

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



August 12, 2009

Advice Letters 2306-E and 2306-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 2008 Renewables Portfolio Standard Solicitation**

Dear Mr. Jazayeri:

Advice Letters 2306-E and 2306-E-A are effective June 18, 2009 per Resolution E-4248.

Sincerely,

A handwritten signature in blue ink, appearing to read "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division

April 8, 2009

ADVICE 2306-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 2008 Renewables Portfolio
Standard Solicitation

PURPOSE

The purpose of this advice filing is to supplement Advice 2306-E, in order to include the Independent Evaluation Report for Southern California Edison Company's ("SCE") 2008 Renewable Resource Solicitation. Advice 2306-E was originally filed on December 31, 2008 and seeks California Public Utilities Commission ("Commission" or "CPUC") approval of a renewable portfolio standard ("RPS") power purchase agreements ("PPA") between SCE and Mountain View Power Partners, LLC (the "MVPP 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 2008 Renewable Resource Solicitation*, is public. Attachment 3: *Confidential Appendix A to Independent Evaluation Report for Southern California Edison's 2008 Renewable Resource Solicitation*, is confidential.

BACKGROUND

On December 31, 2008, SCE filed Advice 2306-E seeking Commission approval of a PPA resulting from SCE's 2008 RPS solicitation: the MVPP 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 2306-E because it had not yet been completed by the Independent Evaluator ("IE") for SCE's 2008 RPS solicitation, Sedway Consulting, Inc.

This advice filing supplements Advice 2306-E in order to include the Independent Evaluation Report for SCE's 2008 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. The confidential version of this advice filing 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) 302-6210 to obtain a non-disclosure agreement. In accordance with GO 96-B, a copy of SCE's Proposed Protective Order was provided as Appendix H to Advice 2306-E, filed on December 31, 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. I am informed and believe 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. I am also informed and believe 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 June 30, 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 2306-E, filed on December 31, 2008, because this supplemental advice filing is simply providing the confidential and public versions of the Independent Evaluation Report for Southern California Edison's 2008 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) 302-4039. 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 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:lg:jm
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) #: 2306-E-A

Tier Designation: 3

Subject of AL: Supplement to Submission of Contract For Procurement of Renewable Energy From SCE's 2008 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 Appendix A.

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: 6/30/09 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.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and 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
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Facsimile: (626) 302-4829
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Stuart Hemphill
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With a copy to:

Joni Templeton
Attorney
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2244 Walnut Grove Avenue, 3rd Floor
Rosemead, California 91770
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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 2008 Renewable Resource Solicitation (which is attached as Attachment 3 to this advice filing)	Entire Document	VII.F/VII.G RPS Contracts VII.H Score sheets, analyses, evaluations of proposed RPS projects VIII.A Bid Information VIII.B Specific quantitative analysis involved in the scoring and evaluation of participating bids	RPS contracts confidential for three years, or until one year following expiration, whichever comes first. Score sheets, analyses, evaluations of proposed RPS projects confidential for three years. For bid information, total number of projects and megawatts bid by resource type public after final contracts submitted to CPUC for approval. Specific quantitative analysis involved in the scoring and evaluation of participating bids confidential for three years after winning bidders selected.

Attachment 2

Independent Evaluation Report for Southern California Edison's 2008

Renewable Resource Solicitation

Sedway Consulting, Inc.

**INDEPENDENT EVALUATION REPORT
FOR SOUTHERN CALIFORNIA EDISON'S
2008 RENEWABLE RESOURCE
SOLICITATION**

First Advice Letter Report

Submitted by:

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

March 18, 2009

Introduction and Background

On March 7, 2008, 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 Shortlisting 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 2008, in compliance with these CPUC decisions, SCE retained Sedway Consulting, Inc. (Sedway Consulting) as an IE to monitor SCE's 2008 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. Sedway Consulting issued its Independent Evaluation Shortlisting Report on July 29, 2008, 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:

- **2008 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?

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).

Sedway Consulting's IE shortlisting report has been amended and reissued as this First Advice Letter IE Report to describe all solicitation, evaluation, and negotiation activities from the start of the 2008 RPS solicitation through SCE's December 31, 2008 filing of one executed power purchase agreement (PPA) for CPUC approval. This report is labeled the First Advice Letter IE Report because it is anticipated that SCE will be filing additional contracts from its 2008 RPS solicitation in the near future. Note that Sedway Consulting has decided to reissue a complete report each time. Thus, the initial shortlisting report and its discussions and conclusions have been retained in this First Advice Letter IE Report, and this report has been supplemented with appropriate discussions surrounding post-shortlisting activities and the PPA that has been filed with SCE's first 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 First 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 proposal 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) 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 periodic 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 2008 RPS RFP and made the correct selection decisions in its short list. That said, Sedway Consulting has several minor

recommendations for procedural improvements to SCE's RFP process that are addressed later in the report. Nonetheless, Sedway Consulting concluded that 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 2008 RPS short list, has negotiated fairly and in good faith with the shortlisted bidders, and has appropriately executed one 2008 RPS contract (associated with the utility's first Advice Letter). In reviewing that finalized contract, Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of the PPA.

