SOUTHERN CALIFORNIA
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August 30, 2006

California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Commissioners:

Re: Docket No. 06-IEP-1c and No. 03-RPS-1078

Southern California Edison Co. (SCE) herein provides comments on the workshop on the Mid-Course Review of the RPS Program that the CEC held on August 22, 2006. SCE provides its overall comments below regarding the issues that were discussed at the Workshop. We have responded to the questions posed in the workshop notice on the attachment to this letter.

<u>TOD Factors</u>

Generally, the participants seemed to agree that the TOD factors that the IOUs are currently using in their bid evaluation process do not seem to dissuade bidders. The more significant issue is SEP certainty and finance-ability.

<u>Contract Success Rates and Streamlining Bilateral Contracts</u>

The current RPS program is still evolving and maturing. SCE does not know of any contract failures stemming from any of its RPS solicitations. The main challenge that is presented to SCE's contracting parties, in the short-term, relates to interconnection of their project. Interconnecting to the system "early" where the addition of the renewable resource would result in new congestion is problematic since the CAISO is advocating a 'no new congestion' policy. Interconnecting "early" is one of the keys to achieving the RPS goals, meter-spin and financial certainty for the projects. In the long run, new renewable projects will require the installation of significant transmission upgrades.

Most parties at the workshop did not support the use of feed-in tariffs. The discussion seemed to indicate that feed-in tariffs would add complexity, rather than streamline the process. In addition, feed-in tariffs do nothing to assure new transmission is built.

Transmission Ranking Cost Reports (TRCRs)

The participants at the workshop seemed to agree that the TRCRs are beneficial for rank ordering of bids and the process being used to develop the TRCRs does not need to be perfected for that purpose. The focus, rather, should be on building transmission. A comprehensive state plan to build transmission should be pursued rather than the current one-off or piece meal process. Transmission is the main hurdle that needs to be overcome in order for the RPS program to be successful.

Sincerely,

Manuel Alvarez

ATTACHMENT

Responses to Questions for August 22 Workshop on the RPS Mid-Course Review

Time of Delivery (TOD) Factors

1. **Do current TOD practices dissuade potential bidders or add unnecessary complexity to the bid process?**

Generally, the participants seemed to agree that the TOD factors that the IOUs are currently using in their bid evaluation process do not seem to dissuade bidders. The more significant issue is SEP certainty and finance-ability.

The current TOD practices should not dissuade any potential bidders from bidding the actual expected output from their projects. The TOD factors are not difficult to implement and bidders, knowing their expected generation profile and the approved TOD factors, can readily adjust their bid price to achieve a specific target revenue requirement for their project.

TOD factors are implemented to provide time differentiation of the MPR which properly benefits those technologies that provide energy when it is most needed and highly valued. The TOD factors also provide bidders insight as to when the most valuable delivery periods are occurring.

2. **How big of an impact do TOD factors have on RPS bid evaluations?**

The impact TOD factors have on bid evaluations varies depending on the generation profile of the bid. Evaluation of base-load generation is generally unaffected by TOD factors, while bids which have a large variation in the quantity of energy delivered between different TOD periods may see greater impacts. SCE uses TOD factors to determine the expected cost of energy for each bid in its least-cost / best-fit (LCBF) evaluation.

3. **How/why are TOD factors in RPS solicitations different from the following: time dependent valuation (TDV) used in energy efficiency, methods used to calculate the short-run avoided cost (SRAC) for qualifying facilities, and bid evaluation in all-source procurement?**

E3's TOD factor comparison report (Attachment B) provides a reasonable, thorough description of how TOD factors used in RPS solicitations are different from and compare to TDV, SRAC, and all-source procurement.

- *Qualifying facilities & SRAC* – With respect to qualifying facilities and SRAC, the time-varying factors for energy and capacity were developed in the mid 1990's, when SCE was facing a very different market situation. The QF TOU factors were calculated using production cost models, while the RPS-TOD factors are based on an analysis utilizing market data, as directed by the CPUC. The CPUC is looking to update the QF TOU factors in Phase III of the Avoided Cost proceeding (R.04-04-025).

- *Energy efficiency & TDV* – TDV was developed for evaluation of energy efficiency measures in building design. The major difference between TDV and the RPS TOD factors is that TDV does not attempt to capture the capacity value and distribute into different time periods. TDV time differentiates energy, T&D, emissions, and ancillary service costs, while the RPS TOD factors attempt to capture the combined value of avoided energy and firm capacity.
- *All-source procurement* – Bid evaluations in all-source procurement is done with hourly granularity. There are no corresponding time buckets developed that are used in all-source procurement which can be readily compared to the RPS TOD factors. The TOD factors were developed to reflect how the value of generation would generally be assessed in all-source and other utility evaluations.

