Decision 07-08-028 August 23, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company (U 338-E) for Approval of Renewables Portfolio Standard Power Purchase Agreement with Chateau Energy, Inc. and for Authority to Recover the Costs of Such Power Purchase Agreement in Rates.	Application 07-02-016 (Filed February 16, 2007)

OPINION APPROVING POWER PURCHASE AGREEMENT

1. Summary

This decision grants the request of Southern California Edison Company (SCE) for approval of a renewables portfolio standard (RPS) power purchase agreement (PPA) with Chateau Energy, Inc. (Chateau). The contract will provide SCE with eligible renewable energy from a biomass facility located near Imperial, California for a term of 15 years. The project's capacity is 15 megawatts (mw) with an expected on-line date in 2008. This proceeding is closed.

2. The Chateau Project

Facility	Type	Term Years	MW Capacity	GWh Energy	Expected Online Date	Location
Chateau	Biomass, treated manure and wood wastes	15	15 MW	105	2008	Imperial, CA

Chateau is an existing biomass facility[1] that had previously delivered renewable energy to SCE under an Interim Standard Offer No. 4 (ISO4) contract. The facility was originally built in 1986 to process cow manure into energy and operated until December 1994 when SCE bought out the original ISO4 contract. This PPA is not eligible for supplemental energy payments (SEPs) from the California Energy Commission (CEC).[2]

3. SCE's Request

SCE requests that the Commission approve the Chateau contract, and find that payments made pursuant to the PPA are fully recoverable in rates over the life of the contract, subject only to Commission review of SCE's administration of the contract.

By ALJ Resolution 176-3188, dated March 1, 2007, this proceeding was categorized as ratemaking with no need for hearing. There were no protests or responses to the application. We affirm the categorization and that there is no need for a hearing.

4. RPS Program Background

4.1 The RPS Program Requires Each Utility to Increase the Amount of Renewable Energy in its Portfolio

The California RPS Program was established by Senate Bill (SB) 1078 (Chapter 516, statutes of 2002, effective January 1, 2003) and codified at California Pub. Util. Code § 399.11, *et seq*. The statute requires that a retail seller of electricity such as SCE purchase a certain percentage of electricity generated

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[1] The facility is known as the Mesquite Lake Resource Recovery Facility.

[2] In Decision (D.) 06-10-019, the Commission reiterates the position taken in D.03-06-071 that bilateral contracts are not eligible for SEPs.

by Eligible Renewable Energy Resources (ERR). Originally, each utility was required to increase its total procurement of ERRs by at least 1% of annual retail sales per year so that 20% of its retail sales are supplied by ERRs by 2017.

The Energy Action Plan (EAP) called for acceleration of this RPS goal to reach 20% by 2010.[3] This position was reiterated again in the Order Instituting Rulemaking (R.04-04-026) issued on April 28, 2004, which encouraged the utilities to procure cost-effective renewable generation in excess of their RPS annual procurement targets[4] (APTs), in order to make progress towards the goal expressed in the EAP.[5] This acceleration was codified in 2006 by the enactment of SB 107.[6]

4.2 R.04-04-026 Established Procurement Guidelines for the RPS Program

The Commission has issued a series of decisions that establish the regulatory and transactional parameters of the utility renewables procurement program. On June 19, 2003, the Commission issued its "Order Initiating Implementation of the SB 1078 Renewable Portfolio Standard Program," D.03-06-071. On June 9, 2004, the Commission adopted in D.04-06-025, its market price referent (MPR) methodology for determining the utility's share of the RPS seller's bid price, as defined in Pub. Util. Code §§ 399.14(a)(2)(A) and

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[3] The EAP was jointly adopted by the Commission, the California Energy Resources Conservation and Development Commission and the California Power Authority. The Commission adopted the EAP on May 8, 2003.

[4] A Load Serving Entity's (LSE's) APT for a given year is the amount of renewable generation an LSE must procure in order to meet the statutory requirement that it increase its total eligible renewable procurement by at least 1% of retail sales per year.

[5] Most recently reaffirmed in D.06-05-039.

[6] SB 107, Chapter 464, Statutes of 2006.

399.15(c). On the same day, the Commission adopted standard terms and conditions for RPS PPAs in D.04-06-014 as required by Pub. Util. Code § 399.14(a)(2)(D). Instructions for evaluating the value of each offer to sell products requested in a RPS solicitation were provided in D.04-07-029.

