

PUBLIC UTILITIES COMMISSION

SAN FRANCISCO, CA 94102-3298



**REVISED**

November 17, 2011

**Advice Letters 2557-E and 2557-E-A**

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

**Subject: Submission of Renewable Auction Mechanism Procedures and  
Draft Standard Power Purchase Agreement and Supplemental  
Filing**

Dear Mr. Jazayeri:

Advice Letters 2557-E and 2557-E-A are effective August 18, 2011 per Resolution E-4414.

Sincerely,

A handwritten signature in cursive script that reads "Edward F. Randolph".

Edward F. Randolph, Director  
Energy Division

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March 14, 2011

**ADVICE 2557-E-A**  
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION

**SUBJECT:** Supplement to Submission of Renewable Auction Mechanism  
Procedures and Draft Standard Power Purchase Agreement

**PURPOSE**

The purpose of this advice filing is to supplement Advice 2557-E, in order to include a Memorandum (the "Memorandum") from Independent Evaluator Accion Group ("Accion") regarding Southern California Edison Company's ("SCE's") advice letter implementing a Renewable Auction Mechanism ("RAM") program to procure energy from renewable resources of 20 megawatts or less in size. Advice 2557-E was filed in compliance with the California Public Utilities Commission's ("Commission's") Decision (D.)10-12-048 ("Decision") issued on December 17, 2010.

**BACKGROUND**

On February 25, 2011, SCE filed Advice 2557-E. Advice 2557-E provides RAM procedures and draft standard Power Purchase Agreements in compliance with D.10-12-048. On March 7, 2011, Accion issued the Memorandum, which provides Accion's observations and suggestions regarding Advice 2557-E. The Memorandum was not included with Advice 2557-E because it had not yet been completed by Accion at the time SCE filed Advice 2557-E.

This advice filing supplements Advice 2557-E to include the Memorandum, which is attached hereto as Attachment 1.

## **TIER DESIGNATION**

Pursuant to General Order (GO) 96-B, Energy Industry Rule 5.3, this implementation advice letter is submitted with a Tier 3 designation (effective after Commission approval). In keeping with the Commission's Decision, SCE will submit contracts executed under the RAM program in an advice letter pursuant to Tier 2 designation under Energy Industry Rule 5.2.

## **EFFECTIVE DATE**

This advice filing will become effective on the date approved by a Commission resolution.

## **PROTESTS**

SCE asks that the Commission maintain the original protest and comment period as designated in Advice 2557-E, filed on February 25, 2011, because this supplemental advice filing is simply providing Accion's Memorandum summarizing its observations and suggestions relating to SCE's RAM implementation advice letter.

## **NOTICE**

In accordance with Section 4 of GO 96-B, SCE is serving copies of this advice filing to the interested parties shown on the attached GO 96-B and R.08-08-009 service lists. Address change requests to the GO 96-B service list should be directed by electronic mail to [AdviceTariffManager@sce.com](mailto:AdviceTariffManager@sce.com) or at (626) 302-2930. For changes to all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at [Process\\_Office@cpuc.ca.gov](mailto: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 website at <http://www.sce.com/AboutSCE/Regulatory/adviceletters>.

For questions, please contact Joni Templeton at (626) 302-6210 or by electronic mail at [joni.templeton@sce.com](mailto:joni.templeton@sce.com).

**Southern California Edison Company**

Akbar Jazayeri

AJ:jt:sq  
Enclosures

**Attachment 1**  
**Accion Group's Memorandum Regarding**  
**Advice 2557-E**



## MEMORANDUM

TO: Jaclyn Marks  
George Wiltsee

FROM: Harry Judd  
Kevin Carden

DATE: March 7, 2011

RE: Comments on RAM Advice Letter

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The following observations are based on this, our first exposure to the RFP process employed by SCE. Accordingly, some or all of our observations may have been explicitly addressed by the Commission in prior proceedings, or the documents may have been approved in the same form as provided to us in draft. We offer the observations drawing on our experience in other jurisdictions, and to share that experience before this RFP is released.

We have had numerous discussions with SCE personnel, and participated telephonically in discussions with the Procurement Review Group and the Risk Management Committee as the RAM program protocols were refined. Because this is a new program, modifications were incorporated as observations and suggestions were considered. We appreciate the challenges of launching a new program and that processes will change during the drafting process and appreciate the willingness of all parties to consider our observations, as well as those of other interested parties.

**Document: Non-disclosure Agreement.**

Observations: This is a standard form, contains all the usual terms, and is unilateral in application. We see no reason to modify the document

Suggestions: None.

**Document: Site Control Acknowledgement.**

Observations: We note that the document does not recognize the requirement to have affirmed site control for the duration of the proffered contract period. We understand this is addressed as part of the executed PPA.

Suggestions: Because the Site Control Acknowledgement is to be executed before the PPA, we suggest including reference to the PPA requirement of site control for the entire duration of the contract.

