

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



JAN 27 2005

REVENUE & TARIFFS DEPT.

January 25, 2005

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison
601 Van Ness Avenue, Suite 2040
San Francisco, CA 94102

Re: Compliance with Ordering Paragraph No. 3 of Resolution E-3902

Dear Mr. Jazayeri:

This letter confirms that the evaluation methodology proposed in Advice Letter 1832-E, as further explained in Advice Letter 1832-E-A, appropriately models ISO-related costs and benefits in conformance with Ordering Paragraph No. 3 of Resolution E-3902, based on information currently known, and is therefore appropriate to use for SCE's current electrical capacity solicitation. As discussed, in Advice Letter 1832-E-A, Southern California Edison commits to work with the ISO to refine its evaluation methodology for use in future solicitations.

As you are aware, SDG&E has proposed an alternative approach to complying with D.04-07-028. The Commission will consider requiring each of the affected IOUs to adopt a common approach.

You are directed to provide an electronic copy of this letter to the service list in R.04-04-003.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sean Gallagher".

Sean Gallagher
Director, Energy Division

cc: Paul Clanon, Deputy Executive Director

CONFIDENTIAL INFORMATION REDACTED



Akbar Jazayeri
Director of Revenue and Tariffs

January 14, 2005

ADVICE 1832-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Submission of Southern California Edison Company's
(SCE) Valuation Methodology In Compliance With
Ordering Paragraph 3 of Resolution E-3902

In compliance with the directives of the California Public Utilities Commission (Commission) in Resolution E-3902, issued on December 16, 2004 which approves SCE's Advice Letter 1832-E with modifications, SCE submits this compliance filing to comply with Ordering Paragraph 3 of Resolution E-3902, and to ensure that the procurement activities described in SCE's Advice Letter 1832-E are deemed unconditionally approved and incorporated into SCE's procurement plan as Assembly Bill (AB) 57 upfront, achievable standards and criteria. If, as a result of SCE's commitments discussed in this Advice Letter 1832-E-A, SCE obtains additional information from the ISO and is able to modify its procurement and dispatch activities to further reduce ISO-related costs, SCE will propose an amendment to its procurement plan to the Commission to implement those modifications on a prospective basis.

BACKGROUND

Advice Letter 1832-E deals with SCE's proposed procurement activities for local area reliability.¹ In approving SCE's filing, the Commission in Resolution E-3902 ordered SCE to either revise its evaluation methodology for local area reliability (LAR) products, or to demonstrate that SCE's proposed evaluation methodology appropriately models the Independent System Operator's (ISO)

¹ SCE's Advice Letter 1832-E was submitted on October 22, 2004, to comply with Commission Decision (D.) 04-07-028.

costs and benefits.² In this filing, SCE demonstrates that its proposed evaluation methodology as detailed in Advice Letter 1832-E “appropriately models such [ISO-related] costs and benefits.” Conclusions of Law #3 and #4 from D.04-07-028 read as follows.

“3. When making scheduling and procurement decisions, each utility should incorporate all CAISO-related forward commitment costs that result from the utility’s decisions, including all known or reasonably anticipated CAISO-related costs, such as congestion, re-dispatch, and must-offer costs.

4. Utilities should use a comprehensive approach to scheduling and procuring resources that reasonably minimizes the need for RMR contracts.”³

In this advice letter SCE will demonstrate that the methodology proposed in Advice Letter 1832-E properly incorporates Conclusions of Law #3 and #4 from D.04-07-028 and hence “appropriately models such [ISO-related] costs and benefits.” Based on this letter, including SCE’s commitment below to continue to expeditiously work with the ISO to improve the capability of SCE and other Load Serving Entities to incorporate ISO-related costs into procurement decisions, SCE requests that the Commission issue a letter to SCE confirming that the evaluation methodology proposed by SCE in Advice Letter 1832-E “appropriately models such [ISO-related] costs and benefits” in accordance with Ordering Paragraph #3 of Resolution E-3902.

THE EVALUATION CRITERIA SCE SUBMITTED WITH ADVICE LETTER 1832-E REASONABLY COMPLY WITH THE COMMISSION’S DIRECTIVE TO INCORPORATE ISO-RELATED COSTS IN THE EVALUATION OF LOCAL AREA RELIABILITY PRODUCTS.

In the sections that follow, SCE will demonstrate that the methodology proposed in Advice Letter 1832-E appropriately incorporates ISO-related costs for must-offer waiver denial, RMR, congestion and re-dispatch based on what is “known or reasonably anticipated” at this time. Insofar as SCE’s methodology, which was specified in Appendix B of Advice Letter 1832-E is confidential, the discussion below is redacted in the public version of this compliance filing.

² Ordering Paragraph #3 states: “Edison shall revise its valuation methodology to estimate and incorporate the reduction of ISO-related costs that are associated with proposed local reliability products, or demonstrate that the evaluation methodology utilized here appropriately models such costs and benefits.”

³ D.04-07-028, *mimeo*, p.28; SCE’s Advice Letter 1813-E dealt with “scheduling” resources for local area reliability. This Advice Letter was approved by Commission Resolution E-3888 with minor modifications. SCE incorporated these modifications into Advice Letter 1813-E-A, which was approved by a letter dated October 5, 2004 from Paul Clanon.

Must-Offer Waiver Denial (MOWD) Costs



This methodology is applied to select at least an “incremental” 600 MW of generation in the local area per SCE’s agreement with the ISO. Contracts priced below the maximum price threshold would be executed; contracts priced above the threshold would be submitted to Energy Division for pre-approval.

Accordingly, SCE’s procedure takes into account MOWD costs, results in the selection of the target amount of local area reliability capacity sought by the ISO, and results in the selection of the best bids for local area reliability attributes. Thus, SCE’s procedure also results in the selection of the best bids for local area reliability attributes based on what is known or reasonably anticipated.

In Step 1 of the valuation, SCE is comparing the valuations of resources having a variety of attributes and SP-15 delivery points – including at the SP-15 zone/hub and at various bidder-specified locations in southern California. SCE lacks sufficient information from the ISO to determine the comparative

4
5
6



savings, if any, in MOWD costs from selecting various resources individually or in combinations.⁷ ⁸ SCE intends to work with the ISO to seek new information that would enable SCE to take into account MOWD cost savings in general procurement. If such information can be obtained, SCE will propose new procurement plan procedures to the Commission to incorporate that information in future general procurement.⁹

RMR Costs

SCE's Advice Letter 1832-E only applies for 2005 procurement. The ISO has already made its RMR selections for 2005. Thus, RMR availability payments for 2005 are sunk costs, with the possible exception that if SCE contracts with a unit having a Condition 2 RMR contract that is required by the terms of the SCE contract to convert to RMR Condition 1, the ISO may realize a reduction in RMR availability payments to the extent the Condition 1 payment is less than the Condition 2 payment. [REDACTED]

To the extent an RMR contract is dispatched out-of-merit order for local area reliability, the ISO will incur an out-of-merit order dispatch cost. SCE's procurement organization (Energy Supply & Management or ES&M) does not know the extent of RMR dispatch for local area reliability. However, when additional capacity is needed in the local area, the ISO can either dispatch an RMR contract or issue a must-offer waiver denial (MOWD) as alternatives, both of which result in similar incremental start-up and minimum load costs. SCE's incorporation of MOWD-avoidance benefits in its bid evaluation (see above section) therefore reasonably captures RMR-avoidance benefits for 2005 based on what is known or reasonably anticipated.

Congestion And Re-Dispatch Costs

To the extent SCE makes procurement outside SP-15 (the zone in which SCE's load resides), SCE takes into account inter-zonal congestion. [REDACTED]

⁷ For example, it is possible that after a certain quantity of capacity is procured at a particular location, MOWD cost savings for location-specific procurement beyond that point would be minimal.

⁸ SCE believes, however, it does have sufficient information to reasonably incorporate MOWD-avoidance benefits into its selection of an incremental 600 MW of LAR generation for 2005 from LAR generation bids.

⁹ It should be emphasized that the realization of any MOWD-avoidance benefits assumed in the procurement analysis depends critically on the timely provision of communications (or price signals) by the ISO to SCE, relative to the start-up and dispatch of the procured resource(s), to avoid the incurrence of ISO MOWD costs. To date, the only method of communications to SCE in this regard (ISO procedure M-438) has significant limitations.

[REDACTED]

A requirement of the current solicitation, however, is that delivery be made within the SP-15 zone. Accordingly, it is not necessary to consider inter-zonal congestion in SCE's analysis for the current solicitation.

[REDACTED]

To the extent, however, SCE procures generation in the local area per Advice Letter 1832-E and that generation is dispatched per Advice Letter 1813-E and ISO procedure M-438, it is likely that the ISO's intra-zonal congestion and re-dispatch costs will be reduced. If the ISO provides SCE with sufficient additional information relative to intra-zonal (or inter-zonal) congestion and re-dispatch, SCE can develop new protocols to dispatch local area generation when not otherwise dispatched per Advice Letter 1813-E and ISO procedure M-438, and new protocols for general procurement, to achieve additional savings in ISO-related costs.

In order for SCE to be able to "do more," it must "know more" about the impact of its scheduling and procurement on intra-zonal congestion, associated re-dispatch, and other ISO-related costs. Based on numerous discussions with the ISO, SCE understands that the ISO is severely constrained under FERC rules in what it can communicate to SCE and not communicate to other market participants. However, SCE commits to engaging the ISO in further dialogue on an expeditious basis with the goal of obtaining additional information from the ISO that would enable SCE to further modify its scheduling and procurement activities to achieve additional reductions in intra-zonal (or inter-zonal) congestion, re-dispatch, or other ISO-related costs. If SCE is able to obtain the additional information necessary to make such modifications, it will propose the modifications to the Commission for adoption as part of SCE's procurement plan.

D.04-07-028 only requires SCE to modify its scheduling and procurement based on information that is "known or reasonably anticipated." SCE's Advice Letters 1813-E and 1832-E satisfy that requirement today for scheduling and procurement, respectively.

CONCLUSION

As discussed above, the evaluation criteria SCE submitted with Advice Letter 1832-E reasonably comply with the Commission's directive to incorporate ISO-related costs in the evaluation of local area reliability products. While more work with the ISO relative to these costs may allow SCE to refine its practices and valuation methodologies, such refinements cannot be completed by the time SCE intends to evaluate and execute bids in its pending RFO (i.e., by January 26, 2005). For this reason, SCE proposes to use the evaluation methodology in Advice Letter 1832-E to evaluate bids in the current RFO.

In light of the pendency of the RFO and the need for upfront achievable standards and criteria for the evaluation and selection of RFO bids, SCE requests the Energy Division issue a letter to SCE confirming that the evaluation methodology proposed by SCE in Advice Letter 1832-E "appropriately models such [ISO-related] costs and benefits" in conformance with Ordering Paragraph #3 of Resolution E-3902. SCE would appreciate your response no later than January 20, 2005.

We appreciate your prompt attention to this matter.

Southern California Edison Company

Akbar Jazayeri

AJ:fc/pf:Compliance 1832ea.doc

cc: Paul Clanon
Sean Gallagher
All Parties on the G.O.96-A, R.01-10-024; and R.04-04-003