4.3 Commission Established Bilateral Procurement Guidelines for the RPS Program

While the focus of the RPS program is procurement through competitive solicitations, D.03-06-071 allows a utility and a generator to enter into bilateral contracts outside of the competitive solicitation process. According to D.03-06-071, bilateral contracts will only be allowed if they do not require Public Goods Charge (PGC) funds.[7]

In D.06-10-019, the Commission stated that while bilateral contracts are not subject to the MPR, the contracts must be deemed reasonable. D.06-10-019 also states that the Commission may develop a price evaluation tool for evaluating the reasonableness of utilities' bilateral RPS contracts. However, in the interim, utilities' bilateral contracts can be evaluated prior to establishing formal evaluation criteria.[8]

5. The Chateau Contract Should Be Approved

As discussed below, we have considered SCE's request and have determined that the Chateau contract should be approved without modification.

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[7] SB 107 confirms that bilateral contracts cannot receive PGC funds, establishing the criteria that to receive the PGC awards, the project must have resulted from a competitive solicitation.

[8] On May 10, 2007, a ruling was issued in R.06-02-012 asking for comments on Energy Division's proposal for reasonableness criteria for bilateral contracts.

5.1 SCE's Procurement Review Group Participated in Review of the Contract

In D.02-08-071, the Commission required each utility to establish a "Procurement Review Group" (PRG) whose members, subject to an appropriate non-disclosure agreement, would have the right to consult with the utilities and review the details of:

1. Overall transitional procurement strategy;
2. Proposed procurement processes including, but not limited to, the request for proposal (RFP); and
3. Proposed procurement contracts before any of the contracts are submitted to the Commission for expedited review.

SCE's PRG was formed on or around September 10, 2002. Recent participants include representatives from the Commission's Energy Division, the Division of Ratepayer Advocates, The Utility Reform Network, the Natural Resources Defense Council, the Consumers' Union, California Utility Employees, and California Department of Water Resources (DWR). SCE consulted with its PRG during each step of the renewable procurement process. Among other things, SCE provided solicitation materials and pro forma contracts to the PRG for review and comment before commencing the RFP; informed the PRG of the initial results of the RFP; explained the evaluation process; and updated the PRG periodically concerning the status of contract formation. On December 19, 2006, SCE briefed the PRG concerning the successful conclusion of discussions with Chateau.

5.2 SCE's 2006 Renewable Procurement Plan Established Need

California's RPS statute requires the Commission to review the results of a renewable energy resource solicitation submitted for approval by a utility.

The Commission will then accept or reject proposed PPAs based on their consistency with the utility's approved renewable procurement plan.[9] In accordance with the RPS legislation and D.03-06-071, SCE submitted its 2006 RPS procurement plan and bid solicitation materials for Commission approval. The Commission approved SCE's 2006 procurement plan and bid solicitation material in D.06-05-039. As required by statute, it includes an assessment of supply and demand to determine the optimal mix of renewable generation resources, consideration of compliance flexibility mechanisms established by the Commission, and a bid solicitation setting forth the need for renewable generation of various operational characteristics.

5.3 The PPA Fits with Identified Renewable Resource Needs

In its 2006 RPS RFP, SCE states that it has a preference for resources with initial operations dates prior to 2009 because of its strong near-term need for renewable energy. SCE indicates that it does not have an institutional preference for a particular resource mix or technology type. SCE says it will solicit proposals for contract terms of 10, 15 and 20 years, and require each proposal to be at least 1 MW. According to SCE, it will evaluate proposals based on criteria intended to achieve the lowest ratepayer cost and the best fit with utility retained generation and DWR generation.

5.4 Chateau Compares Favorably to Bids in SCE's 2006 Solicitation

Although the Chateau project is a bilateral contract and was not negotiated as part of a competitive solicitation, SCE conducted a least best cost fit

[9] Section 399.14(c).

(LCBF) analysis[10] on Chateau's proposal relative to both SCE's 2005 and 2006 solicitations. SCE's analysis demonstrated that the project's benefit-to-cost ratio compared favorably to both solicitations. Since the contract was negotiated in 2006, the Commission regards the LCBF analysis relative to the 2006 RFP as the proper benchmark; SCE reports that Chateau would have been shortlisted in 2006 given its high benefit-to-cost ratio.

