing](#)) so transmission cost adders are zero for out-of-state projects.

## **B. Criteria Weightings**

- 1. If a weighting system is used, please describe how each LCBF component is assigned a quantitative or qualitative weighting compared to other components. Discuss the rationale for the weightings.**

SCE does not apply a weighing system in its LCBF evaluation.

- 2. If a weighting system is not used, please describe how the LCBF evaluation criteria are used to rank proposals.**

SCE's LCBF quantitative evaluation of the proposals incorporates energy and capacity benefits with contract payments, transmission and integration costs, and debt equivalence to create individual benefit and cost relationships, namely, the Renewable Premium. It is the Renewable Premium that is used to rank and compare each project. Qualitative attributes of each proposal are then considered to further screen the short list and determine tie-breakers to arrive at a final short list of proposals.

- 3. Discuss how the IOU LCBF methodology evaluates project commercial operation date relative to transmission upgrades required for the project.**

As part of the qualitative assessment, SCE considers sellers' proposed on-line dates for the project in conjunction with a variety of critical project milestones. Such milestones include network upgrade status and scope, status of major equipment procurement and lead times, and permitting status. For those projects which SCE has concerns over the viability of the timeframe, a range of on-line dates (and transmission facilities availability) are evaluated to determine the sensitivity of the results to the timing. If the project ranking does not change in a manner that would change its original selection status over a range that SCE deems reasonable, then the original assessment is used. For projects whose selection is dependent on the timing of the project and the availability of upgraded transmission facilities, further analysis of the timing of the projects is required.

- 4. Discuss how the LCBF methodology takes into account proposals that may be more expensive, but have a high likelihood of resulting in viable projects.**

SCE's LCBF methodology incorporates project viability in a qualitative assessment after the preliminary ranking of proposals has been completed and in determining the size of the short list. Proposals that are more expensive tend to be lower on the quantitative ranking of projects, and, therefore, may fall beyond the initial short list cut-point. SCE may pull such projects onto the short list if, from its qualitative assessment, it determines the project maintains high viability [and the initial proposal rank is within reasonable valuation proximity to those selected for the short list](#). In this situation, the quantitative ranking is still considered as part of the overall decision, but the viability becomes the key driver.

## **C. Evaluation of utility-owned, turnkey, buyouts, and utility-affiliate projects**

**1. Describe how utility-owned projects are evaluated against power purchase agreements (“PPAs”)**

SCE views utility-owned cost-of-service generation as a necessary and good option for customers to have. SCE does not evaluate proposed utility-owned projects against PPAs, as utility-owned generation and contracted-for generation are fundamentally different products. As such, any attempt to do a numerical comparison of them is unworkable. This topic is discussed in detail in the Supplemental Testimony to SCE’s 2006 LTTP (Section I.B, pgs 2-5). Moreover, approval of a utility-owned project would not be submitted through the solicitation process, but through a formal application.

**2. Describe how turnkey projects are evaluated against PPAs**

Turnkey projects are similar to utility-owned projects. Refer to the response above.

