

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



July 12, 2005

JUL 14 2005

Advice Letter 1876-E/1876-E-A

REVENUE & TARIFFS DEPT.

Akbar Jazayeri
Director of Revenue and Tariffs
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

Reference: Contracts for procurement from renewable resources pursuant to California renewable portfolio standard program

Dear Mr. Jazayeri:

Advice Letter 1876-E/1876-E-A is effective June 30, 2005 by Resolution E-3934. A copy of the advice letter and resolution are included herewith for your records.

Sincerely,

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

Sean H. Gallagher, Director
Energy Division

jjr

March 25, 2005

ADVICE 1876-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Supplement to Submission Of Contracts For Procurement From
Renewable Resources Pursuant To California Renewables Portfolio
Standard Program

PURPOSE

Southern California Edison Company (“SCE”) submits herewith as a supplement to its Advice Filing 1876-E, (the “Filing”) a public version of Exhibit A-1 to the Filing.

BACKGROUND

Advice 1876-E was filed on March 8, 2005 in compliance with Cal. Pub. Util. Code § 399.11 et seq. (the “RPS Legislation”), Decision (“D.”) 03-06-071 of the California Public Utilities Commission (“Commission”) containing the Commission’s initial guidance for implementation of the RPS Legislation (the “Decision”), and the August 13, 2003 Assigned Commissioner’s Ruling Specifying Criteria for Interim Renewable Energy Solicitations in Rulemaking (R.) 01-10-024 (the “ACR”). The Filing seeks “Final CPUC Approval” of six (6) power purchase agreements (the “PPAs”), as that term is defined in each of the PPAs.

This filing supplements the March 8, 2005 Filing, in part, by providing a public version of Exhibit A-1.

REQUEST FOR COMMISSION APPROVAL AND EFFECTIVE DATE

Consistent with Advice 1876-E, SCE requests that the Commission issue a resolution no later than May 12, 2005 approving the six PPAs set forth in the Filing and that these filings become effective on May 12, 2005

In accordance with Section III, Paragraph G, of General Order No. 96-A, SCE is furnishing copies of this advice filing to the interested parties shown on the attached R.04-04-026 Service List and PRG Participants. Address change requests to the GO 96-A Service List should be directed to AdviceTariffManager@sce.com or at (626) 302-4039. For changes to any other Service List, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing open for public inspection at SCE's corporate headquarters. To view other SCE advice letters filed with the Commission, log on to SCE's web site at <http://www.sce.com/AboutSCE/Regulatory/adviceletters/> and choose Regulatory Info Center/Advice Letters.

All questions concerning this advice filing should be directed to James Woodruff at (626) 302-1924 (email: james.woodruff@sce.com) and Cliff Webb at (626) 302-3014 (email: cliff.webb@sce.com).

Southern California Edison Company

Akbar Jazayeri

AJ:mm
Enclosures

EXHIBIT A-1

SUMMARY OF SOLICITATION, EVALUATION OF BIDS
AND NEGOTIATIONS

-- PUBLIC VERSION --

SUMMARY OF SOLICITATION, EVALUATION OF BIDS AND NEGOTIATIONS

I. INTRODUCTION

In this Advice Letter, Southern California Edison Company (“SCE”) seeks the California Public Utilities Commission’s (“Commission’s” or “CPUC’s”) approval of 6 power purchase agreements (“PPAs”) for the sale of renewable power to SCE. Commission approval of all 6 PPAs will result in SCE procuring approximately an additional 643 to 2,127 GWh annually from eligible renewable energy resources (“ERRs”) depending on the build-out allowed under each PPA. This represents from approximately .9% to 2.9% of SCE’s annual sales (including CDWR sales but excluding direct access sales) recorded for 2004. These PPAs represent an additional 142 to 428 MWs of installed renewable production capacity from technologies including wind, geothermal, and biomass. All of the PPAs provide for the sale of power to SCE at fixed prices below the 6.05 cents/kWh Baseload Market Price Referent (“MPR”) set in the Assigned Commissioner’s Ruling Issuing Revised 2004 Market Price Referents for the Renewables Portfolio Standard Program, dated February 11, 2005. Four charts summarizing certain key features of the PPAs are attached as Exhibit A-4.