As mentioned in E3's TOD factor comparison report (Attachment B), in most cases SCE values energy and capacity separately, not in a single all-in factor as is being developed for use in RPS solicitations.

4. Why are the assumptions, methodology, and calculations used in developing TOD factors not available in the public domain?

As shown in SCE's February 8th (2006) supplemental filing,[1] the TOD factors can be reasonably approximated and validated using publicly available data and the methodology proposed therein.

Much of the information that is used by SCE to develop its TOD factors is available in the public domain (e.g., broker quote power futures, historical PX price data, SCE's combustion turbine proxy, relative loss-of-load probability factors, etc.). Certain pieces of information, such as SCE's hourly load forecast, are market sensitive data that could be used by market participants to harm SCE's customers.

SCE has also described the general framework of its development process, with the details of a few proprietary, market sensitive processes omitted. For example, the statistical methods used to translate forward prices into SCE's hourly power price forecast are a key component in all of SCE's evaluations and solicitations that needs to be kept confidential.

[1] *See* Southern California Edison Company's (U 338-E) Supplement to its Proposal for Benchmarking and Evaluating Time-of-Delivery Profiles (filed Feb. 8, 2006).

5. **What modifications should be made to make TOD factors more easily benchmarked and ensure TOD factors help the state achieve 20 percent renewables by 2010?**

Generally, the participants seemed to agree that the TOD factors that the IOUs are currently using in their bid evaluation process do not seem to dissuade bidders. The more significant issue is SEP certainty, finance-ability. Thus it seemed that pursuing modifications to the TOD factors was a low priority effort.

<u>Contract Success Rates</u>

6. **Lack of close coordination between transmission and project development, unfamiliarity with detailed permitting processes and incomplete communication could result in projects not coming on-line by 2010. What steps are utilities taking to minimize contract failure and delay?**

The current RPS program is still evolving and maturing. SCE does not know of any contract failures stemming from any of its RPS solicitations. The main challenge that is presented to SCE's contracting parties, in the short-term, relates to interconnection of their project. Interconnecting to the system "early" where the addition of the renewable resource would result in new congestion is problematic since the CAISO is advocating a 'no new congestion' policy. Interconnecting "early" is one of the keys to achieving the RPS goals, meter-spin and financial certainty for the projects. In the long run, new renewable projects will require the installation of significant transmission upgrades.

SCE is continuously taking steps to communicate with projects and bidders in the RPS program to attempt to maximize project success. First, SCE has substantially increased the staff involved in working with the renewable developers. SCE has held Proposal Conferences in 2003, 2005, and 2006 for our general renewable solicitation. These conferences have generally set forth the criteria which a generating facility must meet in order to participate in the RFP, described in detail the evaluation process, and provided information on interconnecting generating facilities with the transmission system. In May 2006, SCE held a Renewable Workshop to identify lessons learned from past solicitations and answer questions from renewable developers.

SCE has been pursuing numerous avenues to achieve renewable transmission development in a variety of venues. SCE filed a petition before FERC to grant a new category of FERC approved transmission lines, the renewable trunk line. While that petition was ultimately rejected, CAISO is now pursuing a similar approach, based largely on the SCE concept. SCE sought permission and received approval from the CPUC to fund transmission interconnection studies/environmental studies for projects with contracts. This includes studies for every transmission project that will enable current contracts to come on-line.

SCE is working to identify other areas where renewable projects may be developed if transmission is built, to assure renewable development in the next decade.

SCE has also had numerous one-on-one telephone conversations and face-to-face meeting at SCE's offices with individual bidders, as well as proposed bidders, in an effort to make the evaluation and solicitation process more understandable. SCE also entertains bilateral offers and is in discussion with interested developers

7. **At the July 6 workshop, participants suggested that developers may need support from the state, particularly in obtaining permits and complying with regulations, to keep milestones on schedule. What type of support could help developers and utilities prevent delays and contract failure?**

No Response

<u>Streamlining Bilateral Contracts</u>

8. **European countries have used feed-in tariffs to take the lead in renewable energy development. Can bilateral contracts be streamlined to achieve similar growth in renewable energy development for California?**

Most parties at the workshop did not support the use of feed-in tariffs. The discussion seemed to indicate that feed-in tariffs would add complexity, rather than streamline the process. The main barrier to renewable development is transmission, which feed-in tariffs do nothing to address.

9. **Should the CPUC require investor-owned utilities to buy any renewable energy offered at or below the MPR?**

No. This proposal could sacrifice the quality of bidders for quantity. As a result, project failures would likely increase, and in the long-run, the IOUs would be no closer to meeting RPS goals.

<u>Transmission Ranking Cost Reports (TRCRs)</u>

10. **Recognizing that TRCRs are intended to inform bidders of least costly interconnection points, do/should TRCRs take into account infrastructure needed to meet 20 percent by 2010 and 33 percent by 2020 rather than incremental changes to the current grid?**

As is stated in CPUC Decision D.03-06-071, the main purpose of the TRCR is to “yield a workable approximation of the costs to the transmission system imposed by each new renewable generator.” The March 27, 2006 TRCRs do not examine specific percentages of renewable development but instead considers 1) projects in the interconnection queue as of March 1, 2006 in queue order 2) interest expressed by renewable developers to a Request For Information and 3) CEC’s “Renewable Resources Development Report” issued November 2003. The TRCRs reflect the total transmission upgrades required to serve potential renewable development as derived from all three sources of information.

11. Does the TRCR reflect only on-line power plants or does it include projects in the CA ISO interconnection queue? If it includes queued projects, are they reflected by queue position or on-line date in allocating costs for network improvement to already congested paths (e.g. Path 15)?

See answer to question 10.

12. How would the TRCR change if the CA ISO tariff were changed to use an aggregated approach to transmission interconnection cost allocation similar to that approved for Southwest Power Pool? If TRCRs use standard off-the-shelf unit cost guides thought to be largely inaccurate (accuracy of +/- 40 percent), should they be used to exclude bids from further evaluation?

SCE is not familiar with the Southwest Power Pool approach however, the March 27, 2006 TRCR present costs for discrete clusters of development for each geographic area.

SCE has used TRCR only as a way of ranking bids on a total cost basis and not as a way to exclude bids. Given that the level of the accuracy of the conceptual costs of transmission facilities in developing the TRCR is equivalent for all transmission upgrades and for all technologies, the current method places all bidders on a level playing field and should be acceptable for short-listing purposes.

13. What aspects of TRCRs used in previous or ongoing solicitations are most likely to result in lost opportunities, and what changes could prevent such losses?

SCE is not aware of any aspects of the current or previous TRCRs that resulted in lost opportunities and therefore does not recommend changing the method for determining TRCR.

14. During RPS bid evaluation, are any network upgrade costs attributed to RPS projects? Are any treated as costs paid by all transmission users?

As directed by the CPUC, TRCRs include both network and multiple use generator tie lines (a.k.a. trunk lines). The RPS bid evaluation uses the TRCRs to develop the revenue requirement to be paid by customers that is estimated to be attributable by individual RPS projects. RPS bid evaluations consider the ultimate cost of a project to customers. As such it is appropriate to include these costs on a bid to bid comparison in the RPS bid evaluation.

In the case of the radial transmission facilities, the permitting and construction of these facilities are funded by the generation developer and are not subject to receive such credits. Only in the situation where the state has declared these eligible for recovery under California Public Utilities Code Section 399.25 for bulk transmission gen-tie lines would these costs be included in the RPS bid evaluation. Otherwise, the bid evaluation correctly identifies that the generation developer would fund these costs.

15. **Given that transmission development is needed to meet the state's RPS goals, how can the TRCRs be revised to avoid discouraging competitively priced projects in remote but renewable-rich areas? How can TRCRs be revised to encourage competitively priced projects that can provide VAR support and other transmission system benefits?**

As we consider the various TRCR issues, the enabling legislation requires the CPUC to consider total costs in selecting least-cost, best-fit resources. The CPUC is to adopt "a process that provides criteria for the rank ordering and selection of least-cost, best-fit renewable resources to comply with the annual California Renewables Portfolio Standard Program obligations on a total cost basis."2 Ignoring or reducing transmission cost considerations in selecting RPS projects departs from least cost best fit principles. It is unfortunate that some extremely remote resources are being discouraged by transmission cost and the application of a least cost best fit paradigm.

In general, renewable projects are remotely located and do not provide discernable support to the grid. SCE is not aware of other renewable project benefits that should be included in the TRCRs and therefore recommends no change in the methodology to determine TRCRs.

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[2] P.U. Code § 399.14(a)(2)(B).