

October 12, 2007

California Energy Commission
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5504

Re: Southern California Edison Company's Comments on the Proposed Changes to the Renewables Portfolio Standard Eligibility Guidebook; Docket No. 02-REN-1038 and Docket No. 03-RPS-1078

Southern California Edison Company ("SCE") provides the following comments concerning the proposed changes to the Renewables Portfolio Standard Eligibility Guidebook ("RPS Guidebook"). As discussed below, additional revisions should be made to the draft revised RPS Guidebook.

Date for Mandatory WREGIS Participation

The proposed changes to the RPS Guidebook include a modification to require RPS and SEP certified facilities, retail sellers, and procurement entities to participate in WREGIS as part of RPS compliance beginning January 1, 2008. In addition, the revised RPS Guidebook indicates that the existing, interim tracking system to verify RPS procurement, currently administered directly by Commission staff, will only be in place with respect to 2007 renewable procurement verification and then be discontinued and supplanted by tracking via WREGIS for 2008 renewable procurement. Although SCE endorses the use of WREGIS for RPS tracking, prudence dictates that the interim tracking system should be continued in parallel with the implementation of WREGIS for the procurement during the period January 1 through December 31, 2008. Furthermore, SCE and other load serving entities should not be required to use WREGIS as the sole vehicle for demonstrating compliance with California's RPS program until certain implementation issues have been fully resolved.

Although WREGIS was activated in June 2007, none of the three major California utilities ("IOUs") has signed the Terms of Use Agreement ("Agreement") that is required by account holders before they can begin to use WREGIS to report renewable

generation. Furthermore, another key user of WREGIS, the California Independent System Operator (“CAISO”), also has yet to execute the Agreement. Staff and counsel for this Commission, the IOUs, the Western Energy Coordinating Council (“WECC”) and CAISO have been in discussions over the past few months regarding various issues with the Agreement, many of which have been resolved. There are, however, a few major outstanding issues regarding liability, indemnification and intellectual property rights that must be resolved before the Agreement can be signed or other steps are taken.

These parties are working diligently to resolve these issues as soon as possible, but when and if these efforts will prove successful remains uncertain, as are the consequences of failing to reach mutually acceptable terms. If these issues are still being resolved and finalized, RPS obligated entities may not be able to fully participate in WREGIS beginning on January 1, 2008. For RPS obligated entities, this will present a serious problem if the Commission abandons the current tracking system entirely in favor of the WREGIS platform as the sole means of reporting and tracking RPS procurement. Under the circumstances, it is premature to require participation in WREGIS by the hard date of January 1, 2008, and the CEC should adopt a more flexible approach to transitioning from the current tracking system to WREGIS.

SCE prefers that the Commission revise the RPS Guidebook to provide for a one-year period of parallel reporting and tracking. Although SCE recognizes that this may result in additional administrative burdens for both reporting entities and Commission staff, this approach is necessary and appropriate to ensure that, in the event WREGIS is not fully capable of serving its intended purpose, neither the reporting entity nor regulators will lack the necessary information to determine RPS compliance. Furthermore, completion of the Agreement and commencement of use by account holders of the system will not, in and of itself, demonstrate that the WREGIS system is fully operational and capable for. Further actions are required to ensure accurate reporting data management and reporting from WREGIS. At the very least, account holders must register generating units, the units must be verified through the CEC as being California RPS eligible, generation must be reported and transferred into different accounts, verified by the account holders and finally retired for RPS compliance. None of the entities using WREGIS in California has substantial experience using the system and performing these

various steps. A learning period is necessary to make sure that the transactions are occurring as expected. Therefore, the Commission should continue with the interim tracking system through 2009 for 2008 renewable procurement to ensure that all generation is accounted for rather than relying exclusively on the data that will be reported by WREGIS in its first year of operation.