5.5 PPA is Consistent with RPS Bilateral Contracting Guidelines

Chateau requested a bilateral contract with SCE in order to meet a federal production tax credit (PTC) deadline. The proposed PPA is consistent with Commission decisions regarding RPS bilateral contracts for the following reasons:

1. The PPA is not seeking SEP funds.
   - The PPA is ineligible for SEPs because (1) it did not result from a competitive solicitation[11] and (2) it is a preexisting facility.[12]
2. Pursuant to D.07-02-011, the PPA was submitted by application.[13]

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[10] D.04-07-029 directs the utilities to use certain criteria in their bid ranking. SCE's LCBF bid review process is detailed in its prepared testimony (Exh. 1, pp. 2-7.)

[11] "[The CPUC]…will allow prudent bilateral contracts only when such contracts do not require any PGC funds." (D.03-06-071 p. 59, CoL 31, OP 29).

[12] CEC RPS Eligibility Guidebook, April 2006, pp. 17. "A facility that is eligible for the RPS may also be eligible for SEPs. To qualify as eligible for SEPs, … a facility is either a. 'new,' meaning the facility first commences commercial operations on or after January 1, 2002…or 'repowered'…"

[13] The Energy Division is authorized to screen PPAs for issues that require special attention (*e.g.* changes to Commission adopted non-modifiable standard terms and conditions) and request that the utility file the contract by application rather than advice letter. (D.07-02-011 p. 49.)

3. The PPA is at least one month in duration.[14]
4. The PPA is reasonably priced, based on a comparison to the 2006 MPR, an analysis of the technology, and the project's benefit-to-cost ratio. The price of the bilateral contract must be deemed reasonable by the Commission.[15]

5.6 Contract Price is Reasonable

The Commission intends to include more explicit standards for evaluating the reasonableness of bilateral RPS contracts in a decision in the near future. Until such a decision is approved, the Commission will continue to consider the approval of RPS short-term bilateral contracts only on a case-by-case basis.

In the case of Chateau, the Commission has considered its price relative to the MPR, to the bids into SCE's 2006 RPS solicitation, and to other biomass contracts. While the contract price is not at or below the 2006 MPR for 15-year contracts coming online in 2008, the project's benefit-to-cost ratio was favorable, and SCE would have shortlisted the project in its 2006 RPS solicitation. Also, Chateau is utilizing a new technology to mitigate the moisture content of the fuel (manure) and to improve operating efficiencies of the facility.[16] For all of these reasons, we find the price reasonable.

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[14] "All RPS-obligated LSEs are also free to enter into bilateral contracts of any length with RPS-eligible generators, as long as the contracts are at least one month in duration, to enable the CEC to verify RPS procurement claims." (D.06-10-019 p. 29.)

[15] D.06-10-019, p. 31.

[16] Because of its moisture content, manure has historically led to more operational problems than other biomass fuels. This increases the costs of the technology and operations.

5.7 Viability of Project

Some project viability risk exists with Chateau, however, the benefits of a near-term reasonably priced project outweigh these risks.

Project Milestone

The PPA identifies the agreed upon project milestones, including project financing, construction start and commercial operation deadlines.

Project Financing

The developer has indicated that financing will be finalized after a Commission decision approving the PPA has become final and non-appealable.

Fuel Source and Technology Risk

Because of this project's location and access to fuel, fuel supply risk is minimal for the Chateau project. Additionally, ratepayers face no risk because Chateau will take full risk of fuel supply, and the contract price is not contingent on fuel price changes.

Historically, biomass facilities using manure have encountered operational problems due to the high moisture content. Chateau will be upgrading its facility, using a newly engineered technology designed to overcome such problems. The project viability risk of using this nascent technology is outweighed by the upside benefits of approving this RPS contract.

Production Tax Credit

The Agreement is contingent on receiving federal PTCs, which currently expire on December 31, 2008. The Chateau project has an expected online date in 2008 and a commercial operation deadline of December 31, 2009. Thus, the project faces a moderate PTC risk if the legislation is not extended

beyond 2008. However, the Seller bears the PTC price risk; ratepayers will not be affected.

Sponsor's Creditworthiness and Experience

The developer has not previously operated a power plant.

5.8 Consistency with Adopted Standard Terms and Conditions

In D.04-06-014, the Commission set forth standard terms and conditions (STC) to be incorporated into RPS agreements. Appendix A of that decision identified the STC, some of which are categorized as "may not be modified." The Chateau Contract contains modifications to certain STC,[17] some of which were identified as non-modifiable by D.04-06-016.

SCE states that these modifications to the standard terms were commercially necessary or substantively immaterial to the terms contained in D.04-06-014.

