

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



April 27, 2009

Advice Letters 2266-E and 2266-E-A

Akbar Jazayeri
Vice President, Regulatory Operations
Southern California Edison Company
P O Box 800
Rosemead, CA 91770

**Subject: Submission of Contract for Procurement of Renewable Energy
from SCE's 2007 Renewables Portfolio Standard Solicitation
and Supplement**

Dear Mr. Jazayeri:

Advice Letters 2266-E and 2266-E-A are effective March 12, 2009 per Resolution E-4206.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

November 17, 2008

ADVICE 2266-E-A
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Supplement to Submission of Contract for Procurement of
Renewable Energy From SCE's 2007 Renewables Portfolio
Standard Solicitation

PURPOSE

The purpose of this advice filing is to supplement Advice 2266-E, in order to include the Independent Evaluation Report for Southern California Edison Company's ("SCE") 2007 Renewable Resource Solicitation. Advice 2266-E was originally filed on August 15, 2008 and seeks California Public Utilities Commission ("Commission" or "CPUC") approval of one renewables portfolio standard ("RPS") power purchase agreement ("PPA") between SCE and Imperial Valley Biopower, LLC ("Biopower") (as amended, the "Biopower Contract").

In accordance with General Order ("GO") 96-B, the confidentiality of information included in this advice filing is described below. This advice filing contains both confidential and public attachments. Attachment 1: *Designation of Confidential Information*, is public. Attachment 2: *Independent Evaluation Report for Southern California Edison's 2007 Renewable Resource Solicitation*, is public. Attachment 3: *Confidential Appendix A to Independent Evaluation Report for Southern California Edison's 2007 Renewable Resource Solicitation*, is confidential.

BACKGROUND

On August 15, 2008, SCE filed Advice 2266-E seeking Commission approval of one PPA resulting from SCE's 2007 RPS solicitation: the Biopower Contract. Part of the Energy Division's template for advice filings seeking approval of RPS contracts includes the attachment of the Independent Evaluation Report for the relevant RPS solicitation. Such report was not included with Advice 2266-E because it had not yet been

completed by the Independent Evaluator ("IE") for SCE's 2007 RPS solicitation, Sedway Consulting, Inc.

This advice filing supplements Advice 2266-E in order to include the Independent Evaluation Report for SCE's 2007 Renewable Resource Solicitation, which is attached hereto as Attachments 2 and 3.

CONFIDENTIALITY

SCE is requesting confidentiality of Attachment 3 to this advice filing. The information for which SCE is seeking confidential treatment is identified in Attachment 1 hereto. Confidential Attachment 3 will be made available to appropriate parties (in accordance with SCE's Proposed Protective Order, as discussed below) upon execution of the required non-disclosure agreement. Parties wishing to obtain access to the confidential version of this advice filing may contact Joni A. Templeton in SCE's Law Department at Joni.Templeton@sce.com or (626) 302-6659 to obtain a non-disclosure agreement. In accordance with GO 96-B, a copy of SCE's Proposed Protective Order was provided as Appendix I to Advice 2266-E, filed on August 15, 2008. It is appropriate to accord confidential treatment to the information for which SCE requests confidential treatment in the first instance in the advice letter process because such information is entitled to confidentiality protection pursuant to Decision ("D.") 06-06-066 and is required to be filed by advice letter as part of the process for obtaining Commission approval of RPS PPAs.

The information in this advice filing for which SCE requests confidential treatment, the pages on which the information appears, and the length of time for which the information should remain confidential, are provided in Attachment 1. This information is entitled to confidentiality protection pursuant to D.06-06-066 (as provided in the IOU Matrix). The specific provisions of the IOU Matrix that apply to the confidential information in this advice filing are identified in Attachment 1.

The confidential information provided in this advice filing cannot be aggregated, redacted, summarized, masked, or otherwise protected in a manner that would allow partial disclosure of the data, while still protecting confidential information, because the RPS contract advice filing template calls for the data to be provided in its present form. SCE would object to any disclosure of the confidential information in aggregated form. Based on the format of the RPS contract advice filing template, SCE is not aware of any manner that the confidential information could be aggregated that would qualify the information for public status under the IOU Matrix of D.06-06-066.

To the best of my knowledge, SCE and the IE maintain as confidential the information contained in this advice filing for which confidentiality is sought. SCE is informed and believes that this information is maintained by SCE's Renewable and Alternative Power Department and the IE and provided internally only to those employees who need to know the information to carry out their job duties. SCE is also informed and believes

that this information has not been disclosed to any person other than employees of SCE, the IE or non-market participants (such as staff of the CPUC).

TIER DESIGNATION

Pursuant to D.07-01-024, Energy Industry Rule 5.3, SCE submits this advice filing with a Tier 3 designation (effective after Commission approval).

EFFECTIVE DATE

SCE requests that this advice filing become effective by February 12, 2009, subject to review and approval by the Commission.

PROTESTS

SCE asks that the Commission maintain the original protest and comment period as designated in Advice 2266-E, filed on August 15, 2008, because this supplemental advice filing is simply providing the confidential and public sections of the Independent Evaluation Report for Southern California Edison's 2007 Renewable Resource Solicitation in compliance with the Energy Division's template for advice filings seeking approval of RPS contracts.

NOTICE

In accordance with Section 4 of GO 96-B, SCE is furnishing copies of this advice filing to the interested parties shown on the attached R.08-08-009, R.06-02-012, and GO 96-B service lists. Address change requests to the GO 96-B service list should be directed to AdviceTariffManager@sce.com or at (626) 302-2930. 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 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>.

All questions concerning this advice filing should be directed to Laura Genao at (626) 302-6842 (E-mail: Laura.Genao@sce.com).

Southern California Edison Company

Akbar Jazayeri

AJ:jt:sq
Enclosures

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.: Southern California Edison Company (U 338-E)

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: James Yee

Phone #: (626) 302-2509

E-mail: James.Yee@sce.com

E-mail Disposition Notice to: AdviceTariffManager@sce.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
 PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2266-E-A Tier Designation: 3

Subject of AL: Supplement to Submission of Contract for Procurement of Renewable Energy From SCE's 2007 Renewables Portfolio Standard Solicitation

Keywords (choose from CPUC listing): Compliance, Contracts, Procurement

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: _____

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Confidential treatment requested? Yes No

If yes, specification of confidential information: See Attachment 1.

Confidential information will be made available to appropriate parties who execute a nondisclosure agreement.

Name and contact information to request nondisclosure agreement/access to confidential information:

Joni Templeton, Law Department, at (626) 302-6210 or Joni.Templeton@sce.com.

Resolution Required? Yes No

Requested effective date: 2/12/09 No. of tariff sheets: -0-

Estimated system annual revenue effect: (%): _____

Estimated system average rate effect (%): _____

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: None

Service affected and changes proposed¹: _____

Pending advice letters that revise the same tariff sheets: _____

¹ Discuss in AL if more space is needed.

All correspondence regarding this AL shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
inj@cpuc.ca.gov and mas@cpuc.ca.gov

Akbar Jazayeri
Vice President of Regulatory Operations
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Senior Vice President, Regulatory Affairs
c/o Karyn Gansecki
Southern California Edison Company
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San Francisco, California 94102
Facsimile: (415) 673-1116
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Stuart Hemphill
Vice President, Renewable and Alternative Power
c/o Mike Marelli
Southern California Edison Company
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Rosemead, California 91770
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With a copy to:

Joni Templeton
Attorney
Southern California Edison Company
2244 Walnut Grove Avenue, 3rd Floor
Rosemead, California 91770
Facsimile: (626) 302-1935
E-mail: Joni.Templeton@sce.com

Attachment 1
Designation of Confidential Information

DESIGNATION OF CONFIDENTIAL INFORMATION

Identified below are the data in SCE’s advice filing for which SCE is seeking confidential protection and the categories of the Matrix of Allowed Confidential Treatment Investor Owned Utility (“IOU”) Data (the “IOU Matrix”) to which these data correspond. Also set forth is the period of time for which confidential protection is authorized by the IOU Matrix.

Data	Page	Matrix Category	Period of Confidentiality
Confidential Appendix A to Independent Evaluation Report for Southern California Edison’s 2007 Renewable Resource Solicitation (which is attached as Attachment 3 to this advice filing)	Entire Document	<p>VII.F/VII.G RPS Contracts</p> <p>VII.H Score sheets, analyses, evaluations of proposed RPS projects</p> <p>VIII.A Bid Information</p> <p>VIII.B Specific quantitative analysis involved in the scoring and evaluation of participating bids</p>	<p>RPS contracts confidential for three years, or until one year following expiration, whichever comes first.</p> <p>Score sheets, analyses, evaluations of proposed RPS projects confidential for three years.</p> <p>For bid information, total number of projects and megawatts bid by resource type public after final contracts submitted to CPUC for approval.</p> <p>Specific quantitative analysis involved in the scoring and evaluation of participating bids confidential for three years after winning bidders selected.</p>

Attachment 2

**Independent Evaluation Report for Southern California Edison's 2007
Renewable Resource Solicitation**

Sedway Consulting, Inc.

INDEPENDENT EVALUATION REPORT
FOR SOUTHERN CALIFORNIA EDISON'S
2007 RENEWABLE RESOURCE
SOLICITATION

Third Advice Letter Report

Submitted by:

*Alan S. Taylor
Sedway Consulting, Inc.
Boulder, Colorado*

November 10, 2008

Introduction and Background

On March 12, 2007, Southern California Edison (SCE) issued a Request for Proposals (RFP) for renewable energy supplies that could help the utility meet its Renewables Portfolio Standard (RPS) goal of having 20% of its sales supplied by renewable resources by 2010.

Role of Independent Evaluator and Focus of Report

The California Public Utilities Commission (CPUC) has issued several decisions in the last several years that now require California's investor-owned utilities to retain an Independent Evaluator (IE) in RPS solicitations.¹ In early 2007, in compliance with these CPUC decisions, SCE retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor SCE's 2007 RPS solicitation, provide an independent evaluation of SCE's process and the proposals it may receive, and help the CPUC and SCE's Procurement Review Group (PRG) participants by providing them with information and assessments to ensure that the solicitation was conducted fairly and that the best resources were acquired. Specific examples of Sedway Consulting's role in the solicitation are provided throughout this report.

The remainder of this report summarizes the procedural history and the bid evaluation process in SCE's 2007 RPS solicitation, describing SCE's and the IE's activities surrounding the issuance of the RFP, SCE's outreach efforts to potential bidders, the process for evaluating and selecting bids, and SCE's contract negotiations. The report addresses each of the seven items listed in the CPUC Independent Evaluator Report Template (Short Form).²

Overview of Activities and Findings

Sedway Consulting issued its Independent Evaluation Shortlisting Report on July 30, 2007, providing 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/bidders with whom SCE had commenced negotiations. Specifically, that report addressed Sedway Consulting's activities and conclusions regarding the following four areas/questions:

¹ D.04-12-048 (Findings of Fact 94-95, Ordering Paragraph 28) and D.06-05-039 (Finding of Fact 20, Conclusion of Law 3, Ordering Paragraph 8).

² Administrative Law Judge's Ruling Issuing Templates for Independent Evaluator Reports and Contract Approval Requests, Attachment B, R.06-02-013, Carol Brown, ALJ filed May 8, 2008.

- **2007 RPS Solicitation Protocol issuance and outreach activities**
Did SCE do adequate outreach to potential bidders, and did its outreach activities result in an adequately robust solicitation to promote competition?
- **Evaluation process design**
Was SCE's methodology for RPS proposal evaluation and selection designed fairly?
- **Evaluation process administration**
Was SCE's RPS proposal evaluation and short list selection process fairly administered?
- **Selection and rejection decisions in shortlisting of proposals**
Did SCE make reasonable and consistent choices regarding which proposals were rejected and which were shortlisted?

Sedway Consulting's IE shortlisting report was amended and reissued as the First Advice Letter IE Report to describe all solicitation, evaluation, and negotiation activities from the start of the 2007 RPS solicitation through SCE's December, 2007 filing of three executed power purchase agreements (PPAs) for CPUC approval. That report was amended and reissued as the Second Advice Letter IE Report to include details on the solicitation's progress up through the execution of a fourth PPA that SCE submitted for CPUC approval on July 11, 2008. This current report, labeled the Third Advice Letter IE Report, represents a further amendment of the Second Advice Letter IE Report and discusses further activities and conclusions associated with one additional executed PPA that SCE submitted for CPUC approval on August 15, 2008. Note that Sedway Consulting has decided to reissue a complete report with each Advice Letter. Thus, the discussions and conclusions contained in the initial shortlisting report and the first two advice letter IE reports have been retained in this Third Advice Letter IE Report. Additionally, this report has been supplemented with appropriate discussions surrounding post-shortlisting activities and the additional PPA that has been filed with SCE's third advice letter. The additional information in this report will address the following two areas/questions:

- **Negotiation process administration**
Were project-specific negotiations fair?
- **Submitted contract review**
Is there any reason that the submitted contracts should not receive CPUC approval?

Overview of Independent Evaluator Activities

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel SCE's process with its own evaluation of the proposals, as documented in this Second Advice Letter IE Report. Sedway Consulting reviewed SCE's RFP, outreach efforts, evaluation processes, modeling methodologies, communications with bidders, and evaluation results. Members of the IE team attended SCE's pre-bid conference, participated in the opening of proposals (and retained Sedway Consulting's own copies of each proposal for its own evaluation), joined in all of SCE's Renewable and Alternative Power (RAP) weekly update meetings and executive-level Risk Management Committee (RMC) meetings in which proposal disqualification and shortlisting decisions were made, and participated in all PRG meetings in which the RPS proposals and evaluation results were discussed. Subsequent to the shortlisting of offers, Sedway Consulting monitored SCE's communications with bidders – receiving copies of the back-and-forth email traffic, reviewing redlines of draft contracts, and listening in on many of the negotiation meetings and calls. Sedway Consulting continued to participate in SCE's RAP weekly update and RMC meetings where negotiation summaries were provided to management and decisions were made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties.

Overview of Conclusions

Sedway Consulting concluded that SCE conducted a fair and effective evaluation of the proposals that it received in response to its 2007 RPS RFP and made the correct selection decisions in its short list. All qualified proposals were evaluated consistently, appropriately, and without bias. Sedway Consulting believes that SCE has conducted negotiations fairly with all shortlisted bidders, treating all counterparties in a reasonably consistent fashion while recognizing and responding to understandable differences in individual bidders' circumstances. SCE imposed appropriate controls and deadlines to ensure that those bidders who were motivated to execute contracts associated with strong well-developed proposals received the most attention. Those bidders who failed to meet deadlines, exhibit motivation, or provide necessary information to shore up less well-developed proposals were relegated to a lower priority negotiation status or dropped from the short list. Sedway Consulting concludes that SCE made the appropriate selection and rejection decisions in developing its 2007 RPS short list, has negotiated fairly and in good faith with the shortlisted bidders, and has appropriately executed five 2007 RPS contracts (associated with the utility's first, second, and third Advice Letters). In reviewing those five finalized contracts, Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs.

This Third Advice Letter IE Report has a confidential appendix that includes a description of each proposal, an overview of the evaluation results, and confidential assessments of specific areas of the evaluation and negotiation processes. This material is being afforded confidential treatment for several reasons. First, it is important to

protect participants from having their project pricing and operational information provided to their competitors. Second, SCE's customers could be harmed if too much information was made publicly available, allowing some participants to focus on manipulating the negotiation process and/or gaming future solicitations rather than delivering the best renewable projects at the lowest possible prices. Third, negotiations are underway with many 2008 RPS bidders. It is SCE's hope that those negotiations can be concluded soon so that additional executed RPS PPAs can be submitted with subsequent Advice Letter filings in the near future. Fourth, pursuant to Public Utilities (Pub. Util.) Code Section 583, General Order (G.O.) 66-C, and D.06-06-066, Sedway Consulting believes that certain market-sensitive data should be kept confidential to ensure that such data does not influence the behavior of bidders in future RPS solicitations.

SCE's Outreach Activities

Sedway Consulting believes that SCE pursued reasonable and adequate procedures for notifying potential interested parties. Specifically, SCE dedicated a section of its company website to the solicitation, providing a means for interested parties to download the RFP and related materials, ask questions, and read posted responses. On March 9, 2007, SCE issued a press release to publicize the issuance of its RFP. Also, it notified approximately 700 contacts (compiled from previous power supply solicitations, regulatory service lists, etc.) that the RFP had been released and invited them to participate.

Several weeks later, on April 4, 2007, SCE held a pre-bid conference in Los Angeles. The conference provided interested parties an opportunity to learn more about the solicitation, hear presentations, and ask questions. Sedway Consulting attended the pre-bid conference.

In addition to SCE's efforts, it is likely that California's RPS program is already well known in the renewable project development community. California's investor-owned utilities are in a well-publicized annual cycle of soliciting renewable projects; this serves to keep renewable resource developers continually interested and focused on opportunities for providing projects to meet California's needs. SCE's RPS website (www.sce.com/renewrfp) is a year-round site where interested parties may register at any time to receive notifications about SCE's RPS solicitations.

Sedway Consulting concluded that SCE did an adequate job of publicizing the 2007 RPS solicitation, as ultimately evidenced by the robust response that it received from the renewable development community.³

³ The number of proposals submitted and RPS capacity proposed by technology may be made publicly available once the negotiations are concluded and final contracts have been submitted for CPUC approval, per section VIII(A) of the CPUC's Confidentiality Matrix in R.05-06-040.

Design of SCE's Evaluation and Selection Process

Prior to the opening of proposals, Sedway Consulting conducted interviews and email exchanges with SCE's evaluation personnel to learn how SCE's evaluation process would be performed. Sedway Consulting requested SCE to provide as much information as possible prior to the receipt of proposals. This, in essence, allowed Sedway Consulting to lock down and archive the basic evaluation parameters for the process. Such information included inflation assumptions, cost of capital components, discount rate, transmission revenue requirement assumptions, and PROSYM production cost results from a series of model runs specified by Sedway Consulting for use in calibrating its own proprietary evaluation model. The calibration runs formed the basis of the valuation modeling for non-dispatchable renewable resources (as available, baseload, or peaking) and were therefore particularly pertinent to the majority of proposals that SCE expected to (and ultimately did) receive.

Description of Evaluation Process

SCE's evaluation process conforms with the Commission's "Least Cost Best Fit" (LCBF) criteria. The company's LCBF analysis evaluates both quantitative and qualitative aspects of each proposal to estimate its absolute value to SCE's customers and its relative value in comparison to other proposals. The LCBF criteria were applied to all proposals received in its 2007 solicitation in order to establish a "short list" of proposals from bidders with whom SCE would commence negotiations. The remainder of this subsection discusses the evaluation process, and a more thorough assessment of solicitation results is presented in Appendix A.

The initial stage of SCE's process would entail screening all proposals for compliance with the RFP and general responsiveness to the RPS requirements. All proposals that passed the screening stage would be evaluated in PROSYM – an hourly utility simulation model used by SCE to quantify the impacts new resources are expected to have on the utility's total system costs – and several additional spreadsheets. SCE's evaluation process entailed a determination of each resource's benefit-cost (B/C) ratio. The B/C ratio was calculated by dividing a proposal's expected gross production cost savings and capacity benefits by its proposed energy payments and other costs (e.g., debt equivalence and transmission costs).

Prior to the opening of proposals, Sedway Consulting asked SCE to perform a set of runs of proxy bids through its evaluation model and process, the results of which were used to calibrate Sedway Consulting's proprietary evaluation model. This model was used to determine each proposal's expected gross production cost savings without any further input from SCE. Procedures for calculating capacity benefits, energy payments, and debt equivalence were all anchored prior to bid opening so that both SCE's and Sedway

Consulting's evaluation teams were following consistent methodologies and Sedway Consulting's independent results could be used to cross-check SCE's results.

Transmission costs were to be determined by an SCE transmission expert who would assess the likely costs of system-level transmission upgrades that might be required to maintain a reliable transmission system with the incorporation of the new renewable project. The costs of these upgrades would be developed from SCE's publicly-filed Transmission Ranking Cost Report (TRCR) or from project-specific facility study cost estimates. For projects outside of the scope of SCE's TRCR, it was assumed that if the developer could deliver the proposed project's energy to a major import facility (e.g. Imperial Valley, Miguel, and Midway) and that the power could then be scheduled within existing Path ratings, there would be no need for upgrades within the SCE network. Also, if projects were proposed whose potential impacts had not been included originally in the TRCR, their upgrade costs (if any) would be calculated using the same methodology as was employed in developing the TRCR.

Although SCE did not have a formalized scoring system for evaluating the qualitative aspects of proposals (e.g., bidder experience, site control, likelihood of permitting and financing, etc.), such issues were reviewed and evaluated by Sedway Consulting and noted in project write-ups.

Description of Selection Process

SCE designed its selection process around a B/C ratio ranking. It was recognized that consideration of each proposal's general qualitative aspects or risk factors might warrant jumping over one or more higher-risk proposals and selecting a lower-economically-ranked proposal if that lower-ranked proposal's superior viability justified it. Employing such as process, SCE intended to select a sufficient number of proposals for shortlisting that would allow it to meet its RPS targets while recognizing a number of factors that might cause projects to drop off the short list. Such factors could include:

- a shortlisted bidder's failure to post the required bid deposit,
- the shortlisting of a bidder in another utility's RPS solicitation and that bidder's decision to commence negotiations with the other utility,
- the subsequent determination by SCE (after additional due diligence) that a project would not be viable or would face insurmountable transmission complications,
- an inability to reach mutually-agreeable terms and conditions with SCE for a PPA, and/or
- a failure of a bidder to reduce a proposal price in the context of more competitively-priced proposals.

Thus, the selection of proposals would need to be sufficiently deep to allow for unforeseen project risks, future due diligence, and adequate counterparty diversity.

Assessment of Fairness of Evaluation Process Design

Sedway Consulting concluded that SCE's evaluation design was rigorous and fair. It was consistent with evaluation approaches that Sedway Consulting has seen applied in other utilities' solicitations, both in California, and nationally. In evaluating the fairness of SCE's process, Sedway Consulting employed the following principles:

1. Did the design inappropriately favor one technology over another?
2. Was the design inappropriately biased in favor of one type of bidder versus another?
3. Were the selection criteria flexible enough or structured in a way to facilitate SCE acquiring sufficient renewable energy to meet its 20% RPS goal?
4. Were all components of a project's quantified metric calculated consistently so as to avoid introducing discontinuities that might distort the results and lead to incorrect project selection?

Sedway Consulting concluded that SCE's evaluation process was designed to treat all technologies and types of bidders fairly, employing a consistent methodology that did not favor or disadvantage any technology or bidder – while obviously recognizing justifiable proposal-specific differences (e.g., project location). In thinking about the strengths and weaknesses of SCE's methodology, Sedway Consulting concluded that the process was sufficiently rigorous for the purpose of project shortlisting. Many issues (such as further assessment of each project's viability and continuing refinements to each project's estimated transmission costs) will need to be further examined as part of the continuing due diligence process associated with the shortlisted bidders.

Receipt and Evaluation of Proposals

On May 21, 2007, SCE received a significant number of proposals in its RPS solicitation. No proposals were provided by SCE affiliates. A member of Sedway Consulting's IE team was in attendance and retrieved electronic and hardcopy versions for the IE team's analysis. Both SCE and Sedway Consulting performed their analyses of the submitted proposals during May and June 2007, periodically discussing proposal deficiencies and requests to specific bidders for supplemental information.

The results of SCE's evaluation were reviewed by Sedway Consulting and discussed in internal meetings on June 19, 2007 and June 25, 2007. Sedway Consulting's ranking was similar to SCE's and supported the same shortlisting decisions. The recommended

Sedway Consulting, Inc.

selection and rejection decisions were presented to SCE's RMC and PRG participants on June 26, 2007 and June 27, 2007, respectively. The PRG participants provided valuable advice and recommendations during the process. The short list was finalized and all bidders were notified of their status (shortlisted or rejected) on June 29, 2007 or shortly thereafter.

Description of Sedway Consulting's Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the RPS proposals, using its proprietary non-dispatchable response surface model (ND-RSM). The ND-RSM is a power supply evaluation tool that uses the following information for each proposal:

- Capacity
- Commencement and expiration dates for power deliveries
- Energy pricing
- Expected hourly generation profile.

The ND-RSM is a spreadsheet-based tool that was calibrated with SCE's detailed modeling results at the start of the project (prior to the opening of proposals) so that Sedway Consulting could perform its own evaluation of all proposals. The ND-RSM calculated each proposal's monthly energy payments, debt equivalence costs, capacity value, and production cost savings, and divided the sum of the last two values by the sum of the first two (plus estimated transmission costs) to yield a B/C ratio. The ND-RSM developed a ranking of all proposals based on the B/C ratio of each option. The results of the ND-RSM analysis are provided in the Confidential Appendix A to this report.

Sedway Consulting reviewed SCE's transmission assessment and cost estimate for each of the proposals and found the methodology and results to be fairly reasonable. However, it is important to emphasize the difficulty in predicting such costs, given the uncertainties associated with transmission system investments and the complexities of cost attribution. Because many renewable projects' likely in-service dates are dependent on the development of new transmission facilities, this is a critical area of the analysis and SCE may want to consider focusing more attention on this in future RPS solicitations.

Sedway Consulting conducted a qualitative review of the proposals, evaluating them in the areas of bidder qualifications, project viability, technological maturity, resource availability, permitting, site control, and interconnection status. Sedway Consulting reviewed these qualitative matters particularly for those projects that were "on the bubble" to ensure that high-quality proposals with marginal economics were not eliminated from the short list in favor of poor-quality proposals with slightly better economics.

Short List Development

The response to SCE's 2007 was quite robust. In order to adhere to the RFP's timeline for evaluating and shortlisting proposals, SCE modified its intended evaluation process to include a screening phase, whereby an initial ranking of proposals was developed by comparing project B/C ratios that were calculated through an expedited process (that did not involve running SCE's detailed system simulation model, PROSYM). Proposals that had very low B/C ratios were not modeled in PROSYM. This allowed SCE's evaluation team to focus their detailed modeling efforts on those proposals that had greater economic value. Sedway Consulting paralleled SCE's analysis by running all of the solicitation's proposals through its ND-RSM, thereby ensuring that no proposals were inappropriately set aside from the SCE detailed modeling phase.

In addition to the screening step, SCE incorporated a grouping concept into its selection process whereby it segmented the proposals into five groups that represented declining qualitative value and/or increased complexity. In other words, those proposals in higher groups were believed to have better chances of resulting in successful negotiations and fully developed projects than projects in lower groups. The five groups, listed in hierarchical order of declining value, were the following:

1. Projects within SCE's service territory with well-defined proposals that complied with SCE's RFP,
2. Projects within SCE's service territory with less-well-defined proposals that did not comply with SCE's RFP or seemed problematic,
3. Projects outside of SCE's service territory but within the CAISO grid,
4. Projects outside of CAISO with baseload energy deliveries that could potentially be scheduled as firm imports, and
5. Projects outside of CAISO with intermittent energy deliveries.

Within each group, SCE developed a ranking of the proposals based on their B/C ratios, selecting those upper-ranked proposals in each group while recognizing the more problematic nature of projects in the lower groupings. Thus, a greater portion of each groups' projects were shortlisted from the higher groups than from the lower groups. Although this segmentation and grouping approach was not developed prior to the receipt of the proposals, Sedway Consulting believes that it was a reasonable approach for simultaneously assessing and comparing proposal economic benefits and quality/likelihood of success.

Given the significant uncertainties surrounding many of the proposals, SCE chose to employ a strategy of inclusiveness in developing its short list. As the negotiations proceed, which shortlisted bidders end up with final executed contracts will depend on SCE's further due diligence, additional information from the bidders, and the willingness

of bidders to refine and lower their pricing. Sedway Consulting concurred with this strategy, recognizing that it may result in commencing negotiations with certain developers whose initially-proposed prices are rather high. However, it is difficult to conduct sufficient due diligence on a project without having face-to-face discussions with the developer. This strategy will help ensure that higher-priced viable projects are not rejected at the shortlisting stage in favor of lower-priced less certain projects. At the same time, it will maintain substantial competitive pressure on all shortlisted bidders. Those who cannot demonstrate development strength, reach reasonable terms and conditions with SCE, and reduce their prices to get into a competitive range will be relegated to a lower priority in the negotiation process and are not likely to be chosen for ultimate contract execution.

In addition, it may be the case that new transmission facilities or reinforcements will be needed to enable delivery of a project's power supplies. A longer short list erred on the side of allowing sufficient time for further transmission research and to assess how the timing of transmission reinforcements may affect each project's commercial operation date. In addition to estimating the likely transmission costs that might be attributable to each proposal, SCE made a preliminary assessment of the likely scheduled completion of such transmission projects. This analysis yielded the conclusion that transmission development schedules may be the deciding factor in determining the date when many of the proposed resources could come on-line. Further analysis may be needed as the negotiations are underway to ensure that there is an alignment of commercial operation dates between generating resources and transmission upgrades.

Sedway Consulting confirmed that SCE appropriately and fairly administered the evaluation process that it had designed, modifying that process where appropriate in reaction to the breadth of proposals that it received. Sedway Consulting paralleled much of the utility's approach with its own evaluation to test the outcome of SCE's process. Sedway Consulting reviewed SCE's grouping decisions and ranked each group's proposals based on their economic value (B/C ratio), confirming SCE's selection of the top-ranked proposals in each of the groups. A sufficient number of proposals were selected for the short list to cover SCE's RPS need and allow for the loss of some projects for reasons identified above in the process design discussion (e.g., ultimate non-viability, transmission complications, shortlisted in another utility's solicitation, failure to post the bid deposit, etc.).

Sedway Consulting concurred with SCE's selection and rejection decisions. Those proposals that were not included on the short list were rejected for good reasons (e.g., very low market value/high prices, problematic delivery), as described further in Confidential Appendix A.

Sedway Consulting concluded that SCE administered its evaluation and selection process fairly. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion; in addition, the fact that Sedway Consulting performed a fully separate, independent evaluation allowed it to develop its

own ranking and confirm that SCE was fairly and appropriately evaluating all proposals and selecting the best proposals for the short list.

Recommendations for Potential Future Enhancements

Sedway Consulting believes that SCE's RPS evaluation and shortlisting process was fair and reasonable. However, there are several areas or ideas that SCE may wish to consider in an effort to improve its processes in future RPS solicitations:

1. **Revenue Calculator.** Recent SCE RPS solicitations have required bidders to input their prices into a large Excel spreadsheet (called the Revenue Calculator). The spreadsheet includes numerous charts and tables that can provide SCE and the bidder with valuable information and snapshots of the offer. However, these charts and tables make the file large, unwieldy, and complicated. Some bidders encountered difficulties in representing their prices and generation profiles in the file. When subsequent versions were emailed to SCE, the size of the files prevented them from getting past SCE's email firewall. SCE should consider making the Revenue Calculator available as an optional tool for bidders and developing a smaller, easier-to-use Excel file for bidders to input their proposal pricing and generation profile information.
2. **PROSYM.** SCE's current process for evaluating the potential energy benefits of RPS proposals entails the execution of a sophisticated hourly production cost model (PROSYM) that is well suited for the evaluation of dispatchable resources but which may be overkill for non-dispatchable resources (which represent the overwhelming majority of RPS proposals). Thus, SCE's shortlisting analysis could probably rely on an hourly representation of system avoided costs (developed perhaps from multiple PROSYM runs) that would yield very similar results in less time and effort. This could free up SCE's evaluation team to focus on other areas (e.g., further transmission analysis, more in-depth validation of generation profiles) that might represent a better use of limited resources. In short, the PROSYM modeling may be overkill for what is needed; the enhanced precision from such efforts is probably not worth the evaluation resources it consumes.
3. **Triple pricing.** SCE's RFP requires bidders to provide three different prices for each proposal: one associated with no Performance Assurance collateral requirements, one associated with 6-months of project revenues as the collateral level, and a third for 12-months of project revenues as the collateral level. This request for triple pricing has caused some confusion at the bidders' end and has required SCE to spend valuable time and effort in getting all bidders to fill any pricing information gaps. It has also been inappropriately interpreted by some bidders to suggest that SCE may be willing to consider executing a PPA without any Performance Assurance collateral requirement. While understanding how a bidder's pricing may change over a range of Performance Assurance levels may

be valuable, this is best explored after shortlisting in the negotiation process. SCE may want to consider focusing the bidders' efforts and attention during the initial proposal submission phase on a single pricing point (e.g., associated with 6-months revenues as collateral) to eliminate the confusion that is introduced by the request for triple pricing.

4. **Grouping.** As noted above, SCE implemented a grouping or segmentation process in its evaluation procedures. Sedway Consulting believes that this was a sensible approach to incorporating qualitative and locational benefits into the selection decisions. If this process is to be adopted in future RPS solicitations, it would be good to formalize the segmentation parameters and criteria in an evaluation procedures memorandum (and perhaps describe the concept in general terms in the RFP).

Negotiation Process and Contract Execution

Sedway Consulting monitored SCE's negotiation process by listening in on many of the negotiation meetings and calls between SCE and the shortlisted bidders, reviewing redlined contracts passed back-and-forth between SCE and each counterparty, and reviewing the email traffic between the utility and each counterparty. Sedway Consulting also continued to participate in SCE's RAP weekly update and RMC meetings where negotiation summaries were provided to management and decisions were made regarding proposal prioritization, negotiation positions, and procedural treatment of counterparties. Sedway Consulting concurred with SCE's negotiation prioritization decisions and believes that SCE has conducted a fair negotiation process. This assessment is based on an application of many of the principles described earlier in this report – namely, that no bidder or technology was inappropriately favored by SCE in its negotiation process and all bidders were provided consistent information. In addition, SCE applied consistent “pressure” on all bidders to meet appropriate deadlines, post bid deposits, and conform as closely as possible to SCE's pro forma contract positions. Details of the negotiation process are addressed in the Confidential Appendix to this report.

To date, SCE's negotiation process in its 2007 RPS solicitation has successfully yielded five executed contracts that have been submitted for CPUC approval:

1. **ORNI 21, LLC** – a 20-year PPA with deliveries of baseload geothermal energy expected to commence in mid 2012 from a 30 MW facility (which may be expanded by as much as 70 MW to yield a total contract capacity of 100 MW) near Wister, California on the east side of the Salton Sea. Annual deliveries are expected to be approximately 250 GWh for the 30 MW facility.
2. **FSE Blythe 1** – a 20-year PPA with deliveries of solar energy expected to commence in late 2009 from a photovoltaic (PV) facility near Blythe, California

in SCE's service territory with phased development up to 21 MW. Annual deliveries are expected to be approximately 50 GWh (at 21 MW).

3. **Daggett Ridge Wind Farm, LLC** – a 20-year PPA with deliveries of wind energy expected to commence in late 2009 from a 79.5 MW facility near Daggett, California in SCE's service territory. Annual deliveries are expected to be approximately 197 GWh.
4. **Gaskell SunTower, LLC** – a 20-year PPA with deliveries of solar energy expected to commence by April 2012 from a facility in unincorporated Kern County, west of Rosamond, California. The facility would have an initial capacity of 105 MW, but could be expanded to 245 MW at the discretion of the bidder. Annual deliveries are expected to be 208 GWh initially and could expand to approximately 515 GWh.
5. **Imperial Valley Biopower** – a 20-year PPA with deliveries of baseload biomass-fueled energy (primarily from feedlot cow manure) expected to commence by May 2010 from a 20 MW facility near El Centro, California. Annual deliveries are expected to be approximately 140 GWh.

Sedway Consulting does not believe that there are any material issues or deficiencies that would warrant the CPUC's rejection of any of these PPAs. Specific assessments of the PPAs and associated projects are included in the Confidential Appendix to this report.

Conclusion

Sedway Consulting believes that SCE conducted a fair and effective evaluation of the RPS proposals that it received in response to its March 12, 2007 RFP. All proposals were evaluated consistently, appropriately, and without bias.

Sedway Consulting was provided access to all necessary materials and meetings and was able to parallel SCE's process with its own evaluation of the proposals. Sedway Consulting reviewed SCE's evaluation and modeling methodologies and results and did not find any bias for or against any proposals in SCE's evaluation processes or selection decisions.

Sedway Consulting monitored the back-and-forth email traffic between SCE and the RPS bidders and believes that SCE treated all bidders consistently and fairly. Sedway Consulting concludes that SCE made the appropriate selection and rejection decisions in developing its 2007 RPS short list.

Sedway Consulting monitored SCE's negotiation process and concluded that all shortlisted bidders were treated fairly and consistently. An appropriate degree of leniency was shown by SCE in encouraging all shortlisted bidders to advance the

negotiation process toward executed PPAs. However, some bidders exhibited insufficient interest or commitment toward that goal or encountered project-specific complications that resulted in their withdrawing from the short list. Sedway Consulting concurred with SCE's prioritization of the negotiation activities and the utility's decisions surrounding the termination of negotiations with those counterparties who failed to meet the necessary deadlines, show sufficient commitment, or provide essential information.

The three PPAs that SCE has submitted for CPUC approval with its first advice letter (ORNI 21, FSE Blythe 1, and Daggett Ridge Wind Farm), the one that SCE has submitted with its second advice letter (Gaskell SunTower), and the one that SCE has submitted with its third advice letter (Imperial Valley Biopower) were negotiated fairly and appropriately. Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of any of these PPAs.

Attachment 3

**Confidential Appendix A to Independent Evaluation Report for
Southern California Edison's 2007 Renewable Resource Solicitation**

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