Banking and Shaping and Out of State Deliveries

As indicated in previous comments,¹ SB107 (Simitian 2006) amended the RPS legislation to provide that “*Subject to verification by the accounting system established by the [California Energy C]ommission pursuant to subdivision (b) of Section 399.13 of the Public Utilities Code, electricity shall be deemed delivered if it is either generated at a location within the state, or is scheduled for consumption by California end-use retail customers.*” In order to accommodate this change in law, the revised RPS Guidebook provides:

Energy may be delivered into California at a different time than when the RPS-certified facility generated electricity, under Public Resources Code Section 25741, Subdivision (a). Further, the electricity delivered into California may be generated at a different location than that of the RPS-certified facility. In practical terms, out-of-state energy may be “banked and shaped” to allow for delivery of a “firmed” product into California. Banking and shaping to offer a firmed product refers to the process by which intermittent resources with variable output profiles may be backed up or supplemented with delivery from another source to meet customer load.²

Further:

The energy from the RPS-eligible facility may be remarketed consistent with any applicable CPUC rules so long as a quantity of energy is delivered into California that matches the amount originally procured from the out-of-state RPS-eligible facility. The delivery of electricity to an in-state market hub or in-state point of delivery located within California must be made consistent with North American Electric Reliability Corporation (NERC) rules and documented with a NERC E-Tag as described below.³

The revisions to the RPS Guidebook in turn describe the NERC E-Tag methodology as follows:

¹ SCE Letter dated November 20, 2006, to Mr. B.B. Blevins, Executive Director, California Energy Commission, Subj. SB 107 Language Regarding Delivery of Renewable Electricity Generating Facilities

² Staff Draft Guidebook, RPS Eligibility, September 2007, CEC-300-2007-006-ED3-SD, page 30-31.

³ *Id.*, page 31

1. The retail seller, procurement entity, or facility representative must either
 - (a) arrange for an interchange transaction with the California ISO to deliver the out-of-state facility's energy (or a matching amount of energy from another out-of-state source located within the WECC) to a point of delivery in California, or
 - (b) arrange for an interchange transaction with another balancing authority outside California to deliver energy to the point of delivery in California. In accordance with the policies of the NERC, the interchange transaction must be scheduled with tagged as what is commonly referred to as a "NERC E-Tag."

The RPS certification number of the facility or facilities (or RPS pre-certification number, in the case of local publicly-owned electric utilities) that is/are engaged in a power purchase agreement with a retail seller or procurement entity (or for a local publicly-owned electric utility implementing these delivery requirements as part of compliance with its RPS) must be shown on the comment field of the NERC E-Tag.⁴

From a broad policy perspective, the provisions included in the revised RPS Guidebook seem to work. However, there are a number of detailed issues that should be resolved in order to make this a workable mechanism. Among other things, there is not a comment field on NERC E-Tags. Because a number of transactions related to a particular bundle of energy can be reported on a NERC E-Tag, it would be helpful to have a comment field to be able to indicate which transaction should contain the RPS certification number of the facility or facilities. SCE notes that there is a "Misc" field in the Physical Path section of the E-Tag that could be used for this type of information, but it is not as appropriate as a comment field. *See*, attached sample E-Tag Entry screens. SCE also understands that these fields utilize Token Codes and Values. The Commission should provide direction regarding what Token Codes and Values should be utilized to identify a renewable resource on the E-Tag. Also, the CAISO currently uses a number of Token Codes and Values in the Misc field of the E-Tag in connection with the transaction pursuant to which the energy enters the CAISO control area. SCE construes the revised RPS Guidebook as directing that another Token Code/Value be adopted for the Misc field.

Finally, at page 31, n. 3, the RPS Guidebook gives the following example: "The retail seller could buy energy and RECs from an RPS-eligible facility, sell back the energy to the facility, and re-bundle (or "match") the RECs with energy delivery into

⁴ *Id.*, page 32

California from a second PPA and/or with imports under a pre-existing PPA.” It may be reasonable for the retail seller in this case to re-bundle the RECs with energy procured from an in-state resource, in order to avoid transmission-related issues. If this were to occur, there would not be an E-Tag, but the renewable energy would have been produced at the generating facility, and the energy would have been provided under a financial arrangement. This does not seem to be an eligible out-of-state transaction according to the revised RPS Guidebook. SCE proposes to work with Commission staff to revise the RPS Guidebook to accommodate this time of transaction.

Renewing Certification

The revised RPS Guidebook states that “facilities may be required to renew their certification based on changes in the law after being notified in writing by the Energy Commission.”⁵ This requires facilities to renew their certification not only every two years but also based on changes in the law at any time. This requirement creates generator risk (that additional investment will be required) and potential consumer cost (cost to replace ineligible deliveries). SCE recommends that the Draft Guidebook be modified to provide that a change in the law of RPS eligibility will not affect the eligibility of a project that the Commission has found eligible in accordance with the law at the time it enters into a power purchase agreement with an RPS-obligated buyer. For example, if a 29 MW hydro project were to enter into a 10-year contract with SCE today at a time when hydro projects of 30 MW or less are eligible for RPS compliance, a subsequent change in law such that projects of only 20 MW or less are eligible should not result in decertification of the project for RPS compliance, unless the Legislature specifically makes its change in law retroactive. Any other rule will increase the overall program costs of the RPS program by creating uncertainty and risk, and could result in some projects not being pursued as a result.

⁵ *Id.*, page 39

Bio-Solids

Currently the RPS Guidebook provides no clear instruction on whether bio-solids are a renewable resource. SCE suggests expanding the RPS Guidebook definition of biomass to include bio-solids. Bio-solids can be used as a fuel source to produce energy and help meet RPS targets.

SEP Worksheet

The nomenclature that is used in the current version of the CEC-SEP-Worksheet should be revised to make the intent of the worksheet more clear to users. In addition, revisions to make the SEP-Worksheet more efficient should be adopted. Specifically, the Commission should modify the SEP-Worksheet as follows:

1. Change the "Initial Bid-Offer Price" as found on the Results Page, and the Initial Bid/Offer Price page to "Levelized (Un-weighted) Contract Bid-Offer Price"
2. Change the name of the "Annual Final Bid-Offer Price" as found on the Input Bid Offer Data Sheet, the Results Page, and the Final Bid/Offer Price page to "Annual Levelized TOD-Adjusted **Effective** Bid-Offer Price"
3. Change the name of the "Levelized Above Market Costs" as found on the Results Page to "Levelized TOD-Adjusted Above Market Costs"

These changes may affect other parts of the workbook, and further revisions may need to be made accordingly (including Forms SEP-1 through 4).

Additionally, the Input Bid-Offer Data spreadsheet should be modified as follows:

1. The spreadsheet should automatically input TOD factors from the "TOD Definition" spreadsheet instead of users inputting the factors
2. The "Annual Weighted Average Final Bid or Offer Price" input section should be changed to input the "Annual Levelized (Un-weighted) Contract Bid-Offer Price" for each Contract Year
3. The NPV "Levelized (Un-weighted) Contract Bid-Offer Price" can be calculated from these prices in the immediately preceding recommendation

4. The "Annual Final Bid-Offer Price by TOD Period" is mislabeled because the prices are based on the price currently called the "Levelized Initial Bid-Offer Price". These should be renamed as the "Annual (Un-weighted) Contract Bid-Offer Price by TOD Period"
5. As a result of these changes, the "Annual (Un-weighted) Contract Bid-Offer Price by TOD Period" can be automated so the cells multiply the correct TOD factor by the correct "Levelized (Un-weighted) Contract Bid-Offer Price"
6. The use of an "Annual Weighted Average Final Bid or Offer Price" is incorrect and should reflect the annual "Levelized (Un-weighted) Contract Bid-Offer Price" for each Contract Year as stated above in order to allow for the incorporation of escalating prices

Finally, the Initial Bid/Offer Price worksheet should be either deleted or modified. It is inappropriate to use the Annual Weighted Average Bid Price to derive the Levelized **Initial** Bid-Offer Price. The result using the form is not an Initial Price. Rather it is a TOD-Adjusted Final Price. The Estimated Annual Sales and calculation of any Annual Initial Bid Offer Payments should be eliminated. Instead, the worksheet should reflect only the annual Levelized (Un-weighted) Contract Bid-Offer Price, which can be used to derive an NPV.

If you have any questions regarding these comments, please call me at (916) 441-2369.

Sincerely,

Manuel Alvarez

cc: Chairperson Jackalyne Pfannenstiel
Commissioner John L. Geesman
Commissioner James Boyd
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