Modifications that SCE considered to be immaterial affected the definition of "CPUC Approval" and "Environmental Attributes" in Exhibit A to the PPA and Sections 1.04 Term, 1.02 Start Up Deadline, 3.01 Conveyance of Entire Output, Conveyance of Environmental Attributes and Capacity Attributes, 10.02 Additional Warranties, 3.16 Obtaining and Maintaining CEC Certification and Verification and 10.07 Governing Law. SCE states the modifications were very minor, were mutually agreed to by both parties and were made to provide more clarity to the PPA as a whole.

[17] A comparison of the standard terms from D.04-06-014 to SCE's 2006 pro forma and the Chateau Contract can be found in Appendix B of Exhibit 1.

According to SCE, it was commercially necessary to modify the assignment term, a term which, by D.04-06-016, "may not be modified." The principal differences in the assignment term between the proposed Chateau contract provision and the Commission standard term relate to the conditions under which the PPA may be assigned to a lender. The standard term provides that the lender must agree to be bound by the PPA, which according to SCE, is almost universally unacceptable to sellers including Chateau.

Chateau requested the following modifications to this term: (i) notice of potential seller defaults, an opportunity to cure seller defaults and an extension of cure periods so that the lender can cure the default if it elects to do so; (ii) lender rights to approve material contract amendments; and (iii) no lender liability for monetary obligations under the PPA which are due and owing to SCE as of the date of any lender assumption of the PPA. SCE agreed those terms were reasonable and acceptable. In return, SCE requested that the lender agree to keep the PPA in force, or enter into a new PPA with substantially identical terms in the event that a lender or an agent or representative of lender takes control of the project in a foreclosure, workout or bankruptcy scenario. Chateau agreed to this modification. SCE states that this additional assurance that the PPA will remain in force notwithstanding seller financial difficulties provides substantial value, both to SCE and to sellers and lenders.

SCE believes that, without the modification to the assignment term, it would have been very difficult for Chateau to obtain financing, noting that (a) in SCE's years of experience negotiating RPS contracts, nearly all of its counterparties have insisted on the changes SCE has made to the standard

assignment term,[18] (b) SCE's outside counsel has confirmed that it is very difficult for RPS developers to receive financing of their projects under the language of the standard assignment term, and (c) SCE's in-house credit and risk experts agree that the modifications to the standard assignment term are necessary.

5.8.1 Discussion

The modifications to the assignment STC, as described above, provide a benefit to Chateau in that it reduces lender risk and accommodates third party project financing. In exchange SCE receives assurance that, in the event that Chateau's lender assumes the agreement, the terms of the PPA will largely remain in place. However, this assurance does not appear to be any more than what was provided in the assignment STC whereby lender must agree to be bound by the PPA. We are concerned with the assignment modification that eliminates lender liability for monetary obligations under the PPA which are due and owing to SCE as of the date of any lender assumption of the PPA. Absent assumption by the lender, these liabilities must be assumed by SCE and ultimately SCE's ratepayers.

With respect to the potential monetary obligations that might accrue in such an event, SCE notes that it extremely difficult to quantify exact monetary

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[18] SCE indicates that nine out of ten executed contracts resulting from the 2005 solicitation have the same modifications to the assignment term. The seller for 10th contract did not require third party financing and the modification was not required. To date, one contract has been executed as a result of the 2006 solicitation and that contract has the same modifications to the assignment term. Also, SCE states that three recent non-RPS contracts for resources that involve new construction have nearly identical assignment term language as the Chateau Contract. (Exhibit 4, p. 3.)

impacts due to several unknown factors that would be involved in the assumption of the contract. SCE explains:

> For example, the monetary exposure from the Chateau Contract would be directly related to the market price of renewable energy for similar products. This "market price" would be difficult to accurately predict, or even identify, because currently there is no market for uncommitted renewable power. Indeed, all of SCE's new RPS contracts are with either new facilities or long-term extensions of expiring contracts. Moreover, even in connection with "standard" products from conventional resources, determining what constitutes a "similar product" can be the subject of extensive litigation between parties. Also, it is unknown to what degree and under what circumstances Chateau would default on the contract. These circumstances would have a large impact on determining the monetary exposure of the assignment term in the Chateau Contract.[19]

However, based on Chateau's annual delivery obligation of 84 gigawatt hours (GWh) per year, SCE states that failure to meet that obligation would result in a maximum annual exposure of $4,200,000.[20] Also, the Chateau Contract provides for termination of the contract if performance is not sustained. In this situation, the contract provides for termination rights and the calculation of a termination payment based on forward settlement amounts. SCE indicates that for every

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[19] Exh. 4, pp. 1-2.