**Document: Exclusivity Agreement.**

Observations: The Agreement requires that once a bid is placed on the short list, the bidder must hold open the offer for a specified period of time, or until released by SCE. In another jurisdiction where we conduct RFPs, the bidder is permitted to withdraw after

being placed on the short list, provided the asset is committed to another buyer. This is permitted in recognition that alternative supplies should be encouraged, and the short list may include more capacity than will, in fact, be accepted in the RFP, resulting in capacity being held in reserve pending final confirmation, rather than being deployed.

Suggestions: Consider permitting the bidder to withdraw a bid when on the shortlist, but before being selected as a committed resource (a) the asset is committed to another buyer, (b) the bidder notifies SCE of the intent to withdraw with sufficient notice to permit SCE to confirm that the bid was not already identified as being on the final list of accepted bids.

**Document: RFP Instructions.**

Observations: We understand that in order to participate in the first auction, it will be necessary to have a determination of transmission interconnection impact, and system upgrades cost, if any. Further, we understand that a project would need to apply for participation in the interconnection study by March 31, 2011, in order for the study to be completed in time to provide impact data before the anticipated first auction in the fourth quarter of 2011. From our experience in other jurisdictions we believe that it is preferable for marketers to have a realistic understanding of transmission interconnection costs *before* they invest the time, effort and money to prepare a proposal with pricing commitments. At the same time, we question whether this requirement is adequately disclosed or developed as applied to the RAM program.<sup>1</sup>

From discussions with SCE personnel and review of filings concerning the WDAT process we understand the issue of interconnection and access to the distribution system is hardly unique to the RAM program. We also understand that there are projects presently being reviewed for interconnection that will, thus be eligible to participate in the RAM program this year. Further, SCE personnel believe there will be sufficient number of projects that will have their respective interconnection reviews completed before the first auction to make the auction successful. We also understand that to be eligible to participate in the first RAM auction, a project will have to apply for transmission and distribution access before March 31, 2011. A project that fails to apply for interconnection study by that date would be ineligible for the RAM auction until October 2012. To date, this fact has not, in our opinion, been made explicitly clear to potential participants.

We do not presume to have a full appreciation for the level of knowledge of marketers, or the ability of SCE to effectuate prompt implementation of new interconnection protocols, which we understand would be needed in order for the Cluster 4 Phase I interconnection study program to move forward in time to complete that level of review before the projected first auction in October 2011.

Also, we were advised by SCE that request for the interconnection study would be required by the end of March 2011 in order for a study to be completed before the first auction, but we do not find that disclosure in the draft Advice Letter. One can infer the

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<sup>1</sup> We are aware of the “fast track” opportunity for projects smaller than 2 MW, and appreciate that some projects could qualify under that program thereby avoiding the limitations discussed here.

need for obtaining an interconnection study from chart presenting the projected RAM process, but one would need to be intimately familiar with the interconnection study process to appreciate timing for arrange participation in that process.

We understand one goal of the RAM program is to offer another way for developers to provide renewable resources, and that robust participation is desired. We believe that full and detailed disclosure of prerequisites, and how to achieve them, would further that goal. While SCE may well be right that there are developers presently awaiting completion of interconnection studies and, hence, there are candidates for the first auction, making participation possible for the entire marketplace would be preferable.

We first raised this concern with SCE on February 8, 2011, and suggested that SCE take steps to advise the market place that there would be a requirement of applying for interconnection before March 31, 2011. We understand SCE has sent a blast notice of this fact before the end of February, but we question whether this was adequate notice for developers to be able to complete an application before March 31, 2011. We also question what confidence the market place would have in seeking participation in a cluster program (cluster 4) before requisite regulatory approvals have been granted.

As stated above, we believe it is preferable for all parties that bidders have the best available information about transmission and distribution costs they will bear before preparing a bid. We understand that after this initial RAM auction, marketers will have that information and that should work to encourage realistic bids, thereby improving efficiency of the review process. Unfortunately, the timing of when the RAM program is to start does not align conveniently with the established need to have requests for interconnection made before March 31 of each year. In a more perfect arrangement, the RAM program would have been commenced months ago, but we recognize time was needed to develop program protocols since the December 16, 2010 order. We remain concerned that developers will be unfamiliar with the program requirements, because it is new, and that may well produce complaints that the Commission will have to address. Notwithstanding the fact that some developers will be eligible to participate in the first RAM auction because they will apply for transmission and distribution determination before March 31, 2011, we would have preferred an approach and timing that would accommodate developers that were not able to complete an application for interconnection by March 31, 2011, but who notified SCE before March 31, 2011, of their desire to participate in the October 2011 RAM auction. Accion recognizes this is not feasible given the fact that the interconnection study is in the jurisdiction of the California ISO, so there would be no means of accommodating such bidders and still meeting the objective of quantifying interconnection costs in advance of the bidding process.