This First 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 still underway with numerous 2008 RPS bidders. It is SCE's hope that those negotiations can be concluded soon so that additional executed 2008 RPS PPAs can be submitted with subsequent Advice Letter filings in the near future.

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 7, 2008, 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 March 20, 2008, SCE held a proposal 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 proposal 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/renewrpf) 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 2008 RPS solicitation, as ultimately evidenced by the robust response that it received from the renewable development community.²

Design of SCE's Evaluation and Selection Process

Prior to the opening of proposals, Sedway Consulting reviewed SCE's evaluation materials/presentations and 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 capacity valuation assumptions, cost of capital components, discount rate, transmission revenue requirement assumptions, and regional market forecast assumptions. These assumptions were incorporated into Sedway Consulting's own evaluation model and formed the basis for independently assessing the benefits and costs of proposed resources that were bid into SCE's solicitation.

Description of Evaluation Process

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 using a number of spreadsheet-based models. 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 transmission-related costs. A "Renewable Premium" was also calculated, as a \$/MWh measure of the premium associated with a proposal (relative to non-renewable energy).

² 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 for Investor-Owned Utility Data in D.06-06-066.

Prior to the opening of proposals, Sedway Consulting incorporated SCE's latest market assumptions into Sedway Consulting's proprietary evaluation model. This model was used to determine each proposal's expected gross energy benefits without any further input from SCE. Procedures for calculating capacity benefits and energy payments were 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) and supplemented with additional information, when applicable. 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. For projects outside of SCE's control area but within the California Independent System Operator (CAISO) grid, other utilities' TRCRs would be reviewed for the determination of potential transmission costs. All project located outside of the CAISO grid were required to include all appropriate transmission costs in their energy price; therefore, no additional transmission costs were assessed for such projects.

With Sedway Consulting's review and concurrence, SCE developed a scoring system for evaluating the qualitative aspects of proposals (e.g., bidder experience, site control, likelihood of permitting and financing, transmission complications, etc.). This system would yield two scores for each proposal – one for project viability and one for transmission issues – where high scores indicated greater viability.

Sedway Consulting believes that SCE's evaluation process complied with the CPUC's "Least Cost Best Fit" (LCBF) criteria. As described above, SCE's LCBF analysis evaluates both quantitative and qualitative aspects of each proposal to estimate a project's complete value to SCE's customers and its relative value in comparison to other proposals.

Description of Selection Process

SCE designed its selection process around a B/C ratio ranking, with additional quantitative and qualitative metrics that would be used to further inform the decision-makers in the selection process. It was recognized that consideration of each proposal's general qualitative aspects or risk factors might warrant not shortlisting one or more low-qualitative-score proposals with otherwise high B/C ratios while shortlisting lower-economically-ranked proposals if those lower-ranked proposals' superior viability justified their selection. Employing such a 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:

- 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 power purchase agreement (PPA), and/or
- a failure of a bidder to provide the required short list deposit.

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. 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 renewable 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 5, 2008, SCE received a significant number of proposals in its RPS solicitation. A member of Sedway Consulting's IE team was in attendance and retrieved electronic and hard-copy versions for the IE team's analysis. Both SCE and Sedway Consulting performed their analyses of the submitted proposals during May and June 2008, 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 several internal meetings leading up to presentations regarding recommended selection and rejection decisions before SCE's RMC on May 13, 2008, June 10, 2008, and June 24, 2008. The same presentations were provided to SCE's PRG participants on May 14, 2008, June 11, 2008, and June 24, 2008. Sedway Consulting's ranking was similar to SCE's and generally supported the same shortlisting decisions. Where differences of opinion occurred, SCE frequently agreed to conduct further analysis, defer final decisions, and in some instances modify its final recommendations. The PRG participants provided valuable advice and recommendations during the process as well. The short list was finalized and all bidders were notified of their status (shortlisted or not selected) before or on June 26, 2008.

Description of Sedway Consulting's Parallel Evaluation Process

Sedway Consulting conducted a parallel evaluation of the RPS proposals, using its proprietary bid evaluation model. That model 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
- Expected total annual generation.

Sedway Consulting's evaluation model is a spreadsheet-based tool that was calibrated with SCE's regional forward price curves and 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 model calculated each proposal's monthly energy payments, energy benefits, and capacity value and divided the sum of the last two values by the payments (plus estimated transmission costs) to yield a B/C ratio. The model developed a ranking of all proposals based on the B/C ratio of each option. The results of Sedway Consulting's 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. Sedway Consulting developed parallel assessments of each bid's likely transmission costs; however, the alignment of transmission cost estimates was not as good as the rest of the evaluation results. 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. This is particularly the case as the CAISO is currently in the process of reforming its transmission cost attribution process. 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 those proposals that were either candidates for elimination or were "on the bubble," thereby ensuring that low-viability proposals were appropriately removed from the short list (even if their quantitative metrics ranked them fairly high from an economic standpoint) and that high-quality proposals with marginal economics were considered for inclusion on the short list.