**3. Describe how buyout projects are evaluated against PPAs**

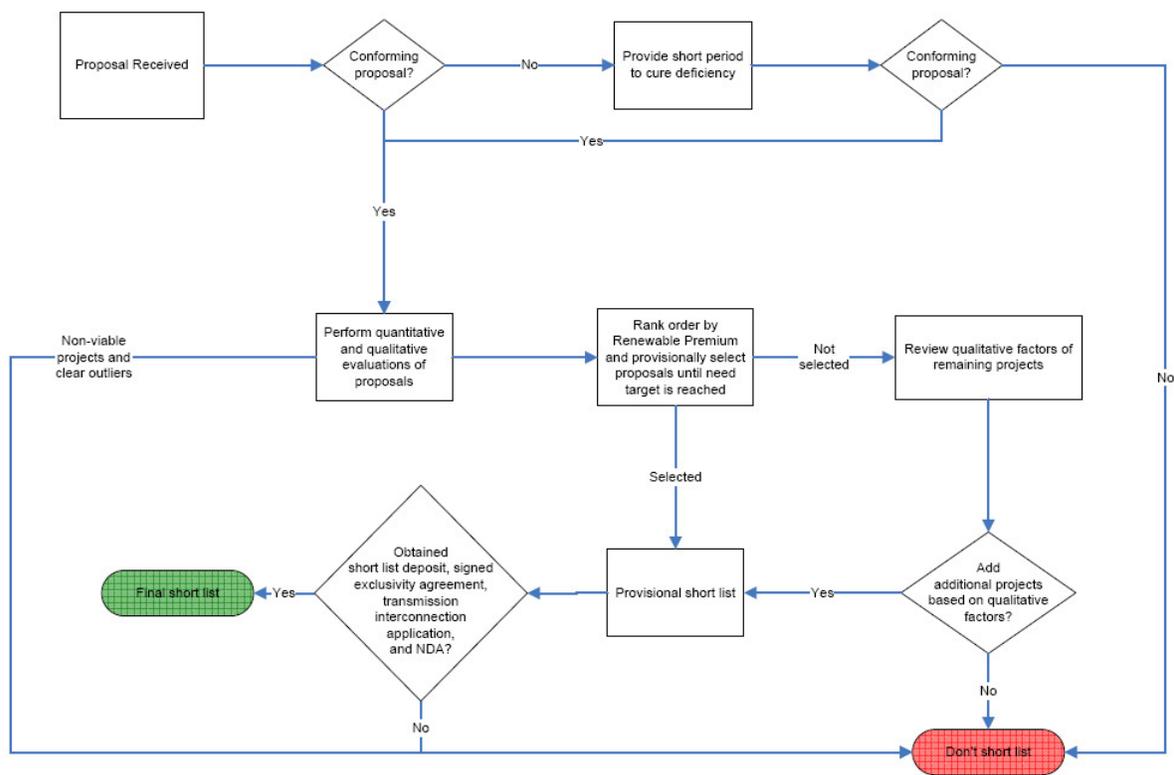
Project buyout options are ~~not specifically requested in SCE’s solicitation protocols, but if such option is offered in a complete and otherwise conforming proposal, SCE will consider the proposal pursuant to the LCBF methodology described herein. essentially a hybrid of utility-owned projects and PPAs. Refer to the response above.~~

**4. Describe how utility-affiliate projects are evaluated against non-affiliate projects**

Utility-affiliate projects are evaluated in the same manner as non-affiliate projects. In addition, evaluation of utility affiliate projects would be subject to review by the ~~independent evaluator~~Independent Evaluator, the PRG, and the Commission through the ~~application~~ approval process.

**III. Proposal Evaluation and Selection Process**

- A. What is the process by which proposals are received and evaluated, selected or ~~rejected~~not selected for ~~shortlist~~short list inclusion, and further evaluated once on the ~~shortlist~~short list?



**B. What is the typical amount of time required for each part of the process?**

The typical amount of time required for the short-listing process depends on the volume of proposals received by SCE during a solicitation. Historically, it has taken SCE no more than eight weeks to complete the LCBF evaluation process, which includes quality control of **bidders/sellers'** information, transmission assessment, quantitative assessment, qualitative assessment, management review, and PRG meetings. Many of the components in the overall process overlap and may require additional time if clarification from sellers is needed.

**C. How is the size of the ~~shortlist~~ short list determined?**

The size of SCE's short list is determined largely by an assessment of the attractiveness of RPS-eligible energy proposals and a desire for a robust, inclusive set of developer proposals. The short list is expanded well beyond the point that is needed for SCE to meet its RPS goals, as there is an expectation that some projects that are selected will not join the short list and that negotiations will not be successful with some short-listed sellers.

**D. Are ~~rejected bidders/sellers that are not selected to be short-listed~~ told why they were ~~rejected?~~ not short-listed? If so, what is the process?**

**Bidders/Sellers** are informed by e-mail that their proposals were not short-listed. The e-mail does not contain specific reasons for a **bidder's rejection/seller's proposal not being selected for short-listing**. However, **bidders/sellers** often contact SCE to obtain specificity regarding their

~~rejection~~[projects and what can be improved for future solicitations](#). In such cases, SCE refers the ~~bidder~~[seller](#) to the RFP documentation in conjunction with a ~~high-level~~ discussion of the ~~bidder~~[seller](#)'s project [quantitative and qualitative scoring](#).

**E. Were any proposals rejected for non-conformance? If so, how many and what were the non-conforming characteristics?**

It is unknown how many proposals will be rejected for non-conformance since the ~~2009~~[2010](#) solicitation has not yet been issued. However, SCE has [generally](#) established its conformance criteria as follows:

- ~~1.~~[1. Acceptable offer submittal package](#)
- ~~2.~~[2. Delivery point within WECC](#)
- ~~3.~~ ~~Submittal of Revenue Calculator or project data in other acceptable format to allow valuation of offer~~
- [3. Seller's Proposal Template and Calculator](#)
- ~~4.~~[4. Proposed facility is, or SCE reasonably expects facility to qualify as, an eligible renewable energy resource](#)
5. Minimum size is 1.5 MW
- [6. Non-disclosure Agreement](#)
- [7. Seller's Acknowledgements](#)
- [8. Proposal Structure Letter](#)

Proposals conforming to these criteria will be included in SCE's LCBF methodology used to determine its short list. ~~Proposals~~[Sellers lacking in any of these items are allowed a cure period to remedy any deficiencies. If any deficiencies are not cured, proposals](#) lacking in one or more of ~~the~~[these](#) criteria will be considered ineligible for short list consideration.