**Document: RAM Advice Letter.**

- The RAM decision provides IOUs with the discretion to reject bids if prices are not competitive even if the allocated capacity cap has not been reached.
  - Observations: The threshold for non-competitive bids has not been defined. The RAM decision allows for comparison to other renewable opportunities, but Accion does not believe that should be the sole basis for limiting the selection of

bids given the products sought in the RAM solicitation different from other renewable solicitations.

- The RAM decision explicitly requires two auctions per year, while SCE is planning only one auction.
  - Observations: The RAM decision explains that the reason for two auctions per year is to streamline the auctions and winning bid selections. Accion believes that the incremental efficiency benefit is small compared to the extra effort required to handle two auctions per year and therefore agrees with the recommendation of a single auction per year.
- SCE is maintaining the Pro Forma PPA position in regards to “Damages for Failure to Perform” and is not limiting damages to actual amounts as the Decision requires.
  - Observations: The damages calculation in Exhibit F of the Pro Forma PPA appears to be a reasonable estimate of actual damages. However, the cap and floor of 2 and 5 cents per kWh respectively do not conform to the objective of seeking actual damages. The 5 cent per kWh cap would likely provide overall value to the procurement process as creditors would be more likely to finance projects with limited exposure. The risk of extreme situations would fall on SCE who has a mechanism to recover those costs, while providing a reasonable incentive to bidders for performance. For this reason, the 5 cent cap is beneficial to all parties. However, Accion does not recognize the rationale for the 2 cent floor. If a non-performance event were to occur when renewable energy in the spot market was inexpensive relative to the contract price, SCE should not be eligible for additional remuneration due to the 2 cent floor. Consistent with our experience in other jurisdictions, a minimum damages calculation with the potential to provide upside to the buyer in the event of non-performance is not typical or recommended, even if a damages cap is implemented. If the logic for the floor is to recover litigation or other costs not considered by the calculation in Exhibit F, SCE should provide additional support for the recommendation. In the absence of further justification from SCE, we recommend utilizing the calculations in Exhibit F except for the application of the 2 cent per kWh floor. It is also noted that Accion agrees that in no event should the damages calculation result in a payment to the bidder, so a 0 cent floor is appropriate.
- " SCE proposes a methodology to refine the MW capacity to procure in each product bucket based on the offers submitted in each RFO. SCE will determine a renewable premium (valuation of costs minus benefits) for each offer and rank offers by this factor."
  - Observations:
    - Accion believes that using a valuation methodology to determine bucket size is a reasonable approach. However, because the production profiles of different projects, especially wind projects, can vary substantially, Accion recommends that the optimal approach of using valuation for all components of the ranking process be utilized. As part of this recommended process, Accion would review the methodology in detail, provide feedback on potential modifications that may increase visibility and equality, and subsequently provide an assessment on the finalized evaluation process before bids are received.
    - The RAM decision requires that bids be ranked by bid price only. If the Commission does not agree with the IE's proposal to utilize valuation for ranking, then Accion would suggest allowing the consideration of network upgrade costs in the ranking process. Given that there could be

substantial variability in network upgrade costs, ranking solely on bid price could result in a suboptimal and inequitable selection of resources.

- Projects must achieve commercial operation within 36 months after CPUC approval of the PPAs instead of the Decision’s requirement for projects to achieve commercial operation within 18 months of contract execution, with one 6-month extension available.
  - Observations: A 36 month allowance wouldn't eliminate those bids which could be available within 18 months. In addition, utilizing the 36-month window the pool of eligible bids would likely be larger and comprised of higher quality projects with better cost structures. However, given the objectives of this procurement process, short lead-time projects could be given a defined preference in the selection process. As an alternative, bidders could be allowed to bid under both timing criteria. If the premium for getting earlier projects is too large, then bids with longer lead times may be considered.
- SCE will screen offers on a “pass-fail” basis against the eligibility criteria: Network upgrade cost is less than \$2.50/MWh
  - Observations: If network upgrade cost adders are not allowed to be included in the bid ranking process, we agree that a network upgrade cap is essential. While the \$2.50/MWh does seem somewhat arbitrary, without having actual bid and cost information, an objective threshold cannot be set.

# 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](mailto:James.Yee@sce.com)

E-mail Disposition Notice to: [AdviceTariffManager@sce.com](mailto: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) #: 2557-E-A      Tier Designation: 3

Subject of AL: Supplement to Submission of Renewable Auction Mechanism Procedures and Draft Standard Power Purchase Agreement

Keywords (choose from CPUC listing): Compliance, Contracts

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

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

D.10-12-048

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 AL<sup>1</sup>: \_\_\_\_\_

Confidential treatment requested?  Yes  No

If yes, specification of confidential information:

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: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: upon Commission approval      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 proposed<sup>1</sup>: \_\_\_\_\_

Pending advice letters that revise the same tariff sheets: \_\_\_\_\_

<sup>1</sup> 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](mailto:inj@cpuc.ca.gov) and [mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)

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