[20] If Chateau does not meet this minimum obligation (allowing for specific adjustments contained in the contract), then it would be responsible for the difference between the market price and the contract price with a maximum obligation set at 5¢/kilowatt hours (kWh) above the contract price.

cent (1¢) the market price exceeds the contract price on a kWh basis, the exposure would amount to $1,050,000 per year.[21]

SCE qualifies these analyses in stating its belief that Chateau is a viable project and that complete contract failure would be an unlikely event, and the probability of a termination event is significantly mitigated, if the lender takes possession of the generating facility and continues deliveries under the agreement. We understand there could be a number of unknown factors in contract assumptions and that that the numbers provided by SCE are illustrative of what the extent of the liabilities might be and are not a forecast of what might likely occur. However, they provide a sense of what additional costs ratepayers might be exposed to under the terms of the Chateau contract.

It is understandable that a lender would want to limit its exposure to these types of liabilities and that a seller such as Chateau would negotiate with that in mind in order to receive financing with acceptable, or more acceptable, terms. SCE, on the other hand, has a responsibility to seek optimal contract terms and conditions in the interest of its ratepayers who generally bear the costs. In this instance, SCE agreed to the seller's demands while obtaining assurance that the PPA would remain in force notwithstanding seller financial difficulties. In justifying its actions, SCE did not identify alternatives that might have been acceptable to lenders had SCE insisted that the assignment STC remain in place. As indicated previously, SCE's belief is that, without the modifications to the assignment term, it would have been very difficult for Chateau to obtain financing at all. We cannot speculate as to whether or not

[21] Unlike the performance obligation, this obligation is not capped at 5¢/kWh.

project financing would have been available absent modifications to the assignment STC. However, we expect that if it were available, it might very well have been at a higher cost than if the proposed modifications were in place, resulting in upward pressure on the negotiated contract price.

Given the options of potentially higher PPA costs that would be borne by ratepayers, no PPA at all, or increased ratepayer risk in the event the lender assumes the PPA, we choose the latter. As we previously stated, while some project viability risk exists with Chateau, the benefits of a near-term reasonably priced project outweigh those risks. We agree with SCE that complete contract failure is an unlikely event, and the probability of a termination event is significantly mitigated, if the lender takes possession of the generating facility and continues deliveries under the agreement. Approval of the contract is consistent with our continuing belief in, and support of, the RPS program and RPS goals.

We will therefore approve SCE's modifications to the assignment STC. However, we do so with some reservation because of remaining questions related to the modifications. For instance, what is the experience of other LSEs regarding the need to modify the assignment STC; what kinds of modifications have other LSEs made; and how prevalent are those modifications in other LSE's contracts? Also, if the standard assignment condition is nearly universally unacceptable to sellers as SCE indicates, why was it included, or phrased in that manner, in the EEI Master Power Purchase & Sale Agreement on which much of the STC in D.04-06-014 are based?

Our approval of the Chateau contract is not intended to establish a precedent for modification of the assignment term for SCE or any other LSE subject to the STC contained in D.04-06-014. A final resolution of this issue for all

affected LSEs should preferably be addressed through a petition to modify D.04-06-014 or through the opportunity provided by the Scoping Memo in R.06-05-027 or through successor RPS proceedings where STC can be identified as an issue to be included in the Scoping Memo.[22] Also our approval of the Chateau contract is not contingent on any particular outcome regarding the issues surrounding modifications to the assignment STC, whether the issues are ultimately resolved through a petition for modification of D.04-06-014 or some other procedural vehicle. SCE does have the responsibility to reasonably administer the contract, and its conduct in this regard is subject to Commission review.

6. Testimony and Exhibits

On April 16, 2007, pursuant to Rule 13.8(d) of the Rules of Practice and Procedure, SCE filed a motion to offer its testimony into evidence. The motion will be granted. SCE's testimony is identified as follows and will be received into evidence:

Exhibit 1 - Prepared Testimony in Support of Application for Approval of a Power Purchase Agreement between SCE and Chateau Energy, Inc. (Confidential Version).

Exhibit 2 - Prepared Testimony in Support of Application for Approval of a Power Purchase Agreement between SCE and Chateau Energy, Inc. (Public Version).