¹ [REDACTED]

As described further herein, these PPAs provide for delivery of cost-effective renewable power at terms that meet the requirements of the California Renewable Portfolio Standard (RPS) legislation and implementing decisions of the CPUC. Therefore the CPUC should approve these PPAs as requested herein.

In this Appendix, SCE demonstrates that, in conducting the Request for Proposals (the “RFP”) which resulted in the PPAs, SCE complied with the requirements of the California RPS Program, Cal. Pub. Util. Code §399.11 *et seq.*, Decision (“D.”) 03-06-071, containing the Commission’s initial guidance for implementation of the RPS Legislation (the “Decision”), and the Assigned Commissioner’s Ruling Specifying Criteria for Interim Renewable Energy Solicitations dated August 13, 2003 (the “ACR”). In addition, the RFP and resulting PPAs substantially complied with the Least Cost Best Fit Methodology approved by the Commission in D.04-07-029. In Section IIA, SCE describes the RFP process. In Section IIB, SCE discusses the criteria SCE used to evaluate the proposals it received pursuant to the RFP. Specifically, SCE discusses the evaluation model used to generate a short list of bidders in the RFP. Section III describes SCE’s successful negotiations with those participants on the short list who entered into the PPAs, and provides a brief description of these PPAs. Section IV discusses SCE’s ongoing communications with its Procurement Review Group (“PRG”) throughout the process. A more detailed summary of each of the PPAs is attached as Exhibit B-1 to Confidential Appendix B submitted concurrently herewith. The PPAs themselves are attached as Exhibits B-2 through B-7.

This Appendix and all of the exhibits provided herewith (except for materials which have been made available to the public) are designated “Confidential Protected Materials” within the

meaning of the protective order issued on May 1, 2002 in R.01-10-024 (“Protective Order”) and, therefore, should be treated in accordance with the provisions of the Protective Order, Pub. Util. Code Section 583 and the Commission’s General Order 66-C. A true and correct copy of the RFP protocol developed by and issued by SCE is attached as

Exhibit A-2. Exhibit A-3 is a list of the proposals SCE received in response to the RFP package.²

II. BACKGROUND

A. The Solicitation Process

Prior to issuing the solicitation, SCE compiled a list of approximately 670 names, comprising nearly 300 separate independent power companies, trade associations, law firms, and energy consultants, for the purpose of soliciting contracts to supply SCE with renewable energy and, if applicable, firm capacity. SCE developed the list from its internal contacts list, its existing QF contract holders, the Commission's service list for the then applicable Procurement OII³, the California Energy Commission's ("CEC") list of Public Goods Charge ("PGC") auction winners, and the California Power Authority's ("CPA") list of projects with which it had developed letters of intent.

SCE placed the RFP package on its website, and on August 29, 2003, SCE electronically notified all its bid list participants that the RFP was available and provided information regarding how to access the RFP package.

² SCE notes that, given the structure and features of these PPAs, SCE may be required under Statement of Financial Accounting Standards (SFAS) 13 to capitalize the value of the projects on its balance sheet as capital lease obligations. Should these contracts be capitalized, SCE would be required to record on its books the fair value of the assets being utilized under the PPAs to provide power to SCE, and would record offsetting liabilities associated with the future payment requirement. Currently, SCE is in discussions with the credit rating agencies as to the impact of capital leases, if any, on the utility's financial metrics and credit ratings. To the extent such liabilities require additional equity capitalization to support SCE's credit ratings, the cost of such additional equity capital would need to be included in SCE's Cost of Capital proceedings to insulate SCE from the financial burden taken on through the execution of these agreements. SCE is presently in the process of analyzing the terms of the PPAs and SFAS 13 to determine the appropriate accounting treatment. Notwithstanding the possible need to treat the PPAs as capital lease obligations, SCE, for the reasons noted in this Advice Filing, advocates that the PPAs be approved by the Commission.

SCE's RFP package included a Procurement Protocol (the "Protocol"), which set forth the terms and conditions of the RFP, including the requirement that the proposed facility be an ERR and other eligibility requirements for participants, requirements for proposals, selection procedures, approval procedures, the RFP schedule and other terms and conditions of the RFP.

The Protocol also included the following attachments:

- Participant's Submittal Letter agreeing to be bound by the Protocol;
- Sample Form Power Purchase and Sale Agreement;
- Master Power Purchase and Sale- Agreement (Edison Electric Institute, Version 2.1; modified 4/25/00);
- Non-Disclosure Agreement;
- Participant Proposal Form; and
- Excel Spreadsheet Revenue Calculator.

Additionally, the RFP package included the following attachments:

- The Decision;
- The ACR;
- CEC's Decision on Phase I Implementation Issues adopted June 11, 2003.

SCE initially solicited proposals for PPAs substantially in the form of the EEI Master Power Purchase and Sales Agreement, as amended (the "August 2003 Form Agreement"), although a later version of this document, sent to short-listed bidders (selected through the

³ At the time the RFO was issued, procurement matters were handled in Rulemaking ("R.") 01-10-024. These matters have since transferred to R.04-04-003.

processes discussed below) in June 2004 (the “June 2004 Form Agreement”), formed the starting point for negotiating the executed PPAs.⁴

The following table summarizes each step of the solicitation after SCE received bids:

◆ Bids Received	October 2003
◆ Initial Bid Analyses	October 2003
◆ Initial Face to Face Meetings with Bidders	Nov – Dec 2003
◆ First Bid Ranking And Initial Short List Selection (25 Bids Selected)	January 2003
◆ Total Cost Bid Evaluation of Selected Bids	Jan – Apr 2004
◆ Further Price Negotiations with Selected Bids	April 2004
◆ Selection of Final Short List (17 Bids)	May 2004
◆ June 2004 Form Agreement Issued To Short List	June 2004
◆ Negotiations with Counterparties and Execution of PPAs ⁵	July 2004 To Present

The RFP did not establish a limit on the amount of renewable capacity sought by SCE. SCE was looking for the best-priced resources that could be added to its portfolio of renewable resources that would provide maximum benefit to SCE’s ratepayer, and count towards RPS obligations. As provided in the Decision, SCE solicited proposals for PPAs with terms of 10, 15 and 20 year terms. The Protocol required that proposals provide complete, accurate, and timely information concerning the participating supplier, the generating facility from which the

⁴ On June 18, 2004, SCE sent the June 2004 Form Agreement to the short-listed bidders. The purpose of the June 2004 Form Agreement was to consolidate into a single document, and thereby render more “user-friendly” the August 2003 Form Agreement, which consisted of the EEI Master Agreement, a substantial separate “Cover Sheet,” and a further distinct, lengthy addendum.

participant proposed to provide electric energy and, if applicable, firm capacity, to SCE and information pertaining to the commercial terms and the pricing details of the proposal.

The Protocol permitted both new renewable resources and existing projects to participate in the RFP and also solicited bids proposing expansion or repowering of existing projects. SCE stated in the Protocol that it would evaluate proposals based on criteria intended to achieve the lowest total ratepayer cost for those renewable resources that best fit SCE's customers' residual net short requirements given existing utility retained generation and contracts, and long-term CDWR contracts, and further taking into account the preference expressed in the Decision for a mixture of contracts with terms of 10, 15 and 20 years.

SCE requested that participants submit their proposals in response to the RFP no later than September 23, 2003. SCE subsequently extended this response date to October 3, 2003.

The e-mail apprising the participants of the RFP requested participants to direct further inquiries or communications to SCE at a specified e-mail address. SCE received a number of inquiries and posted the common questions (without attribution) and the responses on SCE's website so that they would be available equally to all participants.

SCE held a bidder's conference on September 26, 2003 in Montebello, CA, near SCE's headquarters office. About 40 participants, from about 30 developers, representing more than 800-1200 MW, attended the conference.

On October 13, 2003, SCE received 53 proposals from 37 different organizations, representing projects totaling 5,300 MW. [REDACTED] projects representing approximately

⁵ As described below, during the negotiation process, several short-listed parties dropped out of the process.

[REDACTED] MW were disqualified because their projects did not propose to generate electricity using ERR types allowed by the RPS legislation. By the end of 2003, [REDACTED] additional projects representing approximately [REDACTED] MW were withdrawn by the bidders. With respect to each bid, Exhibit A-3 identifies the company submitting the proposal, the power plant, the net nameplate capacity, the firm capacity, if any, the delivery point, the duration in years, the delivery start date, the ERR technology type, the period during which fixed energy prices would be payable, and the fixed energy price.

B. SCE's Evaluation of the Bids

1. The Initial All-In Price Comparison

As specified in the Protocol, SCE initially ranked all of the bids on an all-in price basis, by resource type, and according to whether the product to be supplied was firm or as-available. See Exhibit A-3. This information was provided to the PRG on October 28, 2003.

2. The Least-Cost/Best-Fit Bid Review Process

As specified in the Protocol, SCE developed a methodology to implement the least-cost/best-fit evaluations required by the RPS legislation and the Decision. A description of SCE's least-cost/best-fit methodology used to evaluate bids in this solicitation follows. SCE's methodology was subsequently approved by the Commission in its Least Cost/Best Fit decision D.04-07-029.

Edison used the Global Energy Marketsym and Global Energy Risksym production simulations models⁶, as modified by Edison for internal analysis purposes (The modification uses

⁶ These models are readily available and have been used by many other parties in the Commission's Resource Planning proceeding.

Edison-specific assumptions for utility-owned generation and newly proposed transmission upgrades, etc.). These production simulation models are the same models used by Edison in the long term resource planning proceeding and for other Edison projects, such as the Mountainview project, the SONGS steam generator replacement filing and the Mohave Generating Station analysis. Individual projects were evaluated using Edison's specific resource plan to determine the effect on the total system production costs. The models considered the benefits and costs associated with a proposed renewable project. Specifically, the models calculated the replacement energy benefits associated with a particular project, including energy remarketing costs.

To perform the benefit/cost analysis, SCE calculated replacement capacity benefits from an adjusted combustion turbine ("CT") proxy value⁷ and included applicable transmission costs, debt equivalency costs, and integration costs (where applicable). To determine the replacement capacity benefits, SCE used Expected Load Carrying Capacity (ELCC) values for each technology. The values used were very close to the values published in the CEC Study⁸ of the ELCC values for renewable resources. SCE also used the costs calculated by the CEC for regulation and load-following as a proxy for integration costs. SCE believes that the values calculated by the CEC for ELCC and integration costs do not yet capture the true ratepayer costs and level of benefits of intermittent technologies and should be studied further and revisited in future solicitations.

⁷ Proposed projects are assigned a capacity value based on a general value that was similar to the Effective Load Carrying Capacity (ELCC) associated with the resource type or, when applicable, based on other Commission determined methodologies.

⁸ California Renewables Portfolio Standard Renewable Generation Integration Cost Analysis
PHASE I: ONE YEAR ANALYSIS OF EXISTING RESOURCES RESULTS AND RECOMMENDATIONS FINAL REPORT •
FINAL RELEASE dated December 10, 2003

SCE adjusted the all-in bid price for expected transmission costs as follows. SCE first estimated the total costs of any additional transmission infrastructure required for each bidder to sell power to SCE. SCE then estimated the share of such total expected additional transmission costs to be assigned to each bidder. SCE estimated the total transmission costs based upon method-of-service studies performed by SCE in respect of each bidder's project. If such a method-of-service study had not yet been performed, then SCE used the following information, in order of priority:

- 1) Generic area resource evaluations performed recently by SCE, such as the Tehachapi transmission upgrade study;
- 2) Generic transmission cost studies previously performed by SCE, adjusted for inflation, such as the Biennial Resource Plan Update (BRPU) transmission cost tables;
- 3) Conceptual cost estimates that can be easily performed that would produce reasonable order-of-magnitude costs;
- 4) An assessment that the transmission costs associated with Participant's project cannot be estimated within a reasonable time frame for evaluation and, as a result, SCE will either (i) identify the expected transmission costs as indeterminate, or (ii) assign a theoretical maximum transmission cost value.

SCE then estimated each bidder's share of these total expected additional transmission costs based upon two scenarios. The first scenario assumed that the expected new transmission capacity is completely utilized with generating resources as of the date that the new capacity is first expected to be placed into service. The second scenario assumed a reasonable estimate of the increase over time in the project MWs associated with proposals likely to be submitted in future solicitations that would also use the new transmission capacity and assign the balance of cost to each bidder's

Proposal. SCE compared the results of the two scenarios and determined that either scenario resulted in the same relative ranking in the bid evaluation.

SCE's benefit/cost analysis produces a fair comparison of proposed resources with different start dates, capacities, energy delivery patterns and contract durations. Based on these benefit/cost ratios, SCE decided on a short list of 17 projects with which to begin contract negotiations and presented the list it to its PRG on May 13, 2004.

III. THE PPAS AND SUCCESSFUL NEGOTIATIONS WITH SHORT-LISTED BIDDERS

A. The PPAs

SCE initiated negotiations with the short-listed bidders during the week of July 7, 2004, and these negotiations proceeded more or less continuously through execution of the agreements in early March 2005. A number of bidders withdrew their bids during the negotiation period for a variety of reasons including inability to obtain air quality permits, uncertainty over future PTC availability and other risks, and inability to secure fuel supplies. Ultimately, SCE executed 6 agreements. These PPAs are the subject of this advice filing.

Copies of the PPAs SCE negotiated and executed are included as Exhibits B-2 through B-7 of Confidential Appendix B. All are based on the June 2004 Form Agreement, but contain substantial modifications resulting from negotiations with individual counterparties. Exhibit B-1

⁹ [REDACTED]

to Confidential Appendix B summarizes the principal price and capacity terms in the executed PPAs.

B. Successful Negotiations with Short-Listed Bidders

SCE encountered many problems and issues during the course of negotiations, including, principally,

- (1) The anticipated changes to the ISO Tariff (and evolving changes in market design) over the next couple of years, which could increase ISO charges and costs to the Seller;
- (2) The **[REDACTED]** risk of transmission curtailments or outages;

- (3) The **[REDACTED]** scheduling risk;
- (4) The sellers' claimed inability to obtain financing for its projects as a result of the performance requirements set forth in the June 2004 Form Agreement;
- (5) The mutual desire for termination rights and the allocation of risk in the event of contingencies, such as permitting and assessment of resource potential, not being satisfied;
- (6) The sellers' desire to build their projects in phases;
- (7) Uncertainty about the continued availability of the federal production tax credit;
- (8) The **[REDACTED]** risk associated with fuel resource adequacy;
- (9) With respect to wind projects, the sellers' uncertainty about the ISO's Participating Intermittent Resource Program ("PIRP");
- (10) The **[REDACTED]** credit and collateral provisions required by the June 2004 Form Agreement;
- (11) With respect to wind projects, the unanticipated increase in the price of turbines;
- (12) The definition of events of default;

- (13) The sellers' desire to sell power to third parties during extended periods of force majeure or after a default by SCE;
- (14) The sellers' desire to increase their bid prices as a result of the foregoing.

Sellers' proposals to resolve these issues represented significant deviations from the June 2004 Form Agreement which SCE found unacceptable. Resolution of these and other issues required complex and lengthy negotiations with multiple counterparties. Nevertheless, SCE devoted the necessary resources to complete the negotiations as quickly as possible. The issues identified above, among others, ultimately proved insurmountable with respect to several short-listed bidders.

Some of the issues itemized above are discussed in greater detail below.

1. [REDACTED]

[REDACTED]

[REDACTED]

2. [REDACTED]

[REDACTED]

IV. COMMUNICATIONS WITH SCE'S PROCUREMENT REVIEW GROUP

SCE's Procurement Review Group ("PRG") was formed on or around September 10, 2002. Participants include representatives from the Commission's Energy Division, the Office of Ratepayer Advocates, The Utility Reform Network, the Natural Resources Defense Council, the California Energy Commission, the Consumers' Union, California Utility Employees, and the California Department of Water Resources ("CDWR"). SCE has consulted with its PRG during each step of the

renewable procurement process. Among other things, SCE provided solicitation materials and standardized contract forms to the PRG for review and comment before commencing the solicitation; informed the PRG of the initial results of the solicitation; explained the evaluation process; and updated the PRG periodically concerning the status of contract negotiations. Specifically, SCE held telephone conferences with its PRG on July 29, 2003 and August 20, 2003 prior to releasing SCE's solicitation materials. SCE had face-to-face meetings with its PRG on February 2, 2004, May 13, 2004, July 29, 2004, August 20, 2004, and November 30, 2004 to report on the status of the solicitation. Detailed summaries and advanced drafts of the Seawest, Vulcan, Silvan, and McCarthy Farms PPAs were provided to the PRG on February 28, 2005. On March 2, 2005, Kevin Payne, SCE's Director of QF Resources, briefed the PRG on all six PPAs at a face-to-face meeting in San Francisco.