**F. Describe involvement of the Independent Evaluator**

The ~~independent evaluator~~[Independent Evaluator](#) monitors SCE's RPS solicitations, provides an independent ~~evaluation~~[review](#) of SCE's process, [models, assumptions](#), and the proposals it may receive, and helps the Commission and SCE's PRG participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the ~~best~~[most appropriate](#) resources were ~~acquired~~[short-listed](#). The ~~independent evaluator~~[Independent Evaluator](#) also provides an assessment of SCE's RPS solicitation from the initial phase of the solicitation (i.e., the publicizing of the issuance of the RFP) through the development of a short list of proposals/~~bidder~~s with whom SCE has commenced negotiations.

**G. Describe involvement of the Procurement Review Group**

SCE consults with its PRG during each step of the renewable procurement process. Among other things, SCE provides [access to the](#) solicitation materials and pro forma contracts to the PRG for review and comment before commencing the RFP; informs the PRG of the initial results of the RFP; explains the evaluation process; and updates the PRG periodically concerning the status of contract formation.

**H. Discuss whether and how feedback on the solicitation process is requested from ~~bidders~~ sellers (both successful and unsuccessful) after the solicitation is complete**

SCE regularly receives feedback during the normal course of its solicitation process. Shortly after the 2009 RPS RFP Bidders Conference, SCE solicited feedback from participants via a web based survey. The results of this feedback was shared with SCE's PRG. In addition, SCE anticipates it will formally solicit feedback either through a survey, workshop or other similar method from participants in the 20082009 solicitation ~~once that solicitation process has been completed.~~ SCE plans to follow this same approach for 2010.

Document comparison by Workshare Professional on Wednesday, December 16, 2009  
10:11:14 AM

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Description	LAW-#1666671-v1-R.08-08-009_Second_Amended_RPS_Procurement_Plan_-_Attachment_1_Appendix_D_LCBF_Written_Report
Document 2 ID	PowerDocs://LAW/1692694/1
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Format changed	0
Total changes	259

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Continue	)	
Implementation and Administration of California	)	Rulemaking 08-08-009
Renewables Portfolio Standard Program.	)	
<hr/>		(Filed August 21, 2008)

**NOTICE OF AVAILABILITY OF SOUTHERN CALIFORNIA EDISON COMPANY'S  
(U 338-E) 2010 RPS PROCUREMENT PLAN**

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
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Order Instituting Rulemaking to Continue	)	
Implementation and Administration of California	)	Rulemaking 08-08-009
Renewables Portfolio Standard Program.	)	
<hr/>		(Filed August 21, 2008)

**NOTICE OF AVAILABILITY OF SOUTHERN CALIFORNIA EDISON COMPANY'S  
(U 338-E) 2010 RPS PROCUREMENT PLAN**

Pursuant to Rule 1.9(c) of the Rules of Practice and Procedure of the California Public Utilities Commission, Southern California Edison Company (“SCE”) hereby provides this notice of availability of the public version of SCE’s 2010 RPS Procurement Plan. This document exceeds 50 pages.

This document may be accessed through SCE’s website electronically within one hour of this e-mail service. To access these documents from SCE’s website, go to the following URL:

<http://www3.sce.com/law/cpucproceedings.nsf/frmMainPage?ReadForm>

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- (1) Go to [www.sce.com](http://www.sce.com);
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- (4) In the search box and type in “R.08-08-009”; select “Go.”
- (5) The documents can be viewed on-line, printed, or saved to your hard drive.

As an alternative to accessing the documents on SCE’s website, SCE will provide a print copy of the public document to any party upon request. To request a print copy of the documents, please direct your request to SCE as follows:

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**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the California Public Utilities Commission's Rules of Practice and Procedure, I have this day served a true copy of the **NOTICE OF AVAILABILITY OF SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) 2010 RPS PROCUREMENT PLAN** on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this **18<sup>th</sup> day of December, 2009**, at Rosemead, California.

/s/ Christine M. Sanchez

By: Christine M. Sanchez

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