Short List Development

The response to SCE's 2008 was quite robust: over 200 distinct proposals³ were submitted.

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 to be performed and to assess how the timing of transmission reinforcements may affect each project's

³ Some of these proposals were mutually-exclusive (e.g., flat versus escalating pricing for the same project).

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. 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. **Rollover Proposals from Previous Year Solicitation.** There were several bidders from SCE's 2007 RPS RFP with whom SCE was in advanced negotiations as the deadline approached for the submission of 2008 RPS bids. Sedway Consulting and SCE discussed how to handle these bidders and agreed that the 2008 bid submittal deadline should serve as a deadline for these remaining negotiations to be completed – at least for agreement on all major deal points. If the negotiations were not at that point of agreement, the bidder would be required to submit an updated revenue calculator into the 2008 solicitation and compete for a place on the short list with all of the new proposals. For the most part, this process worked well. However, some of the 2007 negotiations that were

deemed to be more or less complete continued well past the bid deadline and drained valuable time and resources from the 2008 solicitation effort. Also, none of the rollover bidders provided revenue calculators in packages that were available for the IE to open at the 2008 bid opening. Instead, Sedway Consulting was provided these revenue calculators via SCE (and, in some cases, the revenue calculators were created by SCE staff). In the future, Sedway Consulting recommends that SCE adopt a more stringent approach: namely, that all counterparties that do not have signed, fully executed contracts by seven days before the next solicitation's proposal submission date be required to re-submit revenue calculators and associated materials as a formal submission package by the new solicitation's bid deadline. This should ensure that the prior solicitation's negotiations are brought to a timely close, that they do not interfere with the new solicitation's evaluation process, and that the IE receives the re-submitted information directly from the counterparty.

2. **Proposal Updates.** The RFP document should instruct bidders to include the IE on all SCE-bidder email communications. SCE was good about trying to get bidders to do this after the fact, but not with great success. A number of updates that Sedway Consulting received were forwarded by SCE staff, and not all updates were received by Sedway Consulting in a timely manner, complicating the evaluation process.
3. **Revenue Calculator.** Recent SCE RPS solicitations have required bidders to input their prices into a large Excel spreadsheet (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. In response to one of Sedway Consulting's recommendations from the 2007 solicitation, SCE reduced the size of this spreadsheet considerably. However, it is still a fairly large file (four times larger than similar bid files in other utility solicitations) with charts and tables that make the file large, unwieldy, and complicated. In addition, some bidders encountered difficulties in representing their prices and generation profiles in the file. SCE should consider making the current larger version of 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.
4. **Revenue Calculator Inputs.** SCE's revenue calculator had no direct means for indicating projects that are phased in (or out) over a number of years. In some instances, this was inferred from a bidder's forecast of annual project generation, but that proved to be a crude way of discerning project capacity increases. Sedway Consulting recommends incorporating a table in which a bidder can indicate annual (or even better, monthly) expected project capacity.
5. **Transmission Cost Estimates.** The cost estimation process for transmission upgrades needs to be better coordinated with the IE. Specifically, Sedway

Consulting recommends that SCE's cost estimation process be fully documented in a transmission cost protocol⁴ that is finalized well before the receipt of bids and that SCE and the IE conduct a "mock evaluation" of a set of IE-developed mock bids well in advance of the real evaluation to ensure that SCE and the IE concur in their development of transmission cost estimates.

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.

As of the end of 2008, SCE's negotiation process in its 2008 RPS solicitation successfully yielded one executed contract that has been submitted for CPUC approval:

1. **Mountain View Power Partners, LLC** – a 10-year PPA with deliveries of wind energy expected to commence on October 1, 2011 from an existing 66.6 MW facility north of Palm Springs, California in SCE's service territory. Annual deliveries are expected to be approximately 220 GWh.

Sedway Consulting does not believe that there is any material issue or deficiency that would warrant the CPUC's rejection of this PPA. Specific assessments of the PPA and its associated project are included in the Confidential Appendix to this report.

⁴ Indeed, SCE developed a transmission evaluation protocol document prior to bid opening, but there were several areas where greater specificity may have been helpful.

Conclusion

Sedway Consulting believes that SCE conducted a fair and effective evaluation of the RPS proposals that it received in response to its March 7, 2008 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 2008 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 PPA that SCE has submitted for CPUC approval with its first advice letter (Mountain View Power Partners) was 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 this PPA.

Attachment 3

Confidential Appendix A to Independent Evaluation Report for Southern California

Edison's 2008 Renewable Resource Solicitation

Confidential – Public Disclosure Prohibited