Exhibit 3 - Renewable Power Purchase and Sale Agreement between Southern California Edison Company and Chateau Energy, Inc. (Confidential).

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[22] On February 1, 2007 PG&E and SCE filed a petition for modification of D.04-06-014 regarding standard terms and conditions required for RPS contracts. An amended petition for medication was filed on June 18, 2007. At this time, Commission action which may resolve this issue is pending.

Additionally, in response to a June 11, 2007 Administrative Law Judge (ALJ) Ruling, SCE provided additional information to support modification of the standard assignment term. The information was provided by SCE in a June 21, 2007 letter, which will be identified as Exhibit 4 and received into evidence.

7. Confidential Information

On April 16, 2007, concurrent with its motion to offer testimony into evidence, SCE filed a motion to seal the evidentiary record. SCE has provided declarations regarding the confidentiality of data provided in prepared testimony in support of its application request. The declarations identify information subject to requested confidential treatment, the appropriate

reference to the Matrix Category in Appendix A of D.06-06-066[23] regarding confidential treatment of investor owned utility data, and the assertion that the detailed information is required for the application and cannot be aggregated, summarized, redacted masked or otherwise protected in a way that allows partial disclosure.

SCE requests Exhibits 1 and 3 be received into evidence under seal. An examination of the information contained in Exhibits 1 and 3 confirms the need for confidential treatment as indicated by SCE. The request will be granted.

8. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

9. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and David K. Fukutome is the assigned ALJ in this proceeding.

Findings of Fact

1. There were no protests to this application.
2. The Chateau contract is a bilateral contract with SCE and is consistent with Commission decisions regarding RPS bilateral contracts.
3. The Chateau contract fits with identified renewable resource needs.

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[23] D.06-06-066, Appendix A, Part VII (G) provides that RPS contract summaries, including counterparty, resource type, location, capacity, expected deliveries, delivery point, length of contract and online date are public. Other terms are to remain confidential for three years, or until one year following expiration, whichever comes first.

4. The Chateau project's benefit-to-cost ratio compared favorably to both SCE's 2005 and 2006 solicitations.

5. The Chateau Contract would have been shortlisted in 2006 given its high benefit-to-cost ratio.

6. The Chateau contract price is reasonable.

7. For purposes of resolving this application, SCE's modifications to the assignment STC are reasonable.

Conclusions of Law

1. The Chateau contract should be approved without modification.

2. SCE should be allowed to fully recover the Chateau contract payments in rates over the life of the project, subject to Commission review of SCE's administration of the PPA.

3. Procurement pursuant to the Chateau contract constitutes procurement from eligible renewable energy resources for purposes of determining SCE's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (§ 399.11 *et seq*.), D.03-06-071, or other applicable law.

4. Procurement pursuant to the Chateau contract constitutes incremental procurement or procurement for baseline replenishment by SCE from eligible renewable energy resources for purposes of determining SCE's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, D.03-06-071, or other applicable law.

5. SCE should be allowed to recover in rates any indirect costs of renewables procurement identified in § 399.15(a)(2).

6. SCE's April 16, 2007 motion to offer its testimony into evidence is consistent with the provisions of Rule 13.8(d) of the Rules of Practice and Procedure and should be granted.

7. SCE's April 16, 2007 motion to seal the evidentiary record is consistent with the provisions of D.06-06-066 and should be granted as set forth in the order below.

8. This decision should be made effective immediately so that Chateau may begin providing renewable energy to SCE as soon as possible.

O R D E R

IT IS ORDERED that:

1. The Southern California Edison Company (SCE) renewables portfolio standard power purchase agreement (PPA) with Chateau, Energy Inc. is approved.

2. SCE is authorized to recover in rates payments made pursuant to the PPA, subject to further review with respect to reasonableness of SCE's administration of the PPA.

3. SCE's February 26, 2007 motion to offer testimony into evidence is granted. As described in the body of this decision, the pieces of SCE's testimony are identified as Exhibits 1, 2 and 3 and are received into evidence. Also, SCE's June 21, 2007 letter response to a June 11, 2007 Administrative Law Judge ruling, as described in the body of this decision, is identified as Exhibit 4 and is received into evidence.

4. SCE's February 26, 2007 motion to seal portions of the evidentiary record is granted as set forth below. Exhibits 1 and 3 shall be placed under seal and shall remain sealed for a period of three years from the effective date of this decision.

5. Application 07-02-016 is closed.

This order is effective today.

Dated August 23, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners