

Southern California Edison

**2013 Request for Offers
Local Capacity Requirements**

~~Transmittal Letter~~

September November 12, 2013

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A. GENERAL INFORMATION

- A.1. In accordance with California Public Utilities Commission (“CPUC”) Decision (“D.”) 13-02-015, Southern California Edison Company (“SCE”) seeks to acquire, with this Request for Offers (“RFO”)¹, if applicable and pursuant to an agreement (as executed by both parties, the “Agreement”), electrical Capacity, Energy, Ancillary Services, Load Reduction, Green Attributes and Resource Adequacy Benefits. The purpose of this Transmittal Letter is to describe the process by which offers (“Offers”) are to be submitted and evaluated in response to this RFO as well as SCE’s reservation of rights as set forth in Section J.
- A.2. Capitalized terms used in this Transmittal Letter that are not otherwise defined have the meanings set forth in Exhibit A.2 hereto (the “RFO Definitions”).²
- A.3. SCE may, in its sole discretion, enter into Agreements with one or more sellers submitting Offers that will provide the best value to SCE’s customers based upon the evaluation criteria discussed below.
- A.4. This RFO is not a binding offer by SCE to purchase electric Capacity, Energy, Ancillary Services, Resource Adequacy Benefits, Green Attributes, Load Reduction or any other product. SCE reserves the right to reject any or all Offers.
- A.5. In the event of any conflict between terms contained in this Transmittal Letter or any of the other RFO Documents, the conflict shall be resolved by the following priority of documents: the Agreements (and their Appendices), the Offer Sheet, this Transmittal Letter (and the RFO Definitions which accompany the Offer Sheet and Transmittal Letter), and any other Exhibit or Attachment. Notwithstanding the foregoing, in the event an Agreement is executed by SCE and Seller, the Agreement shall control over any RFO Documents.
- A.6. Sellers are required to meet all the terms and conditions of the RFO to be eligible to compete in the solicitation process. Sellers are required to follow all instructions contained in this RFO, including but not limited to this Transmittal Letter, the RFO Documents, and their Appendices, Exhibits, Attachments and subsequent amendments. Sellers must respond to all questions contained in the RFO Documents, organize their Offers according to the structure specified in the Offer Submittal Package, and provide supporting documentation in the format requested in the Offer Submittal Package. Where documentation is not applicable, Seller should so indicate, and specify why the requested information is not applicable. Sellers should clearly organize and identify all information submitted in their Offers to facilitate review and evaluation.

¹ The RFO includes the terms and conditions of SCE’s 2013 Request For Offers for Local Capacity Requirements as described in the pro forma Agreements, the Offer Sheets, this Transmittal Letter, the RFO Definitions, as defined in Section A.2, any exhibits, attachments or appendices to the foregoing documents, or any other communications promulgated by SCE regarding this solicitation, (collectively the “RFO Documents”).

² The RFO Definitions are provided to assist potential bidders in understanding the Transmittal Letter and Offer Sheet. Defined terms in Agreements will supersede and replace the RFO Definitions to the extent the documents are inconsistent.

- A.7. Information provided by Seller to SCE pursuant to this RFO will be subject to the disclosure requirements of CPUC D. 06-06-066 and/or applicable law.
- A.8. SCE encourages Women-Owned, Minority-Owned, and Disabled Veteran-Owned Business Enterprises (“WMDVBE”) to participate in the RFO. To be considered as a WMDVBE, Seller must provide a copy of a valid certificate that verifies WMDVBE status of the firm. Information on SCE’s supplier diversity program can be found on the SCE website at www.sce.com/SD.

B. PRODUCTS SOLICITED

B.1. Gas fired generation

B.1.1. SCE will evaluate Offers for gas fired resources, including new resources, physical relocation, repowers, and upgrades as described below, that meet all local, state, and federal rules, regulations, standards, permitting, and interconnection requirements and certifications as applicable. Projects must have a remaining design life of at least 30 years after the Initial Delivery Date as attested by an engineering assessment performed by a Professional Mechanical Engineer (with experience acceptable to SCE in its sole discretion) licensed by the State of California.

B.1.1.1. Proper certification shall include but is not limited to compliance with current standards under the California Environmental Quality Act (“CEQA”), the National Environmental Policy Act (“NEPA”), the Federal New Source Review (“NSR”), applicable air pollution control district regulations, SCE, CAISO, or appropriate Participating Transmission Owner’s electrical interconnection requirements, natural gas interconnection requirements promulgated by Southern California Gas Company or other applicable gas providers, and applicable water and wastewater discharge regulations.

B.1.2. New resources

B.1.2.1. A project will qualify as a new resource eligible for consideration by SCE in this RFO if the project will provide Incremental Capacity to the region of the CAISO’s control area known as the West Los Angeles Basin or Moorpark Sub-Areas. A project will not be considered a new resource eligible for consideration in this RFO if by the date of this RFO it is currently in operation, under construction, or identified on either of the following reports:

B.1.2.1.1. The CEC’s California Power Plants Database of existing operating plants in California as of the date of this RFO and as shown in Exhibit C.1.1.

B.1.2.1.2. The CEC’s Energy Facility Status report under the categories with a status of “Operational” or “Approved Under Construction” as of the date of this RFO and as shown in Exhibit C.1.2.

B.1.3. Physical relocation

B.1.3.1. Physically relocating a project from outside of the West Los Angeles Basin or Moorpark Sub-Areas to the West Los Angeles Basin

or Moorpark Sub-Areas is permitted if all other conditions of this RFO are met (including those listed in this Transmittal Letter), the relocated project meets all environmental requirements and standards, and the relocated project has obtained a valid operating permit authorizing the relocation and subsequent operation of the relocated project from the applicable Air Pollution Control District.

B.1.4. Repowers

B.1.4.1. SCE will evaluate Offers to repower existing generating facilities and may, in its sole discretion, accept an Offer to repower an existing generating facility so long as the conditions below are met. A “Repower” is defined as an overhauled or repaired generating facility which was, prior to the overhaul or repair, operating with all applicable local, state and federal certifications and permits, reaching the end of its projected operating life and, requiring the replacement of one or more generation-related components (specifically turbine or other engine prime mover, electrical generator, heat recovery steam generator, or steam turbine) with new hardware. A Repower must meet all the criteria set forth below:

B.1.4.1.1. The Repower must result in higher efficiency, lower air emission rates and greater reliability than the generating facility prior to the overhaul or repair.

B.1.4.1.2. An Offer for a Repower considered under this Section must contain information demonstrating that, absent a significant capital investment, the remaining life of the current generating facility is 10 years or fewer.

B.1.5. Upgrades

B.1.5.1. SCE will evaluate Offers to upgrade existing generating facilities and may, in its sole discretion, accept an Offer to upgrade an existing generating facility. An “Upgrade” is defined as an addition to a generating facility which will provide Incremental Capacity to the region of the CAISO’s control area known as the West Los Angeles Basin or Moorpark Sub-Areas.

B.2. Combined heat and power (“CHP”)

B.2.1. SCE will evaluate Offers for CHP projects including new CHP resources, CHP physical relocation, CHP repowers and CHP upgrades as described below. A project will qualify as a CHP project eligible for consideration by SCE in this RFO if it meets all local, state, and federal rules, regulations, standards, permitting, and interconnection requirements and certifications as applicable. Projects must have a remaining design life of at least 30 years after the Initial Delivery Date as attested by an engineering assessment performed by a Professional Mechanical Engineer (with experience acceptable to SCE in its sole discretion) licensed by the State of California.

B.2.2. The CHP project must be available for baseload operation over the 7x16 peak period defined as any 16 continuous hours between hours ending 7-24.

B.2.3. New CHP resources

B.2.3.1. A CHP project will qualify as a new resource eligible for consideration by SCE in this RFO if the project will provide Incremental Capacity to the region of the CAISO's control area known as the West Los Angeles Basin or Moorpark Sub-Areas. A project will not be considered a new CHP resource eligible for consideration in this RFO if by the date of this RFO it is currently in operation, under construction, or identified on either of the following reports:

B.2.3.1.1. The CEC's California Power Plants Database of existing operating plants in California as of the date of this RFO and as shown in Exhibit C.1.1.

B.2.3.1.2. The CEC's Energy Facility Status report under the categories with a status of "Operational" or "Approved Under Construction" as of the date of this RFO and as shown in Exhibit C.1.2.

B.2.4. CHP physical relocation

B.2.4.1. Physically relocating a CHP project from outside of the West Los Angeles Basin or Moorpark Sub-Areas to the West Los Angeles Basin or Moorpark Sub-Areas is permitted if all other conditions of this RFO are met (including those listed in this Transmittal Letter), the relocated CHP project meets all environmental requirements and standards, and the relocated CHP project has obtained a valid operating permit authorizing the relocation and subsequent operation of the relocated CHP project from the applicable Air Pollution Control District.

B.2.5. CHP repowers

B.2.5.1. SCE will evaluate Offers to Repower existing generating facilities and may, in its sole discretion, accept an Offer to Repower an existing generating facility so long as the conditions below are met. A "Repower" is defined as an overhauled or repaired generating facility which was, prior to the overhaul or repair, operating with all applicable local, state and federal certifications and permits, reaching the end of its projected operating life and, requiring the replacement of one or more generation-related components (specifically turbine or other engine prime mover, electrical generator, heat recovery steam generator, or steam turbine) with new hardware. A Repower must meet all the criteria set forth below:

B.2.5.1.1. The Repower must result in higher efficiency, lower air emission rates and greater reliability than the generating facility prior to the overhaul or repair.

B.2.5.1.2. An Offer for a Repower considered under this Section must contain information demonstrating that, absent a significant capital investment, the remaining life of the current generating facility is 10 years or fewer.

B.3. *Demand response*

B.3.1. SCE will evaluate Offers for demand response (“DR”) products in which Seller will offer to SCE the ability to reduce electrical consumption from specified electrical customers at specified times. A demand response product must meet the criteria set forth below:

B.3.1.1. Delivery Days must be a subset of or equal to Monday through Friday

B.3.1.2. Delivery Hours must include at least one hour between HE7 – HE22

B.3.1.3. Operating Months must include July, August or September

B.3.1.4. Duration Per Dispatch must be capable of achieving demand reduction for at least 2 hours, though bidders are encouraged to submit offers for demand reduction for at least 4 hours as well

B.3.1.5. The DR product must be comprised of electrical customers located in the region of the CAISO’s control area known as the West Los Angeles Basin or Moorpark Sub-Areas.

B.4. *Energy efficiency*

B.4.1. SCE will evaluate Offers for energy efficiency products in which Seller will offer to SCE the implementation of load reducing measures for electrical customers. An energy efficiency product must meet the criteria set forth below:

B.4.1.1. The energy efficiency product cannot receive benefits from any other energy efficiency program.

B.4.1.2. The energy efficiency product must be implemented at sites of electrical customers located in the region of the CAISO’s control area known as the West Los Angeles Basin or Moorpark Sub-Areas.

B.5. *Energy storage*

B.5.1. SCE will evaluate Offers for energy storage projects, including new energy storage resources, energy storage physical relocation, energy storage repowers and energy storage upgrades as described below, that meet all local, state, and federal rules, regulations, standards, permitting, and interconnection requirements and certifications as applicable. ~~Projects must have a remaining design life of at least 30 years after the Initial Delivery Date as attested by an engineering assessment performed by a Professional Mechanical Engineer (with experience acceptable to SCE in its sole discretion) licensed by the State of California.~~

B.5.2. New energy storage resources

B.5.2.1. A project will qualify as a new energy storage resource eligible for consideration by SCE in this RFO if the project will provide Incremental Capacity to the region of the CAISO’s control area known as the West Los Angeles Basin or Moorpark Sub-Areas. A project will not be considered a new energy storage resource eligible for consideration in this RFO if by the date of this RFO it is currently in operation, under construction, or identified on either of the following reports:

B.5.2.1.1. The CEC's California Power Plants Database of existing operating plants in California as of the date of this RFO and as shown in Exhibit C.1.1.

B.5.2.1.2. The CEC's Energy Facility Status report under the categories of "Operational" or "~~Approved~~Under Construction" as of the date of this RFO and as shown in Exhibit C.1.2.

B.5.3. Physical energy storage relocation

B.5.3.1. Physically relocating a project from outside of the West Los Angeles Basin or Moorpark Sub-Areas to the West Los Angeles Basin or Moorpark Sub-Areas is permitted if all other conditions of this RFO are met (including those listed in this Transmittal Letter), the relocated project meets all environmental requirements and standards, and the relocated project has obtained a valid operating permit authorizing the relocation.

B.5.4. Energy storage repowers

B.5.4.1. SCE will evaluate Offers to repower existing energy storage facilities and may, in its sole discretion, accept an Offer to repower an existing energy storage facility so long as the conditions below are met. A "Repower" is defined as an overhauled or repaired energy storage facility which was, prior to the overhaul or repair, operating with all applicable local, state and federal certifications and permits, reaching the end of its projected operating life and, requiring the replacement of one or more energy storage related components with new hardware. An energy storage repower must meet all the criteria set forth below:

B.5.4.1.1. The energy storage repower must result in higher efficiency, lower air emission rates and greater reliability than the generating facility prior to the overhaul or repair.

B.5.4.1.2. An Offer for an energy storage- Repower considered under this Section must contain information demonstrating that, absent a significant capital investment, the remaining life of the current generating facility is 10 years or fewer.

B.5.5. Energy storage upgrades

B.5.5.1. SCE will evaluate Offers to upgrade existing energy storage facilities and may, in its sole discretion, accept an Offer to upgrade an existing energy storage facility. An "Upgrade" is defined as an addition to an energy storage facility which will provide Incremental Capacity to the region of the CAISO's control area known as the West Los Angeles Basin or Moorpark Sub-Areas.

B.6. Renewable

B.6.1. SCE will evaluate Offers for New renewable projects that meet all local, state, and federal rules, regulations, standards, permitting, and interconnection requirements and certifications as applicable. A New Renewable project must meet the criteria below:

- B.6.1.1. The projects must qualify as Portfolio Content Category 1 (“Category 1”) in accordance with Public Utilities Code Section 399.16(b)(1) and CPUC (“D.” 11-12-052, which includes all electric energy produced by an ERR³ Generating Facility throughout the Term of the Final Agreement, net of Station Use; all Green Attributes; all Capacity Attributes, if any; and all Resource Adequacy Benefits, if any; generated by, associated with, or attributable to the output of the ERR Generating Facility throughout the Term of the Agreement whether such credits or other attributes exist at the time an Agreement is executed or are created later during the Term of the Agreement.
- B.6.1.2. SCE will not consider Proposals for offers to deliver any Portfolio Content Category 2 (“Category 2”), as defined in Public Utilities Code Section 399.16(b)(2) and D.11-12-052, products, such as firm and shaped products, or Portfolio Content Category 3 (“Category 3”) as defined in Public Utilities Code Section 399.16(b)(3) and D.11-12-052, products, such as Renewable Energy Credit-only transactions.
- B.6.1.3. Seller’s ERR Generating Facility must be a new or repowered Generating Facility that is an ERR.
 - B.6.1.3.1. For Generating Facilities not yet on-line and for repowered Generating Facilities, SCE requires Seller to seek “pre-certification” as an ERR prior to the Proposal Due Date.
- B.6.1.4. Offers associated with the Hopi Tribe and/or Navajo Nation that are Eligible Renewable Energy Resources and that otherwise qualifies under the requirements of D.13-02-004, may be entitled to use available funds from the Mohave SO2 Allowance Revolving Fund Memorandum Account to meet the Development Security obligations under the Pro Forma Agreement, subject to the provision of the necessary documentation and assurances in the Agreement.
- B.6.1.5. Product Price
 - B.6.1.5.1. SCE intends to purchase the Product from those Sellers that have executed an Agreement at the Product Price, in \$/MWh, as defined in the Pro Forma and further outlined below.
 - B.6.1.5.2. In addition, Seller may submit an indexed pricing Proposal so long as Seller also includes a Product Price consistent with the description above. SCE is not seeking any specific type of indexing structure. Seller may propose a price indexed to commodities, equipment, cost of financing, etc. Seller may also consider placing price ceilings and floors on the indexed price.
- B.6.1.6. Resource Adequacy

³ “ERR” means eligible renewable resource and is a generating facility that meets all the criteria set forth in Public Utilities Code Section 399.12, Public Resources Code Section 25741, and the CEC’s “Renewables Portfolio Standard (RPS) Eligibility Guidebook” (January 2011, Fourth Edition, Publication #CEC-300-2010-007-ED4-CMF) (“CEC RPS Eligibility Guidebook”) which may be found here: <http://www.energy.ca.gov/renewables/documents/>

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- B.6.1.6.1. Sellers must bid a ERR Generating Facility based on an interconnection assuming conferment by the CAISO of Full Capacity Deliverability Status ("FCDS") and a CAISO Net Qualifying Capacity ("NQC") assignment.
- B.6.1.6.2. FCDS projects are considered to be a Resource Adequacy Resource and are assigned a Qualifying Capacity – the maximum capacity of a Resource Adequacy Resource – by the California Public Utilities Commission ("CPUC") and provided to the CAISO. The Qualifying Capacity may be reduced by the CAISO as applicable based on: (i) testing and verification; (ii) application of performance criteria; and (iii) deliverability restrictions, yielding the NQC assignment conferred on the project by the CAISO. SCE will adjust the project Price for FCDS projects using the FCDS Product Payment Allocation Factors since the FCDS project may delivery Resource Adequacy Benefits.
- B.6.1.6.3. Should the project's NQC assignment be reduced by the CAISO for any reason, then SCE shall continue to pay to Seller the Product Price adjusted by the FCDS Product Payment Allocation Factors, however, Seller shall pay to SCE liquidated damages for the amount attributable to the reduction of the NQC multiplied by the effective CPM Capacity price as listed in Section 43.7.1 of the CAISO Tariff, or its successor (the "Multiplier"). Should the CPM Capacity price cease to be published by the CAISO and no equivalent successor is published, the Multiplier shall be equal to the last CPM Capacity price listed in the CAISO Tariff and escalated by two percent (2%) every twelve (12) months thereafter. In any event, the Multiplier may not exceed \$120/kW-year.

B.7. Resource Adequacy

- B.7.1. SCE will evaluate Offers for Resource Adequacy ("RA") only. RA only offers will be accepted from the following aforementioned project types: gas fired generation, CHP, energy storage and renewable resources. The eligibility requirements and descriptions as outlined above for each project type are also applicable for a RA only Offer.

B.8. Distributed generation

- B.8.1. SCE will evaluate Offers for distributed generation projects. If a Seller wishes to propose a distributed generation project, they should contact SCE to discuss eligibility requirements and contracting.

C. OTHER ELIGIBILITY REQUIREMENTS

C.1. Independent Generating Units

SCE will accept Offers for projects on a particular Site where other projects that are outside the scope of a proposal are situated; however, the proposed project must operate independently with no shared generating components with the other generating units that may be on the Site.

C.2. *Exclusive Output and Dispatch Rights*

SCE requires exclusive output of any product and dispatch rights of gas fired, renewable, CHP, demand response and energy storage products throughout the term of the agreement.

C.2.1. For gas fired and energy storage projects, SCE requires that (i) the project be dispatchable, (ii) SCE have the right to provide dispatch instructions to the generator for the CAISO Day-Ahead, Hour-Ahead, and Real Time Markets, and (iii) projects be able to start up and to ramp up within the project's specifications upon notice by SCE.

C.3. *Quantity*

C.3.1. Gas fired projects must have an expected capacity of at least 25 MW

C.3.2. CHP projects must have an expected capacity of at least 1 MW

C.3.3. Demand response projects must have an expected capacity of at least 0.1 MW

C.3.4. Energy efficiency projects must have an expected load reduction of at least 0.1 MW

C.3.5. Energy storage projects must have an expected capacity of at least 0.5 MW

C.3.6. Renewable projects must have an expected capacity of at least 0.5 MW

C.3.7. Distributed Generation projects must have an expected capacity of at least 0.1 MW

C.4. *Minimum Delivery Time Capability*

C.4.1. Gas fired, demand response and energy storage projects must be capable of providing full capacity for at least ~~4 hours~~ 2 hours, though bidders are encouraged to submit offers that provide full capacity for at least 4 hours as well

C.5. *Project Location*

C.5.1. Gas fired generation, CHP, energy storage, renewable and Resource Adequacy projects must ~~either 1) Directly connect to either 1) a West LA Basin High Voltage substation or a Moorpark High Voltage substation or 2) Directly connect to a downstream lower voltage substation that electrically connects to a equipment connected to the West LA Basin High Voltage substation or a 2) a Moorpark High Voltage substation or downstream lower voltage equipment connected to the Moorpark High Voltage substation~~

Demand response and energy efficiency projects must ~~source from reduce load for~~ customers that ~~either 1) Directly take take or receives receive~~ electricity service from either 1) a West LA Basin High Voltage substation or downstream lower voltage equipment connected to the West LA Basin High Voltage substation or 2) a Moorpark High Voltage Substation substation or 2) Directly takes or receives electricity services from a downstream lower voltage substation that electrically

~~connect~~equipment connected to ~~athe~~ Moorpark High Voltage
~~Substation~~substation

Acceptable High Voltage substations in the West Los Angeles Basin Sub-Area (“West LA Basin High Voltage substations”):

1. Alamitos
2. Barre
3. Center
4. Chevmain
5. Chino
6. Del Amo
7. Eagle Rock
8. El Nido
9. El Segundo
10. Ellis/Huntington Beach
11. Goodrich
12. Gould
13. Hinson
14. Johanna
15. La Cienega
16. La Fresa/Redondo
17. Laguna Bell
18. Lewis
19. Lighthipe
20. Long Beach
21. Mesa
22. Olinda
23. Rio Hondo
24. Santiago
25. Viejo
26. Villa Park
27. Walnut

Acceptable High Voltage substations in Moorpark Sub-Area (“Moorpark High Voltage substations”):

1. Goleta

2. Mandalay
3. Moorpark
4. Ormond Beach
5. Santa Clara

~~C.5.2. Acceptable Points of Interconnection include the following:~~

~~C.5.2.1. — A West LA Basin or Moorpark High Voltage substation~~

~~C.5.2.2. — An existing substation bus that is directly electrically connected to a West LA Basin or Moorpark High Voltage substation~~

~~C.5.2.3. — A transmission or distribution line that only interconnects substation buses that are directly electrically connected to a West LA Basin or Moorpark High Voltage substation~~

~~C.5.2.4. — A new substation bus that will be part of the CAISO Grid, directly electrically connected to a West LA Basin or Moorpark High Voltage substation~~

~~C.5.3.~~C.5.2. For each proposed project, Seller is required to provide any current, up-to-date reports for the Interconnection System Impact Study and Interconnection Facilities Study or any other Interconnection Study documents as they are available.

C.6. *Contract Term*

- C.6.1. Some portion of project deliverability must include the entire calendar year 2021 (from 1/1/2021 to 12/31/2021)
- C.6.2. Projects can start Delivery (COD) as early as 1/1/2018, subject to C.7.1
- C.6.3. Projects that are directly electrically connected to the Goleta, Johanna or Santiago High Voltage substations can start Delivery as early as 1/1/2015, subject to C.7.1

C.7. *Proposal Structure*

- C.7.1. SCE will accept mutually-inclusive Proposals (i.e., “Package Deals” or any similar requirement by Seller that an individual Proposal may only be selected by SCE if other specific Proposals are also selected). Seller must clearly identify all Proposals with a mutual-inclusive limitation.
- C.7.2. SCE will accept mutually-exclusive Proposals (i.e., a requirement by Seller that an individual Proposal may not be selected if other specific Proposals are selected). Seller must clearly identify all Proposals with a mutual-exclusivity limitation.

C.8. *Site Control (Gas Fired and CHP projects only)*

- C.8.1. SCE intends that the definition of “Site” and “Site Control” ~~not only for~~ purposes of offers to mean the land upon which the project is expect to be located, ~~(but also not to~~ encompass the rights-of-way on which Seller’s generation tie line between the project and the Interconnection Point shall be constructed-). ~~Gas fired generation, CHP, energy storage, and~~

~~renewable~~CHP proposals must demonstrate Site Control or the Proposal will be dropped from further consideration.

C.9. *Fuel Supply and Interconnection* (~~gas-fired~~Gas Fired and CHP projects only)

C.9.1. Seller must be responsible for the cost of all incremental gas-related and gas transportation infrastructure necessary for Seller or SCE to deliver firm fuel to the project. If the project is powered by natural gas and firm gas transportation service is available, then SCE requires firm gas transportation service to the project.

C.10. *Scheduling Provisions*

C.10.1. Throughout the term of any Agreement, energy will be scheduled pursuant to the Tariff.

C.10.2. SCE prefers to act as the SC for each project. For projects fueled by natural gas, if SCE acts as the SC for the project, then SCE prefers to be Seller’s authorized Fuel Manager. If SCE is not the SC, then SCE will not act as the Fuel Manager.

C.11. *Special Purpose Entity*

SCE prefers Sellers that are special purpose entities organized for the sole purpose of owning and operating the project and which remain special purpose entities for the Term of the Agreement. Notwithstanding the foregoing, SCE will consider the ownership structure of each Seller on an individual basis, whether the Seller is organized as a special purpose entity or otherwise, and reserves the right in its sole discretion to (i) require any Seller to become a special purpose entity as a condition of executing an Agreement; and (ii) accept an Offer from any Seller who is not organized as a special purpose entity.

D. RFO SOLICITATION AND OFFER SUBMITTAL PROCESS

D.1. *RFO Schedule*

Timeline	Event
September 12, 2013	RFO documents issued
December 2, 2013 5:00 PM Pacific Prevailing Time	Deadline to submit Non-binding Notice of Intent to Offer
December 16, 2013 5:00 PM Pacific Prevailing Time	Deadline to submit Indicative Offer and completed Offer Submittal Package
January 30, 2014	Shortlist notification
May 22, 2014	Deadline to complete negotiations of Agreement(s)
May 29, 2014 5:00 PM Pacific Prevailing Time	Deadline to submit Final Offer
June 26, 2014	Last date for notification of successful Offers and to sign Agreements

D.2. Non-binding Notice of Intent to Offer

Seller should provide the form “Non-binding Notice of Intent to Offer” as shown in Exhibit D.2 by the date and time identified in the applicable RFO Schedule in Section D.1. The Non-Binding Notice of Intent to Offer should be sent via electronic email to contact information in Section D.5 and the Independent Evaluator listed in Section D.6. SCE will not be responsible for information received after the submittal deadline due to unsuccessful electronic transmissions.

D.3. Indicative Offer Submission

D.3.1. SCE will only consider Indicative Offers that, as of the Indicative Offer deadline, contain each of the items specified in the Indicative Offer Submittal Package set forth in the following tables.

To be Provided by All Sellers:	
Document:	Filename:
Offer Sheet	Exhibit D.4 – Offer Sheet <u>ExhibitD4_OfferSheet.doc</u>

To be Provided by Seller as Applicable:	
Document:	Filename:
Gas Fired Power Purchase Agreement	Exhibit D.4.1.1 LCR RFO Conventional Gas Fire PPA.doc <u>ExhibitD4_1_1_LCRRFOConventionalGasFirePPA.doc</u>
Gas Fired Power Purchase Agreement Excel Appendix	Exhibit D.4.1.2 LCR RFO Conventional Gas Fire Excel Appendix.xlsx <u>ExhibitD4_1_2_LCRRFOConventionalGasFireExcelAppendix.xlsx</u>
CHP Power Purchase Agreement	Exhibit D.4.ExhibitD4_2_1 LCR RFO CHP PPA_LCRRFOCHPPA.doc
CHP Power Purchase Agreement Excel Appendix	Exhibit D.4.ExhibitD4_2_2 LCR RFO CHP Excel Appendix_LCRRFOCHPEXcelAppendix.xlsx
Demand Response Power Purchase Agreement	Exhibit D.4.3.1 LCR RFO Demand Response PPA.doc <u>ExhibitD4_3_1_LCRRFODemandResponsePPA.doc</u>
Demand Response Power Purchase Agreement Offer Sheet Excel Appendix	Exhibit D.4.3.2 LCR RFO Demand Response Excel Appendix.xlsx <u>ExhibitD4_3_2_LCRRFODemandResponseExcelAppendix.xlsx</u>
Energy Efficiency Power Purchase Agreement	Exhibit D.4.4.1 LCR RFO Energy Efficiency PPA.doc <u>ExhibitD4_4_1_LCRRFOEnergyEfficiencyPPA.doc</u>
Energy Efficiency Power Purchase Agreement Offer Sheet Excel Appendix	Exhibit D.4.4.2 LCR RFO Energy Efficiency Excel Appendix.xls <u>ExhibitD4_4_2_LCRRFOEnergyEfficiencyExcelAppendix.xlsx</u>
Energy Storage Power Purchase Agreement	Exhibit D.4.5.1 LCR RFO Energy Storage PPA.doc <u>ExhibitD4_5_1_LCRRFOEnergyStoragePPA.doc</u>

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Energy Storage Power Purchase Agreement Excel Appendix	Exhibit D.4.5.2 LCR RFO Energy Storage Excel Appendix.xlsx ExhibitD4_5_2_LCRRFOEnergyStorageExcelAppendix.xlsx
Renewable Power Purchase Agreement	Exhibit D.4. ExhibitD4_6_1 LCR RFO Renewable PPA_LCRRFORenewablePPA.doc
Renewable Power Purchase Agreement Offer Sheet	Exhibit D.4. ExhibitD4_6_2 LCR RFO Renewable Excel Appendix_LCRRFORenewableExcelAppendix.xlsx
Resource Adequacy Power Purchase Agreement	Exhibit D.4.7.1 LCR RFO RA PPA.doc ExhibitD4_7_1_LCRRFORAPPA.doc
Resource Adequacy Power Purchase Agreement Excel Appendix	Exhibit D.4. ExhibitD4_7_2 LCR RFO RA Excel Appendix_LCRRFORAExcelAppendix.xlsx
Distributed Generation Power Purchase Agreement Excel Appendix	Exhibit D.4.8.2 LCR RFO Distributed Gen Excel Appendix.xlsx ExhibitD4_8_2_LCRRFODistributedGenExcelAppendix.xlsx

D.3.1.1. SCE must receive each completed Indicative Offer Submittal Package prior to the date and time specified by the RFO Schedule in Section D.1. The complete Indicative Offer Submittal Package must be received as a physical submittal, no electronic submittals will be accepted. The electronic Indicative Offer Submittal Package must be copied onto a standard flash drive and sent to the mailing address in Section D.4. SCE will not be responsible for information received after the submittal deadline due to delivery delays.

D.4. Final Offer Submission

D.4.1. SCE will only consider Final Offers that, as of the Final Offer deadline, contain the applicable excel sheet for each project being bid on as provided below.

To be Provided by Seller as Applicable:	
Document:	Filename:
Gas Fired Power Purchase Agreement Excel Appendix	Exhibit D.4.1.2 LCR RFO Conventional Gas Fire Excel Appendix.xls ExhibitD4_1_2_LCRRFOConventionalGasFireExcelAppendix.xlsx
CHP Power Purchase Agreement Excel Appendix	Exhibit D.4.ExhibitD4_2_2_LCR RFO CHP Excel Appendix_LCRRFOCHPExcelAppendix.xlsx
Demand Response Power Purchase Agreement Offer Sheet	Exhibit D.4.3.2 LCR RFO Demand Response Excel Appendix.xls ExhibitD4_3_2_LCRRFODemandResponseExcelAppendix.xlsx
Energy Efficiency Power Purchase Agreement Offer Sheet	Exhibit D.4.4.2 LCR RFO Energy Efficiency Excel Appendix.xls ExhibitD4_4_2_LCRRFOEnergyEfficiencyExcelAppendix.xlsx
Energy Storage Power Purchase Agreement Excel Appendix	Exhibit D.4.5.2 LCR RFO Energy Storage Excel Appendix.xls ExhibitD4_5_2_LCRRFOEnergyStorageExcelAppendix.xlsx
Renewable Power Purchase Agreement Offer Sheet	Exhibit D.4.ExhibitD4_6_2_LCR RFO Renewable Excel Appendix_LCRRFORenewableExcelAppendix.xlsx
Resource Adequacy Power Purchase Agreement Excel Appendix	Exhibit D.4.ExhibitD4_7_2_LCR RFO RA Excel Appendix_LCRRFORAExcelAppendix.xlsx

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Final Offers should be sent via electronic email by the date and time identified in the applicable RFO Schedule in Section D.1, to contact information in Section D.5 and the Independent Evaluator listed in Section D.6. SCE will not be responsible for information received after the submittal deadline due to unsuccessful electronic transmissions.

D.5. Contact Information

The website address for this RFO is:
<http://www.sce.com/wps/portal/home/procurement/LCR-RFO>

Any questions relating to this RFO should be addressed to SCE via email at: LCR.RFO@sce.com or the following:

Gene Lee
(626) 302-3081
Gene.Lee@sce.com

Jesse Bryson
(626) 302-3297
Jesse.Bryson@sce.com

Physical correspondences shall be sent to:

Gene Lee, LCR RFO
Southern California Edison Company
G.O. 1, Quad 1C
2244 Walnut Grove Avenue
Rosemead, California 91770

D.6. *Independent Evaluator*

In accordance with applicable CPUC decisions, SCE will utilize an Independent Evaluator. The Independent Evaluator is:

Alan Taylor
Sedway Consulting
Alan.Taylor@sedwayconsulting.com

The Independent Evaluator must be copied on all RFO correspondences.

E. EVALUATION OF OFFERS

E.1. *Initial Screen*

Once Offers are received, SCE begins an initial review for completeness and conformity. The review includes an initial screen for required submission criteria such as a conforming delivery point, minimum project size, and the submission of completed submittal package elements. Sellers lacking any of these items are allowed a reasonable cure period to remedy any deficiencies. SCE works directly with sellers to resolve any issues and ensure the data is ready for evaluation.

E.2. *Least-Cost, Best-Fit*

SCE has forecasts for RA capacity, electrical energy, ancillary services, natural gas and GHG compliance market prices (i.e. the market price forecast). These market price forecasts may serve as the price benchmark to determine the cost-effectiveness for LCR resources. Specifically, SCE will calculate the forecasted quantity of RA capacity, electrical energy, and ancillary services that each resource will provide, and multiply these quantities by their respective market price forecasts. The sum of these benefits represent the market value that the resource is forecasted to receive. SCE will then compare the contract costs required to

extract this market value, such as capacity payments and fuel costs to generate electrical energy, to determine the cost-effectiveness of the resource. The most cost-effective resources will have the lowest contract costs as compared to their forecasted market value benchmark.

The benchmark for determining cost-effectiveness (i.e. the resource's market value forecast) minus the costs required to receive these benefits, plus any other value that can be attributed to the resource, discounted, is exactly equal to the calculated Net Present Value (NPV) of the offer, as described in detail below. This NPV, after adjusting the offer's RA MW and resulting RA value component for relative effectiveness factors (i.e. the RA capacity multiplied by one minus the difference between the maximum locational effectiveness factor and the effectiveness factor for the resource), is the metric that SCE will use in the selection process.

SCE will also develop shadow cost curves for some of the product types submitted into its New LCR RFO where it is feasible to do so. As part of SCE's evaluation process, SCE may use these shadow curves as an additional price benchmark for some of the products being solicited. The shadow cost curves will represent a forecast of total costs required to develop the respective product. SCE may utilize its own forecasts as well as independent consultant forecasts to develop these shadow cost curves. The shadow cost curves will be included in the final application if they are used during the selection process. Consideration of these additional price benchmarks, namely the shadow cost curves, yields several benefits. First, the shadow cost curves provide a safeguard against an uncompetitive solicitation. For instance, if the shadow cost curves indicate that solicitation offers are priced in excess of a reasonable assessment of the associated cost of the offer, SCE may elect to forgo the procurement. Second, the shadow cost curves enable a mechanism for deferring purchasing contracts to a later time. Finally, the shadow cost curves allow for comparison against alternatives that may not have explicitly bid into the New LCR RFO.

E.3. Evaluation Methodology

As discussed above, SCE employs an NPV analysis when it evaluates offers. This methodology is consistent with evaluations performed by SCE in other solicitations such as SCE's CHP RFOs and All Source RFOs for energy and RA. The quantitative component of the evaluation entails forecasting (1) the value of contract benefits, (2) the value of contract costs, and (3) the net value of both (1) and (2). Once all of the valuation elements are calculated, they are discounted to a present value using an annual discount rate. SCE then subtracts the present value of expected costs from the present value of expected benefits to determine the expected NPV of the offer.

In addition to quantitative benefits, contracts may also have qualitative benefits that are evaluated separately. The elements used in the quantitative valuation are described below.

E.3.1. Contract Benefits

- Energy and Ancillary Service Benefits

For dispatchable resources, SCE utilizes a fundamental production-cost model (ProSym), along with a stochastic price process via a Monte Carlo simulation, to value the energy and ancillary service benefits of a generating unit. Inputs to the

fundamental model include unit characteristics such as capacity, heat rate curve, ramp rate, start fuel and start cost, minimum and maximum run-time, variable operation and maintenance (O&M) cost, GHG cost, congestion and losses, fuel cost, and emission constraints, among others. SCE uses the economic dispatch principle, wherein a unit is dispatched if its forecasted benefits exceed its costs, i.e., if it is "in the money." ProSym compares the forecasted cost of running a unit against energy and ancillary services price forecasts to determine whether a unit is in the money.

SCE creates an expansive lookup library of dispatch results to avoid the need to perform multiple runs for each analysis. SCE then deploys a stochastic Monte Carlo simulation process to generate a large number of gas price and implied market heat rate pairs, using blended power and gas price curves derived from market and fundamental models as the expected case, and by applying a volatility process on top of the blended price forecasts to create a distribution of price outcomes. The volatility process estimates correlation, volatility, mean reversion, stochastic volatility and seasonal parameters. The simulated price pairs are used to look up the forecasted gross energy benefits and costs. SCE defines the expected energy and ancillary service benefits as the average of the simulated cases. This process allows SCE to value both the intrinsic and extrinsic (optionality) value of the resource.

For must-take and baseload resources, SCE calculates the energy benefits of an offer based on the estimated market value of energy and the offer's expected generation delivery profile. Since SCE does not have dispatch rights to these types of resources, ProSym modeling and Monte Carlo simulation is not necessary.

SCE utilizes a blended approach to forecasting power, gas, and GHG allowance prices. SCE's blending combines forward market price and fundamental model prices to bridge SCE's use of forward prices for the valuation of products that deliver in the near-term and SCE's use of fundamental model prices for the valuation of products that deliver over a longer term. Forward power prices are also adjusted for location in the final valuation.

- Resource Adequacy (RA) Capacity Benefits

RA capacity benefits are derived by first developing a forecast of expected forward RA prices and then applying this forecast to the total RA capacity provided by the contract. SCE typically builds its RA price forecast from data collected from its most recent All Source RFOs and bilateral contracts.

The implementation of the Standard Capacity Product (SCP) tariff by the CAISO has changed the RA market dynamics, especially for local dispatchable resources. The SCP rules require scheduling coordinators for resources on forced outage to replace those resources with like or better resources or face an SCP replacement charge. For example, if an LA Basin dispatchable resource goes on forced outage it must be replaced with a LA Basin dispatchable resource. Conversely if a non-dispatchable resource goes on outage it can be replaced by any resource interconnected to the CAISO grid. The cost of not replacing RA capacity on forced outage is set to equal the backstop CAISO Capacity Procurement Mechanism (CPM) price (currently \$5.62/kW-month). In addition, the CAISO has recently implemented a Planned Outage Replacement

tariff (POR), which requires LSEs to replace RA resources on planned outage before the beginning of the compliance month or face potential backstop costs based on a minimum 30-day backstop at the CPM price. The replacement rules for the POR, however, are slightly more relaxed and allow system RA to replace local RA. Both of these changes have resulted in cost increases for RA products, which SCE's RA price forecast will seek to account for.

E.3.2. Contract Costs

- Dispatch and Energy Costs

For dispatchable resources, dispatch costs include unit start costs, variable O&M costs (VOM), GHG cost, and fuel costs. Start costs include the fixed cost of starting a unit, and are differentiated by hot and cold starts, depending on how long the unit has been offline. VOM costs are costs which are directly proportional to the output of the unit, measured in \$/MWh. GHG cost is the California Cap & Trade compliance cost of obtaining the allowances for a unit emitting GHG. Fuel costs include the variable cost of generating power and the fixed cost of the required fuel amount used to start up a unit. These costs components are accounted for in the ProSym production cost modeling and used to make the economic dispatch decisions.

For must-take and baseload resources, energy costs can include fuel costs (as indicated by a heat rate), VOM, and GHG compliance costs, or simply an all-in energy price in dollars per Megawatt-hour (MWh). Since SCE does not have dispatch rights to these types of resources, ProSym modeling is not necessary to calculate the resource's forecast cost.

- Capacity Payments

Capacity payments represent the total fixed contract payments SCE is expected to make under the contract for delivery of the energy and capacity benefits.

- Debt Equivalence

Debt equivalence is the term used by credit rating agencies to describe the fixed financial obligation resulting from long-term purchased power contracts. Pursuant to D.04-12-048, the Commission permitted the utilities to recognize costs associated with the effect debt equivalence has on the utilities' credit quality and cost of borrowing in their valuation process. D.08-11-008 was issued in November 2008, and, authorized the Investor Owned Utilities (IOUs) to continue recognizing the balance sheet impact of debt equivalence when valuing PPAs. Given the confirmation of the use of debt equivalence for valuation purposes, SCE considers debt equivalence in its valuation process.

- Transmission Cost

For projects that do not have an existing interconnection to the electric system, or have an existing interconnection but not for a proposed expansion of an existing facility, system transmission upgrade costs are based on a Phase 1 Interconnection Study (as defined in the CAISO Tariff) (or equivalent study), or later study for generator interconnection procedures (GIP) applications. For projects with no interconnection study, but with an offer providing SCE the right to terminate if system transmission upgrade costs exceed a specified amount,

system transmission upgrade costs are based on the specified transmission upgrade amount.

- Greenhouse Gas (GHG) Cost

For any offer passing through all or some of the GHG compliance cost, SCE will assess a GHG cost to the offer based on SCE's forecast of GHG prices and the offer's forecasted amount of GHG emissions.

E.3.3. Other Quantitative Considerations

There are other considerations that can alter the benefits and/or costs of an offer. For example, congestion costs, which affect the project's energy benefits, can change from location to location throughout the system. SCE forecasts the cost of congestion that each offer is expected to incur, and correspondingly adjusts the calculated energy benefits. Additionally, if a resource will connect to the distribution system, then distribution loss factors will be applied to the expected generation, affecting the amount of energy benefits, and possibly costs, accrued to the offer, to normalize the offer relative to offers which deliver to the transmission system.

Counterparties may seek to negotiate credit and collateral requirements that are different from SCE's pro forma requirements. In doing so, there is no longer a "level playing field" in terms of default exposure amounts across the offers. In these cases, SCE will calculate a cost to the offer based on the incremental exposure created by the negotiated terms.

Additionally, if SCE can reasonably calculate estimates of other costs and/or benefits that are directly attributable to an offer, then these estimates will be included in the quantitative valuation, and ultimately, in the offer's NPV. For example, LCR procurement is required to ensure that there is sufficient resources in certain sub-areas of the Big Creek/Ventura and LA Basin local reliability areas. Also, within these specific areas there are locations where additional generation would not only satisfy the LCR needs, but also enhance the reliability of the distribution system. In these instances, the benefits of new generation are twofold: 1) LCR procurement, and 2) distribution system benefits that reduce, eliminate or defer the need for other reliability upgrades. When offers provide this additional benefit of eliminating, reducing or deferring costs that would otherwise be incurred, SCE will estimate and ascribe the resulting avoided cost as a benefit to the offer.

E.3.4. Demand Side Management (DSM)

DSM NPVs will equal the present value of RA and energy benefits (i.e. avoided supply costs) minus contract/program costs. This is basically equivalent to the Program Administrator Cost Test NPV calculation. In the case of third-party LCR procurement, DSM costs will be directly specified by the counterparties in their offers. Energy benefits will be based on the validated energy reduction estimates contained in the offer (i.e. avoided energy costs). DSM capacity will be calculated using existing RA counting rules. EE programs will require engineering assessments to determine their expected peak load reduction amounts, in MW. Following current RA counting practice, EE and DR will receive LA Basin and system RA quantities equal to 100% and 115% of their peak load reduction amounts, respectively. Furthermore, since EE and DR programs will

likely be spread throughout an entire local area, and area-wide effectiveness ratings have not been provided, SCE will use the highest CAISO-provided LEF ratings for the relevant local area in recognition that DSM resources are the highest priority.

E.3.5. Qualitative Assessment

In addition to the benefits and costs quantified during the evaluation, SCE assesses non-quantifiable characteristics of each offer by conducting an analysis of each project's qualitative attributes. SCE considers qualitative characteristics in determining the short list and final selection. These characteristics may include:

- Permitting and interconnection
 - Environmental & permitting status
 - Electrical interconnection
 - Fuel interconnection & source
 - Water interconnection & source
- Pre-development milestones
 - Project financing status
 - Project development experience
 - Thermal host (CHP Only)
 - FERC & California (CA) qualifying facility standards (CHP Only)
 - Emissions performance standards
- Development milestones
 - Site control
 - Large equipment status
 - Reasonableness of commercial operation date
- Transmission area
- Modifications to pro forma documents
- GHG contributions towards the CHP Settlement Agreement target
- Contributions towards SCE's RPS targets
- Congestion, negative price, and curtailment considerations not captured in the quantitative valuation
- Portfolio fit of energy, capacity, & term
- Offeror concentration
- Technology Concentration
- Dispatchability & curtailability

- Offer price in excess of public or independent data (i.e., in excess of shadow cost curves)
- LCR effectiveness factor of interconnection

E.3.6. LCR and Resource Adequacy (RA) Counting

- RA Counting

SCE will use existing RA counting conventions to determine the amount of capacity each resource/program would count towards meeting or reducing the LCR need. However, SCE will solicit certain types of ES products that do not have specified counting rules in the current RA program.

SCE will establish the amount of RA capacity (including system, local and potentially flexible) attributed to each resource under the guidance of the current NQC counting rules of the CPUC's Qualifying Capacity Methodology Manual (Manual). If a resource's operational capabilities generally fall under a category described in the guide, the rules will be applied directly. For example, dispatchable generation resources receive NQC values based on their available capacity. SCE calculates the wind and solar NQCs values based on the exceedance approach, all subject to deliverability. The Effective Load Carrying Capacity (ELCC) methodology, when implemented, will replace the exceedance methodology, again subject to deliverability. EE, non-dispatchable DR, and most types of DG are typically considered load adjustments rather than supply-side resources. SCE uses program/technology specific studies to estimate the impact of EE/DG on peak load, resulting in a corresponding load reduction. SCE will consider this load reduction as equivalent to RA capacity for valuation and selection purposes.

SCE will estimate NQC values for those resource types not directly described in the Manual by using a similar, existing category. For instance, SCE can estimate the NQC of a directly connected dispatchable ES resource using dispatchable resources rules (as currently used for hydro pump storage). SCE can estimate the NQC of a behind the meter dispatchable ES resource using DR rules. However, estimating the NQC using the DR rules assumes that the resource satisfactorily completes some form of certification, registration, or actual testing of its performance characteristics, and is available for the minimum established number of hours and days (current rules require resources to be available for events at a minimum of four hours per event and three days in a row in order to count as RA resources). When no reasonable estimate can be made using the existing Manual categories, SCE will consider the resource's contribution to meeting or reducing peak demand requirements in ascribing and proposing a counting convention.

- LCR Counting and Locational Effectiveness Factors

LCR procurement is designed to address the CAISO identified local area reliability concern. The Decision requires SCE to use existing RA program rules for the counting of capacity. To ensure that LCR procurement addresses the CAISO identified local area reliability concern, SCE will calculate forecasted RA values (a component of the NPV) by adjusting the RA MW quantities by the difference between the CAISO-identified maximum LEF in a sub-area and the

assessed effectiveness factor of each offer. For example, assume there is an offer with 100 MW of contract capacity, 60 MW of countable RA capacity, interconnecting at a location with an LEF of 30%, and based on the most up-to-date effectiveness ratings, is in a local area with a maximum LEF of 50%. In this example, the contract payments will be based on 100 MW, LCR counting MW benefits will be based on 60 MW, and the RA value component of the offer's NPV will be calculated assuming 48 MW ($60 \text{ MW} \times (1 - (50\% - 30\%))$). Adjusting the RA MWs that receive RA value in the NPV calculation by the LEFs will direct procurement towards projects that more effectively address the CAISO-identified reliability concern.

Because LEFs are calculated on a constraint-specific basis, and LEFs can vary significantly depending on the studied constraint, SCE may utilize aggregated or geographically dispersed LEFs for its valuation analysis. SCE will provide sufficient documentation of its utilized LEFs in its LCR procurement application(s).

In addition, SCE will count capacity procured to meet the LCR target based on the calculated August NQC for each resource as defined by existing Local RA program rules. An August NQC is appropriate because the CAISO's LCR studies were based on peak demand conditions.

- Constraints And The Selection

SCE will perform a least-cost, best-fit selection by parsing net benefits into valuation and selection constraint elements. SCE will then select the set of contracts that satisfies the constraints while providing the most favorable valuation. In this section, we describe the benefits that may influence the selection by a constraint mechanism.

The constraints may be fixed or moving. An example of a fixed constraint is setting a minimum gas-fired capacity procurement target at a pre-specified MW level. A single selection set would then satisfy the minimum. An example of a moving constraint would be to establish a series of selection sets by incrementally increasing the minimum target. SCE would then choose from among the series of selections using informed management discretion. The use of moving constraints allows SCE to consider the value proposition of different procurement targets. SCE anticipates setting both fixed and moving constraints for the LCR RFO selection process to yield a portfolio of resources for Commission review and approval.

Characteristics for which SCE may set constraints include the following:

- Capacity of GFG
- Capacity of ES
- Capacity of Preferred Resources
 - Solar
 - Wind
 - DR
 - EE

- Flexible Capacity Requirements
- Others

In setting constraints, SCE will consider regulatory mandates as well as internal forecasts of need.

F. CREDIT REQUIREMENTS

F.1. Seller Information

F.1.1. Seller must provide the information requested in Section B of the Offer Sheet (Exhibit D.4)

F.2. Credit and Collateral

F.2.1. The credit and collateral terms will be negotiated by SCE and Seller and agreed upon terms will be incorporated into the Agreement. SCE seeks the credit and collateral terms summarized below.

F.2.2. Seller shall post Delivery Date Security as Performance Assurance to secure its obligations from the period of time from the Effective Date to the Initial Delivery Date for each project. The Delivery Date Security for each project shall be as follows:

F.2.2.1. Gas Fired: \$90/kW multiplied by the Expected Contract Capacity of the project

F.2.2.2. CHP: \$90/kW multiplied by the Expected Contract Capacity of the project

F.2.2.3. Demand Response: 10% of Expected Capacity Payments for the Contract Term

F.2.2.4. Renewable: \$60/kW multiplied by the Expected Contract Capacity of the project for Intermittent Resources or \$90/kW multiplied by the Expected Contract Capacity of the project for Baseload Resources

F.2.2.5. Energy Efficiency: \$22.50/kW multiplied by the Expected Load Reduction of the project

F.2.2.6. Energy Storage: \$45/kW multiplied by the Expected Contract Capacity of the project

F.2.2.7. Resource Adequacy project Only: Same as underlying technology

F.2.3. 50% of the Delivery Date Security for each project shall be posted ~~within 30 Days~~ following the Effective Date, 50% of the Delivery Date Security for each project shall be posted ~~within 30 Days~~ following CPUC Approval of the Agreement.

F.2.4. SCE is a California load-serving utility with an investment grade Credit Rating and substantial tangible net worth. Unlike most other energy market participants, SCE operates under a state legislative structure designed to minimize the negative impact that energy market uncertainty may have on a utility's creditworthiness. SCE does not intend to provide

collateral under the Agreement and encourages potential Sellers to submit Offers that do not require SCE to post collateral.

F.2.5. In SCE's evaluation of Offers submitted pursuant to this RFO, SCE will include a cost adder to Offers requiring SCE to post collateral in order to reflect the potential negative impact on SCE's liquidity and to recognize the relative value of bids from Sellers who do not require collateral from SCE.

G. CALIFORNIA CLIMATE ACTION REGISTRY

Seller is on notice that, in OIR 06-04-009 (April 13, 2006), the CPUC determined that it will establish a date by which all power purchase agreements with terms in excess of 3 years executed by SCE shall include a provision requiring any Seller to register with the California Climate Action Registry (CCAR), provided that CCAR's protocols have been modified to allow generation facility-specific registration. Regardless of the date established by the CPUC, Seller shall comply with a generation-facility specific registration requirement once enacted.

H. COMPLIANCE WITH NEW ACCOUNTING STANDARDS

The Parties shall determine, through consultation with their respective independent registered public accounting firms, whether SCE is required to consolidate the Seller's financial statements with SCE's financial statements for financial accounting purposes under (i) Financial Accounting Standard Boards Interpretation No. 46(R), "Consolidation of Variable Interest Entities" or (ii) future guidance issued by accounting profession governance bodies or the United States Securities and Exchange Commission, which affect SCE's accounting treatment for the Agreement.

I. CONDITIONS PRECEDENT

SCE's obligations under any Agreement shall only become effective upon satisfaction of all conditions precedent set forth the Agreement including, but not limited to, attainment of Final CPUC Approval of the Agreement, FERC Approval of the Agreement, if applicable, and delivery to SCE of all documentation required under the Agreement.

J. RESERVATION OF RIGHTS

SCE reserves the right at any time, in its sole discretion, to abandon this RFO, to change any dates specified in this RFO, to change the basis for the evaluation of Offers, to terminate further participation in this process by any party, to accept any Offer or to enter into any Agreement, to evaluate the qualifications of any Seller and/or the terms and conditions of any Offer, to reject any or all proposals or Offers, to prohibit or limit mutually exclusive and inclusive Offers, to consider additional products, to change any form, document, term or condition used in this RFO at any time during the RFO process, or waive any irregularities, all without notice and without assigning any reasons and without incurring liability of Edison International, SCE or any of their respective subsidiaries, affiliates or representatives to any Seller or any other party. SCE shall have no obligation to

consider any Offer submitted. SCE will not reimburse any Seller for its expenses related to this RFO under any circumstances, regardless of whether the bidding process proceeds to a successful conclusion or is abandoned. SCE shall not be deemed to have accepted any Offer, and shall not be bound by any term thereof, unless and until an authorized representative of SCE executes an Agreement with the Seller.

K. WAIVED CLAIMS

By submitting an Offer, Seller knowingly, voluntarily, and completely waives any rights under statute, regulation, state or federal constitution or common law to assert any claim, complaint or other challenge in any regulatory, judicial or other forum, including without limitation, the CPUC (except as expressly provided below), the FERC, the Superior Court of the State of California ("State Court") or any United States District Court ("Federal Court") concerning or related in any way to the LCR RFP or this Transmittal Letter, including all exhibits, attachments, and appendices thereto ("Waived Claims"). Seller further expressly acknowledges and consents that if it asserts any Waived Claim at the CPUC, FERC, State Court or Federal Court, or otherwise in any forum, to the extent that Seller's Offer has not already been disqualified, SCE is entitled to automatically disqualify this Offer from further consideration in the LCR RFO or otherwise, and further, SCE may elect to terminate the LCR RFO.

By submitting an Offer, Seller further agrees that the sole forum in which Seller may assert any challenge with respect to the conduct or results of the LCR RFO is at the CPUC. Seller further agrees that: (1) the sole means of challenging the conduct or results of the LCR RFO is a complaint filed under Article 3, Complaints and Commission Investigations, of Title 20, Public Utilities and Energy, of the California Code of Regulations, (2) the sole basis for any such protest shall be that SCE allegedly failed in a material respect to conduct the LCR RFO in accordance with this Transmittal Letter; and (3) the exclusive remedy available to Seller in the case of such a protest shall be an order of the CPUC that SCE again conduct any portion of the LCR RFO that the CPUC determines was not previously conducted in accordance with this Transmittal Letter (including any Associated Documents). Seller expressly waives any and all other remedies, including, without limitation, compensatory and/or exemplary damages, restitution, injunctive relief, interest, costs and/or attorneys' fees. Unless SCE elects to do otherwise in its sole discretion, during the pendency of such a protest the LCR RFO and any related regulatory proceedings related to the LCR RFO will continue as if the protest had not been filed, unless the CPUC issues an order suspending the LCR RFO or SCE has elected to terminate the LCR RFO.

Seller further acknowledges and agrees that if Seller asserts any Waived Claim, SCE shall be entitled to seek immediate dismissal of Seller's claim, complaint or other challenge, with prejudice, by filing a motion to dismiss (or similar procedural device) supported by the language in Section J and K and that Seller will not challenge or oppose such a request for dismissal. Seller further acknowledges and agrees that if it asserts any Waived Claim, and if SCE successfully has that

claim dismissed or transferred to the CPUC, Seller shall pay SCE's full costs and expenses incurred in seeking such dismissal or transfer, including reasonable attorneys' fees.

Seller agrees to indemnify, defend and hold harmless SCE from any and all claims by any other Seller asserted in response to the assertion of any Waived Claim by Seller or as a result of a Seller's protest to a filing at the CPUC resulting from the LCR RFO.

Except as expressly provided in this Transmittal Letter, nothing in the Transmittal Letter, including Seller's waiver of any Waived Claims as set forth above, shall in any way limit or otherwise affect the rights and remedies of SCE.

L. SELLER'S REPRESENTATIONS, WARRANTIES AND COVENANTS

By submitting an Offer, Seller agrees to be bound by the conditions of the LCR RFO, and makes the following representations, warranties, and covenants to SCE, which representations, warranties, and covenants shall be deemed to be incorporated in their entirety into each of Seller's Offers:

- (a) Seller has read, understands and agrees to be bound by all terms, conditions and other provisions of this Transmittal Letter;
- (b) Seller has had the opportunity to seek independent legal and financial advice of its own choosing with respect to the LCR RFO and this Transmittal Letter;
- (c) Seller warrants herein that the Seller's price includes Seller's cost of providing any credit or collateral required under the applicable Agreement;
- (d) Seller has obtained all necessary authorizations, approvals and waivers, if any, required by Seller to submit its Offer pursuant to the terms of this Transmittal Letter and to enter into a final Agreement with SCE;
- (e) Seller's Offer complies with all applicable laws;
- (f) Seller has not engaged, and covenants that it will not engage, in any communications with any other actual or potential Seller in the RFO concerning this solicitation, price terms in Seller's Offer, or related matters and has not engaged in collusion or other unlawful or unfair business practices in connection with the RFO;
- (g) Any Offer submitted by Seller is subject only to SCE's acceptance, in SCE's sole discretion; and
- (h) The information submitted by Seller to SCE in connection with the RFO and all information submitted as part of any Offer is true and accurate as of the date of Seller's submission. Seller also covenants that it will promptly update such information upon any material change thereto.

By submitting an Offer, Seller acknowledges and agrees that:

- (a) SCE may rely on any or all of Seller's representations, warranties, and covenants in the RFO (including any Offer submitted by Seller);
- (b) In SCE's evaluation of Offers pursuant to the RFO, SCE has the right to disqualify any Seller that is unwilling or unable to meet any other requirement of the RFO, as determined by SCE in its sole discretion; and
- (c) ANY BREACH BY SELLER OF ANY OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS IN THIS TRANSMITTAL LETTER SHALL CONSTITUTE GROUNDS FOR IMMEDIATE DISQUALIFICATION OF SUCH SELLER, IN ADDITION TO ANY OTHER REMEDIES THAT MAY BE AVAILABLE TO SCE UNDER APPLICABLE LAW, AND DEPENDING ON THE NATURE OF THE BREACH, MAY ALSO BE GROUNDS FOR TERMINATING THE RFO IN ITS ENTIRETY.

EXHIBITS

- Exhibit A.2: RFO Definitions
- Exhibit C.1.1: CEC's California Power Plants Database
- Exhibit C.1.2: CEC's Energy Facility Status Report
- Exhibit D.2: Non-binding Notice of Intent to Offer
- Exhibit D.4: Offer Sheet
- Exhibit D.4.1.1: Gas Fired Power Purchase Agreement
- Exhibit D.4.1.2: Gas Fired Power Purchase Agreement Excel Appendix
- Exhibit D.4.2.1: CHP Power Purchase Agreement
- Exhibit D.4.2.2: CHP Power Purchase Agreement Excel Appendix
- Exhibit D.4.3.1: Demand Response Agreement
- Exhibit D.4.3.2: Demand Response Agreement Excel Appendix
- Exhibit D.4.4.1: Energy Efficiency Agreement
- Exhibit D.4.4.2: Energy Efficiency Agreement Excel Appendix
- Exhibit D.4.5.1: Energy Storage Agreement
- Exhibit D.4.5.2: Energy Storage Agreement Excel Appendix
- Exhibit D.4.6.1: Renewable Power Purchase Agreement
- Exhibit D.4.6.2: Renewable Power Purchase Agreement Excel Appendix
- Exhibit D.4.7.1: Resource Adequacy Power Purchase Agreement
- Exhibit D.4.7.2: Resource Adequacy Power Purchase Agreement Excel Appendix
- Exhibit D.4.8.2: Distributed Generation Power Purchase Agreement Excel Appendix